

3rd quarter 2014 report

// Overview

- › In the third quarter of 2014, EEII's net asset value per share ("NAV") decreased 7.5% from CHF 9.55 to CHF 8.83. During the same period, the fair value of the equity holdings increased by 2.5%, or CHF 0.3 mio.
- › The primary reasons for the above mentioned NAV development during Q3 2014 were the executed payment to the Company's shareholders derived from the capital decrease of CHF 1.12 per share as well as the positive share price development of Ukrnafta. The share price of Ukrnafta, one of the company's main holdings, increased by more than 25% in Q3 2014.
- › The share price of the other main holding Gazprom suffered from the ongoing turmoils in the region, in particular the imposed sanctions and the weakening Ruble, and lost more than 13% of its share value during Q3 2014.
- › The value of the Company's Ukrainian electricity company shares in local currency lost overall 16.5% in the third quarter. However, these companies still represent a minor part of the current portfolio.
- › EEII's equity position in Kazakhmys was further reduced during the third quarter 2014. The company sold an additional 50'000 Kazakhmys shares at £3.55 per share. EEII realized a net profit of roughly CHF 0.85 Mio. on this transaction.
- › The British £ and the US\$ strengthened by 2% respectively 7% against the CHF during Q3 2014. The Ukrainian currency Hryvna stabilized against the CHF and slightly strengthened by 3% during Q3 2014.

Corporate affairs:

- › At the end of September 2014 the capital decrease of the Company, as approved by the shareholders of the Company at the Annual General Assembly on April 3rd, 2014, had been executed and registered in the Commercial register of the Canton Zug. The proposed payout to the shareholders of CHF 1.12 per share was executed in the third quarter 2014 (ex-date 26/08/2014).

// Investments

Portfolio Composition and Performance:

- › As reported above, EEII further decreased its equity position in Kazakhmys. All other stock holdings of EEII remained unchanged during the third quarter. Gazprom and Ukrnafta remain the largest positions in the portfolio. Together, they make up 94% of the investment portfolio value as of September 30th, 2014.
- › Ukrnafta recently reported a 20% yoy increase in its 09.2014 revenues to UAH 18.2 bln. At the same time, Ukrnafta's operating profit increased by 7% yoy to UAH 2.27 bln and its net income remained stable yoy at UAH 0.76 bln. In Q3 2014 Ukrnafta's EBITDA fell 94% yoy to UAH 73 mln and the reported net profit turned to be negative at UAH 0.7 bln (compared to UAH 0.2 bln in Q3 2013 and UAH 1 bln in Q2 2014). Ukrnafta did not provide additional information on the reason for the decline in the company's operating profit in Q3 2014.
- › Ukrnafta's shareholders approved on the AGM October 10th, 2014 to distribute Ukrnafta's profit generated in the year 2011-2013 of approx. UAH 3.7 bln, in the form of dividends. The ex-dividend date is October 21st. The dividends are supposed to be paid over a six months period after the AGM.
- › Gazprom recently published its 2014 IFRS half year results. Gazprom's profit dropped 23% yoy to 450.6 tln Rubles (US\$11 bln) and its revenue increased by 7% yoy to 1.59 tln Rubles (US\$ 45.3 bln).

› Economic and political environment

- › According to UkrStat's provisional estimate, Ukraine's GDP dropped 3.8% yoy in Q3 2014. For the first nine month of this year, Ukraine's GDP decreased by 5.1% and meanwhile its state debt reached a level of 64% of its GDP.
- › Until August 2014 Russia's federal budget surplus increased to 2.0% of its GDP (1.1% 08.2013) on a ytd base. Increased oil revenues as a result of the depreciated Ruble and a higher than anticipated oil price were the key factors behind this improvement during the reporting period.

› Facts and figures

History	› Inception	8/97
	› Public listing (SWX)	1/99
	› Capital reduction	4/03
	› Capital decrease	8/14
Capital structure	› 1,527,510 bearer shares	
	› par value of CHF 7.10	
	› Last payment to the shareholders of CHF 1.12 derived from the capital decrease (ex-date 26/08/2014)	
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		0.8	6%
Investments		12.8	94%
Total assets		13.6	100%
NAV (30/09/14)	8.83	13.6	
NAV (30/06/14)	9.55	14.6	
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	

› Investments (in 1,000 CHF)	at cost	fair value *)	ownership
Donbasenergo	456	23	0.05%
Dniπροenergo	491	44	0.03%
Centrenergo	627	75	0.04%
Zakhidenergo	849	100	0.08%
Kievenergo	119	9	0.01%
Ukrnafta	6,068	7,065	0.85%
Cherkasyoblenergo	728	65	0.77%
Dniπροoblenergo	255	7	0.02%
Krimenergo	245	23	0.09%
Volynoblenergo	295	29	0.44%
Zhytomyoblenergo	589	57	0.45%
Gazprom	8,143	4,986	0.00%
Kazakhmys	288	332	0.02%
Total	19,153	12,815	

*) As of September 30, 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.