

Corporate Governance Report for East Capital Explorer AB (publ)

The Company's Corporate Governance report has not been reviewed by the Company's auditors.

Corporate governance at East Capital Explorer is about how we operate and are structured so that we safeguard the interests of all our shareholders in our overall objective of delivering long-term attractive returns.

Framework for corporate governance

East Capital Explorer is a public company listed on NASDAQ OMX Stockholm, Sweden. Corporate governance at East Capital Explorer is based on both external and internal frameworks. External frameworks comprise the Swedish Companies Act, the rules of NASDAQ OMX Nordic Exchange including the Swedish Code of Corporate Governance, as well as other applicable Swedish and foreign laws and rules. The Company's internal framework includes the Articles of Association, the Investment Management Agreement with East Capital, the rules and procedures of the Board of Directors and the charter of the Audit Committee, the instructions to the CEO and the policies that we have adopted.

Purpose and nature of the Company

East Capital Explorer is a public limited liability company investing in Russia and other countries within the Commonwealth of Independent States (CIS), the Balkans, the Baltic States, Central Asia and Central Europe, mainly indirectly through a selection of East Capital's current and future funds. In addition, the Company may also invest directly in unlisted companies in this region.

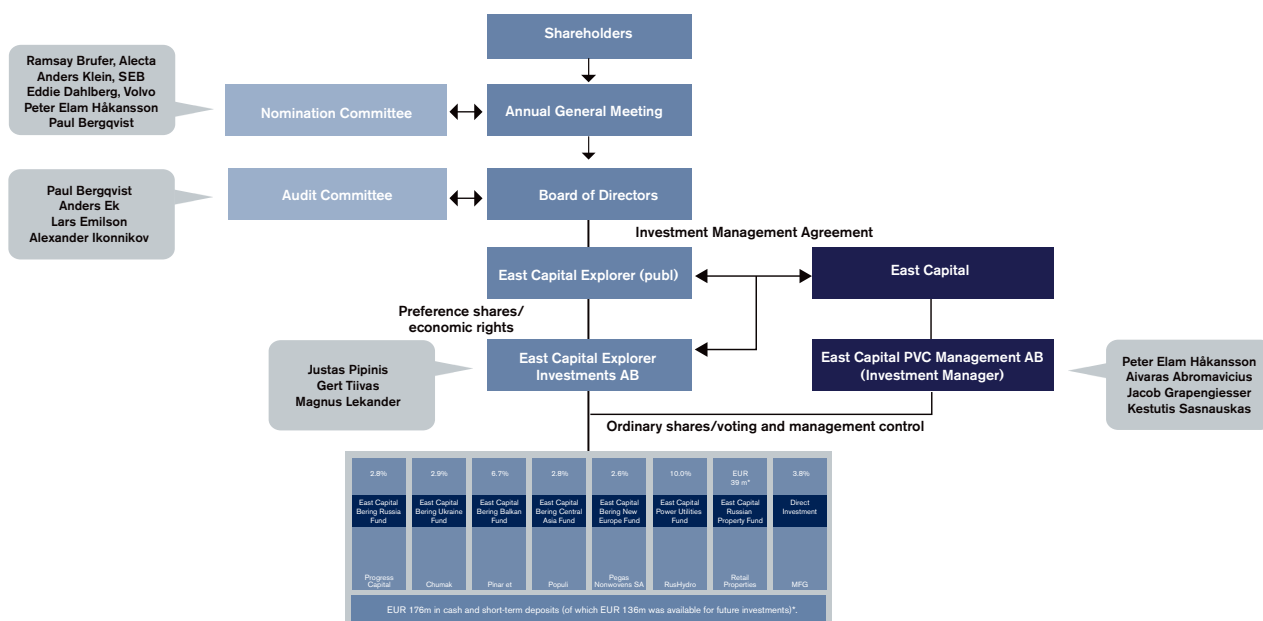
The Investment Manager and investment structure

East Capital Explorer is structured to best meet our objective to achieve long-term capital appreciation for our shareholders. East Capital Explorer is closely linked with the Investment Manager East Capital. This close association is governed by the Investment Management Agreement (as described further below). The governance structure – in which the Investment Manager retains significant control over the investment activities of East Capital Explorer – is tailor-made to ensure that our Board and our Audit Committee are granted sufficient independence and control tools to fulfil their important monitoring duties as regards the investment activities of the Investment Manager.

The structure creates the appropriate conditions for making investments in accordance with what is stated in the Company's Investment Policy and East Capital Explorer's prospectus to list on the NASDAQ OMX Exchange in November 2007. The structure also offers operational competitive advantages by allowing for a short decision-making process within the framework of the Investment Policy. It also creates stability and creates a clear division of responsibilities between the Investment Manager and the Company's Board.

The Corporate Governance Report continues on page 42.

GOVERNANCE STRUCTURE



Q&A

Paul Bergqvist,
Chairman of the Board of Directors



What is the Board's main role in the corporate structure?

The main responsibility of the Board of Directors is, of course, to ensure the best interests of all shareholders in East Capital Explorer.

Although the Board does not decide on the day-to-day investment activities, it does have significant responsibility to ensure that the Investment Policy, on which the Investment Manager bases the investment activities, suits our objectives; to decide on certain more significant investment decisions and, not the least, to monitor the operations of the Investment Manager and control that the investment activities are in accordance with the Investment Management Agreement and the Investment Policy. Also, the independent members of the Board safeguard that conflicts of interest with East Capital do not emerge during the course of the investment activities.

To what extent can you influence or veto an investment decision?

Except for significant investment decisions (see page 17), we cannot veto any decisions made by the Investment Manager within the framework of the Investment Policy. This corporate structure and the investment management agreement have been carefully designed to ensure that we create the best returns for our shareholders in a cost-efficient manner. East Capital manages the investment activities, allowing us to draw on the existing experience, track-record and network of one of the largest independent investors in this

region. We do not intend to duplicate this investment competence, neither in the Board nor in the Company's management team.

The members of the Board are always invited to participate as guests in the meetings of the board of East Capital Explorer Investments AB (see structure on page 38). I participated in a majority of these meetings during 2008. Members of the Board are always welcome to contribute with their own insights, or to question the current investment activities.

What have you done in 2008 to further strengthen Corporate Governance within the Company?

While a lot of the Board's work during 2007 was related to setting up the Company and company structures in preparation for our initial public offering in November 2007, clearly 2008 has been spent on further refining and strengthening these structures and processes. In April 2008, we welcomed Anders Ek as an additional independent member and a valuable addition to the Board.

Although we continuously evaluate the work of the Board, we also decided to conduct an external evaluation of the Board in October 2008. The results, which overall were positive, were presented to the Nomination Committee in December 2008. Although the Board is working well, there is always room for improvement and we have identified additional areas on which to focus in 2009. As a step in ensuring that we have a well-working system for internal control, we asked PricewaterhouseCoopers, who are independent from our regular auditors, to conduct an audit of our internal control (read more about Internal Control on page 48).

Two of the members are closely related to the Investment Manager, how do you handle conflicts of interest?

We have decided to define Justas Pipinis and Kestutis Sasnauskas as dependent Board members although they are not, according to the definitions relating to stock exchange rules or Swedish Code of Corporate Governance, technically

dependent. With our stricter definition of the concept of dependence, we wish to underline that we are aware of the close relationship between our companies and the potential for conflicts of interest that could be perceived in our corporate structure.

In discussions in which there has been a risk for conflict of interest, we have requested these Board members to refrain from participating in the discussions or in that portion of the meeting.

How have you as a Board reasoned in the case of share buy backs?

We have appreciated having the tool at our disposal and the Board has continuously discussed share buy-backs since July 2008 when the global market turbulence intensified.

We must always evaluate buying back our own shares in the context of the investment opportunities that our Investment Manager presents to us. The returns and implications of share buy backs should be weighed against the long-term returns that we expect these investment opportunities to generate for our shareholders. This holds especially true in the extreme market development we saw during the autumn, as the value of a strong cash position became increasingly clear in a market where financing is difficult, if not impossible.

In mid-March 2009, we decided to utilize the authorization to repurchase shares to signal our confidence in our NAV, our strong financial position and our business concept. It is also a way to create immediate value for our shareholders.

To summarize, despite a tough year 2008, we remain confident in the opportunities in our investment region and our ability to create long-term attractive returns for our shareholders.

A handwritten signature in blue ink that reads "Paul Bergqvist". The signature is written in a cursive, flowing style.

Paul Bergqvist, Chairman of the Board

Board of Directors



Paul Bergqvist

Chairman of the Board since 2007. Independent of the Company, Company management and the Company's major shareholders. Born 1946.

Education

Engineering and business studies at Linköping University.

Work experience

2000–2006 Deputy CEO of Carlsberg A/S, 1995–2000 CEO Pripps-Ringnes AB, 1992–1995 CEO Procordia Beverage AB, 1988–1992 Deputy CEO PLM AB.

Other board assignments

Board member and chairman of Sveriges Bryggerier AB, HTC Sweden AB and AB Pieno Zvaigzdes. Board member of Telenor ASA, TrygVesta AS, Svenska Lantmännen Ek För, AB Svenska Returpack, Björk. Eklund Group AB and JSC Nova Liniya (a portfolio company of the East Capital Bering Ukraine Fund).

Shareholding in East Capital Explorer AB

4,300 shares.



Anders Ek

Board member since 2008. Independent of the Company, Company management and the Company's major shareholders. Born 1948.

Education

Bachelor's degree from Stockholm University.

Work experience

2004–2008 Executive vice president and head Strategic and International Banking at Swedbank, 2000–2004 CEO of Robur, 1994–2000 Chief Investment Officer and deputy CEO of SPP (currently named Alecta), 1991–1994 Senior Portfolio Manager and member of Group Executive Management Trygg Hansa, 1985–1991 Executive vice president and Chief Investment Officer of the Swedish National Pension Fund.

Other board assignments

Board member of Catella KAG, Sparinstitutens Pensionskassa and CA Fastigheter AB.

Shareholding in East Capital Explorer AB

3,000 shares.



Lars Emilson

Board member since 2007. Independent of the Company, Company management and the Company's major shareholders. Born 1941.

Education

Bachelor's degree from Lund University.

Work experience

2004–2007 CEO Rexam PLC, 2000–2004 Group Director Rexam Beverage Global can operations, 1999–2000 Managing Director PLM AB, 1970–1999 Various positions within PLM AB's packaging operations in Sweden and the US.

Other board assignments

Chairman of Charter PLC and non-executive director of Filtrona PLC and Luvata OY.

Shareholding in East Capital Explorer AB

1,500 shares.



Alexander V. Ikonnikov

Board member since 2007. Independent of the Company, Company management and the Company's major shareholders. Born 1971.

Education

PhD in Economics, Moscow State University of Oil and Gas.

Work experience

Since 2005 Senior partner and co-founder of ZAO Board Solutions, a Russian board and executive search services firm, 2001–2004 Co-founder of the Investor Protection Association in Russia.

Other board assignments

Non-executive chairman of the Independent Directors Association. Director and head of the audit committee of Baltika Breweries and independent director in the National Depository Center, Russia.

Shareholding in East Capital Explorer AB

2,000 shares.



Justas Pipinis

Board member since 2007. Not independent with regard to affiliation to the Investment Manager. Born 1973.

Education

Bachelor of Science from Stockholm University, studies at Vilnius University and Gotland University.

Work experience

Partner of East Capital since 2004, CEO of East Capital Holding AB (since 2005) and CEO of East Capital International AB (since 2007), 2002–2005 CEO of East Capital Asset Management AB, 2000 joined East Capital and established the Private Equity fund East Capital Amber Fund, 1997–2000 Siemens Business Services AB.

Other board assignments

Board member and owner of Stingray Holding AB. Also holds a number of board and other assignments within East Capital.

Shareholding in East Capital Explorer AB

14,100 shares.



Kestutis Sasnauskas

Board member since 2007. Not independent with regard to affiliation to the Investment Manager. Born 1973.

Education

Studies at Vilnius University, Gotland University and the Stockholm School of Economics.

Work experience

Since 1997 Co-founder and partner of East Capital, CEO of East Capital Private Equity AB since 2005. Previously responsible for Baltic Research at Enskilda Securities.

Other board assignments

Board member and partner of Rytu Invest AB. Board member of the Investment Manager, East Capital PCV Management AB, East Capital Holding AB, East Capital International AB and the East Capital Baltic Real Estate Fund.

Shareholding in East Capital Explorer AB

10,000 shares.

The investment activities of East Capital Explorer are performed by East Capital PCV Management AB (the "Investment Manager"), a subsidiary within the East Capital group, within the framework set out by the Investment Management Agreement and the Investment Policy.

The main function of the Investment Manager is to handle the day-to-day activities related to investments made by East Capital Explorer and to source and plan the deployment of the remaining capital in accordance with the intended strategy. Another important function is to manage the cash of East Capital Explorer pending investments. In order to perform these duties, the Investment Manager utilizes other functions and resources within the East Capital organization.

The board of the Investment Manager, consisting of East Capital partners Peter Elam Håkansson, Kestutis Sasnauskas, Jacob Grapengiesser and Aivaras Abromavicius, meets on a frequent basis in order to discuss East Capital Explorer's investment portfolio and plan for the deployment of the remaining capital of East Capital Explorer. Recommendations for fund or direct investments are then presented for consideration of the board of East Capital Explorer Investments AB, which holds the investment portfolio. All investment decisions, except for those decisions that are specifically the responsibility of the Board of the Company, are made by the board of East Capital Explorer Investments AB.

East Capital Explorer Investments AB is owned by the Company and the Investment Manager. The Company holds all financial rights, while the Investment Manager controls and manages East Capital Explorer Investments AB. Currently, the CEO of the Company, Gert Tiivas and the Board member Justas Pipinis are members of the board of East Capital Explorer Investments AB, together with Magnus Lekander, General Counsel of East Capital and appointed by the Investment Manager.

Investment Management Agreement

The Investment Management Agreement sets out the terms and conditions upon which the investment activities will be performed by the Investment Manager and stipulates the manner in which the duties and responsibilities of the Investment Manager and the Company are allocated between them. The Agreement also assures the Company preferential access to new Semi-public, Private Equity and Real Estate funds launched by East Capital.

Under certain circumstances, the Company has the right to terminate the Investment Management Agreement, for example if the Investment Manager does not act in accordance with the Investment Policy or the Investment Management Agreement.

The Company also has the right, at its total discretion and without any breach of the Agreement, to give notice to terminate the Investment Management Agreement with the approval of a majority of at least 75% of the votes cast, as well as shares represented at a general meeting of shareholders of the Company. If the Investment Management Agreement is terminated within five years from listing on the NASDAQ OMX Exchange, the Investment Manager shall be reimbursed for the offering costs related to the listing.

Investment Policy

The Investment Policy prescribes the types of assets, investment themes and geographical segments in which investments may be made and stipulates certain limitations in order to assure

diversification and an appropriate risk level. The Investment Policy may be revised from time to time, as the investing environment is changing. Any change in the Investment Policy would require approval of both the Company and the Investment Manager. The abstract of the Investment Policy of the Company can be seen under "How we invest" on page 16.

Share capital and voting rights

The Company's share capital as at 31 December 2008 was EUR 3,627,016 distributed among 36,270,160 ordinary shares. All shares entitle the holder to one vote per share and carry equal rights to the Company's profits and assets, as well as equal rights in terms of dividends.

Ownership structure

According to the share register held by Euroclear Sweden AB (the Swedish Central Securities Depository & Clearing Organisation, formerly VPC), as at 31 December 2008 East Capital Explorer AB had 9,984 shareholders. The shares held by the twenty largest shareholders and custodians, based on number of votes, corresponded to approximately 57.5% of voting rights and total share capital. Approximately 35.1% of the share capital was owned by foreign natural or legal entities. The majority of foreign-owned shares are nominee-registered, which means that the beneficiary owners are not officially registered. See page 7 for a list of the 20 largest shareholders in East Capital Explorer AB per 31 December 2008.

Trading and market capitalisation

The East Capital Explorer share was listed on the NASDAQ OMX Nordic Exchange in Stockholm on 9 November 2007. The Company's market capitalisation was SEK 1,458m per 31 December 2008.

Functions of the Board of the Company

Although the ordinary investment management activities are assigned to the Investment Manager, the Company's Board will always take decisions in conjunction with the following: (i) investments exceeding 15% of the Company's net asset value, (ii) certain direct investments, and (iii) any investments that might give rise to a conflict of interest between East Capital and the Company not contemplated by the Investment Policy.

The Board of the Company continuously monitor the Investment Policy and evaluates whether it continues to be in the best interest of the shareholders of the Company. The Board expects to initiate changes in the Investment Policy, should the Board find that an update or revision is needed. The Board also monitors management performance and decides on remuneration of the employees of the Company.

Another function of the Board is to monitor the operations of the Investment Manager, for example by ensuring that the investment activities are carried out in accordance with the Investment Policy and the Investment Management Agreement. This task is mainly executed by the Company's Audit Committee, which consists of the Company's Board members who are independent from East Capital and from the executive management of the Company. The Board members also have the right to attend the Board meetings of East Capital Explorer Investments AB and have access to the Board minutes and all supporting material for the investment decisions carried out. The Company also has the right to appoint the auditor for East Capital Explorer Investments AB.

THE ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders (AGM) is the Company's highest decision-making body and is where shareholders exercise their influence. The AGM must be held within six months from the end of the financial year. All shareholders who are registered in the register of shareholders and who notify the Company in time are entitled to take part at the meeting. Shareholders may vote for the full number of shares they own and may be accompanied by a maximum of two assistants. Shareholders who cannot attend may be represented by proxy.

The AGM considers, among other things, matters relating to election of the Board, when applicable the appointment of auditors, dividend distribution, adoption of the income statement and balance sheet, and the discharge from liability of the members of the Board and CEO. Shareholders are entitled to have a matter considered at the meeting provided a legitimate request has been submitted to the Company well in advance to publication of the notice of the AGM.

The AGM is an important channel in communicating with shareholders. Shareholders are encouraged to participate at the AGM and all shareholders receive a printed invitation and notice to attend the meeting. The full Board and Company management attend the meeting and are available to answer questions from the shareholders.

Annual General Meeting 2008

The 2008 AGM was held at 4:00 p.m. on 21 April 2008 at China Teatern in Stockholm. The full documents from the 2008 AGM including notice, documents were presented at the AGM. Full minutes from the meeting are available on www.eastcapitalexplorer.com.

The 2008 AGM was attended by 250 persons, including shareholders, all the members of the Board, all employees as well as a number of invited guests.

The resolutions passed at the meeting included:

- The Meeting approved the Board's proposal that no dividends be distributed in accordance with dividend policy of the Company, and that the profit/loss be carried forward.

- The Meeting granted the members of the Board and the CEO discharge from liability for the reporting period.

- The Meeting resolved to amend the articles of association so that the Board of Directors shall consist of 3-6 members with no deputy members, and that an editorial clarification be included in the same section of the articles.

- All current members of the Board were re-elected: Paul Bergqvist, Lars Emilson, Alexander Ikonnikov, Kestutis Sasnauskas and Justas Pipinis. The Meeting also resolved to elect Anders Ek as a new member of the Board. The meeting re-elected Paul Bergqvist as Chairman of the Board.

- The Meeting resolved that the compensation to the Board of Directors for 2008 remain unchanged as SEK 700,000 to the Chairman of the Board of Directors and SEK 300,000 to each member of the Board of Directors that is not employed in the East Capital group. Members of the Board that are employed in the East Capital group have waived remuneration. The meeting resolved that compensation for work in the Audit Committee

be remunerated with SEK 50,000 to the chairman of the Audit Committee and SEK 30,000 to each of the other members. Furthermore, it was resolved that fees to the auditor be paid according to approved invoices on the basis of a specific offer for such services.

- The Meeting approved the Board's proposal for guidelines for remuneration to senior management.

- The Meeting authorized the Board to acquire the Company's own shares in accordance with the proposed resolution.

- The Meeting approved the proposal for Nomination Committee.

NOMINATION COMMITTEE

The role of the Nomination Committee includes evaluating the Board and its work prior to the AGM, and to prepare and present proposals to the AGM on issues, such as the Chairman of the meeting, members of the Board, Chairman of the Board, as well as appointment of auditors, when appropriate. The Nomination Committee also proposes remuneration to the members of the Board, remuneration (if any) for Committee work and fees to be paid to the Company's auditors, as well as proposing the process for electing a Nomination Committee prior to the next AGM. All shareholders have had the opportunity to submit proposals to the Nomination Committee.

The work of the Nomination Committee 2008

The Nomination Committee for the Annual General Meeting of 2008 was comprised of five members, three members each appointed by the three largest shareholders in the Company as at 31 December 2007, East Capital Explorer's Chairman of the Board and the Investment Manager's Chairman of the Board: Ramsay Brufer, Alecta (Chairman); Anders Klein, SEB; Robert Vikström, Handelsbanken (approved by the Stena Sphere); Paul Bergqvist, as Chairman of the Board of East Capital Explorer and Peter Elam Håkansson, as Chairman of the Board of the Investment Manager.

East Capital Explorer's Head of Communications/IR, Louise Hedberg, was co-opted to attend the Nomination Committee's meetings as secretary.

No fees were paid to the members of the Nomination Committee for their work. The Nomination Committee's report, which describes the work of the Committee in detail, is available on www.eastcapitalexplorer.com.

The work of the Nomination Committee 2009

In accordance with a resolution by the 2008 AGM, the Nomination Committee for the 2009 AGM comprises five members; three members appointed by each of the three largest shareholders in the Company as at 30 September 2008, East Capital Explorer's Chairman of the Board and the Investment Manager's Chairman of the Board:

- Ramsay Brufer, Alecta (Chairman)
- Anders Klein, SEB
- Eddie Dahlberg, Volvo-related Foundations
- Paul Bergqvist, as Chairman of the Board of East Capital Explorer
- Peter Elam Håkansson, as Chairman of the board of the Investment Manager

The composition of the Nomination Committee was published through a press release and posted on the website on 27 October 2008. East Capital Explorer's Head of Communications/IR, Louise Hedberg, was co-opted to the Nomination Committee's meetings as secretary.

No fees were paid to the members of the Nomination Committee for their work.

Shareholders have been invited to submit their own proposals to the Nomination Committee. The Nomination Committee's proposals prior to the 2009 AGM are specified in the notice of the meeting and are also available on www.eastcapitalexplorer.com.

Annual General Meeting 2009

The 2009 shareholders' meeting will be held at 4:00 p.m. on 27 April 2009 at Konserthuset (Grünwaldsalen) in Stockholm. For more information please visit: www.eastcapitalexplorer.com.

BOARD OF DIRECTORS

Composition of the Board

According to the articles of association of the Company, the Board shall consist of three (3) to six (6) members without deputies. Further, the Investment Manager always has the right to appoint a Board member. Board members are elected for a one-year term. The 2008 AGM re-elected the following Board members to serve until the 2009 shareholders' meeting: Paul Bergqvist (Chairman), Alexander V. Ikonnikov, Lars Emilson, Justas Pipinis and Kestutis Sasnauskas and also elected Anders Ek as a new Board member.

Independence of the Board

Under applicable regulations, Paul Bergqvist, Anders Ek, Lars Emilson and Alexander V. Ikonnikov are regarded as independent in relation to the Company. The independent members of the Board have been proposed based on their significant experience from international management and business, specifically Eastern Europe and Russia, as well as their board work in various listed companies.

Justas Pipinis and Kestutis Sasnauskas are not defined as independent in relation to the Company as they are affiliated to East Capital that, due to the Investment Management Agreement and other relationships, must be regarded as having extensive business ties with the Company and affiliated enterprises.

Regarding the Board members' independence in relation to major shareholders, it can be noted that as of 31 December 2008 there are no major shareholders of the Company as the term is defined in the stock exchange rules and the Swedish Code of Corporate Governance.

For more information about each Board member please see pages 40–41.

The Board and its work

The work of the Board is governed by the rules of procedure adopted by the Board. The Chairman of the Board, Paul Bergqvist, directs the work conducted by the Board and maintains continuous contact with the CEO and the Company's other management functions, in order to monitor the Company's operations. The Board has also prepared and approved a Charter for the Audit Committee, a work instruction for the CEO as well as a number of policy documents.

Given the special nature and aims of the Company, the work of the Board mainly involves the control and monitoring of investment activities handled by East Capital Explorer Investments AB and the Investment Manager.

Chairman of the Investment Manager, Peter Elam Håkansson, the Company's CEO, Gert Tiivas, CFO Pia Tell Svensson and Head of Communications/IR, Louise Hedberg also participate in the meetings to report on their respective areas. The Board calendar and Board meetings are coordinated by Head of Communications/IR, Louise Hedberg. Magnus Lekander, General Counsel at East Capital, is the Board's secretary and keeps the minutes. Other representatives from the Investment Manager are invited, from time to time, to participate in Board meetings to make presentations on particular investment proposals or other matters.

The Board holds at least seven ordinary Board meetings per year. Additional meetings may be held to discuss and decide on investment proposals. One meeting per year is typically held in conjunction with an East Capital Investor Summit. The Investor Summits are investor conferences which East Capital organises in different parts of our investment region. Participation in an East Capital summit provides the members of the Board with new insights into the investment region and an update on current financial and political events, and always include company visits.

The composition of the Board

Name	Position	Citizenship	Dependence	Shareholdings per 31 Dec 2008	Elected	Audit Committee
Paul Bergqvist	Chairman	Swedish	No	4,300 shares	2007	Yes
Anders Ek	Board member	Swedish	No	3,000 shares	2008	Yes
Lars Emilson	Board member	Swedish	No	1,500 shares	2007	Yes
Alexander Ikonnikov	Board member	Russian	No	2,000 shares	2007	Yes
Justas Pipinis	Board member	Swedish	Yes	14,100 shares	2007	No
Kestutis Sasnauskas	Board member	Lithuanian	Yes	10,000 shares	2007	No

Board meetings and main discussions

During 2008, a total of 13 Board meetings were held. Examples of the main discussions held during the meetings were:

Meeting	Main discussion
1/2008	Approval of the year-end report 2007
2/2008	Approval of the Annual Report 2007
3/2008	Approval of the Board's proposals to the Annual General Meeting 2008 and remuneration to Executive Management
4/2008	Discussion on investment plan and investor activities
5/2008	Approval of the Rules of procedure of the Board of Directors, election of Audit Committee
6/2008	Approval of the Interim Report 1 January–31 March 2008. Participation in East Capital Investor Summit in Vilnius, Lithuania
7/2008	Discussion on investment opportunities and share buy-backs
8/2008	Approval of the Interim Report 1 January–30 June 2008
9/2008	Telephone meeting to discuss current market development
10/2008	Discussion on investment proposal
11/2008	Telephone meeting to approve investment proposal
12/2008	Approval of the Interim Report 1 January–30 September 2008. Presentation of the results of the Board evaluation
13/2008	Review of budget 2008 and approval of budget 2009. Approval of Code of Conduct and Principles for Responsible Investment

Board meeting attendance

Name	Position	Board meetings (13 during 2008)
Paul Bergqvist	Chairman	13/13
Anders Ek	Board member	8/13 ¹
Lars Emilson	Board member	13/13
Alexander Ikonnikov	Board member	13/13
Justas Pipinis	Board member	11/13 ²
Kestutis Sasnauskas	Board member	12/13 ²

¹ Anders Ek participated in all but one meeting after being elected.

² Justas Pipinis was absent from the Board meeting 12/2008 and Justas Pipinis and Kestutis Sasnauskas refrained from participating in the Board meeting 11/2008 due to risk of conflict of interest.

In addition, Gert Tiivas, in the capacity of Board member of East Capital Explorer Investments AB, participated at 12 meetings for East Capital Explorer Investments AB (of which 1 were per cap-sulam) during 2008. Paul Bergqvist was also present at 8 meetings, as a non-member attendee.

Evaluation of the Board

The work of the Board is continuously evaluated. The evaluation is used to develop the work and processes in the Board, and as a basis for the Nomination Committee's evaluation of the composition of the Board. In October 2008, an evaluation of the

Board was carried out through an external consultant with broad experience of board evaluations. The evaluation included both a comprehensive questionnaire comprising a range of questions about the work of the Board, as well as individual interviews with each member. The results were also evaluated against an average benchmark of board evaluation processes completed by the consultant in other listed companies.

The results of the evaluation in 2008 were, overall, positive and above the applied benchmark. As a result of this evaluation, the Board has also identified certain areas in which the work procedures of the Board will be further improved during 2009.

AUDIT COMMITTEE

The Audit Committee is appointed annually by the Board, primarily to serve in an advisory function to the Board with respect to financial reporting, valuation and auditing matters. Given East Capital Explorer's investment structure, the Audit Committee has extended responsibilities, compared to many other companies, and also monitors the economic relationship with East Capital Explorer Investments and its investments, as well as the Company's cooperation and contractual relationship with the Investment Manager. The Charter of the Audit Committee governs the work of the Committee. The work of the Committee is reported to the Board on a regular basis.

The Audit Committee shall consist of at least three members appointed by the Board from among the independent members of the Board. The Audit Committee comprises Paul Bergqvist (Chairman), Anders Ek, Alexander V. Ikonnikov and Lars Emilson.

The Audit Committee may invite, as it sees fit, representatives from the Company, East Capital Explorer Investments or the Investment Manager as non-member attendees and may appoint appropriate legal counsel, audit expertise and independent valuation expertise for consultation in the performance of its duties.

Carl Lindgren, the Company's authorized auditor representing KPMG, participates in all meetings at which financial reports are approved, in order to present his findings to the Audit Committee prior to approval of these reports in the Board.

The Audit Committee regularly reports its conclusions and decisions in conjunction with the meetings of the Board.

Audit Committee meetings and main discussions

During 2008, a total of 5 Audit Committee meetings were held. Examples of the main discussions held during the meetings were:

Meeting	Main discussion
01/2008	Discussion on the year-end report 2007 and investment policy
02/2008	Discussion on the Annual Report 2007
03/2008	Discussion on Interim Report 1 January-31 March 2008
04/2008	Review of compliance with Investment Management Agreement, investment policy, cash management policy, service agreement and information policy. Discussion on Interim Report 1 January - 30 June 2008
05/2008	Discussion on Interim Report 1 January-30 September 2008

Audit Committee meeting attendance

Name	Position	Audit Committee meetings (5 during 2008)
Paul Bergqvist	Chairman	5/5
Anders Ek	Board member	3/5 ¹
Lars Emilson	Board member	3/5 ²
Alexander Ikonnikov	Board member	4/5 ³

¹ Anders Ek participated in all but one meeting after being elected

² Lars Emilson was absent from the Audit Committee meetings 03/08 and 04/08

³ Alexander Ikonnikov was absent from the Audit Committee meeting 03/08

Directors' fees

On 21 April 2008, the Annual General Meeting resolved that the Chairman of the Board will receive annual compensation of SEK 700,000 for the period until the 2008 AGM. Each member of the Board, other than the Chairman, will receive annual compensation of SEK 300,000 for the same period. Board members Justas Pipinis and Kestutis Sasnauskas waived their directors' fees.

Remuneration for work in the Audit Committee amounts to SEK 50,000 for the Chairman of the Audit Committee and SEK 30,000 per year to other members of that Committee.

Remuneration Committee

In light of the Company's limited number of employees, the Board has concluded that no Remuneration Committee should be established. The duties that would have been assigned to such Committee are instead performed by the Board as a whole.

CEO

The CEO, Gert Tiivas, is responsible for the day-to-day administration of East Capital Explorer in line with the instructions from the Board, other guidelines and policies. Together with the Chairman of the Board, the CEO prepares the agenda for Board meetings and prepares the requisite materials and information to allow for decision-making at Board meetings. In addition, the CEO ensures that the Board continually receives information on East Capital Explorer's development and market information from the Investment Manager in order to be able to make valid decisions.

The Board has approved the CEO's significant assignments outside the Company and regards these assignments as compatible with the position of CEO of East Capital Explorer. For more information about the CEO, see next page.

Remuneration to the Chief Executive Officer

SEK	Fixed salary	Variable salary	Pension and insurance cost
2008	1,009,200	0	205,500
2009 ¹	1,024,800	Discretionary	254,400

¹ Based on the CEO's salary in January 2009.

During 2008 a variable salary of SEK 160,000 has been paid to the CEO. This variable remuneration is related to the financial year of 2007.

Remuneration to the CEO consists of fixed salary, variable salary and pension and insurance benefits. The Board determines, at its own discretion, according to certain key performance indicators, whether the CEO should be paid any variable salary.

The CEO can receive a maximum variable salary corresponding to 50% of his fixed salary. The CEO has an individual premium-based pension plan, pursuant to which the Company pays premiums corresponding to 10% of his fixed salary up to 10 Swedish income base amounts and premiums corresponding to 20% of his fixed salary on the portion of his fixed salary exceeding 10 Swedish income base amounts.

Other management functions

Other management functions include the CFO and Head of Communications/IR. The CFO is responsible for the Company's financial statements, internal control and the cash management function. The Head of Communications/IR is responsible for external and internal communication, as well as investor relations and similar matters.

Share-related incentive programme

East Capital Explorer does not have a share-related incentive programme.

AUDIT

External auditors

The extraordinary general shareholders' meeting on 25 May 2007 elected registered auditing company KPMG as auditors for East Capital Explorer AB for a four-year term until the 2011 AGM, with authorised auditor Carl Lindgren as auditor in charge.

Compensation to auditors

The Company's auditors received compensation for audits and other requisite reviews, as well as for advisory services occasioned by observations made in the course of such reviews. During financial year 2008 the total compensation paid to the auditors was SEK 863,000 (corresponding to EUR 83,000), all relating to auditing services.

Communication with the Company's auditors

The Audit Committee maintains regular contact with the auditors. In addition, the auditors participate in the Audit Committee meetings at which the interim reports and full year report are addressed. The auditors report at that time on their observations from the audit and assessment of the Company's internal controls.

Auditors: KPMG AB
Auditor in charge: Carl Lindgren

Born 1958
Authorized public accountant at KPMG AB. Chairman of the Board of KPMG AB. Auditor in charge for East Capital Explorer since 2007.

Other auditing assignments: Intrum Justitia AB, Investor AB, Modern Times Group MTG AB and Nordea. Carl Lindgren is also auditor in charge for the East Capital Group.

Shareholding in East Capital Explorer AB: 0 shares



Management

CEO



Gert Tiivas

CEO since September 2007
Born 1973

Education

Bachelor of Arts from Bentley College and a Master of International Affairs from George Washington University.

Work experience

2006–2007 Head of East Capital's Tallinn office, 2004–2006 President of Growth Markets for OMX Group, 1998 – 2004 CEO of the Tallinn Stock Exchange.

Other board assignments

Board member in East Capital Baltic Property Fund AB and East Capital Real Estate AS. Board member in East Capital Power Utilities Fund AB, East Capital Explorer Investments AB and AS Baltika.

Shareholding in East Capital Explorer AB

9,000 shares.

Other management functions



Louise Hedberg

Head of Communications/IR since August 2007
Born 1974

Education

Master of Science in Economics and Business from the Stockholm School of Economics.

Work experience

2002–2007 Head of Investor Relations Dometic Holding AB, 1998–2002 Communications consultant JKL Group AB.

Shareholding in East Capital Explorer AB

2,700 shares.



Pia Tell Svensson

CFO since July 2007
Born 1970

Education

Bachelor of Economics and Business Administration from the School of Economics at the University of Gothenburg.

Work experience

CFO of East Capital since 2005 and retained as CFO in East Capital Explorer since July 2007 pursuant to the Service Agreement with East Capital, 2005 Regional Finance Manager, Nordics VERITAS Software AB, 1993–2005 Various financial positions within the IT sector.

Shareholding in East Capital Explorer AB

2,000 shares.

Internal control

This description of the internal control is presented by the Board of East Capital Explorer in accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance and describes the manner in which internal control regarding the financial reporting is organized.

The internal control within East Capital Explorer is designed in order to manage the risks within the financial reporting processes, but also to ensure an efficient and reliable accounting of buy and sell transactions of securities, and of the valuation of the securities holdings, and that the information is efficiently and correctly communicated to the market. East Capital Explorer has, during 2008, established an internal audit function. Öhrlings PricewaterhouseCoopers is responsible for the execution of the internal audit.

Internal control is usually described according to the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). According to this committee's definition, internal control is comprised of the following components: control environment, risk assessment, control activities, information and communication and monitoring.

Control environment

By control environment is meant the overall structure of the Company ensuring sound internal control as regards financial reporting. The Board is ultimately responsible for the financial reporting. Reflecting the specific nature of the Company's operations, one important function of the Board is to monitor the investment activities carried out by East Capital Explorer Investments AB and East Capital PCV Management AB.

The Company's accounting and reporting manual as well as its Information Policy, which are also appendices to the Investment Management Agreement with the Investment Manager, contain detailed provisions regarding how financial and other information in relation to East Capital Explorer Investment's portfolio shall be treated and provided to the Company and stipulate, amongst other things, that the Company shall fulfill its obligations pursuant to applicable law, regulations and stock exchange regulations.

Risk assessment

The company management is responsible for the internal control required in order to manage the significant risks in the ongoing operations. Here is included the identification and assessment of possible risks in the portfolio reporting and the financial reporting from East Capital Explorer Investments AB and the Investment Manager, including the reliability of the monthly reporting of indicative net asset value of East Capital Explorer. The company management is responsible for designing a control system to prevent and identify, assess and mitigate these risks. The company management reports regularly to the Board regarding these issues.

Control activities

East Capital Explorer primarily undertakes monitoring and controls to ensure that the investment activities are executed in accordance with the investment policy and the Investment Management Agreement established with the Investment Manager.

In addition to the Company's accounting and reporting manual, and the information policy, the Company's Board has the right to attend East Capital Explorer Investments AB's Board meetings and to review the minutes of the Board meetings.

Furthermore, the Company may request that the Investment Manager make presentations to the Company's Board regarding the investment portfolio in order to assist the Board to monitor the Investment Manager's and East Capital Explorer Investments AB's compliance with the Investment Management Agreement. Furthermore, currently both the Company's CEO, Gert Tiivas, and the East Capital Explorer Board member, Justas Pipinis, are board members of East Capital Explorer Investments AB. The majority of this monitoring work is performed by the Audit Committee and the executive management of the Company.

East Capital Explorer works continuously with the elimination and reduction of significant risks impacting the internal control regarding financial reporting. Examples of control activities implemented in order to handle these risks are:

- Active participation in the work of the Board of East Capital Explorer Investments AB.
- On-going discussions and contacts with key individuals within East Capital.
- On-going review of documentation for decisions and formalia in conjunction with the investment activities.
- On-going review of internal methods and processes in order to ensure correct reporting of East Capital Explorer's indicative net asset value and portfolio.

Information and communication

East Capital Explorer has produced governance documents aimed at ensuring the quality of the internal control regarding financial reporting.

The Information Policy describes the manner in which East Capital is to communicate financial and other information to the market in accordance with the regulations of the stock market. Furthermore, there are policies and instructions for, among other things, investing activities, short-term investments, including deposits and cash, accounting and financial reporting.

Monitoring

The monitoring of the internal control of financial reporting is undertaken by the Board, the Audit Committee, CEO and management. The monitoring of the efficiency of the internal control is performed at each Board meeting during which the financial position of the Company is reviewed. The Audit Committee meets regularly and addresses and discusses accounting issues, the forms of monthly reporting, the internal audit and reviews the investment decisions made by East Capital Explorer Investments. The CEO and management monitor, on an ongoing basis, compliance with the policies, instructions and the Investment Management Agreement in order to ensure adherence to these.

The internal audit is an auditing function independent of the board and has as its purpose to audit, on an ongoing basis, the operations within the Company. The work of the internal audit in 2008 was based on a risk analysis performed by the management of East Capital Explorer AB and representatives from Internal Audit. During the year internal audit has audited a number of areas identified in the risk analysis. Those areas included in the audit plan for 2008 included those processes relating to investing activities, short-term investments, including deposits and cash, asset valuation, financial and other reporting to the market, and conflict of interest issues. The results of the audit are reported to the Audit Committee.

The Bayterek Tower in Astana, Kazakhstan is a famous landmark and symbolizes the transfer of the capital from Alma-Aty to Astana in 1997. The 97 meter tall tower represents a mythological tree of life with a golden egg containing the secrets of human desires and happiness.



Managing our risks

East Capital Explorer's business involves different types of risk. In addition to the risks that we take in our investments with the intent to create value for our shareholders, there are also a number of business risks and financial risks with possible impact on our business. Risk management deals with risks and opportunities affecting value creation or value preservation. Managing risks is an important part of achieving our objectives as an investment company. Upon launching East Capital Explorer in November 2007, we made significant efforts in designing our structure to ensure our ability to do so. Our main business risks and how we manage them in our day-to-day business are outlined below. Our financial risks are presented in Note 16 on page 76.

POLITICAL RISKS

Political systems are generally less stable in emerging markets than in developed economies and the legal systems are often less mature. This may imply certain specific investment and ownership risks. For example, amendments to the regulatory framework for the financial markets including changes on the protection of minority shareholders' rights, could adversely impact our business. Political risks also include the capacity of a country's leadership to govern, and its ability to decide on and implement reforms which are well-needed for the transition phase the whole region is going through. In the aftermath of the credit crisis all the countries of our investment universe face various challenges and not all of them have the same readiness to tackle those.

Managing these risks:

■ Political risks vary between countries and sectors, and our access to the local presence, experience, know-how and to the network our Investment Manager East Capital has established during more than 10 years of operations, implies that we are able to integrate a well-grounded analysis of the political risks in the investment decisions and in the management of the portfolio in a long-term perspective.

■ Our access to East Capital's network in the region, and their relations with other foreign investors that are active in these countries, is also valuable when jointly applied measures are made in order to make regulatory progress on issues which are important to us as foreign investors. For example, promotion of good corporate governance, independent regulatory regimes and authorities and anti-corruption measures, to limit the political interventions and assure the integrity in local business life.

■ East Capital avoids association with any political group and strives to keep neutral in its investment activities, thus reducing the likelihood of being a direct target of political intervention.

COUNTRY RISKS

Investing in emerging markets may generally mean a higher level of risk in the business environment than when investing in more developed countries. These markets are less mature and, there-

by, also more volatile and more vulnerable to external shocks, as experienced during the autumn 2008 and the first quarter of 2009. This is common to all the countries in our investment region and not just associated with exposure to one specific company or investment in a fund.

Country risks also include instability in financial, legal and political systems and other country specific aspects, such as quality of corporate governance, reliability of settlement and clearing systems, lack of appropriate custody services, level of financial reporting and general availability to other reliable corporate information. If any of these country specific aspects should not develop as anticipated in any of the countries in our investment region, we are at risk of being less successful in our investments.

Managing these risks:

■ Our access to East Capital's investment teams, with local presence and both personal and professional experience of living and working in our investment region, provides East Capital Explorer with the capability to analyze, integrate and, to the extent possible, mitigate or even avoid certain country specific risks. Through the knowledge and experience of the advisory committees associated with East Capital, the investment team has access to sophisticated analysis and expertise in order to better evaluate any country specific political or macro-economic risk.

■ Our investment policy assumes that the vast majority of the assets are invested in East Capital funds, which in turn are diversified into 5 – 100+ holdings, depending on the strategy of the fund. No single fund investment made may exceed 40 percent of East Capital Explorer's total net asset value at the time of the investment, and no direct investment made by East Capital Explorer may exceed 15 percent of the total net asset value at the time of the investment. This effectively diversifies our portfolio across both sectors and the different geographic areas within our investment region.

■ Both East Capital Explorer and East Capital each have a Code of Conduct which clearly stipulate that corruption will not be tolerated in any manner or form. East Capital has, through its

long term presence in the region, established a network of contacts and relationships which contribute to stay clear of counterparties, projects and situations in which corruption and other inappropriate business practices might be known.

INVESTMENT STRATEGY RISK

Our business plan and objectives are dependent on the availability of interesting investments. This includes timing the market to enter, and exit, at the most beneficial moment. There is a risk that we are neither efficient in choosing or developing our investments, nor successful in timing the market conditions at the most profitable moment.

Managing this risk:

- Our access to the experienced investment teams at East Capital provides us with a structure to make well-grounded investment decisions and to effectively follow-up on the companies to which we have investment exposure.

- The members of our Board have been selected on the basis of their respective experience of doing business in our investment region and their own merits relevant to the Board composition, as a whole. This provides the Board with the right background to evaluate the investment activities of the Investment Manager, and also contributes to the continuous discussions with the Investment Manager on the investment opportunities in our region.

- The independent members of the Board also continuously review the Investment Policy to assess whether revisions may be justified as the investment environment changes. Any possible changes will be addressed by the Board, together with the Investment Manager in order to make the investment strategy most suitable over time.

- The Investment Manager continuously reports on the latest developments in the investment region and follows up on the current pipeline of investment proposals as a standing item at all Board meetings. This provides the Board with updated information on which to base its evaluation of the Investment Manager's activities and the suitability of the Investment Policy.

COMPANY SPECIFIC RISK

Our success depends on our ability to provide our shareholders with a portfolio of interesting and profitable investments. This also includes being able to manage our investments effectively during our ownership and to create progress on investor friendly issues, such as corporate governance. There is a risk that certain companies, from time to time, may be adversely affected by internal and external factors and that they will, thereby, have a negative impact on the value of our investments.

Managing this risk:

- Diversification is key to managing company specific risk. Our preferred route to gaining investment exposure is, therefore,

through investments in East Capital's semi-public equity funds and private equity funds, effectively diversifying our portfolio across approximately 400 companies in our investment region on 31 December 2008, and thereby limiting the specific risk of any one company.

- Our Investment Policy ensures that the focus is kept on the agreed countries and sectors, and that the mode for gaining investment exposure is in agreement with our view on risk-return. It is the responsibility of our Board to review and ensure that our Investment Policy suits our objectives.

- Our access to the experienced investment teams at East Capital provides us with a structure to make well-grounded investment decisions and to effectively follow-up on the companies to which we have investment exposure.

- When managing the unlisted portfolio companies to which we are exposed through our fund investments, our Investment Manager aligns interest with both the local management, as well as with other major shareholders, in order to set a common agenda for the investment period and preferred exit strategy. One important aspect in managing investments includes introducing and following up on improvements in corporate governance issues which we, as investors, firmly believe help to strengthen the operations of any company.

OPERATIONAL RISK

Well-structured and relevant internal administrative processes and systems are important in any corporate structure to minimise the operational risks related to the business operations. Lack of internal control, inadequate administrative systems and processes, infrastructure or technology failures, risk of theft or fraud or risks that East Capital Explorer's or East Capital's reputation in the marketplace is damaged could lead to unexpected economic losses or loss in confidence in us. As almost all operative functions are in-sourced from East Capital, East Capital Explorer is highly dependent on the successful ongoing operations of East Capital.

Managing this risk:

- Operational risks are managed on the basis of our structure for internal control, including adequate routines and instructions, a clearly defined division of responsibility, IT-based support and reporting systems with relevant authorizations, our internal structure for information and reporting, as well as both information and physical security.

- Through East Capital, we also have access to risk management functions adapted to the investment activities and operations of East Capital, which should also reduce the overall operative risks related to our business.

- Through a service agreement with East Capital we are able to

cost-efficiently source general office and administrative resources from East Capital including office premises, reception, HR, IT and legal services. The costs for the service agreement are continuously evaluated by the Board and are estimated to be significantly more cost-efficient than if we were to source these services on our own.

■ As a part of our ongoing monitoring of the Investment Manager, when needed, we also engage external advisors to audit certain functions or processes of East Capital, in order to identify and address any risks related to the operative functions that are administrated by East Capital.

RELATED PARTY RISK

With East Capital as our Investment Manager, we have ensured our shareholders access to one of the most capable and merited investment teams active in the region. We rely on the team's capacity to manage our investment activities rather than having our own in-house investment teams. This could imply a risk that the investments undertaken are not in accordance with the best interest of the Company, or could imply a breach of limits and authority, unfair valuations or unauthorised risk exposure.

Managing this risk:

■ Considering our close relationship with East Capital, we have paid specific attention to ensuring the best interests of our shareholders. This includes a detailed Investment Management Agreement between our two companies that effectively stipulates the manner in which the investment activities should be undertaken, and assures that conflicts of interest between ourselves and East Capital can be appropriately handled.

■ In particular, in order to avoid any concerns related to the merits of a direct investment presented by East Capital where no other East Capital fund or other co-investors simultaneously participate, such direct investment is within the exclusive decision making powers of our Board. This way, the investment can be evaluated on its own merits by the members of the Board who are independent from East Capital.

■ Similarly, investments may not be made in any new funds launched by East Capital with terms which materially adversely deviate from the terms of any prior fund managed by East Capital without the consent of our Board. This prevents East Capital from introducing new terms which could be unfavourable to us.

■ Managing this risk also means avoiding investment situations in which the fairness or suitability of a transaction, or its valuation, could be questioned. For this reason, our Investment Policy clearly stipulates that we shall only invest in East Capital's new private equity funds, to avoid valuation issues or a discussion concerning the terms or timing at which we invest. In existing semi-public equity funds, we only invest in newly issued shares, providing new capital for new investments in the funds, thereby avoiding a situation in which East Capital Explorer could be seen as buyer of last resort.

■ The Audit Committee of East Capital Explorer, comprising all four independent Board members, has extended responsibilities compared to many other companies' audit committees. The Audit Committee is responsible for initiating review of our Investment

Policy and monitors the Investment Manager's compliance with the Investment Policy and our Investment Management Agreement. In practice, this means reviewing all investment proposals and decisions made on East Capital Explorer's behalf.

■ Our independent Board members have important duties in this regard in order to safeguard the interests of our shareholders, as they resolve conflicts of interest (which are not already contemplated by the Investment Policy), for example, in relation to direct investments in which there is no other East Capital entity involved in the investment, or when assets are acquired from any other East Capital fund.

■ In order to ensure full transparency in the day-to-day investment activities and to enable the Audit Committee to fulfil these responsibilities, all members of the Board also receive materials, investment proposals and invitations to participate in the meetings and discussions of East Capital Explorer Investments AB. Our CEO is also a member of the Board of East Capital Explorer Investments AB.

Example of East Capital Explorer's decision making process in a direct investment

In October 2008, East Capital Explorer was offered the opportunity to join East Capital as an investor in the Russian fashion retailer, OAO Melon Fashion Group, where East Capital has been an investor since 2002. This transaction can be used to describe East Capital Explorer's decision making process when offered direct investments by our Investment Manager.

The transaction was structured in two steps where East Capital Explorer first acquired 2,421 shares from 26 direct investors in MFG. The shares were sold to East Capital Explorer through MFG Intressenter AB, a wholly owned subsidiary of East Capital Holding AB which is the company that also holds East Capital's own shares in MFG. Following the acquisition of these shares, East Capital Explorer acquired an additional 2,575 new shares in the share issue that was completed in November 2008. Our total investment in MFG amounted to EUR 10m, comprising 4,996 shares.

The shares were valued at market price based on company information and market comparables. To verify the valuation, the Board of East Capital Explorer asked for an independent fairness opinion from PricewaterhouseCoopers. In the discussion and decision to invest that followed in East Capital Explorer's Board, Justas Pipinis and Kestutis Sasnauskas, both partners in East Capital, refrained from participating. Following the share issue, East Capital Explorer and the East Capital Group hold respectively 16% and 11.6% of the shares in MFG. East Capital Explorer and East Capital will together hold 2 out of 9 seats on MFG's board, following the AGM in MFG in May 2009.

Corporate responsibility

Investments are an important contributor to growth and innovation in Eastern Europe but with investments come also influence and responsibility. We believe that a responsible and respectful approach to doing business is vital to the long-term success of any company.

Our view on corporate responsibility

We believe that corporate responsibility (CR) means acknowledging a company's obligations when it comes to environmental, social and governance issues. For East Capital Explorer, this is related to our direct actions as a company, but also to our responsibility when it comes to the cooperation with our Investment Manager and our portfolio companies in Eastern Europe.

As an investment company, our objective is to achieve long-term capital appreciation for our shareholders by investing in parts of the Eastern European markets that are hard-to-reach. While doing this, we strive to maintain a respectful approach and we expect our Investment Manager to do the same.

An important part of CR is related to a company's environmental impact. Whilst the largest portion of our overall environmental impact is indirect – resulting primarily from our investment activities – we acknowledge that our day-to-day business operations also have a direct, but limited, impact on the environment. We strive to limit this impact to enable a more efficient use of resources within our operations and to aim to reduce consumption of materials and promote recycling and the greater use of recycled materials.

CR in our investment region

Eastern Europe is still lagging behind Western markets in corporate responsibility issues, but the signs that we see are encouraging. The countries in our investment region have developed quickly and during recent years we have seen general progress in, for example, the area of corporate governance. More and more companies are run on the basis of clear governance principles, with a focus on independent boards and improved financial reporting. This has been an important and obvious step for many companies in their efforts to attract investors.

With corporate governance policies and financial reporting in place, we hope that more and more companies in Eastern Europe, also in a time of sharp economic slowdown, will recognize the importance of environmental and social issues by allotting time and resources to address these areas in their operations. As a significant investor, we trust that our engagement in these issues can contribute to this development.

MANAGING CR

East Capital Explorer is a relatively new company and our first priority in terms of CR has been to define our guidelines and principles. This process has resulted in two important documents defining how East Capital Explorer addresses environmental, social and governance issues. During 2008, our Investment Manager also launched two similar policies that mirror our policies.

Code of Business Conduct

Our Code of Business Conduct serves as the ultimate common denominator as regards principles of conduct and guidance for East Capital Explorer's employees and board members. The Code's core principle is respect, which in our view is inseparable from responsibility and high ethical standards. The Code agrees with the ten internationally accepted principles of the United Nations Global Compact in the areas of human rights, labour, environment and anti-corruption.

Principles of Responsible Investment

In the Principles of Responsible Investment we state our specific expectations towards our Investment Manager. We expect our Investment Manager to base investment decisions on an in-depth analysis of factors that may impact the future return of sectors and individual stocks. The analysis should include the financial outlook, as well as the risks and opportu-



The hydrogeneration company RusHydro (a portfolio company in the East Capital Power Utilities Fund) produces clean, renewable energy. Read more about RusHydro on page 33.

nities related to environmental, social and governance challenges.

In late 2008, our Code of Business Conduct and Principles of Responsible Investment were approved by the Board of Directors. The next step in our CR process will be to, in cooperation with our Investment Manager, structure priorities, the definition of targets and further develop our plans to achieve and report on our stated goals.

The policies can be found on our website, www.eastcapitalexplorer.com.

For more information on the principles of the United Nations Global Compact: www.unglobalcompact.org

Fees

East Capital Explorer's investment structure has been designed to ensure cost-efficient management of the Company's investment portfolio for attractive long-term returns for the shareholders. Fees are paid only on the underlying fund level at the same terms as other fund investors. East Capital Explorer does not pay any fees to East Capital for their service in managing the investment portfolio. Fee structures vary between the different funds, with the main terms presented below. Total fund fees paid during 2008 amounted to EUR 3.6m.

Investment	Subscription Fee	Annual Management Fee	Performance Fee	Hurdle	Catch-Up
Fee for managing East Capital Explorer's investment portfolio	N/A	N/A	N/A		
East Capital Bering Russia Fund	0% (Ordinarily 5%)	2% on NAV	20% above a high watermark, paid quarterly		
East Capital Bering Ukraine Fund	0% (Ordinarily 5%)	2% on NAV	20% above a high watermark, paid quarterly		
East Capital Bering Balkan Fund	0% (Ordinarily 5%)	2% on NAV	20% above a high watermark, paid quarterly		
East Capital Bering Central Asia Fund	0% (Ordinarily 5%)	2% on NAV	20% above a high watermark, paid quarterly		
East Capital Bering New Europe Fund	0% (Ordinarily 5%)	2% on NAV	20% above a high watermark, paid quarterly		
East Capital Power Utilities Fund	N/A	2% on NAV ¹	15%	7%	50/50
East Capital Russian Property Fund	0%	1% on GAV ²	N/A	10%	50/50
Direct investments	N/A	2% on NAV ¹	20%	8%	0/100
East Capital (Lux) Eastern European Fund (EUR)	0% (Ordinarily up to 5%)	2% (accrued daily)	N/A		
Cash management	N/A	N/A	N/A		
Committed capital	N/A	N/A	N/A		
Total					

FEE GLOSSARY

Allocation target = Level of net proceeds of the fund whereafter the net proceeds are paid according to set profit sharing arrangement. This level is typically set to 80–20 meaning that 80% of the net proceeds are paid to investors and 20% are paid to East Capital.

Catch-up = Allocation of the net proceeds of the fund, once hurdle has been reached. May be set to 50/50 meaning that 50% of the net proceeds are paid to investors and 50% to East Capital up to a given allocation target of the total net proceeds of the fund. Purpose is to incentivize the manager to create good returns (above hurdle).

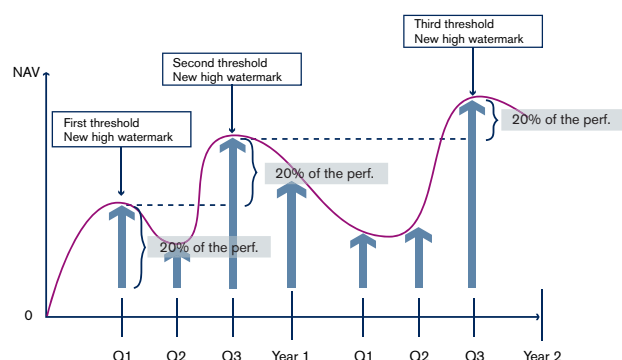
Clawback = Upon termination of the fund, if East Capital has received profit share distribution in excess of 20% of the fund's net profits from all portfolio investments, East Capital will return the excess amount to the fund. This can for example occur if a portfolio investment is sold at a loss at the end of the fund term, and profit share has been paid out to East Capital in prior divestments of the fund.

GAV = The gross asset value (GAV) of a fund at a certain point in time.

High Watermark = Level of NAV above which performance fee is paid.

Hurdle = Net return on fund or investment, calculated on a cumulative annual basis, to be paid to investors before catch-up and profit share/performance fee can be paid to East Capital.

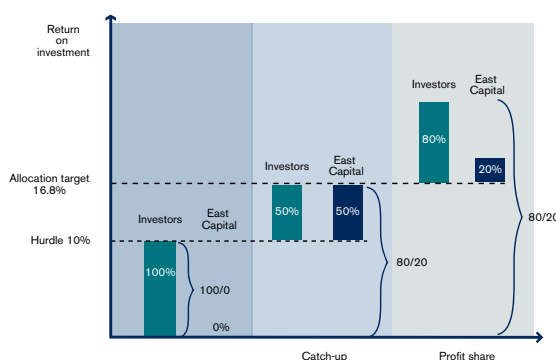
Example fee structure in East Capital Bering Funds



Performance fee with high watermark. A performance fee of 20 percent is paid to East Capital quarterly, when the NAV exceeds the previous highest watermark. In the example above, performance fees of 20 percent of the performance above the last high watermark are paid in Q1 and Q3 during the first year and in Q3 in the second year. Performance fees for any performance above the high watermark during a given quarter are not locked in.

With regards to the performance of the funds since East Capital Explorer's investment, the NAV of the funds on 31 December 2008 was significantly below their respective high watermarks.

Example fee structure in East Capital Private Equity Funds



Profit distribution waterfall with 10 percent hurdle rate, 50/50 catch-up and 80/20 profit share arrangement. In the example above, investors receive the full return on an investment upon exit up to a 10 percent hurdle. After the hurdle, there is a catch-up in which investors and East Capital each receive 50 percent of the return on the investment until the allocation target of 80 percent of the return to investors and 20 percent of the return to East Capital, has been reached (in this case at a 16.8 percent return on investment). Thereafter, all excess returns are allocated 80 percent to investors and 20 percent to East Capital. A so called claw back protects investors against over-distribution of profits to East Capital.

Profit share	Redemption Fees	Management fees paid 2008 (EUR thousands)	Performance fees paid 2008 (EUR thousands)	Total fees paid during 2008 (EUR thousands)
		N/A	N/A	N/A
	Payable to Fund: 10% during the first year of ownership of the shares to be redeemed, 7.5% during the second year, 5% during the third year and 2.5% during the fourth year	450.2	258.7	708.9
	Payable to Fund: Investor's first year 20%, second year 15%, third year 10%, fourth year 5%	370.1	-	370.1
	Payable to Fund: Investor's first year 20%, second year 15%, third year 10%, fourth year 5%	365.3	-	365.3
	Payable to Fund: Investor's first year 20%, second year 15%, third year 10%, fourth year 5%	304.8	-	304.8
	Payable to Fund: Investor's first year 20%, second year 15%, third year 10%, fourth year 5%	115.0	-	115.0
95/5	N/A (no redemption possible, capital returned upon fund termination)	1,545.1	-	1,545.1
80/20	N/A (no redemption possible, capital returned upon fund termination)	-	-	-
N/A	N/A (capital returned upon exit of investment)	37.4	-	37.4
	Up to 1% (on the net asset value of the shares being redeemed)	171.8		171.8
		N/A	N/A	N/A
		N/A	N/A	N/A
		3,359.7	258.7	3,618.4

Management fee = Fee paid to Investment Manager. Calculated monthly and subtracted in the monthly net asset value calculation of each fund.

NAV = Net asset value. The value of net assets, i.e. total assets less net debt. An indicative NAV for East Capital Explorer is calculated on a monthly basis and is published five working days after the end of the month.

Performance fee = Fee paid to encourage East Capital to create better returns for the fund investors. A high watermark ensures that only performance above level of investment or the latest previous "highest value" is remunerated.

Profit share = Arrangement where future proceeds are divided according to pre-agreed level. Typically set to 80-20 meaning that after hurdle has been reached and full catch-up has been paid, East Capital is entitled to a 20% preferred profit share

of the returns generated above this and the remaining 80% is distributed among investors.

Redemption fee = Fee paid to the fund (not to East Capital) to compensate the fund for redeeming capital which may lead to the fund divesting assets to meet redemption. The redemption fee compensates the other fund investors for the possible loss of returns that the fund makes from divesting the investment.

Subscription fee = Fee paid upon investment in a fund, amounting to a certain percent of invested capital. East Capital Explorer has been waived all subscription fees.

¹ Based on audited annual accounts at the end of the preceding year.

² Based on the audited annual accounts at the end of the year.