

4th quarter 2018 report

// Overview

- › The final quarter of 2018 was the worst three month period since the financial crisis in 2008. Global equities dropped by 13.7% (MSCI World). A combination of worries about the future path for interest rates in the US, trade tensions between the US and China as well as negative sentiment in the US tech sector spilled over into a global selloff. In fact, mounting concern about the growth outlook hit commodity prices as well with Brent Crude dropping 35% and copper 6%. In light of the difficult market conditions, EEII's net asset value per share ("NAV") decreased only moderately from CHF 3.25 (Q3 2018) to CHF 3.15 by the end of the year (-3.1%).
- › 98% of EEII's portfolio is invested in Gazprom (60%), Ukrnafta (28%) and KAZ Minerals (10%). At the end of Q3, the value of these three holdings was CHF 5.366 mln. By the end of Q4, the combined value reached CHF 5.284 mln.
- › Foreign exchange movements had no material impact on the portfolio value.

// Investments

Portfolio composition and news:

- › Several changes occurred in the portfolio during the reporting period. Two shares, DTEK Dniproenergo and Zakhidenergo were sold due to the mandatory squeeze-out offer from the parent company DTEK. Dniproenergo was sold for UAH 488.14 per share and Zakhidenergo for UAH 130.46. Meanwhile, Kievenoenergo spun off a stake in a company called DTEK Kyivski Electromerzhi. Kievenoenergo shareholders were credited with the same amount of shares, in the case of EEII 13'400. The value and tradeability of these equities are unknown at this point.
- › Gazprom reported a 93% increase in Q3 2018 net profit boosted by an increase in sales across the company's business lines. The Russian oil-and-gas company made a profit of 386.4 bln rubles (USD 5.76 bln) in the three months ended Sep. 30, compared with RUB 200.5 bln in the year-earlier period. Sales jumped by 35% to RUB 1.93 tn.
- › Ukrnafta reported preliminary results for 2018. Progress continued at Ukrnafta. Net profit for the year is expected to reach UAH 6 bln, compared with UAH 100 mln for 2017 and losses in previous years. Further reserves may be needed for possible fines and penalties related to tax debt, which will weigh on the final result. Nevertheless, operating activities continued to improved with 5% production growth in oil and gas condensate.
- › KAZ Minerals: The mining company, with operations in Kazakhstan and Kyrgyzstan, reported results for the year 2018. Revenues increased by 30% to 2.162 bln USD and net profit by 11.3% to USD 530 Mio. compared to the previous year. Growth in copper production continued with sales volumes of 296 kt (2017: 256 kt). Despite strong Free Cash Flow generation, net debt of USD 1.986 bln (2017: 2.056 bln) remains at elevated levels, partly because of the USD 386 mln cash outlays for the massive Baimskaya acquisition, which dragged down the share price earlier in the year.

// Economic and political environment

- › Ukraine's economy finished 2018 largely unchanged. While growth accelerated in Q4 somewhat, bolstered by domestic demand, both domestic consumption and exports expanded well below expectations, and even this moderate improvement is expected to loose pace in 2019 with GDP growth estimated around 2.7% (2018 3.5%). Election-related uncertainty and a tighter monetary policy environment weigh on activity growth, but may positively influence share prices on a short-term basis.
- Russia: Growth hit a six year high in 2018, driven by booming construction activity and a strong energy sector. Adding to the positive news, Moody's recently upgraded the country's credit back to investment grade (Baa3) with a stable outlook. The economy is seen losing steam in 2019 as one-off factors that propped up the expansion 2018 diminish and despite the pledged ramping-up of public spending. President Putin delivered his annual state-of-the-nation speech, promising to boost social spending through housing subsidies, tax breaks and higher child support spending. Meanwhile, external factors such as recent oil output cut agreements under the OPEC+ deal as well as ongoing sanctions-related uncertainty remain a drag on the 2019 outlook.

› 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	3.55%
Investments			5.4	96.45%
Total assets			5.6	100%
NAV (31/12/18)	audited	3.15	4.8	
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	

› Investments	at cost	fair value *)	ownership
(in 1,000 CHF)			
Donbasenergo	456	13	0.05%
DTEK Kyivski Electro	0	0	0.00%
Centrenergo	627	71	0.04%
Zhytomyroblenergo	589	18	0.45%
Kievenoenergo	119	4	0.01%
Ukrnafta	6,068	1,500	0.85%
Cherkasyoblenergo	728	15	0.77%
DTEK Dnipro Grids	255	3	0.02%
DTEK Krimenergo	245	1	0.09%
Volynoblenergo	295	12	0.44%
KAZ Minerals	288	544	0.02%
Gazprom	8,143	3,240	0.00%
Total	19,153	5,421	

*) As of December 31, 2018 (audited). The fair values of the following companies (Cherkasyoblenergo, Volynoblenergo, Krimenergo, Zhytomyroblenergo, DTEK Dnipro Grids, Kievenoenergo) are determined by the bid price published at www.kinto.com adjusted by a liquidity discount of 50%. The fair value of all other companies are market prices.