

4th quarter 2017 report

// Overview

› After a strong recovery of its main investments in the previous quarter, EII registered little volatility in Q4 2017. The net asset value per share ("NAV") increased by 0.9 % from CHF 3.51 to CHF 3.54. During the reporting period, the fair value of the equity holdings increased by 2.5 %.

› EII's investment result is mainly dependent on three holdings, Gazprom, Ukrnafta and KAZ Minerals. Combined, the value of those three holdings increased by CHF 231k or 4.3 %. KAZ Minerals performed particularly strong during the quarter, up 17 % and contributing CHF 139k to the gain for the Company. The value of the investments in Ukrainian electricity companies decreased by 88k CHF.

› The effect of currency fluctuations was muted during the reporting quarter. GBP and USD barely moved vs. the CHF (USD: +0.5 %, GBP: +1.4 %), while the Hryvna showed signs of weakness: -4.8 % against the CHF.

// Investments

Portfolio Composition and News:

› There are no changes to report in EII's portfolio during Q4 2017.

› Gazprom reported results for Q3 2017: Net sales increased by 14 % to 1.432 tln Rubles, which was mainly a function of the recovery in oil prices. Net profit increased by 96 % to 200 bn Rubles. Meanwhile, capex (336 bln Rubles) could not be funded by the cash flow from operations (166 bln Rubles), leading to a further increase in net debt.

› During the reporting period, the Ukrainian government decided to divest some of their remaining minority holdings of 25 % in various electricity companies, which are part of EII's investment portfolio: Dniproenergo, Zakhidenergo and Kievenenergo. Following this decision, the majority shareholder of these companies (DTEK Holding) initiated a buyback offers, which are being assessed by EII.

› Ukrnafta reported interim results for the 9 months to September 2017. The company managed to improve its financial performance over 9 months mainly due to strong oil prices. Temporary loss of licenses and production volumes had a negative impact on Ukrnafta's revenue and investment activity. Net revenue was up 30% at UAH 19.92 bln. Net profit came in at UAH 1.097 bln (0.423 bln in 2016) +157%. Meanwhile, production of both oil and gas declined by 9% and 12% respectively.

› KAZ Minerals: The mining company, which has operations in Kazakhstan and Kyrgyzstan, reported results for the year 2017. Profit grew to USD 344 million, from USD 177 million in 2016. Pretax profit also grew to USD 580 million from USD 220 million the year before. Revenues more than doubled to USD 1.66 bn. Copper and gold production were growing strongly thanks to the successful ramp up of new mines. 179'000 ounces of gold, 3.5 million ounces of silver and 259'000 tons of copper (+80 % vs. 2016) were produced.

// Economic and political environment

› Ukraine's economy continued to decelerate in Q3, as growth slowed for the third consecutive quarter. According to a preliminary estimate released by the government, GDP increased 2.1% over the same period 2016. Ukraine's recovery lost significant momentum this year, after growth peaked at 4.8% in Q4 2016, due to the economic blockade in the Donbass region, a slow pace of reforms and poor agricultural output. The outlook for 2018 is slightly more positive with estimates of GDP rising around 2.9%. On the political front, Ukraine made some progress on IMF-mandated reforms in November, taking steps towards passing legislation designed to improve the speed of privatizations.

› Supported by higher oil prices and macro stabilization, the Russian economy returned to modest growth in 2017. Yet, growth dynamics were uneven. Momentum was especially strong in Q2, but it stalled in Q3. Sluggish investment demand appears to be the key factor behind the slowdown. Moreover, the growth composition of 2017 remains similar to the pre-crisis one, driven mostly by mineral resource extraction. The gradual recovery is expected to continue next year, as higher oil prices and more accommodative monetary policy support growth. However, fiscal tightening and constrained oil production will likely keep growth moderate overall. In addition, tightening sanctions are a key downside risk to any forecast.

› Facts and figures

History	› Inception	8/97
	› Public listing (SWX)	1/99
	› Capital reduction	4/03
	› Capital decrease	8/14
Capital structure	› 1,527,510 bearer shares	
	› par value of CHF 7.10	
	› Last payment to the share-holders of CHF 1.12 derived from the capital decrease (ex-date 26/08/2014)	
Board of directors	› Victor Gnehm (Chairman)	
	› Christoph Offenhäuser	
Advisory fee	Flat fee, payable quarterly	
Share identification	› Valor 716 295	
	› ISIN CH0007162958	
Bloomberg	EII SW Equity	
Registered office	EII AG	
	Alpenstrasse 15	
	P.O. Box 7863, 6302 Zug	
CEO	› Marcus H. Bühler	
Advisor	Weissenstein & Partner AG, Zurich	
Administrator	MOORE STEPHENS ZUG AG, Zug	
Custodians	› UBS AG, Zug	
	› PrivatBank, Dnipropetrovsk	
Auditor	BDO Ltd, Zurich	
Independent Rep. of Shareholders	Philipp Andermatt, Zwicky Windlin & Partner	

› Portfolio	per share	MCHF	%
Net current assets		0.0	0.05%
Investments		5.9	99.95%
Total assets		5.9	100%
NAV (31/12/17)	audited	3.54	5.4
NAV (30/09/17)		3.51	5.4
NAV (30/06/17)		2.92	4.5
NAV (31/03/17)		3.33	5.1
NAV (31/12/16)	audited	3.49	5.3

› Investments (in 1,000 CHF)	at cost	fair value *)	ownership
Donbasenergo	456	7	0.05%
DTEK Dniproenergo	491	24	0.03%
Centrenergo	627	62	0.04%
DTEK Zakhidenergo	849	45	0.08%
Kievenenergo	119	13	0.01%
Ukrnafta	6,068	1,491	0.85%
Cherkasyoblenergo	728	57	0.77%
Dniprooblenergo	255	10	0.02%
DTEK Krimenergo	245	6	0.09%
Volynoblenergo	295	19	0.44%
Zhytomyroblenergo	589	14	0.45%
Gazprom	8,143	3,195	0.00%
KAZ Minerals	288	958	0.02%
Total	19,153	5,901	

*) As of December 31, 2017 (audited). The fair values of four distribution companies (Cherkasyoblenergo, Volynoblenergo, Krimenergo, Zhytomyroblenergo) are determined by the average of market prices and three fair value models, to which a liquidity discount is applied. The fair value of all other companies are market prices.