

1st quarter 2018 report

// Overview

› Q1 2018 brought the term “volatility” back to life after exceptionally calm markets in the past few years. Global equities rallied strongly during the first weeks of 2018: While the broad MSCI World Index climbed 5% in January, Russian and Ukrainian equities also registered substantial gains (+ 11% and + 6% respectively). Meanwhile, EEII’s NAV increased to CHF 3.91 (+ 10.5%) before entering a period of significantly falling equity prices. By the end of the quarter, the net asset value per share (“NAV”) decreased by 2.3% from CHF 3.54 to CHF 3.46. During the reporting period, the fair value of the equity holdings decreased by 0.6%.

› EEII’s investment result is mainly dependent on three holdings, Gazprom, Ukrnafta and KAZ Minerals. Combined, the value of those three holdings dropped slightly by CHF 81k or 1.4%. What looks like a random change in valuation, is in fact masking significant moves in both Ukrnafta and Gazprom. While the Russian energy giant was profiting from strong momentum (+8.3%), Ukrnafta suffered another blow from its tax dispute, which led to significant losses, especially in January, where the stock dropped 30% within a few days. By the end of the quarter, the negative impact on EEII’s NAV amounted to CHF 327k or CHF 0.21 per share.

// Investments

Portfolio Composition and News:

- › There are no changes to report in EEII’s portfolio during Q1 2018.
- › Gazprom’s outlook is improving despite concerns regarding the effect of recently imposed sanctions on major Russian companies. According to management, the effect of the sanctions only covers about 1% of the company’s production. No restrictions are expected with regards to Gazprom’s capacity to access capital markets. Despite increased volatility, the share price is up 6% YTD. Indeed, with USD 43.8 per barrel of oil, Gazprom is budgeting very conservatively for 2018 (currently Brent Crude is trading at USD 74).
- › During the reporting period, there were no significant news regarding the holdings in the Ukrainian electricity companies to report.
- › Ukrnafta remains an ongoing disappointment in EEII’s portfolio. Just as the company started to report improved operating results, the tax dispute with the government escalated again. It is well known, that UNAF is carrying UAH 11.85 bln of overdue tax debt on the balance sheet. In January this year, the company was faced with the fact that, the State Fiscal Service acted on its own discretion to use Ukrnafta’s 2017 tax payments to offset against the tax debt from previous periods, which led to a immediate rerating of the company’s shares.
- › KAZ Minerals is consolidating its turnaround, which was based on the successful ramp up of its new Aktogay mine as well as a strong recovery in copper prices. For 2018, we expect further improvement both on the top and also on the bottom line, but we acknowledge, that the big steps forward are now behind the company. If copper prices stay at current levels, net profits could improve to USD 600 Mio, i.e. around GBP 1.05 per share. From this point of view, the valuation (P/E 8.5-9) is not stretched, but leaves little room for more upside. A recent investor concern was based on rumours, that KAZ is considering to buy a majority stake in a new project in Eastern Russia from Norilsk Nickel with a potential stock/cash deal value of around USD 1bn.

// Economic and political environment

› Ukraine: Recent revisions to GDP data revealed that the economy performed better last year than previously thought. Strong wage growth, higher government spending and robust investment drove growth in 2017. Available data for Q1 2018 suggests that the moderate recovery remains on track. The improved sentiment is clearly visible in a solid performance of the stockmarket (+12.5% in Q1 2018) and welcome stability in the Hryvna.

› Russia: rising oil prices, a healthy labor market and improved consumer confidence should be strong enough to enable a moderate GDP expansion of around 1.8% despite recently imposed new sanctions against several high-profile Russian businessmen and their affiliated companies.

› 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	EEII SW Equity	
Registered office	EEII 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	0.85%
Investments		5.9	99.15%
Total assets		5.9	100%
NAV (31/03/18)	3.46	5.3	
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	

› Investments	at cost	fair value *)	ownership
Donbasenergo	456	8	0.05%
DTEK Dniπροenergo	491	24	0.03%
Centrenergo	627	97	0.04%
DTEK Zakhidenergo	849	46	0.08%
Kievenergo	119	13	0.01%
Ukrnafta	6,068	1,164	0.85%
Cherkasyoblenergo	728	63	0.77%
Dniπροoblenergo	255	10	0.02%
DTEK Krimenergo	245	6	0.09%
Volynoblenergo	295	21	0.44%
Zhytomyroblenergo	589	16	0.45%
Gazprom	8,143	3,459	0.00%
KAZ Minerals	288	940	0.02%
Total	19,153	5,867	

*) 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.