Eastern Energy & Infrastructure Invest

Annual Report 2016

Contents

Dear Shareholders

EEII's investment focus on the Eastern European commodity and energy markets again made for a challenging year.

The continuous failure of the respective governments to resolve the ongoing border conflict in the Donbass region of Ukraine and the consequential international sanctions against the Russian Federation have led to a persistently negative image of the entire geographic area. With regard to Ukraine in particular, the hopes of international investors were frustrated once more as the new government of Ukraine utterly failed to create a more business-friendly environment, using the armed conflict in the country instead in order to expand its power base. As a consequence, liquidity in the Ukrainian securities market has all but dried up, with the Ukrainian Exchange reporting a paltry 137,000 trades total for 2016 (as compared to, e.g., 17 m trades in neighbouring Poland), representing a drop of nearly 85 % when compared to 2013, the last full year of the Yanukovich administration. The Ukrainian Hryvna (UAH) has equally lost nearly 2 / 3 of its value since early 2014 and the subsequent election of the current administration to power. On the more positive side, we witnessed some timid signs of economic stabilization in Ukraine, e.g., GDP growth reached 2 % p.a. in Q3, 2016. Similarly, the Ukrainian Stock Index UX which had dropped from its high of 1,318 in March 2014 to 547 in March 2016 was able to reverse its decline and reached nearly 800 by the end of 2016 (although given the minuscule trade volumina it remains to be seen if this trend shall prove sustainable.) In any case, much of the recovery will depend on the region's political leaders and their willingness to focus on the economic development of the country as a whole rather than the expansion of their political and personal power.

The negative downtrend caused by the ongoing political troubles in the region was, however, at least partially compensated for by the reverse of the downward trend in the commodities sector. Crude oil, e.g., priced at USD 26 per barrel in February 2016, was trading above USD 50 at year-end, and subsequently Gazprom, EEII's largest investment holding, gained in value by approximately 32 %. This alone offset all our losses from the exposure in Ukrainian securities. The upward trend was seen in industry metals as well, with copper ending 2016 with a gain of + 15 % p.a., iron ore + 88 % p.a., zinc + 60 % p.a. and aluminium + 10 % p.a. As a result, the most prominent gain in our portfolio was our investment in KAZ Minerals, which appreciated from GBP 1 to GBP 3.65 by December 31st, 2016.

Consequently, EEII's overall results for 2016 proved to be stable, actually showing a slight profit as compared to the net loss of CHF 3.25 Mio in 2015. EEII's net asset value (NAV) as of December 31st, 2016, amounted to CHF 3.49 per share, almost identical to the NAV 2015 at CHF 3.48.

On the operative side, EEII took the opportunity to further cut its operative costs as a result of planned management changes. Dieter Waffel reached retirement age and resigned as Chairman at the end of Q3 2016. Beat Imwinkelried resigned as of the 2016 General Meeting and Andres Heusser resigned as CEO at the end of 2016 as a result of AIL's resignation from its function as the Company's Advisor. EEII was able to retain the services of Weissenstein & Partner AG, Zürich, as its new Advisor, and in particular, of Marcus Bühler, as its new CEO. Both took office as of January 1st, 2017. We thank Dieter Waffel, Beat Imwinkelried and Andres Heusser for their long-term dedicated service and look forward to working with Marcus Bühler and the Weissenstein team. While Victor Gnehm has acted as the sole member of the Board of Directors since the resignation of Dieter Waffel, the Board plans to propose to the shareholders that Christoph Offenhäuser, of Weissenstein & Partner AG, be elected to the Board as of the annual ordinary General Meeting 2017.

2017 will likely be another challenging year. With regard to the recovery of the commodity prices, the continuation of the trend will to a large extent depend on the worldwide political situation and the international community's perception of the U.S. government as a stabilizing or destabilizing force in a globally interconnected world. With regard to our geographical investment focus, we remain convinced more than ever that our investments in Ukraine are grossly undervalued, and that any return to normality could spark a veritable rally. Together with our other investments in the region we are well positioned to benefit from any positive developments in Ukraine as well as from the on-going improvement in the commodities sector.

On behalf of EEII AG, I thank you for your continued trust and support.

Sincerely,

Victor Lorenz Gnehm
Sole Member of the Board of Directors

Portfolio Description

During 2016 no additional investments or divestments were made. The portfolio consists of four Ukrainian thermal power generation companies, one combined heat and power producer in Ukraine, five Ukrainian power distribution companies, one Ukrainian oil company, one Russian energy company, and one Kazakh natural resources/mining company. As per December 31st, 2016, all Ukrainian companies were listed on the Ukrainian PFTS exchange. The ADR's of Gazprom as well as the shares of KAZ Minerals are listed on the London Stock Exchange. Individual company data and performance are listed below:

Centrenergo ("CEEN")

CEEN is a thermal electricity generation company and is Ukraine's second largest power producer in terms of installed capacity. It operates three power stations with an overall installed capacity of 7,575 MW. The company is 78 % owned by the State. For the first nine months of 2015, CEEN reported a decrease in its net revenues by 67 % year over year ("yoy") to UAH 7.62 bln (net sales of UAH 4.67 bln for 09/2015). The company reported a strong increase of its 09/2016 EBITDA to UAH 1.36 bln (UAH 34 mln for 09/2015) and a net profit of UAH 1.02 bln (net loss of UAH 82 mln for 09/2015).

Donbasenergo ("DOEN")

DOEN is the smallest Ukrainian thermal electricity generation company operating two coal-fired power plants with overall installed capacity of 2,89 MW. The company is owned by Energoinvest Holding which owns 61 % of the shares of the company. The Ukrainian State owns 25 % of the company. For the first nine months of 2016, DOEN reported net revenues of UAH 3.94 bln (UAH 3.69 bln for 09/2015) and an EBITDA of UAH 0.17 bln (UAH 0.173 bln for 09/2015). The company reported for 09/2016 a net loss of UAH 0.26 bln (profit of UAH 0.33 bln for 09/2015). DOEN's key problem is the fact that the bigger of its two power plants is located on the occupied territory of the Donetsk region and the company has to deal with difficult operational as well as payment collection issues. No improvement in DOEN's business is expected as long as the war is ongoing.

DTEK Dniproenergo ("DNEN")

DNEN is the largest Ukrainian thermal electricity generator operating three power stations with installed capacity of 8,185 MW, including 2,400 MW of currently idle gas-fuelled capacity. The company is owned by Ukraine's largest energy group DTEK Holding which owns 73 % of the shares of the company. The Ukrainian State owns 25 % of the company. The last available results were reported for Q1 2016 for which the company posted a negative EBITDA of UAH 98 mln.

DTEK Zakhidenergo ("ZAEN")

ZAEN currently is the only Ukrainian electricity generating company that exports electricity. For exports, the company uses its Burshtyn Power Plant (2,300 MW). Its Dobrotvir Power Plant (600 MW coal-fired), which also has access to the Polish electricity grid, and the Ladyzhyn Power Plant (1,800 MW coal-fired) both produce electricity for domestic consumption. The total installed capacity is 4.708 MW. The company is owned by Ukraine's largest energy group DTEK Holding which owns 71 % of the shares of the company. The Ukrainian State owns 25 % of the company. For this company as well, only Q1 2016 figures are available. For the period, ZAEN reported a negative EBITDA of UAH k727 mln.

Kievenergo ("KIEN")

KIEN is an integrated combined heat and power supplier (CHP), active in the city of Kiev and 25 % owned by the State. The company has an installed generation capacity of 1,200 MW of electricity plus 8,725 Gcal/h of heat. The company is owned by Ukraine's largest energy group DTEK Holding which owns 72 % of the shares of the company. The distribution network consists of 11,700 km of transmission lines for power and 4,500 km of pipes for heat. At the time of printing of this report no financial statements for KIEN were available for 2016.

Cherkasyoblenergo ("CHON")

CHON is a power distribution company active in the region of Cherkasy, in the centre of Ukraine, and is 71 % owned by the State. The Company covers more than 20,900 km and owns 38,012 km of transmission lines. At the time of printing of this report no financial statements for CHON were available for 2016.

Dniprooblenergo ("DNON")

DNON is the largest power distribution company in Ukraine, active in the Dnipropetrovsk region, in the eastern part of the country. The Company operates 49,700 kilometres of transmission lines of all voltage classes. The company is owned by Ukraine's largest energy group DTEK Holding which owns 51.5 % of the shares of the company. 25 % of the company's shares are owned by the Ukrainian State. At the time of printing of this report no financial statements for DNON were available for 2016.

Krimenergo ("KREN")

KREN is an electricity distribution company active in the region of Crimea on the Black Sea. The company owns a transmission network of 32,000 km. The company is owned by Ukraine's largest energy group DTEK Holding which owns 57.5 % of the shares of the company. 25 % of the company's shares are owned by the Ukrainian State. At the time of printing of this report no financial statements for KREN were available for 2016. In addition, as a consequence of the Russian annexation of the Crimea region, the future status and corporate structure of the company is unknown.

Volynoblenergo ("VOEN")

VOEN is a power distribution company active in the region of Volyn in the north-west of Ukraine. The company's network consists of 25,611 km of transmission lines. The company is owned by UkrCitGaz which owns 75 % of the shares of the company. At the time of printing of this report no financial statements for VOEN were available for 2016.

Zhytomyroblenergo ("ZHEN")

ZHEN is an electricity distribution company active in the Zhytomyr region in the north-centre of Ukraine. The company delivers about 1.5 % of the total electricity in Ukraine, covering a territory of approximately 30,000 km^2, with 37,000 km in transmission lines. ZHEN is 92 % owned by the VS Energy group. At the time of printing of this report no financial statements for ZHEN were available for 2016.

Ukrnafta ("UNAF")

UNAF is a semi-integrated oil and gas company. The State owns 50 % +1 of the shares. UNAF accounts for about 70 % of oil and condensate production and 11 % of gas extraction in Ukraine. UNAF is one of the key players in the retail market for petroleum products in Ukraine and owns more than 560 fuel filling stations throughout the country. For the first nine months of 2016 UNAF reported a decrease in its net revenues of 27 % year over year ("yoy") to UAH 15.3 (UAH 21 bln for 09/2015). Its EBITDA decreased by 88 % yoy to UAH 0.7 bln (UAH 5.73 bln for 09/2015), while its net income decreased by 89% to UAH 0.43 bln yoy (UAH 4.06 bln for 09/2015). One of the key problems burdening the company is the "legacy" tax debts estimated at UAH 12 bln, which has yet to be resolved.

Gazprom ADR ("OGZD")

Gazprom is the world's largest gas producer with reserves of 157.2 bn boe. It is the monopoly owner of a 171,200 km gas pipeline network and 22 underground storage facilities with 73.6 bcm of capacitiy, while it has a monopoly right to export pipeline gas from Russia. In 2015, Gazprom accounted for 17 % of global natural gas production and supplied 31 % of all gas imports to Europe. In 2016 for the 6 month period until 06/2016, the company reported an increase in its revenues of 5.2 % to RUB 3.064 tln (RUB 2.913 tln for 06/2015), a decrease in its operating profit of 39.3 % to RUB 0.41 tln (RUB 0.68 tln for 06/2015), and a decrease of 9.5 % of its net profit to RUB 0.62 tln (RUB 0.69 tln for 06/2015).

KAZ Minerals PLC
(formerly named Kazakhmys PLC) ("KAZ")

KAZ Minerals PLC. is listed in London, Kazakhstan and Hong Kong and is an international natural resources company with principal operations in Kazakhstan. The core business is the production and sale of copper. KAZ Minerals is focused on copper mining from its existing producing assets and the development of new copper mining projects in Kazakhstan. The copper division also produces other metals as by-products, including zinc, silver and gold. For the six months ending June 30th, 2016, the Group reported revenues of USD 302 mln (H1 2015: USD 341 mln), an EBITDA of USD 115 mln (H1 2015: USD 88 mln) and a net profit USD 76 mln (H1 2015 USD 2 mln).

Corporate Governance

// Group structure and shareholders

Group structure

EEII AG (the "Company") with its registered office in Zug, Switzerland, is a corporation established on August 29th, 1997, under the laws of Switzerland. The investment objective of the Company is to maximize long-term return to shareholders through investments in strategically selected companies in the energy and infrastructure sectors which are primarily active in emerging markets, in particular the former Soviet Union (see also Note 1 to the IFRS financial statements). As of December 31st, 2016, all investments of the Company were in listed companies and are tabled in Note 5 to the IFRS financial statements. The Company had one part-time employee and no subsidiaries as of December 31st, 2016.

The shares of the Company are listed on the Swiss Exchange (SIX). As of December 31st, 2016, the total market capitalization, based on the share price last paid, amounted to CHF 3.7 mln.

Significant shareholders

The following notifications pertaining to the holdings of a significant shareholder have been disclosed:

As of December 31st, 2016, Gehold SA owned 92.41 % of the outstanding shares of the Company.

Cross-shareholdings

There are no cross-shareholdings.

// Capital structure

Capital

As of December 31st, 2016, the Company's share capital consisted of 1,527,510 ordinary bearer shares with a nominal value of CHF 7.10 per share (Security No. 716295/ ISIN-Code CHF0007162958). Each share represents one voting right (see also Note 4 to the IFRS financial statements).

Changes in capital

In 2014 the Company executed a capital decrease by reduction of its share capital. In a first step the Company reduced its share capital from CHF 15,275,100 by CHF 2,718,968 to CHF 12,556,132, by reducing the par value of each share from CHF 10.00 to CHF 8.22, and by using the reduction amount for the elimination of the negative net worth in the amount of CHF 2,718,968 resulting from previous losses. In a second step the Company reduced its share capital from CHF 12,556,132 by CHF 1,710,811 to CHF 10,845,321 by reducing the par value of each share from CHF 8.22 to CHF 7.10. The reduced par value per share of CHF 1.12 was distributed to shareholders in cash in the third quarter of 2014. For presentation purposes the share premium of CHF 3,774,508 was offset with the accumulated deficit

Shares and participation certificates

There are no preferential rights or similar rights. Each share carries one vote and has full dividend rights. There are no voting right restrictions and each shareholder can exercise his voting rights at the Company's shareholders meeting. There are no participation certificates.

Profit sharing certificates

There are no profit sharing certificates outstanding.

Limitations on transferability and nominee registrations

There are no limitations on transferability of shares and there is no nominee regulation.

Convertible bonds and warrants / options

There are no convertible bonds or warrants outstanding.

Dividend

In 2016 the Company did not distribute a dividend to its shareholders.

// Independent Proxy

The Independent Proxy ("Unabhängiger Stimmrechtsvertreter") is elected annually by the ordinary General Meeting of shareholders. The tenure ends at the closure of the next ordinary General Meeting. Re-election is permissible.

Philipp Andermatt from Zwicky Windlin and Partner was reelected by the ordinary General Meeting of Shareholders of the Company on April 21st, 2016, for a term of office of one year, ending as of the termination of the next ordinary General Meeting, with substitution power to Mr. Philip Oehen, Zwicky Windlin & Partner, or Ms. Katia Berchier Theiler, Zwicky Windlin & Partner.

// Board of Directors

Members of the Board of Directors

The Board of Directors is responsible for managing the business of the Company in accordance with its Articles of Association. The Board of Directors may delegate certain functions to a third party Manager or other parties, subject to supervision and direction by the Board of Directors. As of December 31st, 2016, the Board of Directors consisted of one member only:

Victor Lorenz Gnehm (Swiss)

1965, since 2005 and until September 30th, 2016, non-executive Vice Chairman. As of October 1st, 2016, sole Member of the Board of Directors and acting Chairman until the next ordinary General Meeting of Shareholders.

Victor Gnehm is an attorney and partner of Schnurrenberger Tobler Gnehm & Partner, Alpenstrasse 2, in Zug, Switzerland (www.stgp.ch). He specializes in commercial and financial law. Victor Gnehm began his career as an investment banker and capital markets specialist for emerging markets with one of Switzerland's top global banks. He held various positions with the bank in Switzerland/Zurich, Russia/Moscow and Ukraine/Kyiv where as a member of the local executive board he built up and headed the Structured Finance and Trade Finance group. In 1998, Victor Gnehm left the bank in order to join the Zurich office of one of the globally leading management consulting firms as a director, and in 2002 he returned to the legal profession as a partner of a Swiss law firm. He joined Schnurrenberger Tobler Gnehm & Partner in 2013 as a Partner. Victor Gnehm studied at the Bern University and the Institut Universitaire des Hautes Etudes Internationales (IUHEI), Geneva, and finished his studies with a Master's degree equivalent in law. He is admitted to the bars of Switzerland and is a registered member of the Zug and Swiss bar associations as well as several other professional and commercial associations and chambers.

Heinz-Dieter Waffel (US Citizen)
(until September 30th, 2016)
1951, non-executive Chairman since 2005. He resigned from the Board as of September 30th, 2016.

Beat Imwinkelried (Swiss)
1967, non-executive Board member and Secretary of the Company since 2008. He resigned from the Board as of April 21st, 2016.

Heinz-Dieter Waffel and Victor Lorenz Gnehm were individually re-elected by the ordinary General Meeting of Shareholders of the Company on April 21st, 2016. All board members were elected for a one year period. Heinz-Dieter Waffel was elected as Chairman. Victor Lorenz Gnehm, elected as Vice Chairman, filled in after Heinz-Dieter Waffel's resignation as acting Chairman until the next ordinary General Meeting of Shareholders. Beat Imwinkelried resigned from the board of EEII as of April 21st, 2016.

Other activities and vested interests
Members of the Board of Directors are not currently involved in permanent management or consultancy functions for important Swiss and foreign interest groups. They are not in charge of any official function or political post.

Cross-involvement
On the Board of the Company, Victor Gnehm represents Gehold SA, the majority owner of the Company.

Beat Imwinkelried is a founding partner of AIL Structured Finance AG, the Advisor of the Company until December 31st, 2016.

Apart from Victor Gnehm and Beat Imwinkelried, there are no interdependent members in the Board of Directors of the Company.

Elections and terms of office
The Articles of Association provide that the Board of Directors consists of one or more members elected by the Company's General Meeting of Shareholders. Each member of the Board is elected individually for a period of one year, normally from one ordinary General Meeting of Shareholders to the next ordinary General Meeting of Shareholders and can be re-elected thereafter. The Chairperson and the members of the Remuneration Committee, which shall consist of two or more members of the Board of Directors are elected by the General Meeting.

Internal organization structure
The Board meets as often as business requires. The duration of such meetings is normally half a day. In addition, board meetings by conference call are organized regularly as needed. During the reporting period, four physical Board meetings and several additional Board meetings by conference calls were held. The management, which also formally reports during the Board meetings, regularly informs the Board on the activity of the Company. Until his resignation Beat Imwinkelried acted as the Secretary of the Board and represented the Advisor on the Board.

A member of the Board of Directors or the Management of the Company may be a member of the supreme governing or administrative body of maximally five other entities that are listed on a Swiss or foreign stock exchange, and of maximally fifty non-listed legal entities.

Remuneration Committee
Victor Lorenz Gnehm and Heinz-Dieter Waffel were individually elected by the ordinary General Meeting of Shareholders of the Company on April 21st, 2016, as members of the Remuneration Committee. The members are elected for a one year period. Heinz-Dieter Waffel resigned from the Board and the Remuneration Committee as of September 30th, 2016.

The Remuneration Committee drafts and periodically reviews the remuneration policy and principles of the Company and prepares and recommends all decisions of the Board of Directors concerning compensation of the members of the Board of Directors and the Management. It submits proposals regarding type and amount of compensation to the members of the Board of Directors and the Management and prepares the proposal for the total amounts of fixed remuneration to the General Meeting of the Company. The Remuneration Committee is also responsible for the preparation of the Remuneration Report. The Board has not formed any other committees than the Remuneration Committee.

Definition of areas of responsibility

The primary duties of the Board of Directors of the Company are defined in Art. 716 et seq. of the Swiss Code of Obligations, the Articles of Association (dated April 3rd, 2014), the revised Organizational Regulations (dated October 27th, 2015) and the Investment Regulations (dated April 22nd, 2009). The latter are available on the home page of the Company at http://www.eeii.ch.

The Board of Directors assumes the responsibilities as stipulated in Art. 716 et seq. of the Swiss Code of Obligations. Furthermore, the Board of Directors establishes the necessary strategic, organizational, accounting and financing policies and defines the Company's Organizational Rules and Investment Guidelines. The Board of Directors may delegate management functions to one or more members of the Board or to third parties.

In general, the Board of Directors is responsible for defining target industries, target regions and, for decisions regarding the selection, changes in and disposal of investments, while the Advisor is responsible for analysing potential investment targets and making recommendations to the Board of Directors. The Advisor is also responsible for monitoring the investments on an on-going basis. For further responsibilities of the Advisor please see the section description for Advisory contracts below. The Management is responsible for public and investor relations as well as the general management and the day-to-day activities of the Company.

Information and control instruments vis-à-vis the management

In order to control and review the Company's performance, the Board of Directors is provided with ad-hoc information for major business activities. The Management reports at the meetings of the Board of Directors. The Board of Directors assesses the risks and the fair value of the investments of the Company at least on a quarterly basis.

The Management monitors the Company's risk exposure on a weekly basis. Market price, interest rate, credit, liquidity, currency and concentration risks are central to the analysis. Note 6 of the annual report summarizes the exposure of the Company at year-end.

// Management

Employment or mandate agreements between the Company and members of the Board of Directors or the Management may be concluded for a fixed term of one year maximum. Agreements that are unlimited in time must contain a notice period of 12 months maximum. Until December 31st, 2016, Andres Heusser acted as CEO of the Company. He resigned from his position effective December 31st, 2016, and was replaced by Marcus H. Bühler, Member of the Board of Weissenstein & Partner AG, Zürich. Weissenstein & Partner also acts as EEII's Advisor starting January 1st, 2017, and replaces the former Advisor AIL Structured Finance AG.

Members of the management

Andres Heusser (Swiss)

Andres Heusser, CEO since January 1st, 2015, resigned from his position as of December 31st, 2016, as part of the transition of the financial advisory mandate from AIL Structured Finance AG. to Weissenstein & Partner AG. During the reporting period, the Company had no other employees. The Management was also responsible for all other management functions, which are not specifically reserved to the Board of Directors or the Advisor

Marcus H. Bühler (Swiss)

Marcus H. Bühler, 1962, has been employed as Chief Executive Officer on a part-time basis as of January 1st, 2017. Marcus H. Bühler has broad experience in leadership of private banks. He completed his studies with a Master of Business Administration and a CFA (Chartered Financial Analyst) degree. He currently serves on various boards of Swiss and international corporations. Starting his career in North America, Marcus H. Bühler moved back to Switzerland in 1995 to become head of Private Banking in Zürich at the largest Swiss private bank. In 2009 he joined a smaller, privately held bank to establish their Zürich branch and was named partner in 2012. In 2014 he served as CEO of a private bank in Zürich and in 2016 founded, together with four Partners, Weissenstein & Partner Ltd. Weissenstein & Partner is a privately held family office and asset management firm, managing private wealth in Switzerland and abroad.

Other activities and vested interests

Not applicable.

Advisory contracts / Mandate agreements

Since the beginning of the year 2015 and until December 31st, 2016, AIL Structured Finance AG provided management support and financial advisory services to EEII on the basis of a Mandate Agreement (the "Mandate Agreement"). The relationship between the Company and AIL Structured Finance AG during the reporting period was governed by this Mandate Agreement that became effective April 1st, 2016, and replaced the former Mandate Agreement from December 22nd, 2014, whereby AIL Structured Finance AG reduced its remuneration fee. As a result, the annual fee of AIL Structured Finance AG decreased to CHF 156,250 (2015: CHF 175,000). AIL Structured Finance AG was compensated via an annual fixed fee under the terms of the Mandate Agreement with no variable components.

During the reporting period, the Company – pursuant to above mentioned Mandate Agreement, and subject to the supervision and the approval of the Board of Directors – conferred on AIL Structured Finance AG, Schaffhauserstrasse 418, CH-8050 Zürich (the "Advisor"), responsibility in particular for the following tasks:

- Financial advisory;
- Investment advisory;
- Monitoring and reporting;
- Regulatory / compliance.

AIL Structured Finance is a privately held firm owned by AIL Holding Ltd. and the partners of AIL Structured Finance AG. Beat Imwinkelried and Urs Gerspacher (both were part of the advisory team of the Company) are also both partners of AIL Structured Finance AG. AIL Structured Finance AG mainly provides advisory services to the energy and infrastructure sector.

The Advisor's management team consisted of Beat Imwinkelried and Urs Gerspacher. For details of the Advisor's management team please refer to http://www.ailsf.ch/team.html.

As of January 1st, 2017, Weissenstein & Partner AG (Weissenstein) started acting as EEII's new Advisor. Weissenstein provides management support and financial advisory services to EEII on the basis of a Mandate Agreement. Pursuant to a Mandate Agreement dated December 6th, 2016, (the "Mandate Agreement"), and subject to the supervision and the approval of the Board of Directors. The Company conferred on Weissenstein & Partner, Bleicherweg 45, CH-8002 Zürich (the "Advisor"), responsibility in particular for the following tasks:

› Financial advisory;
› Investment advisory;
› Public and investor relations;
› Monitoring and reporting;
› Regulatory / compliance.

Weissenstein is a privately held family office and asset management firm. Marcus Bühler (incoming CEO of EEII) acts as a board member of the company. Weissenstein will be compensated via an annual fixed fee under the terms of the Mandate Agreement with no variable components.

The Advisor's management team consists of Christoph Offenhäuser and Roland Sager. For details of the Advisor's management team please refer to the company directly: contact@weissenstein-partner.ch or +41 44 552 43 43.

Under the Administration Agreement dated March 23rd, 2009, ("the Administration Agreement"), MOORE STEPHENS ZUG AG, Zug ("the Administrator"), provides full accounting and administration services for the Company, in particular for the following tasks:

› Administration and accounting services;
› Support of the Advisor with the quarterly, semi-annual and annual reporting including the weekly NAV-publication;
› Monitoring of tax, compliance and regulatory issues.

During the reporting period, the Administrator received payments totalling CHF 50,436 (2015: CHF 44,839). Either party may terminate the Administration Agreement at the end of a calendar year, by giving prior notice of not less than 6 months.

// Compensation, shareholdings and loans

Content and method of determining the compensation and the share-ownership programs

Since the beginning of the year 2015 the General Meeting approves annually and severally for each member of the Board of Directors and the Management a total amount as fixed remuneration for the current business year. The Remuneration Committee drafts and periodically reviews the remuneration policy and principles of the Company. It submits proposals regarding type and amount of compensation to the members of the Board of Directors and the Management and prepares the proposal for the total amounts of fixed remuneration to the General Meeting of the Company. The compensation of the Board Members has been determined to appropriately reflect the size of the Company and the responsibility of the Board Members. The General Meeting approves annually and severally for the Board of Directors and the Management a total amount as fixed remuneration for the current business year. The compensation is fixed on an annual basis with no variable components. There were no additional option or share programs.

For more details regarding the compensation policies see Note 12 to the IFRS financial statements and the separate Remuneration Report of the Company as published on the Company's website.

Compensation for the Board of Directors

The Company compensated each non-executive Board member with a fee of CHF 30,000 p. a. plus out-of the pocket expenses. The compensation of the Chairman was fixed at CHF 45,000 p. a. (including out-of-pocket expenses). The compensation of all Board Members was grossed-up to reflect taxes at source and social charges, was paid pro rata to the outgoing members of the Board and amounted in total to CHF 95,871 (2015: CHF 132,965).

Compensation for the Management

For the business year 2016 the Company compensated the Management with a fixed amount of CHF 40,000 (2015: CHF 40,000), excluding employer's contributions to social charges [Swiss social security programs providing retirement, disability and unemployment benefits AHV/IV/ALV of totally CHF 6,816 (2015: CHF 7,499)] and any other taxes.

Loans and credits granted by the Company to members of the Board of Directors or the Management and/or guarantees or other sureties by the Company for obligations of a member of the Board of Directors or the Management may not exceed CHF 50,000 per member. In 2016, there were no such loans granted or outstanding.

In 2016, Victor Lorenz Gnehm, Schnurrenberger Tobler Gnehm & Partner, Alpenstrasse 2 in CH-6300 Zug, Switzerland (www.stgp.ch), provided general legal counsel to the Company. For these services the Company accrued provisions for legal fees amounting to CHF 15,000 total (2015: CHF 15,000). These fees as well as fees of CHF 60,000 relating to legal services provided in 2012, 2013,2014 and 2015 are provisioned in the financial statement 2016 in the amount of CHF 75,000 (2015: CHF 60,000).

Contributions to pension funds on behalf of members of the Board of Directors or the Management are only made in the framework of Swiss or foreign pension plans or comparable plans of the Company. The contributions to the insured and the contributions by the Company as employer were corresponding to such plans and the relevant regulations, respectively, during the reporting period.

For more details regarding transactions with related parties see Note 10 to the IFRS financial statements.

// Shareholders' participation

Voting-rights and representation restrictions

There are no limitations of shareholders' voting rights. Each share entitles the holder to participate equally in the profits and assets of the Company and to attend and vote at the General Meeting of Shareholders of the Company. Each shareholder may ask the independent shareholder representative by written proxy to represent his voting rights at the General Meeting of Shareholders. Each share carries one vote in the Company's General Meeting of Shareholders.

Statutory quorums

The statutory quorums with regard to the General Meeting of Shareholders correspond to the legal regulations as stipulated in the Swiss Code of Obligations. In general, a shareholders' resolution requires an absolute majority of the votes represented at the meeting unless a two-thirds majority is required by the Swiss Code of Obligations for specific resolutions.

Convocation of the General Meeting of Shareholders

Notice of a General Meeting of Shareholders must be given by the Board of Directors no later than twenty days prior to the meeting date through publication in the Swiss Commercial Gazette ("SHAB") or through a written communication to all shareholders.

Agenda

The meeting notice states the items on the agenda as well as the proposals of the Board and of shareholders who have demanded that an item be included in the agenda. The Board provides an adequate explanation on each agenda item. One or more shareholders who represent at least one-tenth of the share capital may also ask the Board of Directors to convene a General Meeting of Shareholders.

Inscriptions into the share register

The Company maintains no share register (bearer shares).

// Changes of control and defence measure

Duty to make an offer

Art. 32 of the SIX Swiss Exchange Act provides for the obligation to make a public takeover offer in respect of all listed shares in a company listed on the SIX Swiss Exchange in case of a shareholder directly, indirectly or acting in concert with third parties, acquiring shares which (added to equity already owned) exceed the threshold of 33.3 % of the Company's voting rights.

Clauses on changes of control

The Articles of Association do not provide for an opting up or an opting out. No special contractual agreements protect the members of the Board of Directors or the Company's management against takeover (change of control clauses).

// Auditors

Duration of mandate and term of office of the auditor
BDO Ltd, Zurich, has been serving as the auditor of the Company since May 14th, 2009. The auditor is elected by the annual General Meeting of Shareholders for the term of one year. Since 2012, Stefan Oegema is the auditor in charge for the Company.

Auditing fees
For the audit for the calendar year 2016, BDO Ltd has charged the Company an audit fee of CHF 39,420 (2015 CHF 39,528).

Additional fees
In 2016 BDO Ltd has performed other (other than auditing the annual accounts) services for the Company in the amount of CHF 2,216 (2015: CHF 1,957).

Information tools pertaining to the external audit
The Board of Directors takes responsibility for assessing the work of the auditor. The Company does not have a formal audit committee. The Board of Directors and the auditors meet at least once a year. At the occasion of such meetings, audit observations, changes in accounting standards and changes in the regulatory environment are reviewed and discussed.

// Information policy

EEII publishes the following reports:

› Weekly update of the NAV per share (un-audited): (i) Bloomberg: EEII SW Equity/GR Equity; (ii) http://www.eeii.ch; and (iii) the weekly newspaper "Finanz und Wirtschaft".
› Quarterly fact sheet with a brief description of recent developments and corporate events (un-audited): http://www.eeii.ch/reports.
› Semi-annual reports (un-audited) and annual reports (audited) may be downloaded at: http://www.eeii.ch/reports/2016.html. Printed reports can be ordered by e-mail at "info@eeii.ch" or by phone at +41-41-729 42 80.

In line with the publicity requirements of the SIX, EEII notifies the investor community on an ad-hoc basis when events occur which may potentially have an impact on the stock price of EEII. The ad-hoc service of EEII may be subscribed to under: http://www.eeii.ch/ad-hoc-information-service.html.

Annual Report

as of December 31st

// IFRS results

As of December 31st, 2016, the shareholders' economic interest in EEII AG ("EEII") amounted to CHF 5,332,653 (2015: CHF 5,318,190) which, based on the 1,527,510 shares issued, resulted in a Net Asset Value per share of CHF 3.49 (2015: CHF 3.48).

In 2016, EEII recorded a net profit of CHF 14,108 (2015: net loss of CHF 3,254,929). This amount includes realized gains and losses on investments.

At year-end, the Company's financial assets at fair value through profit or loss were valued at CHF 5,581,372 (2015: CHF 5,206,338). The total assets as of December 31st, 2016, amounted to CHF 5,677,115 (2015: CHF 5,503,955).

The presentation currency of the Financial Statements of the Company is Swiss Francs (CHF). The level of rounding is one Swiss Franc (CHF).

// Statutory results

As of December 31st, 2016, EEII AG registered in Zug, Switzerland, recorded shareholders' equity of CHF 5,332,653 (2015: CHF 5,324,573).

The Board of Directors proposes the following appropriation of the accumulated deficit:

in CHF	**2016**	**2015**
Accumulated deficit at the beginning of the year	(5,520,748)	(2,271,847)
Net profit/(loss) for the year	8,080	(3,248,901)
Accumulated deficit carried forward	**(5,512,668)**	**(5,520,748)**
Dividend per share	–	–

Determination of the Net Asset Value

as of December 31st

in CHF	2016 Following IFRS presentation	2015 Following IFRS presentation
Cash and other assets	95,743	297,617
Financial assets at fair value through profit or loss	5,581,372	5,206,338
Total assets	**5,677,115**	**5,503,955**
Total liabilities	**344,462**	**185,765**
Share capital	10,845,321	10,845,321
Accumulated deficit	(5,512,668)	(5,527,131)
Total shareholders' equity	**5,332,653**	**5,318,190**
Total liabilities and shareholders' equity	**5,677,115**	**5,503,955**
Total shares outstanding	1,527,510	1,527,510
Net asset value per share	3.49	3.48

IFRS Financial Statements
IFRS Statement of Financial Position

as of December 31st

in CHF	Notes	2016	2015
Assets			
Cash and cash equivalents		87,132	291,191
Other assets		8,611	6,426
Total current assets		**95,743**	**297,617**
Financial assets at fair value through profit or loss	5	5,581,372	5,206,338
Total non current assets		**5,581,372**	**5,206,338**
Total assets		**5,677,115**	**5,503,955**
Liabilities and shareholders' equity			
Accounts payable		11,256	58,939
Shareholder loan		202,548	–
Accrued expenses and other liabilities		130,658	120,443
Total current liabilities		**344,462**	**179,382**
Provision for employee benefits	8	–	6,383
Total non current liabilities		**–**	**6,383**
Share capital	4	10,845,321	10,845,321
Accumulated deficit		(5,512,668)	(5,527,131)
Shareholders' equity		**5,332,653**	**5,318,190**
Total liabilities and shareholders' equity		**5,677,115**	**5,503,955**

› see accompanying notes to the IFRS financial statements on pages 20 to 39

IFRS Statement of Income

for the year ended December 31st

in CHF	Notes	2016	2015
Operating income			
Interest income	9	66	3
Dividends		137,372	123,741
Unrealised gain on financial assets at fair value through profit or loss	5	1,432,728	–
Unrealised (loss) on financial assets at fair value through profit or loss	5	(1,057,694)	(2,796,268)
Foreign exchange (loss)		(5,896)	(21,081)
Net operating profit/(loss)		**506,576**	**(2,693,605)**
Operating expenses			
Management & Advisory fees	10	156,250	175,000
Administrative fees		50,436	44,839
Directors fees	12	95,871	132,965
Personnel cost	12	40,788	53,527
Professional fees	10	59,995	59,868
Other expenses		79,511	83,350
Bank charges and interest expenses		11,827	11,318
Capital tax expense	7	(2,210)	457
Total operating expenses		**492,468**	**561,324**
Profit/(loss) before tax		**14,108**	**(3,254,929)**
Income taxes	7	–	–
Net profit/(loss) after tax / Total comprehensive loss		**14,108**	**(3,254,929)**
Net earnings per share			
Net profit/(loss)		14,108	(3,254,929)
Weighted Average Number of shares (basic and diluted)		1,527,510	1,527,510
Net profit/(loss) per share – (basic and diluted)		0.01	(2.13)

IFRS Statement of Comprehensive Income

	2016	2015
Net profit/(loss) for the year	**14,108**	**(3,254,929)**
Other comprehensive income: **Items that will not be reclassified to profit or loss**		
Remeasurements of post employment benefit obligations	355	(355)
Total other comprehensive income	**355**	**(355)**
Total comprehensive income/(loss) for the year	**14,463**	**(3,255,284)**

› see accompanying notes to the IFRS financial statements on pages 20 to 39

IFRS Cash Flow Statement

for the year ended December 31st

in CHF	Notes	2016	2015
Operating activities			
Profit/(loss) before tax		14,108	(3,254,929)
Adjustments to reconcile loss before tax to net cash flows			
Interest income		(66)	(3)
Dividend income		(137,372)	(123,741)
Foreign exchange loss on cash and cash equivalents		5,896	21,081
Defined benefit cost recognised in profit or loss		(6,028)	6,028
Interest expense		2,548	–
Unrealized (gain) on financial assets at fair value through profit or loss	5	(1,432,728)	–
Unrealized loss on financial assets at fair value through profit or loss	5	1,057,694	2,796,268
Working capital adjustments			
Dividend income		137,372	123,741
(Increase) in other assets		(2,185)	–
(Decrease) in accounts payable		(47,683)	(23,542)
Increase in accrued expenses and other liabilities		10,215	37,443
Net cash flows used in operating activities		**(398,229)**	**(417,654)**
Investing activities			
Interest received		66	3
Net cash flows from investing activities		**66**	**3**
Financing activities			
Short term loan received from shareholder		200,000	–
Net cash flows used in financing activities		**200,000**	**–**
(Decrease) in cash and cash equivalents		**(198,163)**	**(417,651)**
Cash and cash equivalents at the beginning of the year		291,191	729,923
Foreign exchange (loss) on cash and cash equivalents		(5,896)	(21,081)
Cash and cash equivalents at the end of the year		**87,132**	**291,191**

› see accompanying notes to the IFRS financial statements on pages 20 to 39

IFRS Statement of Changes in Equity

for the year ended December 31st

in CHF	Share capital	(Accumulated deficit)/retained earnings	Total equity
Balance as of January 1st, 2015	**10,845,321**	**(2,271,847)**	**8,573,474**
Net loss for the period	–	(3,254,929)	(3,254,929)
Other comprehensive income (OCI)			
Defined benefit cost recognized in OCI	–	(355)	(355)
Total comprehensive loss for the year	–	(3,255,284)	(3,255,284)
Balance as of December 31st, 2015	**10,845,321**	**(5,527,131)**	**5,318,190**
Net gain for the period	–	14,108	14,108
Other comprehensive income (OCI)			
Defined benefit cost recognized in OCI	–	355	355
Total comprehensive gain for the year	–	14,463	14,463
Balance as of December 31st, 2016	**10,845,321**	**(5,512,668)**	**5,332,653**

› see accompanying notes to the IFRS financial statements on pages 20 to 39

Notes to the IFRS Financial Statements

as of December 31st, 2016

// Note 1 – Incorporation and activity

EEII, Alpenstrasse 15, 6304 Zug, Switzerland (hereinafter, the "Company") is an investment holding company which was incorporated as a corporation under the laws of Switzerland on August 29th, 1997, and is traded on the SIX Swiss Stock Exchange.

The investment objective of the Company is to maximize long-term return to shareholders through investments in strategically selected companies in the energy and infrastructure sectors which are primarily active in emerging markets, in particular the former Soviet Union. The Company currently holds thirteen investments: ten energy utilities from Ukraine, one Ukrainian oil and gas producer, one Russian gas producer, and one Kazakh natural commodity company.

The Company has held equity positions in a diversified portfolio of ten Ukrainian power producers and distributors since 2007. The Company has held an equity position in Ukrnafta, the largest oil producer and second largest gas producer in Ukraine since 2008, which it increased further in 2010, and partly divested in 2011. Despite the fact that all these holdings are listed on the Ukrainian stock market (the "PFTS"), trading in some of the smaller invested companies is very illiquid. Furthermore, the Company is invested in Gazprom ADRs, and in KAZ Minerals PLC, both companies listed on the London Stock Exchange ("LSE"). KAZ Minerals is mainly focusing on copper production. Gazprom is the world's largest gas company and is focusing its activities on geological exploration, production, transmission, storage, processing and marketing of gas and other hydrocarbons.

From a long-term investment perspective, Ukrainian power companies are expected to benefit from their attractive strategic position: (i) In an environment (situated between the EU and Russia) in which power tends to become an increasingly scarce commodity, the Ukrainian power sector still has massive over-capacities (originated from its role in the former Soviet Union). Hence, increased utilization of spare power capacities is considered a potential long-term value driver. (ii) The possibility that the Ukrainian regulator improves the regulatory environment of the sector by introducing regulated returns in the medium term. Ukrnafta is Ukraine's leading oil and gas company. Gazprom holds the world's largest natural gas reserves and can operate from of a strong market position. KAZ Minerals is the largest copper producer in Kazakhstan and one of the leading global copper producers.

The risk management of the Company is administered by the Board of Directors. The Board of Directors assesses the risk situation on a quarterly basis and regularly monitors and controls the underlying processes of risk management for the Company. The risk management process includes four steps: risk identification, risk assessment, risk valuation and risk control. Disclosures to the risk assessment procedures are described in note 6 to the Company's IFRS financial statements.

During the year ended December 31st, 2016, the Company had one part-time employee (2015: one part-time employee).

The IFRS financial statements as of December 31st, 2016, were approved by the Board of Directors on March 6th, 2017. The financial statements will be submitted to the General Meeting of Shareholders for approval.

// Note 2 – Basis for the presentation of the IFRS financial statements

The IFRS financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The Company has not adopted any of the revisions to IFRS prior to these coming into effect. Financial instruments held in the "investment portfolio" are measured at fair value through profit and loss; all other assets/liabilities are measured on an historical cost basis.

The presentation currency of the Financial Statements of the Company is Swiss Francs (CHF). The level of rounding is one Swiss Franc (CHF).

// Note 3 – Significant accounting policies

3.1 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:
The Company has adopted the following relevant new amendments.

Amendments		Effective
› IAS 1	Disclosure Initiative	1. 1. 2016
› IAS 19	Discount rate – Regional market issue	1. 1. 2016

Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company.

The Company has resolved not to adopt new or revised standards and interpretations issued by the IASB and IFRIC with an effective date after the date of this IFRS financial statement. The Company intends to adopt these standards as soon as they become effective.

› IFRS 9 Financial Instruments	1. 1. 2018
› IFRS 15 Revenue from Contracts with Customers	1. 1. 2018
› IFRS 16 Leases	1. 1. 2019
› Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1. 1. 2018
› Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	tbd
› Amendments to IAS 7 Disclosure Initiative	1. 1. 2017
› Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1. 1. 2017

Management has not yet determined the precise effects that the adoption of new or revised relevant standards and interpretations will have on the Company's IFRS financial statements in the period of initial application. However, management currently expects that the main impact of new and revised standards will be additional disclosures.

As part of the initial application of IFRS 9 the Company will continue to measure its financial assets at fair value but may have an accounting policy choice whether to present changes in fair value of equity investments in profit or loss or other comprehensive income.

3.2 Recognition of revenues and expenses

Revenues and expenses are recognised as they are earned or incurred and recorded in the financial statements of the periods to which they relate.

3.2.1 Interest

Revenues and expenses are recognised as they are earned or incurred and recorded in the financial statements of the periods to which they relate.

3.2.2 Receipt of Dividends

Dividends are recognised when the Company's bank account is credited with the dividend payment.

3.3 Foreign currency translations

Transactions in foreign currencies are recorded at the actual exchange rate as of the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Swiss Francs at the exchange rates as of the balance sheet date. Foreign exchange gains and losses are included in the statement of comprehensive income of the year in which they arise. The exchange rate difference resulting from foreign currency positions within cash and cash equivalents is disclosed separately in the cash flow statement.

3.4 Financial assets at fair value through profit or loss

a) Classification

The Company classifies its investments in equity securities as financial assets at fair value through profit or loss. These financial assets are classified as held for trading or designated by the Board of Directors at fair value through profit or loss at inception.

Financial assets held for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the short term. The Company does not classify any derivatives as hedges in a hedging relationship.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is for the Advisor and the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information.

b) Recognition / Derecognition

Regular-way purchases and sales of investments are recognised on the trade date – the date on which the Company commits to purchase or sell the investment. Investments are derecognized when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

c) Measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income. Subsequent to initial recognition, all financial assets at fair value through profit or loss are consistently and regularly measured at fair value. Gains and losses arising from changes in the fair value of the financial assets or financial liabilities at fair value through profit or loss are presented in the statement of comprehensive income in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend income, when the Company's bank account has been credited.

d) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

Financial instruments are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, and those prices represent actual and regularly occurring market transactions.

EEII assesses the liquidity (i.e. if they are traded in an active market or not) of its investments traded at the PFTS on a continuing basis.

Based on its current assessment the Company considers Cherkasyoblenergo and Volynoblenergo not to be traded in an active market. The two companies are Ukrainian power distribution companies.

Shares quoted in an active market: Fair value is determined on the basis of bid price on the PFTS/UX/London Intl. Exchange/FactSet Research System as of December 31st, 2016.

Shares not quoted in an active market: Fair value for illiquid shares is determined by the weighted average (equal weightings) of four values: i) bid price on the PFTS/UX/FactSet Research System as of December 31st, 2016, and ii) three fair value models prepared by the Advisor, under the responsibility of the Board of Directors.

The three fair value models are based on the following valuation multiples: (i) EV/EBITDA, (ii) EV/Revenues and (iii) EV/Network length. Each multiple is derived from the average of a reference sample as of December 31st, 2016. The reference sample includes all listed Ukrainian power distribution companies considered to be liquid as per our liquidity criteria described above.

To account for the difference in liquidity vs. the reference sample and the limited liquidity of PFTS/UX/FactSet bid prices, a 30 % liquidity discount is applied to the weighted average value.

Below is a summary of the quantitative information used to determine the fair value of the shares not quoted in an active market:

	Cherkasy-oblenergo	**Volyn-oblenergo**
Bid price per share	UAH 0.75	UAH 0.32
EBITDA	USD 1.6 Mio	USD 0.6 Mio
EBITDA multiple used	2.89x	2.89x
Revenue	USD 119.1 Mio.	USD 40.5 Mio.
Revenue multiple used	0.10x	0.10x
Network length	38,012 km	25,611 km
Network length multiple used	USD 407 p/km	USD 407 p/km

The total fair value of level three investments amounts to CHF 77,417 (2015 CHF 34,859). Given the nature of these investments there are no interrelationships of the above information that could have material effect on the performance of the Company. The same applies for the sensitivity analysis. Increasing or decreasing all of the used information above significantly would not result in material change on the performance of the entity.

3.5 Taxation

The Company provides for taxes when profits are earned. Deferred tax assets resulting from tax loss carry forwards are accounted for only when the realisation is probable. Income is taxed at the effective ordinary rate of 8 %, except for dividend and capital gain income derived from qualifying investments, which are exempt from income taxes.

3.6 Cash and cash equivalents

All cash instruments with a maturity of one month or less are considered to be cash and cash equivalents.

3.7 Accounts payable

Accounts payable are stated at amortised cost.

3.8 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset).

The calculation as per June 30th, 2016, was performed by a qualified actuary using the projected unit credit method. The Company has adjusted the projected values as per December 31st, 2016, included in that calculation to reflect the fact that the company will no longer have obligations that qualify as defined benefit plans starting from 1. 1. 2017.

3.9 Loans

Loans are stated at amortised cost.

3.10 Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Deferred Tax Assets

Deferred tax assets resulting from tax loss carry forwards are recognized as deferred tax assets up to the amount of deferred tax liabilities relating to the same taxation authority and if these deferred tax liabilities either are expected to reverse in the same periods or if the tax loss carry forward can be carried back or forward into the periods the deferred tax liabilities can be expected to reverse. The Company has currently no deferred tax liabilities and has therefore not capitalised any tax loss carry forward. The Company cannot reliably assess whether sufficient taxable profits will be available in the future.

Fair value of financial assets through profit or loss

The fair value determination for financial assets at fair value through profit or loss is detailed in note 5.

3.11 Net Asset Value

The Net Asset Value per December 31st, 2016, amounted in total to CHF 5,3 mln (2015 CHF 5,3 mln) or to CHF 3.49 (2015 CHF 3.48) per share, respectively.

// Note 4 – Share capital

Share capital

On December 31st, 2016, the Company had 1,527,510 ordinary bearer shares outstanding of par value of CHF 7.10. On December 31st, 2015, the Company had 1,527,510 ordinary bearer shares outstanding of par value of CHF 7.10.

Significant shareholders:

	2016	2015
Gehold SA	92.41 %	92.41 %

Gehold SA, Geneva, is the controlling party of EEII and does not publish financial statements.

// Note 5 – Financial assets at fair value through profit or loss

Movements in the financial assets at fair value through profit or loss for the period from January 1st to December 31st 2016, are as follows:

in CHF	2016	2015
Financial assets at fair value through profit or loss brought forward	**5,206,338**	**8,002,606**
Purchase	–	–
Sale	–	–
Unrealised gain on financial assets at fair value	1,432,728	–
Unrealised loss on financial assets at fair value	(1,057,694)	(2,796,268)
Realised gain/loss on financial assets at fair value	–	–
Financial assets at fair value through profit or loss	**5,581,372**	**5,206,338**

Listed shares	2016		2015	
	CHF	%	CHF	%
Liquid shares (Level 1 in fair value hierarchy IFRS 13)	5,503,955	99	5,171,479	99
Shares with limited liquidity (Level 3 in fair value hierarchy IFRS 13)	77,417	1	34,859	1
Total	**5,581,372**	**100**	**5,206,338**	**100**
Ukraine	1,406,298	25	2,369,957	46
Russia	3,811,159	68	2,714,346	52
Kazakhstan	363,915	7	122,035	2
Total	**5,581,372**	**100**	**5,206,338**	**100**

Shares with limited liquidity (Level 3 in fair value hierarchy IFRS 13)

in CHF	2016	2015
Financial assets at fair value through profit or loss		
At fair value		
as of Januar 1st	34,859	83,341
Gain/(loss) in profit or loss	**42,558**	**(48,482)**
as of December 31st	77,417	34,859

The gain and loss on financial instrument measured at level 3 of the fair value hierarchy have been included in the line items "Unrealised gain on financial assets at fair value through profit or loss" and "Unrealised (loss) on financial assets at fair value through profit or loss" of the Statement of Comprehensive Income. Changing one or more of the inputs to reasonably possible alternative assumptions would not change fair values significantly as per December 31st 2016. The fair value models are based on the following valuation multiples: (i) EV/EBITDA, (ii) EV/Revenues and (iii) EV/Network length (See Note 3.4 d, shares not quoted in an active market).

EEII AG reassesses whether the conditions of an active market are met for all its investments annually. No reclassifications were made in 2016 and 2015.

Investments as of December 31st, 2016

Financial assets at fair value through profit or loss	Balance as of January 1st 2016		Additions
	Quantity	CHF	CHF
Ukrainian Energos / Power Generation Companies			
Centrenergo	141,000	26,515	–
Dniproenergo	1,380	19,321	–
Donbasenergo	11,400	7,409	–
Kievenergo	13,400	7,184	–
Zakhidenergo	9,800	33,947	–
Ukrainian Oil & Gas Companies			
Ukrnafta	302,701	2,209,474	–
Ukrainian Oblenergos / Power Distribution Companies			
Cherkasyoblenergo	1,139,044	24,621	–
Dniprooblenergo	1,250	2,809	–
Krimenergo	155,000	1,796	–
Volynobelenergo	2,085,000	10,238	–
Zhytomyroblenergo	552,204	26,643	–
Total Ukrainian Investments		**2,369,957**	**–**
Other Investments			
Gazprom ADR	742,800	2,714,346	–
KAZ Minerals PLC (former Kazakhmys)	81,517	122,035	–
Total Other Investments		**2,836,381**	**–**
Total financial assets at fair value through profit or loss		**5,206,338**	**–**

Investments as of December 31st, 2015

Financial assets at fair value through profit or loss	Balance as of January 1st 2015		Additions
	Quantity	CHF	CHF
Ukrainian Energos / Power Generation Companies			
Centrenergo	141,000	64,900	–
Dniproenergo	1,380	56,097	–
Donbasenergo	11,400	22,742	–
Kievenergo	13,400	9,637	–
Zakhidenergo	9,800	83,352	–
Ukrainian Oil & Gas Companies			
Ukrnafta	302,701	3,848,573	–
Ukrainian Oblenergos / Power Distribution Companies			
Cherkasyoblenergo	1,139,044	53,306	–
Dniprooblenergo	1,250	4,769	–
Krimenergo	155,000	19,096	–
Volynobelenergo	2,085,000	30,035	–
Zhytomyroblenergo	552,204	68,723	–
Total Ukrainian Investments		**4,261,230**	**–**
Other Investments			
Gazprom ADR	742,800	3,417,407	–
KAZ Minerals PLC (former Kazakhmys)	81,517	323,969	–
Total Other Investments		**3,741,376**	**–**
Total financial assets at fair value through profit or loss		**8,002,606**	**–**

Withdrawals	Gain in CHF		Loss in CHF		Balance as of December 31st 2016	
CHF	Realised	Unrealised	Realised	Unrealised	Quantity	CHF
–	–	28,496	–	–	141,000	55,011
–	–	–	–	(8,922)	1,380	10,399
–	–	–	–	(2,892)	11,400	4,517
–	–	–	–	(2,885)	13,400	4,299
–	–	–	–	(10,859)	9,800	23,088
–	–	–	–	(1,031,919)	302,701	1,177,555
–	–	35,682	–	–	1,139,044	60,303
–	–	–	–	(217)	1,250	2,592
–	–	1,125	–	–	155,000	2,921
–	–	6,876	–	–	2,085,000	17,114
–	–	21,857	–	–	552,204	48,500
–	**–**	**94,036**	**–**	**(1,057,694)**		**1,406,299**
–	–	1,096,812	–	–	742,800	3,811,158
–	–	241,880	–	–	81,517	363,915
–	**–**	**1,338,692**	**–**	**–**		**4,175,073**
–	**–**	**1,432,728**	**–**	**(1,057,694)**		**5,581,372**

Withdrawals	Gain in CHF		Loss in CHF		Balance as of December 31st 2015	
CHF	Realised	Unrealised	Realised	Unrealised	Quantity	CHF
–	–	–	–	(38,385)	141,000	26,515
–	–	–	–	(36,776)	1,380	19,321
–	–	–	–	(15,333)	11,400	7,409
–	–	–	–	(2,453)	13,400	7,184
–	–	–	–	(49,405)	9,800	33,947
–	–	–	–	(1,639,099)	302,701	2,209,474
–	–	–	–	(28,685)	1,139,044	24,621
–	–	–	–	(1,960)	1,250	2,809
–	–	–	–	(17,300)	155,000	1,796
–	–	–	–	(19,797)	2,085,000	10,238
–	–	–	–	(42,080)	552,204	26,643
–	**–**	**–**	**–**	**(1,891,273)**		**2,369,957**
–	–	–	–	(703,061)	742,800	2,714,346
–	–	–	–	(201,934)	81,517	122,035
–	**–**	**–**	**–**	**(904,995)**		**2,836,381**
–	**–**	**–**	**–**	**(2,796,268)**		**5,206,338**

// Note 6 – Risk Management

6.1 Risk management policies

The risk management of the Company is administered by the Board of Directors. The Board of Directors assesses the risk situation on a quarterly basis and regularly monitors and controls the underlying processes of the risk management of the Company. The risk management process includes four steps: risk identification, risk assessment, risk valuation and risk control.

a) Strategy in using financial instruments

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, interest rate risk, repatriation risk, concentration risk and liquidity risk. The Company's overall risk management focuses on financial risks and seeks to minimise potential adverse effects on the Company's financial performance. The Company may use derivative financial instruments to moderate certain risk exposures.

b) Market price risk

According to its Investment Regulations, the Company can invest in unlisted equities in the energy and commodity sectors in emerging markets. The Company may also take positions in listed equities within the same industry sector. The Company may from time to time invest in debt and money market instruments issued by public and or private companies for cash management purposes or to enhance the portfolio return. The Company may enter into derivatives contracts with the purpose of moderating certain risk exposures in the portfolio; however these operations do not necessarily qualify for hedge accounting.

All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. On December 31st, 2016, the Company's exposure to market risk arises from uncertainties about future prices of the Company's listed equity investments. As of December 31st, 2016, the Company had no investments in unlisted equities. The Company's overall market positions and its different risk exposures are monitored on a weekly basis.

On December 31st, 2016, the Company's market risk was affected by two main components: changes in actual market prices and foreign currency movements. Foreign currency movements are covered in section f). If the prices of the invested equities on December 31st, 2016, had increased by 20 %, with all other variables held constant, this would have increased net assets by approximately CHF 1.1 mln. Conversely, if the portfolio had decreased by 20 %, this would have decreased net assets by approximately CHF 1.1 mln. Management has internally reviewed the percentage of change and the Board approved the rate as appropriate.

The table below summarizes the Company's exposure to market price risk.

Financial assets at fair value through profit or loss on December 31st

2016 Fair value CHF	2016 % of total assets valued at bid market price	2015 Fair value CHF	2015 % of total assets valued at bid market price
5,581,372	98 %	5,206,338	95 %

c) Interest rate risk

The Company's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company's interest bearing assets as of December 31st, 2016, consisted of cash and cash equivalents, the liabilities of the shareholder loan. Therefore the Company's exposure to fair value interest rate risk due to fluctuation in the prevailing market interest rates is limited.

The table summarizes the Company's exposure to interest rate risks. It includes the Company's assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity dates.

On December 31st, 2016, should interest rates have decreased or increased by 50 basis points with all other variables remaining constant, this would have had no material impact on the net assets of the Company.

d) Credit risk

The Company is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

The Company's main exposure to credit risk consists of the cash deposits held at various bank accounts. The Company has a 89 % concentration of its credit risk with its main custodian, UBS AG, Switzerland – an international bank with an investment grade rating as rated by a well-known rating agency. The remaining 11 % are deposited at the second custodian the Company works with, PrivatBank, Ukraine. PrivatBank is the largest commercial bank in Ukraine. PrivatBank was nationalized by the Ukrainian government and the National Bank of Ukraine, resp., in December 2016. Despite the assurances of the Ukrainian government that the assets of the bank were essentially safe, the credit rating for the international bonds of Privatbank was lowered to "RD" (Restricted Default) by Fitch in anticipation of disputes about the repayment of the international bonds. The Board of Directors of EEII has re-assessed the counterparty risk (including the credit risk , liquidity risk and repatriation risk) of PrivatBank after its nationalization and considers the counterparty risk unchanged after the nationalization.

in CHF On December 31st, 2016	Less than 1 month	1–3 months	3–12 months	1–5 years	Non interest bearing	Total
Assets						
Cash and cash equivalents	87,132	–	–	–	–	87,132
Financial assets at fair value through profit or loss	–	–	–	–	5,581,372	5,581,372
Other assets	–	–	–	–	8,611	8,611
Total assets	**87,132**	**–**	**–**	**–**	**5,589,983**	**5,677,115**
Liabilities						
Accrued expenses and accounts payable	–	–	–	–	141,914	141,914
Shareholder loan	–	202,548	–	–	–	202,548
Total liabilities	**–**	**202,548**	**–**	**–**	**141,914**	**344,462**
Total net assets by time	**87,132**	**(202,548)**	**–**	**–**	**5,448,069**	**5,332,653**

in CHF On December 31st, 2015	Less than 1 month	1–3 months	3–12 months	1–5 years	Non interest bearing	Total
Assets						
Cash and cash equivalents	291,191	–	–	–	–	291,191
Financial assets at fair value through profit or loss	–	–	–	–	5,206,338	5,206,338
Other assets	–	–	–	–	6,426	6,426
Total assets	**291,191**	**–**	**–**	**–**	**5,212,764**	**5,503,955**
Liabilities						
Accrued expenses and accounts payable	–	–	–	–	179,382	179,382
Provision for employee benefits	–	–	–	–	6,383	6,383
Total liabilities	**–**	**–**	**–**	**–**	**185,765**	**185,765**
Total net assets by time	**291,191**	**–**	**–**	**–**	**5,026,999**	**5,318,190**

The table below summarizes the Company's exposure to credit risk.

in CHF	2016	2015
Cash and cash equivalents	**87,132**	**291,191**

Credit exposure split by rating category	2016	2015
Rating		
AAA/Aaa	–	–
AA/Aa	–	–
A/A	–	–
A+	–	–
A	89 %	96 %
BBB/Baa	–	–
CCC	11 %	4 %
Total	**100 %**	**100 %**

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been deposited at the Company's custodian account. The trade will fail if either party fails to meet its obligation. All securities held by the Company on December 31st, 2016, are deposited with PrivatBank, Ukraine or UBS AG, Switzerland.

e) Liquidity risk

The Company has no commitments that could give rise to short term liquidity calls. Some of the Company's investments are considered to have limited liquidity despite being listed in the PFTS/UX system of Ukraine. As a result, the Company may not be able to liquidate its investments in those holdings on short term notice at an amount close to fair value or to respond to specific events such as deterioration of earnings of any particular issuer.

The Company is exposed to liquidity risk in the extreme event of a failure of its custodian, PrivatBank Ukraine. In such situation, the Company may not be able to dispose of its investments for a period of time.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual

in CHF On December 31st, 2016	Less than 1 month	1–3 months	1–5 years	No stated maturity
Accounts payable (at amortized costs)	11,256	–	–	–
Accrued expenses and other liabilities	130,658	–	–	–
Shareholder loan (at amortized costs)	–	202,548	–	–
Total financial liabilities	**141,914**	**202,548**	**–**	**–**

in CHF On December 31st, 2015	Less than 1 month	1–3 months	1–5 years	No stated maturity
Accounts payable (at amortized costs)	58,939	–	–	–
Accrued expenses and other liabilities	120,443	–	–	–
Provision for employee benefits	–	–	–	6,383
Total financial liabilities	**179,382**	**–**	**–**	**6,383**

undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

f) Currency risk

The Company holds assets denominated in currencies other than Swiss Francs, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The exchange rates used against the CHF were:

	2016	2015
USD	1.0160	0.9903
UAH	0.0377	0.0412
GBP	1.2498	1.4677

Concentration of assets and liabilities under Ukrainian Hryvna

in CHF	2016	2015
Assets		
Cash at bank	9,980	10,881
Financial assets at fair value through profit or loss	1,406,298	2,369,958
Total Assets	**1,416,278**	**2,380,839**
Liabilities	–	–

On December 31st, 2016, had the exchange rate between the Ukrainian Hryvna and the Swiss Francs increased or decreased by 30 % with all other variables held constant, the increase or decrease respectively in net assets would amount to approximately CHF 0,42 mln (2015: CHF 0,71 mln).

Concentration of assets and liabilities under US Dollar

in CHF	2016	2015
Assets		
Cash at bank	66,081	255,125
Financial assets at fair value through profit or loss	3,811,158	2,714,345
Total Assets	**3,877,239**	**2,969,470**
Liabilities	–	–

On December 31st, 2016, had the exchange rate between the US Dollar and the Swiss Francs increased or decreased by 10 % with all other variables held constant, the increase or decrease respectively in net assets would amount to approximately CHF 0,39 mln (2015: CHF 0,3 mln).

Concentration of assets and liabilities under GB Pound

in CHF	2016	2015
Assets		
Cash at bank	10,809	12,770
Financial assets at fair value through profit or loss	363,915	122,035
Total Assets	**374,724**	**134,805**
Liabilities	–	–

On December 31st, 2016, had the exchange rate between the GB Pound and the Swiss Francs increased or decreased by 15 % with all other variables held constant, the increase or decrease respectively in net assets would amount to approximately CHF 0,06 mln (2015: CHF 0,02 mln).

The Company's policy is not to enter into any currency hedging transactions and to manage its investments using the CHF as base currency.

g) Concentration risk

The investment objective of the Company is to maximize long-term returns to shareholders through investments in strategically selected companies concentrated in the energy and commodity sectors, which are primarily active in emerging markets. The Company has currently thirteen investments: ten energy utilities from Ukraine, one Ukrainian oil company, one Russian gas company and one Kazakh commodity company. 93 % of its net assets are invested in Gazprom ADR (71 %) and Ukrnafta (22 %). The value of EEII's assets is significantly exposed to volatility in the price of Gazprom shares. If the share price were to drop or rise 35 % from the year end 2016 level of USD 5.05 the value of the company's assets would be reduced or lifted by CHF 1.33 Mio, i.e. CHF 0.87 per share.

h) Repatriation risk

The Company is exposed to a repatriation risk, which is the risk that a dividend, another cash flow, or a bank deposit from a foreign country like Ukraine, Russia or Kazakhstan cannot be repatriated, or cannot be fully repatriated to Switzerland within a foreseeable time frame.

6.2 Capital management

The Company's capital is represented by the net assets as follows:

in CHF	2016	2015
Assets		
Cash at bank equivalents	87,132	291,191
Financial assets at fair value through profit or loss	5,581,372	5,206,338
Other assets	8,611	6,426
Total assets	**5,677,115**	**5,503,955**
Liabilities	(344,462)	(185,765)
Total net assets (capital)	**5,332,653**	**5,318,190**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The objective is to invest in listed equity in the eastern energy and infrastructure sector. The Company manages its capital structure and makes adjustments if economic conditions change. To maintain or adjust the capital structure the Company issues new shares or returns capital to the shareholders. The Company monitors and reports its net asset value on a weekly basis.

6.3 Counterparty Risk

The Board of Directors has discussed the counterparty risk of PrivatBank after its nationalization in December 2016. The lowered rating of Fitch covers specific risks of the international bonds of PrivatBank which are not necessarily related to the risks relevant for EEII as a counterparty of PrivatBank (such as risks associated with custodian and foreign exchange transaction services provided by PrivatBank to EEII). At the time of the printing of this report it had not become clear if additional guarantees shall be offered by the Ukrainian government for any obligations of PrivatBank. The Board is permanently monitoring the situation.

// Note 7 – Taxes

Income is taxable at the effective ordinary rate of 8 %, except for dividend and capital gain income derived from qualifying investments, which are exempt from income taxes. The Company pays Swiss taxes on capital of 0.02 % for the year 2016 (Zug).

The Company has not recognised any deferred or current tax income, liabilities or assets in the current and prior period. This because no temporary differences exist and tax loss carry forwards are not being capitalised (see note 3.10).

Details of the amounts recognised in profit or loss are as follows:

	2016	2015
Statutory gain/(loss)	8,080	(3,248,901)
Statutory tax rate	8 %	8 %
Expected income tax expense/(gain)	**646**	**(259,912)**
Deferred tax assets not recognised	–	259,748
Impact of tax loss carried forward (statutory level)	(646)	–
Total income tax expense	**–**	**–**

in CHF	2016	2015
Gain/(loss) before tax (IFRS)	**14,108**	**(3,254,929)**
Deferred tax (income)	–	–
Net gain/(loss) after tax/ Total comprehensive gain/(loss)	**14,108**	**(3,254,929)**

Analysis on income tax expense

Expected current income taxes for 2016 are zero (2015: zero). Due to the holding privilege combined with the actual results and tax losses carried forward, income of the Company for 2016 is not subject to current tax, so the tax expense for 2016 is zero (2015: zero). The Swiss tax on capital (0.02 %) is posted as an operating expense.

As of December 31st, 2016, the tax losses carried forward by EEII amount to CHF 18.7 mln (2015: CHF 18.7 mln). The unrecognized tax losses have the following expiry dates:

Year	in CHF
2019	10,786,543
2020	2,365,770
2021	2,271,847
2022	3,248,901
Total tax losses carried forward	**18,673,061**
Not capitalised maximum positive tax effect (with 8 %)	1,493,845

// Note 8 – Employee benefits

Defined benefit plan

The Company makes contributions to a defined benefit plan for its one part time employee. It does not operate any other defined benefit plans. The Company expects to pay CHF 0 in contribution to its Swiss defined benefit plan during the financial year ending December 31st, 2017 (2016: CHF 3,584).

Begin of Period (BOP)	1. 1. 2016
End of Period (EOP)	31. 12. 2016

Reconciliation of the amount recognised in the statement of financial position at the end of the period	**31. 12. 2016**	**31. 12. 2015**
Defined benefit obligation at EOP	8,090	10,383
Fair value of plan assets at EOP	8,090	4,000
Deficit/(surplus) at EOP	0	6,383
Adjustment to asset ceiling	0	0
NET defined benefit liability (asset) at EOP	**0**	**6,383**
therof recognised a separate (asset)	0	0
therof recognised a separate (liability)	0	6,383

Best estimate of contributions of next year (§147 lit. b)		
Contributions by the employer	0	3,584
Contributions by plan participants	0	1,536

Defined Benefit Plan in Switzerland

Pension plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which stipulates that pension plans are to be managed by independent, legally autonomous units. Pension plans are overseen by a regulator as well as by a state supervisory body. A pension plan's most senior governing body (Board of Trustees) must be composed of equal numbers of employee and employer representatives. The governing bodies of these institutions have an obligation to act in the interests of the plan participants. In the case of funded plans, they are also responsible for the investment strategy.

Plan participants are insured against the financial consequences of old age, disability and death. The various insurance benefits are governed in regulations, with the BVG specifying the minimum benefits that are to be provided. The employer and employees pay contributions to the pension plan. In case of an underfunding, various measures can be taken such as the adjustment of the pension commitment by altering the conversion rates or increasing current contributions. The employer can also make additional restructuring contributions. The BVG prescribes how employees and employer have to jointly fund potential restructurings.

The Swiss pension plan of the Company has the legal structure of a foundation. All actuarial risks are borne by the foundation. These risks consist of demographic risks (primarily life expectancy) and financial risks (primarily the discount rate, future increases in salaries/wages, and the return on plan assets) and are regularly assessed by the Board of Trustees. In addition, an annual actuarial report is drawn up in accordance with the requirements of the BVG. The report is not produced using the projected unit credit method, as required by the IFRS. The definitive funded status according to the BVG is determined in the first quarter of the following year. According to estimates, the funded status on such statutory basis at December 31st, 2016, was 105.9 % (2015: 105.9 %).

The Board of Trustees is responsible for the investment of the assets. It defines the investment strategy as often as necessary – especially in the case of significant market developments or changes to the structure of the plan participants – and at least once annually. When defining the investment strategy, it takes account of the foundation's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target asset structure (investment policy). The Board of Trustees delegates the implementation of the investment policy – in accordance with the investment strategy as well as various principles and objectives – to an Investment Committee, which also consists of members of the Board of Trustees, a Director and a Controller. The Controller oversees the entire investment process.

Reconciliation in net defined benefit liability (asset)	in CHF	31.12.2016	31.12.2015
Net defined benefit liability (asset) at BOP		6,383	0
Defined benefit cost recognised in profit or loss		(6,028)	9,612
Defined benefit cost recognised in OCI		(355)	355
Contributions by the employer		0	(3,584)
Net defined benefit liability (asset) at EOP		**0**	**6,383**

Reconciliation of defined benefit obligation	in CHF	31.12.2016	31.12.2015
Defined benefit obligation at BOP		10,383	0
Interest expense on defined benefit obligation		90	50
Current service cost (employer)		(6,087)	9,577
Contributions by plan participants		1,368	1,536
Benefits (paid)/deposited		(565)	(1,120)
Administration cost (excl. cost for managing plan assets)		5	5
Others		(4,858)	0
Actuarial (gain)/loss on defined benefit obligation (balancing figure)		(336)	355
Defined benefit obligation at EOP		**8,090**	**10,383**

Components of defined benefit cost in profit or loss	in CHF	31.12.2016	31.12.2015
Current service cost (employer)		(6,087)	9,577
Interest expense on defined benefit obligation		90	50
Interest (income) on plan assets		(36)	(20)
Administration cost excl. cost for managing plan assets		5	5
Defined benefit cost recognised in profit or loss		**(6,028)**	**9,612**
thereof service cost and administration cost		(6,028)	9,582
thereof net interest on the net defined benefit liability (asset)		54	30

Reconciliation of fair value of plan assets (§140 lit. a, §141)	**in CHF**	**31. 12. 2016**	**31. 12. 2015**
Fair value of plan assets at BOP		4,000	0
Interest income on plan assets		36	20
Contributions by the employer		0	3,584
Contributions by plan participants		1,368	1,536
Benefits (paid)/deposited		(565)	(1,120)
Gains and (losses) on settlement		0	0
Effect of business combination and disposal		0	0
Others		3,232	0
Return on plan assets excl. interest income		19	(20)
Fair value of plan assets at EOP		**8,090**	**4,000**

Components of defined benefit cost in OCI	**in CHF**	**31. 12. 2016**	**31. 12. 2015**
Actuarial (gain)/loss on defined benefit obligation		(336)	335
Return on plan assets excl. interest income		(19)	20
Defined benefit cost recognised in OCI		**(355)**	**355**

Components of actuarial gain/losses on obligations	**in CHF**	**31. 12. 2016**	**31. 12. 2015**
Actuarial (gain)/loss arising from changes in financial assumptions		0	0
Actuarial (gain)/loss arising from changes in demogr. assumptions		0	0
Actuarial (gain)/loss arising from experience adjustments		(336)	335
Actuarial (gain)/loss on defined benefit obligation		**(336)**	**335**

Plan assets classes	**in CHF**	**31. 12. 2016**	**31. 12. 2015**
Quoted market price			
Cash and cash equivalents		600	335
Equity instruments		4,150	2,074
Debt instruments (e.g. bonds)		1,497	957
Real estate		689	267
Others		256	35
Total plan assets at fair value (quoted market price)		**7,192**	**3,668**
Non-quoted market price			
Real estate		0	332
Derivates		898	0
Others		0	0
Total plan assets at fair value (non-quoted market price)		**898**	**332**

Defined benefit obligation

Actuarial assumptions

The calculation as per June 30th, 2016, was performed by a qualified actuary using the projected unit credit method. The Company has adjusted the projected values as per December 31st, 2016, included in that calculation to reflect the fact that the company will no longer have obligations that qualify as defined benefit plans starting from 1. 1. 2017. Actuarial assumptions are required for this purpose. The principal ones are summarized below for each reporting date.

Actuarial Assumptions

Discount Rate (DR) at BOP	1.0 %
Discount Rate (DR) at EOP	1.0 %
Future salary increases (SI) at EOP	0.5 %
Future pension increases (PI) at EOP	0.0 %
Mortality tables	BVG2010 GT

At December 31st, 2016, the weighted-average duration of the defined benefit obligation was 22 years.

Sensitivity analysis

As the company will have no employees subject to Swiss BVG going forward, which means that no IAS 19 provision will be recorded going forward and hence no sensitivity analysis is required.

// Note 9 – Shareholder loan

In May 2016 and in order to strengthen the working capital of the Company, the Company received a shareholder loan from its main shareholder in the amount of CHF 0.2 mln. The amount of the yearly interest payable by the Company is automatically adjusted every year and equal to the so-called “safe haven” interest rate between related parties as published by the Swiss tax authorities for CHF loans. The lender may demand repayment of the loan for the first time on December 30th, 2016, by giving at least a three months notice in advance. For the calendar year 2016 the Company accrued interest of CHF 2,548 (2015: CHF 0).

// Note 10 – Related parties

AIL Structured Finance AG (the "Advisor") provided management support and financial advisory services to EEII on the basis of a mandate agreement. AIL Structured Finance is a privately held firm owned by AIL Holding Ltd. and the partners of AIL Structured Finance AG. Beat Imwinkelried and Urs Gerspacher (both part of the advisory team of the Company) are also both partners of AIL Structured Finance AG.

The relationship between the Company and AIL Structured Finance AG during the reporting period was governed by a Mandate Agreement that became effective April 1st, 2016, and replaced the former Mandate Agreement from December 22nd, 2014, whereby AIL Structured Finance AG reduced its remuneration fee. As a result, the annual fee of AIL Structured Finance AG decreased to CHF 156,250 (2015: CHF 175,000).

As of January 1st, 2017, Weissenstein & Partner AG (Weissenstein) started acting as EEII's new Advisor. Weissenstein provides management support and financial advisory services to EEII on the basis of a Mandate Agreement. Weissenstein will be compensated via an annual fixed fee of CHF 114,000.

In 2016, Victor Lorenz Gnehm, Schnurrenberger Tobler Gnehm & Partner, Alpenstrasse 2, 6300 Zug (www.stgp.ch), provided general legal counsel and specific legal services to the Company. For these services the Company accrued provisions amounting to CHF 15,000 total (2015: CHF 15,000). These fees as well as fees of CHF 60,000 relating to legal services provided in 2012, 2013, 2014 and 2015 are provisioned in the financial statement 2016 in the amount of CHF 75,000 (2015: CHF 60,000).

// Note 11 – Segment information

The Company is organized into one main business segment focused on investing in the energy, commodity and infrastructure sectors in emerging markets. Its secondary segment presents geographical regions based on location of the investment. At present investments have been made in Ukraine, Russia and Kazakhstan. All other assets and liabilities of the Company are in Switzerland. In 2016 no external revenues with customers were booked and no major customers according to IFRS 8.34 existed.

in CHF	2016	2015
Income		
Switzerland	4,930	(15,494)
Ukraine	964,559	(1,896,327)
Russia (Gazprom)	(1,234,185)	(579,850)
Kazakhstan (KAZ Minerals)	(241,880)	(201,934)
Total income	**(506,576)**	**(2,693,605)**
Assets		
Switzerland	85,763	286,736
Ukraine	1,416,278	2,380,839
Russia (Gazprom)	3,811,159	2,714,345
Kazakhstan (KAZ Minerals)	363,915	122,035
Total assets	**5,677,115**	**5,503,955**

// Note 12 – Compensation policies

Determination of compensation

The Remuneration Committee, consisting of Mr. Victor Lorenz Gnehm and Heinz-Dieter Waffel, who resigned from the Board and the Remuneration Committee by September 30th, 2016, and who both were elected by the ordinary General Meeting of Shareholders of the Company on April 21st, 2016, drafts and periodically reviews the remuneration policy and principles of the Company.

It submits proposals regarding type and amount of compensation to the members of the Board of Directors and the Management and prepares the proposal for the total amounts of fixed remuneration to the General Meeting of the Company. The Remuneration Committee is also responsible for the preparation of the Remuneration Report. The compensation of the Board Members has been determined to appropriately reflect the size of the Company and the responsibility of the Board Members. The General Meeting approves annually and severally for the Board of Directors and the Management a total amount as fixed remuneration for the current business year. More details and information can also be found on the separate Remuneration Report of the Company.

The General Meeting of Shareholders of the Company on April 21st, 2016, approved a remuneration package for the business year 2016 as follows:

› Fixed Remuneration for the Board of Directors of totaling CHF 105,000 [excluding gross-up to reflect taxes at source, social charges (Swiss social security programs providing retirement, disability and unemployment benefits AHV/IV/ALV) and any other taxes]
› Fixed Remuneration for the Management of totaling CHF 40,000 [excluding employer's contributions to social charges (Swiss social security programs providing retirement, disability and unemployment benefits AHV/IV/ALV) and any other taxes)].

Compensation for the Board of Directors

The Company compensated each non-executive Board member with a fee of CHF 30,000 p. a. plus out-of the pocket expenses. The compensation of the Chairman was fixed at CHF 45,000 p. a. (including out-of-pocket expenses). The compensation of all Board Members was grossed-up to reflect taxes at source and social charges and amounted in total to CHF 95,871 (2015: CHF 132,965). Compensation for Board Members who resigned during the reporting period was paid pro rata.

Compensation for Management

For the business year 2016 the Company compensated the Management with a fixed amount of CHF 40,000 (2015: CHF 40.000) [excluding employer's contributions to social charges (Swiss social security programs providing retirement, disability and unemployment benefits AHV/IV/ALV of totally CHF 6,816 (2015: CHF 7,499)] and any other taxes.

// Note 13 – Events after the balance sheet date

After the balance sheet date and until the approval of the financial statements by the Board of Directors no significant events have occurred which might affect the validity of the financial statements 2016 and require to be disclosed at this point.

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REPORT OF THE STATUTORY AUDITOR

To the General Meeting of EEII AG, Zug

Report of the Statutory Auditor on the Financial Statements

Opinion

We have audited the financial statements of EEII AG, which comprise the statement of financial position as at 31 December 2016, statement of income, statement of comprehensive income, cash flow statement, statement of changes in equity, and notes to the financial statements (page 18 to 41) for the year then ended, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the financial position of the company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with article 14 of the Directive on Financial Reporting (DFR) of SIX Swiss Exchange as well as with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.
We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of financial assets at fair value through profit or loss As presented in the statement of financial position and disclosed in note 5 to the financial statements the financial assets are recorded at fair value. As at 31 December 2016, CHF 5.5 Mio. or 99% of the financial assets at fair value were classified as Level 1 assets in accordance with IFRS 13 Fair Value Measurement. We focused our audit on this position because of its significance to the financial statements. The determination of the relevant quoted prices is key to the valuation of these financial assets.	We identified the market data input used by the company to determine the fair value and tested it against independent data.

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Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the financial statements, the remuneration report and our auditor’s reports thereon.
Our opinion on the financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS, article 14 of the Directive on Financial Reporting (DFR) of SIX Swiss Exchange and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the Board of Directors is responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor’s report.

Zurich, 6 March 2017

BDO Ltd

Stefan Oegema

Auditor in Charge
Licensed Audit Expert

ppa. Micha Lichtsteiner

Licensed Audit Expert

Statutory Management Report

Full-time equivalents

The annual average number of full-time equivalent for the reporting year was 0.25 (2015: 0.25).

Conduct of a risk assessment

The risk management of the Company is administered by the Board of Directors. The Board of Directors assesses the risk situation on a quarterly basis and regularly monitors and controls the underlying processes of risk management for the Company. The risk management process includes four steps: risk identification, risk assessment, risk valuation and risk control. On this basis, the current risks are assessed according to their probability of occurrence and impact. Those risks that are assessed as significant are avoided, mitigated or transferred through corresponding measures determined by the Board of Directors. Disclosures to the risk assessment procedures are described in note 6 to the Company's IFRS financial statements.

Extraordinary events

There have been no extraordinary events or transactions during the reporting period.

Future prospects

The macroeconomic indicators for the core investment markets of the Company, in particular for Russia and Ukraine, have stabilized during 2016. Despite some tentative signs of improvement in the economic performance of Ukraine, country risks for both markets (Russia and Ukraine) remain elevated. Renewed weakness in commodity prices, particularly oil (Gazprom) and copper (KAZ Minerals) may have a negative impact on the Company's investment portfolio.

Looking forward, the management of the company expects continued uncertainty about the political prospects particularly in Ukraine, which are a major driver for stock prices and currency volatility. While the main assets of the Company's investment portfolio are mostly dependent on commodity prices, the Ukrainian holdings will hardly see an improvement in business conditions or valuations without significant progress on the political side.

Statutory Financial Statements
Statement of Financial Position

as of December 31st

in CHF	Notes	2016	2015
Assets			
Cash and cash equivalents		87,132	291,191
Other short-term receivables		8,611	6,426
Total current assets		**95,743**	**297,617**
Financial assets	2	5,581,372	5,206,338
Total non current assets		**5,581,372**	**5,206,338**
Total assets		**5,677,115**	**5,503,955**
Liabilities and shareholders' equity			
Trade accounts payable		11,256	58,939
Accrued expenses and deferred income	3.5	130,658	120,443
Interest bearing short term loan shareholder		202,548	–
Total current liabilities		**344,462**	**179,382**
Share capital	2	10,845,321	10,845,321
Accumulated deficit		(5,512,668)	(5,520,748)
Shareholders' equity		**5,332,653**	**5,324,573**
Total liabilities and shareholders' equity		**5,677,115**	**5,503,955**

› see accompanying notes to the financial statements on pages 46 to 49

Statement of Income

for the year ended December 31st

in CHF	Notes	2016	2015
Income			
Interest income		66	3
Dividends	1	137,372	123,741
Profit on financial assets	2	1,432,728	–
(Loss) on financial assets	2	(1,057,694)	(2,796,268)
Total income		**512,472**	**(2,672,524)**
Expenses			
Interest expense		2,548	–
Foreign exchange loss		5,896	21,081
Management fees		156,250	175,000
Administrative fees		50,436	44,839
Directors fees		95,871	132,965
Personnel cost		46,816	47,499
Professional fees		59,995	59,868
Other expenses		79,511	83,350
Bank charges and interest expenses		9,279	11,318
Capital tax (income)/expenses		(2,210)	457
Total expenses		**504,392**	**576,377**
Net profit/(loss) for the year		**8,080**	**(3,248,901)**
Accumulated deficit at the beginning of the year		(5,520,748)	(2,271,847)
Accumulated deficit at the end of the year		**(5,512,668)**	**(5,520,748)**

› see accompanying notes to the financial statements on pages 46 to 49

Cash Flow Statement

for the year ended December 31st

in CHF	Notes	2016	2015
Operating activities			
Profit/(loss) before tax		8,080	(3,248,901)
Adjustments to reconcile loss before tax to net cash flows			
Interest income		(66)	(3)
Dividend income	1	(137,372)	(123,741)
Foreign exchange loss on cash and cash equivalents		5,896	21,081
Unrealized profits on financial assets at fair value through profit or loss	2	(1,432,728)	–
Unrealized losses on financial assets at fair value through profit or loss	2	1,057,694	2,796,268
Interest expense		2,548	–
Working capital adjustments			
Dividend income	1	137,372	123,741
(Increase) in other assets		(2,185)	–
Decrease in trade and other receivables		–	–
(Decrease) in accounts payable		(47,683)	(23,542)
Increase in accrued expenses and other liabilities		10,215	37,443
Net cash flows used in operating activities		**(398,229)**	**(417,654)**
Investing activities			
Interest received		66	3
Net cash flows from investing activities		**66**	**3**
Financing activities			
Short term loan received from shareholder		200,000	–
Net cash flows used in financing activities		**200,000**	**–**
(Decrease) in cash and cash equivalents		**(198,163)**	**(417,651)**
Cash and cash equivalents at the beginning of the year		291,191	729,923
Foreign exchange (loss) on cash and cash equivalents		(5,896)	(21,081)
Cash and cash equivalents at the end of the year		**87,132**	**291,191**

› see accompanying notes to the financial statements on pages 46 to 49

Notes to the Financial Statements

as of December 31st, 2016

These notes are an extract of the notes to the IFRS financial statements and should be read in conjunction with them.

// Note 1 – Principles

Note 1.1 General aspects

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Note 1.2 Financial assets

The financial assets are valued at their quoted market price as at the balance sheet date. A valuation adjustment reserve has not been accounted for.

Note 1.3 Dividend incomes

Dividends are recognised when the Company's bank account is credited with the dividend payment.

Note 1.4 Profit or loss on Financial Assets

The profit or loss on financial assets is presented in the Statement of Income under the title Income.

// Note 2 – Information on balance sheet and income statement items

Note 2.1 Financial assets

See table attached on page 48 and 49.

// Note 3 – Other information

Note 3.1 Full-time equivalents

The annual average number of full-time equivalent for the reporting year was 0.25 (2015: 0.25).

Note 3.2 Significant shareholders:

	2016	2015
Gehold SA	92.41 %	92.41 %

Note 3.3
Shareholdings by member of the Board of Directors

	2016	2015
Heinz-Dieter Waffel	1	1
Victor Lorenz Gnehm	1	1

Note 3.4 Accrued expenses and deferred income

	2016	2015
Accrued expenses and deferred income due to third parties	55,658	60,443
Accrued expenses and deferred income due to board of director	75,000	60,000
Total	**130,658**	**120,443**

Note 3.5 Audit fees

Auditing fees

For the audit for the calendar year 2016, BDO Ltd has charged the Company an audit fee of CHF 39,420 (2015: CHF 39,528).

Additional fees

In 2016 BDO Ltd has performed other (other than auditing the annual accounts) services for the Company in the amount of CHF 2,216 (2015: CHF 1,957).

// Note 4 – Events after the balance sheet date

After the balance sheet date and until the approval of the financial statements by the Board of Directors no significant events have occurred which might affect the validity of the financial statements 2016 and require to be disclosed at this point.

Investments as of December 31st, 2016

Financial assets at fair value through profit or loss	Balance as of January 1st 2016		Additions
	Quantity	CHF	CHF
Ukrainian Energos / Power Generation Companies			
Centrenergo	141,000	26,515	–
Dniproenergo	1,380	19,321	–
Donbasenergo	11,400	7,409	–
Kievenergo	13,400	7,184	–
Zakhidenergo	9,800	33,947	–
Ukrainian Oil & Gas Companies			
Ukrnafta	302,701	2,209,474	–
Ukrainian Oblenergos / Power Distribution Companies			
Cherkasyoblenergo	1,139,044	24,621	–
Dniprooblenergo	1,250	2,809	–
Krimenergo	155,000	1,796	–
Volynobelenergo	2,085,000	10,238	–
Zhytomyroblenergo	552,204	26,643	–
Total Ukrainian Investments		**2,369,957**	**–**
Other Investments			
Gazprom ADR	742,800	2,714,346	–
KAZ Minerals PLC (former Kazakhmys)	81,517	122,035	–
Total Other Investments		**2,836,381**	**–**
Total financial assets at fair value through profit or loss		**5,206,338**	**–**

Investments as of December 31st, 2015

Financial assets at fair value through profit or loss	Balance as of January 1st 2015		Additions
	Quantity	CHF	CHF
Ukrainian Energos / Power Generation Companies			
Centrenergo	141,000	64,900	–
Dniproenergo	1,380	56,097	–
Donbasenergo	11,400	22,742	–
Kievenergo	13,400	9,637	–
Zakhidenergo	9,800	83,352	–
Ukrainian Oil & Gas Companies			
Ukrnafta	302,701	3,848,573	–
Ukrainian Oblenergos / Power Distribution Companies			
Cherkasyoblenergo	1,139,044	53,306	–
Dniprooblenergo	1,250	4,769	–
Krimenergo	155,000	19,096	–
Volynobelenergo	2,085,000	30,035	–
Zhytomyroblenergo	552,204	68,723	–
Total Ukrainian Investments		**4,261,230**	**–**
Other Investments			
Gazprom ADR	742,800	3,417,407	–
KAZ Minerals PLC (former Kazakhmys)	81,517	323,969	–
Total Other Investments		**3,741,376**	**–**
Total financial assets at fair value through profit or loss		**8,002,606**	**–**

Withdrawals	Gain in CHF		Loss in CHF		Balance as of December 31st 2016	
CHF	Realised	Unrealised	Realised	Unrealised	Quantity	CHF
–	–	28,496	–	–	141,000	55,011
–	–	–	–	(8,922)	1,380	10,399
–	–	–	–	(2,892)	11,400	4,517
–	–	–	–	(2,885)	13,400	4,299
–	–	–	–	(10,859)	9,800	23,088
–	–	–	–	(1,031,919)	302,701	1,177,555
–	–	35,682	–	–	1,139,044	60,303
–	–	–	–	(217)	1,250	2,592
–	–	1,125	–	–	155,000	2,921
–	–	6,876	–	–	2,085,000	17,114
–	–	21,857	–	–	552,204	48,500
–	**–**	**94,036**	**–**	**(1,057,694)**		**1,406,299**
–	–	1,096,812	–	–	742,800	3,811,158
–	–	241,880	–	–	81,517	363,915
–	**–**	**1,338,692**	**–**	**–**		**4,175,073**
–	**–**	**1,432,728**	**–**	**(1,057,694)**		**5,581,372**

Withdrawals	Gain in CHF		Loss in CHF		Balance as of December 31st 2015	
CHF	Realised	Unrealised	Realised	Unrealised	Quantity	CHF
–	–	–	–	(38,385)	141,000	26,515
–	–	–	–	(36,776)	1,380	19,321
–	–	–	–	(15,333)	11,400	7,409
–	–	–	–	(2,453)	13,400	7,184
–	–	–	–	(49,405)	9,800	33,947
–	–	–	–	(1,639,099)	302,701	2,209,474
–	–	–	–	(28,685)	1,139,044	24,621
–	–	–	–	(1,960)	1,250	2,809
–	–	–	–	(17,300)	155,000	1,796
–	–	–	–	(19,797)	2,085,000	10,238
–	–	–	–	(42,080)	552,204	26,643
–	**–**	**–**	**–**	**(1,891,273)**		**2,369,957**
–	–	–	–	(703,061)	742,800	2,714,346
–	–	–	–	(201,934)	81,517	122,035
–	**–**	**–**	**–**	**(904,995)**		**2,836,381**
–	**–**	**–**	**–**	**(2,796,268)**		**5,206,338**

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REPORT OF THE STATUTORY AUDITOR

To the General Meeting of EEII AG, Zug

Report of the Statutory Auditor on the Financial Statements

Opinion

We have audited the financial statements of EEII AG, which comprise the statement of financial positions as at 31 December 2016, statement of income, cash flow statement and notes to the financial statements on page 45 - 51 for the year then ended, including a summary of significant accounting policies.

In our opinion the financial statements as at 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Valuation of financial assets at fair value through profit or loss As presented in the statement of financial position and disclosed in note 1.2 and 2 to the financial statements, 99% or CHF 5.5 Mio. of the financial assets are recorded at quoted market prices in the statements of financial position. We focused our audit on this position because of its significance to the financial statements. The determination of the relevant quoted prices is key to the valuation of these financial assets.	We identified the market data input used by the Company to determine the quoted market price and tested it against independent data.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern

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and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We recommend that the financial statements submitted to you be approved.

Furthermore, we draw attention to the fact that half of the share capital and legal reserves are no longer covered (article 725 para. 1 CO).

Zurich, 6 March 2017

BDO Ltd

Stefan Oegema	ppa. Micha Lichtsteiner
Auditor in Charge Licensed Audit Expert	Licensed Audit Expert

Organization, Related Parties, Management, Advisor and Address

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Alpenstrasse 15
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Switzerland

Management of the Company
› Andres Heusser, CEO, until December 31st, 2016
› Marcus H. Bühler, CEO, starting January 1st, 2017

Advisor (until December 31st, 2016)
AIL Structured Finance AG
Schaffhauserstrasse 418
8050 Zurich
Switzerland

Team of the Advisor
› Beat Imwinkelried, AIL Structured Finance AG
› Urs Gerspacher, AIL Structured Finance AG

Advisor (starting January 1st, 2017)
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Team of the Advisor
› Roland Sager, Weissenstein & Partner AG
› Christoph Offenhäuser, Weissenstein & Partner AG

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