

1st quarter 2014 report

// Overview

- › In the first quarter of 2014, EEII's net asset value per share ("NAV") increased by 7% from CHF 8.22 to CHF 8.76. During the same period, the fair value of the equity holdings increased by 9.4%, or CHF 0.97 mln.
- › The primary contributor to this positive NAV development during Q1 2014 were the positive share price developments of Ukrnafta, which is one of the company's main holdings, and of Kazakhmys. Ukrnafta's and Kazakhmys's share prices increased by 44% and 34% respectively during the quarter. These increases more than made up the decrease in the share price of the other main holding Gazprom, which lost 12% in Q1 2014.
- › The share price developments of the individual Ukrainian electricity companies remained volatile during the first quarter. Overall they gained 5% in CHF terms during the period. However, since these companies still represent a minor share of the company's portfolio, their impact on the overall portfolio performance in the first quarter remained small.
- › While the British £ and the US\$ remained stable against the CHF during Q1 2014, the Ukrainian currency Hryvna weakened significantly against the CHF and lost almost 28%.

Corporate affairs:

- › The Annual General Assembly took place on April 3rd, 2014, in Zug. The annual report 2013 and the financial statements were approved, and the current Board of Directors was reelected for one year. BDO AG, Zurich was elected as the statutory auditor for another year. The shareholders also approved the proposed payout of CHF 1.12 per share.

// Investments

Portfolio Composition and Performance:

- › The stock holdings of EEII remained unchanged during Q1 2014. Gazprom, and Ukrnafta remain the largest positions in the portfolio. Together, they make up 90% of the investment portfolio value as of March 31st, 2014.
- › Ukrnafta recently reported a 9% yoy increase in its Q1 2014 revenues to UAH 5.12 bln, mostly driven by a 30% yoy increase in revenues in its oil products segment. At the same time, Ukrnafta's operating profit increased by 17% yoy to UAH 550 mln and its net income jumped 35% yoy to UAH 452 mln.

/ Economic and political environment

- › Ukraine restarted its cooperation with the IMF and agreed on a US\$ 18 bln standby loan. The agreement focuses on economical and political reforms in the areas of monetary and exchange rate policies (targeting inflation, not the exchange rate), stability of the financial sector, fiscal policies (budget consolidation), the energy sector (increasing utility tariffs), and governance issues. With the background of an escalating political turmoil in the country and a weakening currency, Ukrainian industrial output plummeted by 6.8% yoy in March 2014, according to State statistics. Virtually all major Ukrainian export sectors were affected by this decline; for instance machinery (-17.4%), metallurgy (-11%), utilities (-8.3%), mining (-3.5%), and chemicals (-2.8%).
- › Rosstat recently corrected Russia's 2013 GDP growth rate downwards to 1.3% vs. 1.4%, as previously announced by the government. This compares to a growth rate of 3.4% in 2012. The Central Bank of Russia reported for Q1 2014 an ongoing net capital outflow of US\$ 64 bln. Russia's exports declined by 2% yoy in Q1 2014, showing stagnant non-oil exports and indicating rather weak economic activity. It seems that so far Russia's export sectors have not been able to benefit from the recent Ruble depreciation.

› Facts and figures

History	› Inception	8/97
	› Public listing (SWX)	1/99
	› Capital reduction	4/03
Capital structure	› 1,527,510 bearer shares	
	› par value of CHF 10	
	› Last dividend per share CHF 3.50 (ex-date 05/03/2012)	
Board of directors	› Heinz-Dieter Waffel (Chairman)	
	› Victor Gnehm (Vice Chairman)	
	› Beat Imwinkelried (Secretary)	
Management fee	Flat fee, payable quarterly	
Share identification	› Valor 716 295	
	› ISIN CH0007162958	
Bloomberg	EEII SW Equity	
Registered office	EEII AG Alpenstrasse 15 P.O. Box 4853, 6304 Zug	
Manager	AIL Structured Finance AG, Zurich	
Administrator	MOORE STEPHENS ZUG AG, Zug	
Custodians	› UBS AG, Zug › PrivatBank, Dnipropetrovsk	
Auditor	BDO Ltd, Zurich	
Independent Rep. of Shareholders	Philipp Andermatt, Zwicky Windlin & Partner	

› Portfolio	per share	MCHF	%
Net current assets		2.3	17%
Investments		11.3	83%
Total assets		13.6	100%
NAV (31/03/14)	8.76	13.4	
NAV (31/12/13) audited	8.22	12.6	
NAV (30/09/13)	8.51	13.0	
NAV (30/06/13)	7.88	12.0	
NAV (31/03/13)	9.54	14.6	

› Investments (in 1,000 CHF)	at cost	fair value *)	ownership
Donbasenergo	456	37	0.05%
Dniπροenergo	491	44	0.03%
Centrenergo	627	59	0.04%
Zakhidenergo	849	97	0.08%
Kievenergo	119	12	0.01%
Ukrnafta	6,068	5,112	0.85%
Cherkasyoblenergo	728	72	0.77%
Dniπροoblenergo	255	9	0.02%
Krimenergo	245	6	0.09%
Volynoblenergo	295	42	0.44%
Zhytomyroblenergo	589	54	0.45%
Gazprom	8,143	5,073	0.00%
Kazakhmys	581	641	0.04%
Total	19,446	11,258	

*) As of March 31, 2014 (unaudited). The fair values of two distribution companies (Cherkasyoblenergo and Volynoblenergo) are determined by the average of market prices and three fair value models, to which a liquidity discount is applied. The fair value of all other companies are market prices.