

3rd quarter 2018 report

// Overview

› On the surface, Q3 2018 looks like a steady quarter for EEII's investment portfolio. The net asset value barely moved and increased by 0.9%, ending the quarter at CHF 3.25 (CHF 3.22 on June 30th, 2018). However, some significant shifts moved two of the larger portfolio investments in opposite directions, i.e. Gazprom (+13.6% in USD) and KAZ Minerals (-35% in GBP).

› EEII's core holding Gazprom finally responded to sustainably higher oil prices. In fact, the sentiment in the Russian energy complex turned around, helping to lift the local equity market by 9% in September alone. On the other hand, KAZ Minerals was hit by the long overdue correction, triggered by a drop in Copper prices of 16% and company specific news.

› After an extended period of low currency volatility, more significant FX moves had a net negative impact on the NAV. Most notable was the sudden devaluation of the Ukrainian Hryvna vs. the CHF by 9.1% during the reporting period. But both USD and GBP also weakened slightly against the Franc (-1.6% and -2.3% respectively). At constant FX rates, the NAV would have been higher by CHF 212k or CHF CHF 0.14 per share.

// Investments

Portfolio Composition and News:

- › There are no changes to report in EEII's portfolio during Q3 2018.
- › Gazprom shares have been trading between USD 4 and 5 for the past three years, recently again on the upper side of this band. Despite a supportive European gas market and higher energy prices, we don't see, that a significant rerating is in the cards. Capex is expected to increase in the next few years again and a sustainable improvement of free cash flows, which could be used to increase the dividend, is a few years away. On the other hand, the current 6% yield acts as a good support to the share price.
- › During the reporting period, there were no significant news regarding the holdings in the Ukrainian electricity companies to report.
- › Ukrnafta shares have been steadily trading between UAH 110 and 115 in the past few months as the news flow remained low, or with a positive view, in absence of further negative developments. The company reported that it paid UAH 11.6 bln taxes in the first 9 months of 2018, including UAH 1.1 bln of overdue tax debt in a sign, that the outstanding tax dispute with the government remains a significant burden. In other news, Ukrnafta made some progress in its legal claim against the Russian Federation to prove its right for compensation of USD 50mln for its property expropriation on the Crimea peninsula. A verdict is expected in the near future.
- › During the reporting period, KAZ Minerals announced that it will buy the Baimskaya copper project, owned by two Russian billionaires. The two sides agreed on a purchase price of USD 900 million, consisting of an initial payment of USD 436 million in cash, and 22.3 million new KAZ shares, valued at USD 239 million. The market responded with an initial drop of 30% in the share price, a reaction certainly exacerbated by falling copper prices and concerns about the feasibility of the project. According to KAZ Minerals, the Baimskaya property is one of the world's most significant undeveloped copper assets.

// Economic and political environment

› Ukraine: solid domestic demand dynamics should support the shy recovery of the local economy this year and next. Tighter labor market conditions might equally prop up private consumption growth. Considerable risks to the outlook stem from the continuously unreliable court and judiciary systems, the uncertainty surrounding the IMF agreement as well as from next year's elections and the possibility that structural reforms might be undone by a populist administration.

› Russia's economy is expected to expand at a five-year high of 1.8% in 2018 and then slow down slightly next year. A hike in the VAT might dent household spending growth, while a tense geopolitical atmosphere continues to weigh on confidence and financial assets. In other words, the comparably very low valuation will remain a key feature of the Russian equity market.

› Facts and figures

History	› Inception	8/97
	› Public listing (SWX)	1/99
	› Capital reduction	4/03
	› Capital decrease	8/14
Capital structure	› 1,527,510 bearer shares	
	› par value of CHF 7.10	
	› Last payment to the share-holders of CHF 1.12 derived from the capital decrease (ex-date 26/08/2014)	
Board of directors	› Victor Gnehm (Chairman)	
	› Christoph Offenhäuser	
Advisory fee	Flat fee, payable quarterly	
Share identification	› Valor 716 295	
	› ISIN CH0007162958	
Bloomberg	EEII SW Equity	
Registered office	EEII AG	
	Alpenstrasse 15	
	P.O. Box 7863, 6302 Zug	
CEO	› Marcus H. Bühler	
Advisor	Weissenstein & Partner AG, Zurich	
Administrator	MOORE STEPHENS ZUG AG, Zug	
Custodians	› UBS AG, Zug	
	› PrivatBank, Dnipropetrovsk	
Auditor	BDO Ltd, Zurich	
Independent Rep. of Shareholders	Philipp Andermatt, Zwicky Windlin & Partner	

› Portfolio	per share	MCHF	%
Net current assets		0.2	3.45%
Investments		5.6	96.55%
Total assets		5.8	100%
NAV (30/09/18)	3.25	5.0	
NAV (30/06/18)	3.22	4.9	
NAV (31/03/18)	3.46	5.3	
NAV (31/12/17)	audited 3.54	5.4	
NAV (30/09/17)	3.51	5.4	

› Investments	at cost	fair value *)	ownership
Donbasenergo	456	10	0.05%
DTEK Dniπροenergo	491	23	0.03%
Centrenergo	627	74	0.04%
DTEK Zakhidenergo	849	44	0.08%
Kievenenergo	119	13	0.01%
Ukrnafta	6,068	1,164	0.85%
Cherkasyoblenergo	728	35	0.77%
DTEK Dniπροgrids	255	6	0.02%
DTEK Krimenergo	245	4	0.09%
Volynoblenergo	295	11	0.44%
Zhytomyroblenergo	589	5	0.45%
Gazprom	8,143	3,630	0.00%
KAZ Minerals	288	572	0.02%
Total	19,153	5,591	

*) As of December 31, 2017 (audited). The fair values of four distribution companies (Cherkasyoblenergo, Volynoblenergo, Krimenergo, Zhytomyroblenergo) 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.