

1st quarter 2017 report

// Overview

› During the first quarter of 2017, EEII's net asset value per share ("NAV") decreased by 4.6% from CHF 3.49 to CHF 3.33. During the same period, the fair value of the equity holdings decreased by 2.8%, or CHF 0.155 mln.

› Q1 2017 was characterized by quiet trading and some profit taking in EEII's investment markets. As expected, commodity related sectors started to cool off after the strong run in the final months of 2016. The combined value of KAZ Minerals and Gazprom declined by 10 %, meanwhile Ukrnafta recovered some grounds after the poor showing in 2016, increasing by 20 % in CHF terms. As for the investments in Ukrainian electricity company shares, the valuation remains unchanged compared to the previous quarter.

› The period of subdued volatility in the foreign exchange markets continued throughout the quarter. While the Ukrainian Hryvna decreased by 4 % against the CHF, the USD retreated by 1.6 % after its strong post election run. The GBP remains unchanged.

Corporate affairs:

› The Annual General Meeting took place on April 12th 2017. The shareholders approved the Annual Report 2016 as well as all compensations according to the Remuneration Report. Further, Victor L. Gnehm was reelected as member and elected as Chairman of the Board, Christoph Offenhäuser was elected as new member of the Board. BDO has been confirmed as Auditor of the company until the next Annual General Meeting.

// Investments

Portfolio Composition and News:

› The stock holdings of EEII remained unchanged during Q1 2017.

› Gazprom published its 2016 IFRS results. Results were flat compared to a year ago with revenues of 6.11 tln Rubles, the operating profit dropped by 41% yoy to 725 bln Rubles, net profit increased by 23.9% to 997 bln. Rubles. The weak operational performance was upgraded by significantly improved financial results, with finance expenses reduced by 60% to 543 bln Rubles.

› Ukrnafta again reported poor results for 2016, which were heavily influenced by legacy issues. Revenues dropped by 21 % to UAH 22'579m, the net loss increased by 60 % to UAH 8'739. The new management team managed to stabilize production and is working diligently on a turnaround, with results becoming tangible throughout 2017.

› KAZ Minerals reported encouraging Q1 2017 production numbers with a strong start at the Aktogay mine offsetting the Bozshakol maintenance cost. Aktogay appears to be on track to achieve a 2017 production of 70kt. in copper ore. The good news at this production site is extended to the projected capex guidance, which was cut by \$65m. KAZ received a \$166m VAT refund and repaid \$131m of debt during the quarter. With production trending upwards and net debt declining, KAZ offers attractive leverage for a further copper price recovery.

// Economic and political environment

› Ukraine's economy grew modestly by 2.3% in 2016 after 16% cumulative contraction in the previous two years. Fixed investment rebounded by 20 % in 2016, pointing towards strengthening investor confidence, while a bumper agriculture harvest led to stronger growth of 4.8 % in Q4 2016. Economic growth is projected at 2 % in 2017, which reflects ongoing difficulties with regards to the conflict in the east of the country. Headwinds continue to be significant as illustrated by the newly imposed coal and trade blockade with Donbas that is expected to negatively impact two key sectors – steel production and electricity generation.

› Russia's economy returned to growth at the end of 2016, turning the page on seven consecutive quarters of contraction after oil prices crashed. GDP gained 0.3% from a year earlier. The challenge for Russia now is for its recovery to gain traction as consumer demand continues to sag and the outlook for oil remains dim. The country may now be at a turning point as capital intensive businesses come to life after three years of declining investment that followed the collapse in crude oil prices and sanctions imposed after the military intervention in the Ukraine.

› 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		0.2	2%
Investments		5.4	98%
Total assets		5.6	100%
NAV (31/03/17)	3.33	5.1	
NAV (31/12/16) audited	3.49	5.3	
NAV (30/09/16)	3.05	4.7	
NAV (30/06/16)	2.86	4.2	
NAV (31/03/16)	2.77	4.2	

› Investments (in 1,000 CHF)	at cost	fair value *)	ownership
Donbasenergo	456	5	0.05%
DTEK Dniπροenergo	491	11	0.03%
Centrenergo	627	55	0.04%
DTEK Zakhidenergo	849	23	0.08%
Kievenenergo	119	5	0.01%
Ukrnafta	6,068	1,424	0.85%
Cherkasyoblenergo	728	58	0.77%
Dniπροoblenergo	255	6	0.02%
DTEK Krimenergo	245	2	0.09%
Volynoblenergo	295	18	0.44%
Zhytomyoblenergo	589	36	0.45%
Gazprom	8,143	3,321	0.00%
KAZ Minerals	288	462	0.02%
Total	19,153	5,426	

*) As of December 31, 2016 (audited). The fair values of two distribution companies (Cherkasyoblenergo and Volynoblenergo) 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.