

2nd quarter 2017 report

// Overview

- › During the second quarter of 2017, EElI's net asset value per share ("NAV") decreased by 12.3% from CHF 3.33 to CHF 2.92. During the same period, the fair value of the equity holdings decreased by 9.4%, or CHF 0.510 mln.
- › Q2 2017 brought renewed weakness in the energy markets, which affected the largest holding in EElI's investment portfolio, Gazprom. While the price of oil dropped from USD 50 to 46 per barrel, Gazprom's share price retreated by 11.4%. Together with a sharply lower USD exchange rate (0.9586 USD/CHF vs. 1.00 at the end of Q2 2017), the valuation of the Gazprom stake dropped by CHF 0.5 mln, which broadly reflects the decrease in EElI's NAV. Beyond the volatility in Gazprom, the value of the other holdings in the portfolio remained flat on an aggregate basis: KAZ Minerals (+13.8% in CHF), Ukrnafta (-8.6% in CHF) with the Ukrainian electricity company shares contributing slightly on the positive side.
- › As mentioned above, FX fluctuations again contributed negatively to the quarterly result. Of note was the broad weakness of the USD, not only vis-à-vis the CHF, but especially against the EUR. The other important currencies for EElI, GBP and UAH, showed little change against the CHF.

// Investments

Portfolio Composition and News:

- › The stock holdings of EElI remained unchanged during Q2 2017.
- › Gazprom reported Q1 2017 results. Sales increased slightly to 1.815 bln Rubles (+4.5 % compared to Q1 2016). The operating profit dropped by 2.6 % as the company was unable to reduce its operating expenses, which increased by 3.7%. Overall, Gazprom performed in line with expectations, hence the poor showing in the stock market is mostly a function of the struggling Russian equity market, which was one of the weakest globally.
- › Ukrnafta reported much improved results for H1 2017 compared to the same period last year: revenues reached mln UAH 13.781 (+54.9%), the operating profit improved by 773% to mln UAH 1.815. Meanwhile, production of both oil and gas were slightly declining (oil production – 3.3%, gas production – 6.1%). While the company benefited from better pricing in the energy markets compared to last year, legal issues continued to be a burden for Ukrnafta. The company had to temporarily stop production at 6 fields as the govt. geological service failed to extend production licenses, which negatively impacted the share performance. Nevertheless, progress on the operational level is clearly visible at Ukrnafta, which will eventually lead to a much needed repricing of this holding.
- › KAZ Minerals continued its strong operational momentum from Q1 2017. Copper production in H1 2017 more than doubled to 118 kt (H1 2016: 56 kt). Management is confident to reach the 2017 production target of 225-260 kt. Apart from the successful ramp up of new operations (Aktogay mine), KAZ Minerals also doubled the output of gold from 45'000 oz (H1 2016) to 93'000 oz in H1 2017. Going forward, it is expected, that KAZ Minerals shares will strongly respond to any upside in commodity prices as confidence in its operational performance has been priced in.

// Economic and political environment

- › Ukraine's economy continued, as predicted, the path of slow recovery. While the front line in the east has remained effectively frozen and efforts to find a diplomatic solution have reached a standstill, the country is slowly moving forward. A sign of more stable times is the exchange rate, which showed little volatility in the past few months, helping to further bring inflation under control. Important structural reforms are under way, such as the reform of the unsustainable pension system. A further milestone would be the return to the sovereign debt market, a prospect that seemed very distant at the time of Ukraine's debt restructuring in 2015.
- › In Russia, the economic recovery likewise kicked into a higher gear in the 2nd quarter and growth is seen coming in at the highest reading since Q4 2013. Data remained bright despite oil prices having fallen throughout the period. While the economic picture is promising, recent events are casting a shadow on the country's outlook. The U.S. Congress voted in July to step up sanctions on Russia, a move that could undermine confidence and possibly put a damper on the pace of recovery in the long-term.

› 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
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Share identification	› Valor 716 295
	› ISIN CH0007162958

Bloomberg	EElI SW Equity
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Registered office	EElI AG
	Alpenstrasse 15
	P.O. Box 7863, 6302 Zug

CEO	› Marcus H. Bühler
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Advisor	Weissenstein & Partner AG, Zurich
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Administrator	MOORE STEPHENS ZUG AG, Zug
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Custodians	› UBS AG, Zug
	› PrivatBank, Dnipropetrovsk

Auditor	BDO Ltd, Zurich
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Independent Rep. of Shareholders	Philipp Andermatt, Zwicky Windlin & Partner
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› Portfolio	per share	MCHF	%
Net current assets		0.1	2%
Investments		4.9	98%
Total assets		5.0	100%
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	
NAV (30/09/16)	3.05	4.7	
NAV (30/06/16)	2.86	4.4	

› Investments (in 1,000 CHF)	at cost	fair value *)	ownership
Donbasenergo	456	5	0.05%
DTEK Dniπροenergo	491	36	0.03%
Centrenergo	627	55	0.04%
DTEK Zakhidenergo	849	43	0.08%
Kievenergo	119	5	0.01%
Ukrnafta	6,068	1,301	0.85%
Cherkasyoblenergo	728	63	0.77%
Dniπροoblenergo	255	7	0.02%
DTEK Krimenergo	245	2	0.09%
Volynoblenergo	295	19	0.44%
Zhytomyroblenergo	589	36	0.45%
Gazprom	8,143	2,820	0.00%
KAZ Minerals	288	525	0.02%
Total	19,153	4,917	

*) 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.