

# 04

## Corporate Governance

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

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# Comment from the Chairman



“ We see good corporate governance as a basic prerequisite in ensuring the best interests of all shareholders in East Capital Explorer. Given our special structure, we have, since our launch in 2007, continuously worked to strengthen our tools and measures that ensure good corporate governance. ”

Paul Bergqvist Chairman of the Board

2009 was an extreme year in many ways, and we are pleased that we decided to adjust our investment pace until the markets really started to stabilize during the second quarter. We are satisfied with the fact that our net asset value (NAV) increased 29% during the year, and we feel confident that the unlisted holdings within our fund investments still offer significant upside potential.

Although the discount to NAV decreased from 50% to 33% during 2009, we are not satisfied with the current discount level and, consequently, continue to have discount control on our agenda. In March 2009, we decided to utilize our mandate to buy back shares and repurchased a total of 771,000 shares at a total investment of EUR 3.3m in order to manifest our confidence in the existing portfolio and its potential for value growth. Although our main strategy is to invest in the region, we see share buy-backs as a means of creating immediate value for our shareholders as long as we are trading at a significant discount to NAV. As a result, the Board in March 2010 resolved to utilize the mandate from the 2009 AGM to, again, repurchase shares.

We see good corporate governance as a basic prerequisite in ensuring the best interests of all shareholders in East Capital Explorer. Given our special structure, we have, since our launch in 2007, continuously worked to strengthen our tools and measures that ensure good corporate governance.

During 2009, we further developed the internal control routines that were put in place in 2008, together with our supplier of internal audit services. I am also pleased that we have strengthened our management team with our own CFO who joined the Company in January 2010. In addition, the result of the efforts of the Nomination Committee and its proposals for the AGM 2010, will complement the current Board in relevant areas. As we have said before, it is

important that skills and competencies in East Capital Explorer complement, rather than duplicate, those of our Investment Manager.

We continuously monitor and evaluate the work and performance of the Investment Manager. We have a strong belief and full confidence in its team and the valuable knowledge base established by its members. As of 31 January 2010, our NAV per share was back above the starting point at SEK 100 in November 2007, which is commendable given the extreme market developments that have characterized our short history as a listed company.

Although certain of our investments have not performed according to our expectations, we deem that these funds have been able to capitalize on some of the unique opportunities that emerged in 2009 in the wake of the the financial crisis. We are pleased with the developments in our direct investments and the prospects they hold. We are also excited about our latest direct investment in consumer loans in Russia which was announced in early 2010 together with Intrum Justitia and the East Capital Financials Fund. This is an excellent example of the type of unique investments that East Capital Explorer can offer its shareholders.

During 2010, we will continue our work to seize unique opportunities in our markets. We expect our portfolio to be fully invested before the end of the year, and I am confident that this portfolio will be well-positioned to generate attractive long-term returns for our shareholders.

A handwritten signature in blue ink that reads "Paul Bergqvist". The signature is written in a cursive style with a large initial 'P'.

Paul Bergqvist, Chairman of the Board

# Governance structure

For East Capital Explorer, corporate governance refers to the manner in which we operate and are organized in our assurance of the interests of all shareholders in the context of achieving our goal of delivering long-term, attractive returns.

## Purpose and nature of the Company

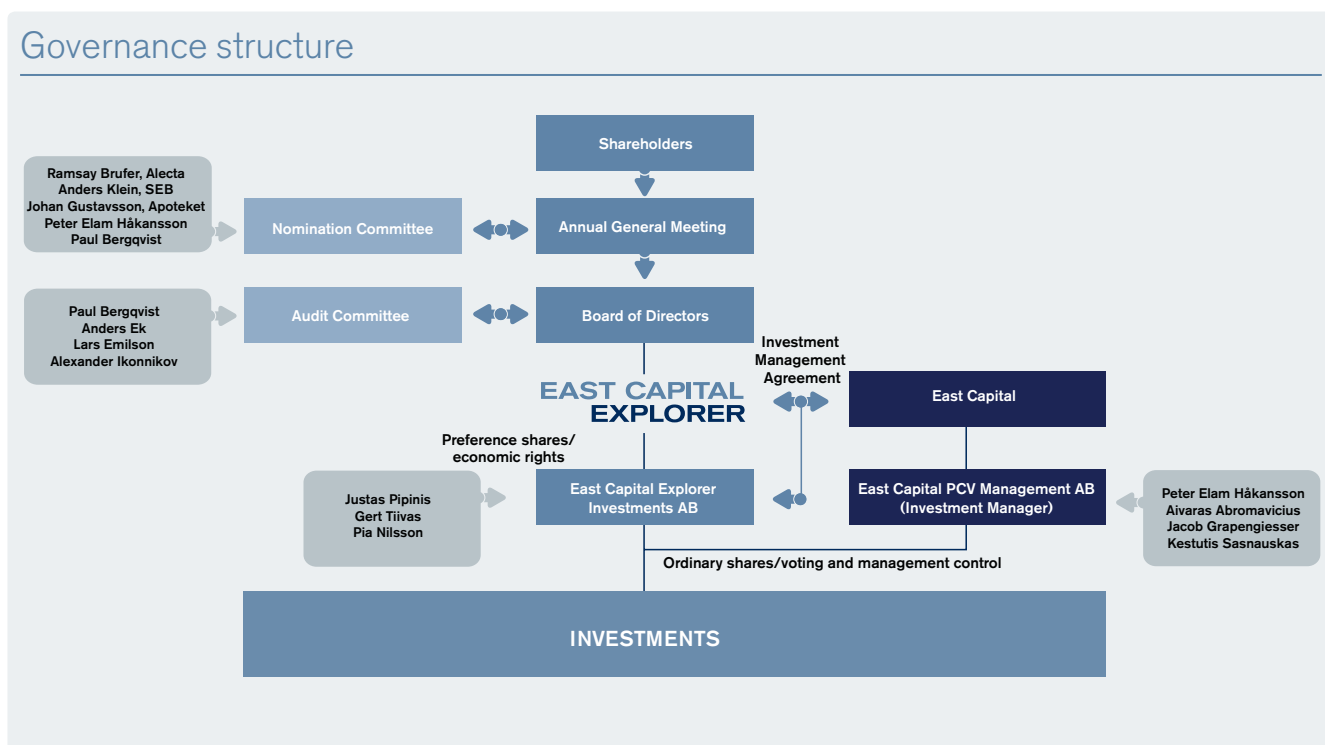
East Capital Explorer is a public limited liability company investing in Russia, Ukraine, countries in the Caucasus and Central Asia, the Balkans, the Baltic States and Central Europe. The Company mainly invests indirectly through a selection of East Capital's funds and may, in addition, invest directly in companies in this region.

East Capital Explorer is closely associated with the Investment Manager, East Capital. The governance structure – in which the Investment Manager has significant control over the investment activities of East Capital Explorer – is tailor-made to ensure that our Board and our Audit Committee are granted independence and control tools to fully and completely monitor the investment activities of the Investment Manager. These important monitoring duties comprise both evaluating the Investment Manager's performance as well as ensuring that the investment activities are in compliance with the Investment Policy.

The structure also results in operational competitive advantages, for example, allowing for an efficient decision-making process within the framework of the Investment Policy. The structure also creates stability and a clear division of responsibilities between the Investment Manager and the Company's Board. This structure was established in 2007 and was initially described in East Capital Explorer's prospectus to list on the NASDAQ OMX Exchange from November 2007.

## Framework for corporate governance

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, the charter of the Audit Committee, the instructions to the CEO and the policies adopted by the Company.



# How we invest

## INVESTMENT MANAGEMENT AGREEMENT

The Investment Management Agreement stipulates the duties and responsibilities of the Investment Manager including the identification, evaluation and negotiating of potential investments. The Agreement specifically defines the division of responsibilities between the Investment Manager and East Capital Explorer, and ensures East Capital Explorer preferential access to new semi-public, private equity and real estate funds launched by East Capital.

## INVESTMENT POLICY

The Investment Policy stipulates East Capital Explorer's key geographical segments and investment themes and the types of investments which may be undertaken. It also stipulates certain limitations to ensure diversification and an appropriate risk level. The Policy may be revised from time to time, as the investing environment is changing. Any change in the Policy would require approval of both the Company and the Investment Manager. The key elements of our Investment Policy can be summarised in the following points:

### Countries

East Capital Explorer may invest in Russia and the CIS countries, the Balkans, the Baltics, Central Asia and Central Europe.

### Asset types

East Capital Explorer invests primarily in East Capital's existing and future semi-public equity funds (with both listed and unlisted investments), as well as East Capital's future private equity (unlisted investments) and real estate funds.

East Capital Explorer also has the possibility to make direct investments in selected companies, as well as smaller investments in East Capital's open-ended daily-traded funds.

More specifically, investments can be made in several asset types, including fund units, shares, options, convertibles, derivative instruments and other equity-related instruments. Debt investments are also permitted if related to an equity investment. In conjunction with investments in the real estate sector, investments can also be made in land, real estate and other property.

In 2009, the Board decided to initiate a bond mandate in which cash can be allocated to a portfolio of USD or EUR denominated liquid bonds of issuers in our investment region. The bond mandate is a short term cash management tool to create more attrac-

tive returns on East Capital Explorer's cash while remaining liquid for future investments.

## The Investment Manager and investment structure

The day-to-day investment activities of East Capital Explorer are managed by East Capital PCV Management AB (the Investment Manager), a subsidiary within the East Capital group. These activities include sourcing new investment ideas and planning the deployment of the remaining capital in accordance with the established 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 to plan for the deployment of the remaining capital of East Capital Explorer. Recommendations for fund or direct investments are subsequently presented for consideration by the Board of East Capital Explorer Investments AB, which holds the investment portfolio. East Capital Explorer Investments AB is owned by the Company and the Investment Manager. The Company holds all financial rights to East Capital Explorer Investments AB, while the Investment Manager controls and manages the company. 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 Pia Nilsson, Legal Counsel at East Capital.

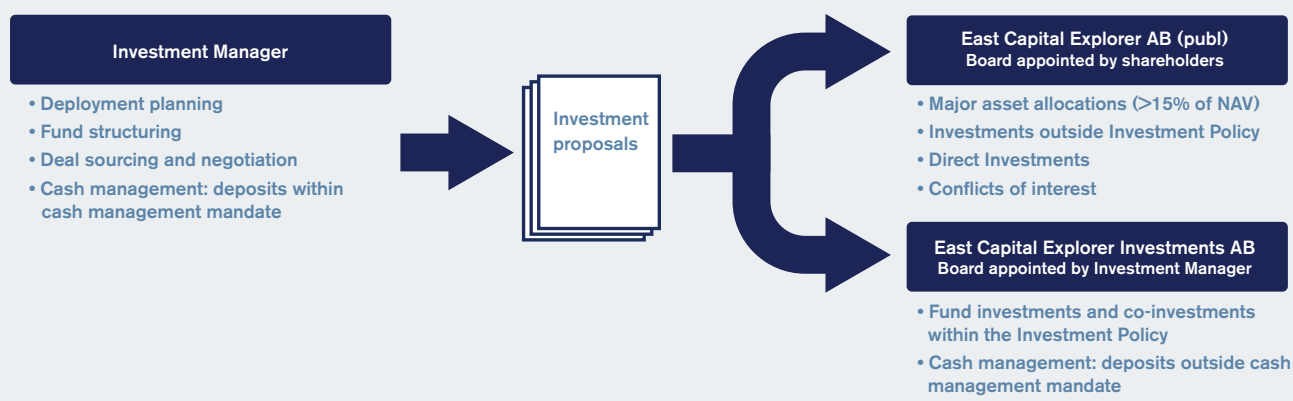
## Functions of the Board of the Company

Although the ordinary investment management activities are assigned to the Investment Manager, the Board of East Capital Explorer always determines the following, more significant matters:

- Decisions on investments constituting more than 15% of NAV at the time of the investment.
- Direct investments (with no co-investment).
- Deviations to the Investment Policy.
- Investments implying a conflict of interest between East Capital Explorer and East Capital

The Board of East Capital Explorer also continuously monitors

## Investment decision process



the Investment Policy and evaluates whether the Policy is, in terms of current conditions and developments, in the best interest of the shareholders of the Company. Should the Board determine that an update or revision is required; the Board would initiate the necessary changes. The Board also monitors management performance and decides on remuneration of the employees. 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 primarily 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.

#### Termination of the Investment Management Agreement

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 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 incurred in the listing.

## Board of directors

#### Composition of the Board

According to the articles of association of the Company, the Board shall consist of three to six members without deputies. Further, the Investment Manager always has the right to appoint one Board member. Board members are elected for a one-year term. The 2009 AGM re-elected all Board members to serve until the 2010 shareholders' meeting: Paul Bergqvist (Chairman), Anders Ek, Alexander V. Ikonnikov, Lars Emilson, Justas Pipinis and Kestutis Sasnauskas.

#### 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 with 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 2009 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 48-49.

#### 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.

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 participated in the Board meetings during 2009 to report on their respective areas. 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 or investor trip which East Capital organises in different parts of our investment region. Participation at these conferences 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. During 2009, the Board participated in the East Capital Summit in Belgrade, Serbia in May as well as in an investor trip to Moscow, Russia in December.

#### Board meetings and main discussions

During 2009, a total of 12 Board meetings were held. The main discussions held during the meetings were:

Meeting	Main discussion
1/2009	Discussion on investment proposal
2/2009	Approval of Year-end report 2008
3/2009	Telephone meeting to resolve to utilize of authorization to repurchase the Company's own shares
4/2009	Telephone meeting to approve Annual report 2008
5/2009	Approval of mechanics for cancellation of the Company's own shares
6/2009	Board meeting held in conjunction with Annual General Meeting
7/2009	Approval of the Interim Report 1 January - 31 march 2009. Participation in East Capital Investor Summit in Belgrade, Serbia
8/2009	Approval of the Interim Report 1 January – 30 June 2009
9/2009	Telephone meeting to discuss new investment proposals
10/2009	Telephone meeting to approve investment proposal
11/2009	Approval of the Interim Report 1 January – 30 September 2009
12/2009	Board meeting in conjunction with investor trip to Moscow, Russia

At the Board meeting 3/2009 board members Justas Pipinis and Kestutis Sasnauskas abstained from voting on the issue of repurchase of own shares.

In addition, Gert Tiivas, in the capacity of Board member of East Capital Explorer Investments AB, participated at 15 meetings for East Capital Explorer Investments AB (of which 8 were per



capsulam) during 2009. Paul Bergqvist, Anders Ek and Lars Emilson were present as non-member attendees at respectively 3, 2 and 1 of these meetings.

### Evaluation of the Board

During 2009, the work of the Board was not formally evaluated by an external consultant as was the case in 2008. The Board has internally evaluated its work in order to continue to develop the processes in the Board and provide input to the Nomination Committee's work to prepare proposals to the Annual General Meeting 2010. As a basis for the Nomination Committee's work to evaluate the Board's composition and prepare these proposals, the committee also met and interviewed selected members of the Board during the autumn of 2009.

### AUDIT COMMITTEE

The Audit Committee is appointed annually by the Board, 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 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 Committee prior to approval of these reports in the Board.

### Audit Committee meetings and main discussions

During 2009, a total of 5 Audit Committee meetings were held. Examples of the main discussions held during the meetings were:

Meeting	Main discussion
1/2009	Discussion on the Year-end report 2008
2/2009	Discussion on the Annual Report 2008
3/2009	Discussion on the Interim Report 1 January – 31 March 2009

4/2009	Discussion on the Interim Report 1 January – 30 June 2009
5/2009	Discussion on the Interim Report 1 January – 30 September 2009. Review of compliance with Investment Management Agreement, investment policy, cash management policy, service agreement and information policy

### DIRECTORS' FEES AND EXECUTIVE REMUNERATION

On 27 April 2009, the Annual General Meeting resolved that Directors' fees in the Company remain unchanged and that the Chairman of the Board will receive annual compensation of SEK 700,000 for the period until the 2010 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 of the Audit Committee also remained unchanged and totalled 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 a Remuneration Committee are, instead, performed by the Board as a whole.

### CEO

The CEO, Gert Tiivas, is responsible for the day-to-day administration of the Company 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 page 47.

Remuneration to the CEO consists of fixed salary, variable salary and pension and insurance benefits. The Board determines, at its own discretion, and according to certain key performance indicators, whether the CEO should be paid any variable salary. A maximum variable salary corresponding to 50% of fixed salary, can be granted to the CEO. During 2009, no variable salary for 2008 was paid to the CEO. For 2009, the Board

## The composition of the Board

Name	Position	Citizenship	Dependence	Shareholdings	Elected	Board meeting attendance 2009	Audit Committee	Audit Committee attendance 2009
Paul Bergqvist	Chairman	Swedish	No	7,500 shares	2007	12/12	Yes	5/5
Anders Ek	Board member	Swedish	No	3,000 shares	2008	12/12	Yes	5/5
Lars Emilson	Board member	Swedish	No	5,500 shares	2007	11/12	Yes	5/5
Alexander Ikonnikov	Board member	Russian	No	6,000 shares	2007	11/12	Yes	4/5
Justas Pipinis	Board member	Swedish	Yes	14,100 shares	2007	12/12	No	n/a
Kestutis Sasnauskas	Board member	Lithuanian	Yes	103,597 shares	2007	12/12	No	n/a

has decided to grant the CEO a variable salary corresponding to 25% of the fixed salary.

The CEO has an individual premium-based pension plan, pursuant to which the Company pays premiums corresponding to 10% of the fixed salary, up to 10 Swedish income base amounts and premiums corresponding to 20% of the fixed salary for that portion of the fixed salary exceeding 10 Swedish income base amounts.

For detailed information on the remuneration to the CEO, see Note 4 on page 75.

### Share-related incentive programme

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

## THE ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders (AGM) is the Company's highest decision-making body and it 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 2009

The 2009 AGM was held at 4:00 p.m. on 27 April 2009 at Konserthuset in Stockholm. The full documents from the 2009 AGM including notice, documents were presented at the AGM. Full minutes from the meeting are available on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

The 2009 AGM was attended by approximately 200 persons, including shareholders representing a total of 29% of the shares in the Company, all the members of the Board, all employees as well as a number of invited guests.

## 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 2010

In accordance with a resolution by the 2009 AGM, the Nomi-

nation Committee for the 2010 AGM comprises five members; three members appointed by each of the three largest shareholders in the Company on 30 June 2009, East Capital Explorer's Chairman of the Board and the Investment Manager's Chairman of the Board:

- Ramsay Brufer, Alecta (Chairman)
- Anders Klein, SEB
- Johan Gustavsson, Apoteket ABs Pensionsstiftelse
- 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 2 October 2009. Jessica Veraeus, Legal Counsel at East Capital, 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 2010 AGM are specified in the notice of the meeting and are also available on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

### Annual General Meeting 2010

The 2010 shareholders' meeting will be held at 3:00 p.m. on 28 April 2010 at Konserthuset (Grünwaldsalen) in Stockholm. For more information please visit: [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

## 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 2009, the total compensation paid to the auditors was SEK 702,000 (corresponding to EUR 66,000), the entire amount referring 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. At that time, the auditors report 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



**Gert Tiivas**  
CEO

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 and East Capital Explorer Investments AB.

#### Shareholding in East Capital Explorer AB

10,000 shares.



**Mathias Pedersen**  
CFO

CFO since January 2010  
Born 1971

#### Education

Master of Science in Economics and Finance from the Stockholm School of Economics. Graduated from Harvard Business School's Program for Management Development.

#### Work experience

2007-2009 CFO at ETAC AB, 2001-2007 Vice President at Foundation Asset Management AB (formerly W Capital Management AB), 1998-2001 Analyst at Investor AB

#### Shareholding in East Capital Explorer AB

1,300 shares



# 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, AB Svenska Returpack, HTC Sweden AB and AB Pieno Zvaigzdes. Board member of TrygVesta AS, Svenska Lantmännen Ek För and Björk Eklund Group AB.

#### Shareholding in East Capital Explorer AB

7,500 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 and chairman of Sparinstitutens Pensionskassa and Banque Invik SA. Board member of Catella KAG, Hemfosa Fastigheter AB 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

5,500 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. Certified and Diploma Director by IoD, UK.

**Work experience**

Since 2005 Senior partner of Board Solutions, 2001–2004 Co-founder of the Investor Protection Association in Russia, 1998-2001 Deputy CEO, NAVFOR, 1996-1998 Head of the Department of External Economic Affairs and Investments at the Ministry of Fuel and Energy, Russia.

**Other board assignments**

Chairman of the Russian Independent Directors Association, Independent director and head of the nomination and remuneration committees in the National Depository Center, Russia, Non-executive director of National Clearing Center Bank, Russia.

**Shareholding in East Capital Explorer AB**

6,000 shares.



**Justas Pipinis**  
Board member since 2007

Not independent with regard to affiliation with 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 with 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**

103,597 shares.

# 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 82.

## 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, thereby, also more volatile and more vulnerable to external shocks, as experienced during 2008 and 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 2009, 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.



The East Capital Power Utilities Fund, East Capital Explorer's largest investment, succeeded in achieving an exceptional performance of 177% during 2009. The fund outperformed both the strong Russian market as well as the sector index. A significant contributor to the performance were the investments in power distribution companies.

# Corporate responsibility

Corporate Responsibility (CR) is about acknowledging and addressing a company's obligations as regards environmental, social and governance issues. For East Capital Explorer this refers both to what we ourselves do in our operations, and also to our responsibility in cooperation with our Investment Manager and with our portfolio companies in Eastern Europe.

The policies can be found on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com)

## Managing CR at East Capital Explorer

During East Capital Explorer's first, relatively, short history, priority has been placed on defining CR guidelines and principles. This process has resulted in, amongst other things, both documents and ongoing work in defining our view on environmental, social and governance issues, so called ESG issues.

Two documents – stipulating the policies mirroring our position on these issues – have been adopted by the Board; the Code of Business Conduct and the Principles of Responsible Investment. The Code comprises the ultimate governing tool as regards principles of conduct and guidance for the Company's Board Members and for its employees. Respect is the core principle of this Code.

The second document is the Principles of Responsible Investment. It specifies the manner in which our Investment Manager is to undertake investment decisions on the basis of an in-depth analysis of factoring impacting future return of sectors, individual stocks and future financial results. It also includes the risks and opportunities related to the environment, social circumstances and governance.

## CR in Eastern Europe

There are many reasons to have a positive view towards current and future developments in corporate responsibility in Eastern Europe, as these countries now both react to international sustainability trends and look for their own solutions. They are carefully studying forerunners in this field and assessing the experience of other cultures, economies and countries. Improved communication and connections with international markets confirm that being a "responsible company" can result in new business opportunities and strengthen the existing customer base.

## CR during 2009

In cooperation with our Investment Manager, the next phase is now underway in our CR process; to prioritise activities in this area, define targets and further develop our plans to report on stated goals. These areas can come to include, for example, further refined systems to ensure, monitor and enforce compliance with the established principles, including the adoption of business principles that can be verified.

Although we would have liked to have advanced further in the CR area during the year, ESG issues were unfortunately generally less prioritised on corporate agendas during 2009 as the main theme in many companies was focused on passing the tests of the financial crisis. During 2010 we intend to further advance on ESG issues in terms of targets and tools as we strive to have a positive impact on our portfolio companies in these areas in the future.





In June 2009, Ola Skinnarmo, the famous Swedish adventurer, set sail on a new expedition, sponsored by our Investment Manager, East Capital. The goal of Skinnarmo and his crew was to replicate Adolf Erik Nordenskiöld's Vega expedition of 1878 and sail through the icy and dangerous North East Passage, the seaway between Europe and Asia along the Russian coast of the Arctic Sea.

During the successful expedition on board "Explorer of Sweden", Skinnarmo and his team explored inaccessible geographic areas to learn more about Russia, its unique culture and nature. Together with experts from the WWF, the crew visualised the recent rapid changes in the sensitive environment. Read more about the expedition on [www.eastcapital.com](http://www.eastcapital.com) or [www.skinnarmo.com](http://www.skinnarmo.com).

# Fees

East Capital Explorer's investment structure has been designed so that fees are paid only on the underlying fund level at the same terms as other fund investors. Total fund fees paid during 2009 amounted to EUR 6.5m of this, EUR 2.8m was management fees, and EUR 3.7m performance fees

## Fee structure for East Capital Explorer's investments

Investment	Sub- scription Fee	Annual Mgmt. Fee <sup>1</sup>	Base amount <sup>3</sup>	Perform- ance Fee	Period <sup>4</sup>	High Water Mark <sup>5</sup>	Hurdle Rate	Catch-Up	Profit share	Redem- tion Fees
Fee for managing East Capital Explorer's investment portfolio	0%	0%		0%						
East Capital Bering Russia Fund	0%	2.0%	NAV	20%	Mnth/Qtr	Yes				Yes
East Capital Bering Ukraine Fund	0%	2.0%	NAV	20%	Mnth/Qtr	Yes				Yes
East Capital Bering Balkan Fund	0%	2.0%	NAV	20%	Mnth/Qtr	Yes				Yes
East Capital Bering Central Asia Fund	0%	2.0%	NAV	20%	Mnth/Qtr	Yes				Yes
East Capital Bering New Europe Fund	0%	2.0%	NAV	20%	Mnth/Qtr	Yes				Yes
East Capital Power Utilities Fund	0%	1.9%	NAV	15%	Yearly		7%	50/50	95/5	
East Capital Special Opportunities Fund	0%	2.0%	NAV	20%	Monthly		7%	50/50		
East Capital Russian Property Fund	0%	1.0%	GAV	0%	Yearly		10%	50/50	80/20	
Direct investments <sup>1, 2</sup>		2.0%	NAV	20%	Yearly		8%	0/100		
East Capital (Lux) Eastern European Fund (EUR)	0%	2.0%	NAV	0%	Daily					Yes
Bond mandate <sup>1</sup>		1.0%	NAV	0%						
Cash and cash equivalent		0%		0%						
Committed capital		0%		0%						

<sup>1</sup> The fees charged by East Capital for managing direct investments and the bond portfolio is subject to Swedish VAT which make the actual cost for East Capital Explorer AB higher

<sup>2</sup> A separate agreement regarding the Investment i TEO was made, reducing the management fee to 1.0% per annum based on the daily share price

<sup>3</sup> The management fee is calculated in % of opening NAV for all investments except the Property fund, whose fee is based on closing GAV

<sup>4</sup> The Bering funds management fees are based on monthly NAV, while performances fee are based on quarterly NAV figures

<sup>5</sup> High Water Marks are set individually for each installment into the funds

### 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.

**Base amount** = the basis for the calculation of management fee.

**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).

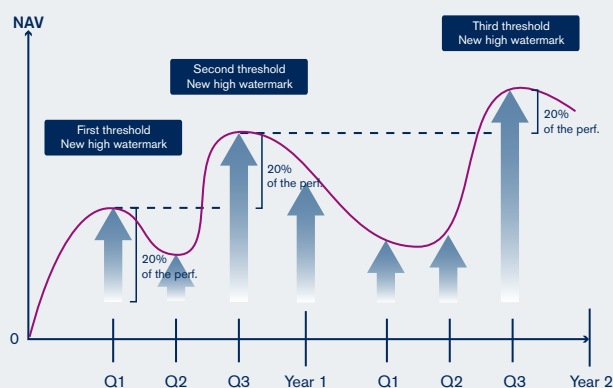
**Clawback** = Upon termination of the fund, if East Capital has received profit share distribution in excess of 20% of the fund's net profits from all portfolio investments, East Capital will return the excess amount to the fund. This can for example occur if a portfolio investment is sold at a loss 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** = Previous highest NAV above which performance fee was paid.

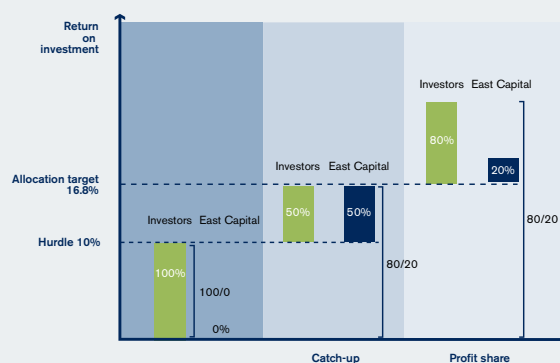
**Hurdle** = Net return on fund or investment, calculated on a cumulative annual basis, to be paid to investors before catch-up and profit share/performance fee can be paid to East Capital.

### 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.

### 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.

## Fees to East Capital accrued 2009

Investment	Management fees accrued 2009 (EUR thousands)	Performance fees accrued 2009 (EUR thousands)	Total fees accrued 2009 (EUR thousands)
Fee for managing East Capital Explorer's investment portfolio	-	-	-
East Capital Bering Russia Fund	264	433	697
East Capital Bering Ukraine Fund	132	-	132
East Capital Bering Balkan Fund	471	1,125	1,596
East Capital Bering Central Asia Fund	261	511	772
East Capital Bering New Europe Fund	239	312	552
East Capital Power Utilities Fund	495	-	495
East Capital Special Opportunities Fund	380	1,287	1,667
East Capital Russian Property Fund	0	-	0
Direct investments	271	-	271
East Capital (Lux) Eastern European Fund (EUR)	167	N/A	167
Bond mandate	136	N/A	136
Cash and cash equivalent	0	N/A	0
Committed capital	0	N/A	0
<b>Total</b>	<b>2,816</b>	<b>3,667</b>	<b>6,484</b>

**Management fee** = Fee paid to Investment Manager. Calculated periodically and subtracted in the net asset value calculation of each fund, or invoiced East Capital Explorer in the case of Direct investments.

**NAV** = Net asset value. The value of net assets, i.e. total assets less net debt.

**Performance fee** = Fee paid to encourage East Capital to create better returns for the fund investors. A high watermark or hurdle ensures that only performance above the latest previous "highest value" or the predetermined hurdle 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.

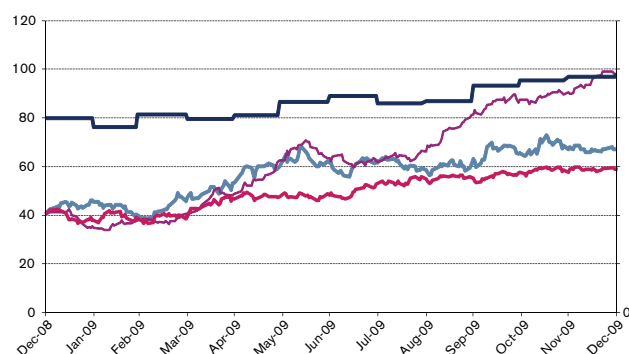
**Subscription fee** = Fee paid upon investment in a fund, amounting to a certain percent of invested capital. East Capital Explorer has been waived all subscription fees.



# The East Capital Explorer share

The East Capital Explorer share was listed on the Stockholm Stock Exchange on 9 November 2007. The share is traded on NASDAQ OMX Nordic List, Mid Cap. The share price increased 67% during 2009, closing at SEK 67 on 30 December 2009, which corresponded to a market capitalisation of SEK 2,378m.

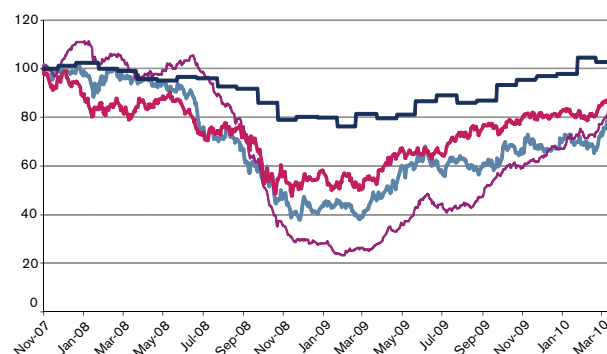
East Capital Explorer vs indices during 2009



— : The East Capital Explorer Share

SAX Index: includes all share on NASDAQ OMX Nordic Exchange Stockholm.

East Capital Explorer vs indices since the launch date 9 Nov 2007



— : The East Capital Explorer NAV

RTS 2 Index: includes 78 companies on the RTS that have limited trading volumes.

## Net Asset Value and share price development

	2009	2008	2007*
Net Asset Value per share, EUR	9.61	7.31	10.87
Net Asset Value per share, SEK	98.60	79.53	102.61
Net Asset Value development during the year, EUR	29%	-33%	1%
Share price on 31 December, SEK	67.00	40.20	100
Lowest, SEK	38.20	37.30	95.50
Highest, SEK	72.75	102	108
Market capitalisation on 31 December, MSEK	2,378	1,458	3,627
Share price development during the year	67%	-60%	0%
Premium/discount on 31 December	-32%	-50%	-2.6%
Average premium/discount during the year	-34%	-19%	-1.8%
Total turnover, shares	19,010,661	15,696,617	6,157,487
Average daily turnover, shares	75,740	62,288	186,591

## Development of relevant indices

	2009	2008	2007*
OMXSPI	47%	-42.0%	-5.3%
RTS 2	65%	-75.1%	10.9%
MSCI EM Europe	144%	-61.7%	3.4%

## Share capital and number of shares

	2009	2008	2007*
Share capital at 31 December, EUR	3,628,014	3,627,016	3,627,016
Number of shares at 31 December	35,499,160	36,270,160	36,270,160
Average number of shares	35,651,491	36,270,160	35,032,755

## Ownership structure

	2009	2008	2007*
Number of shareholders on 31 December	9,381	9,984	11,648
% shares held outside Sweden	35%	35%	47%

\* 9 November – 31 December 2007.

## 20 largest shareholders and custodians<sup>1</sup> on 31 December 2009

	Number of shares	Holding. %
Alecta Pensionsförsäkring	2,465,000	6.9
Morgan Stanley & Co Intl PLC.	2,117,880	6.0
East Capital Eastern European Fund	2,050,000	5.8
SEB-Stiftelsen	1,500,000	4.2
DNB NOR Bank ASA	1,501,757	4.2
East Capital Partners <sup>2</sup>	1,439,050	4.1
Apoteket AB Pension Foundations	1,431,723	4.0
Foreign Account	1,335,284	3.8
Avanza Pension	1,072,985	3.0
Nordnet Pensionsförsäkring AB	703,367	2.0
Volvo Related Foundations	630,660	1.8
JP Morgan Bank	489,240	1.4
Foreign Account	487,786	1.4
Livförsäkringsaktiebolaget Skandia	476,000	1.3
Foreign account	450,000	1.3
Fjärde AP-fonden	441,000	1.2
Handelsbanken fonder incl XACT	430,091	1.2
Veritas Eläkevakuutusosakeyhtiö	375,000	1.1
Danske Capital Sverige AB	329,400	0.9
Svenska Handelsbanken SA	327,650	0.9
<b>Total top 20 shareholders and custodians</b>	<b>20,053,873</b>	<b>56%</b>
<b>Other 9,361 shareholders and custodians</b>	<b>15,445,130</b>	<b>44%</b>
<b>Total</b>	<b>35,499,160</b>	<b>100%</b>

<sup>1</sup> A majority of the shares registered by foreign shareholders are registered through custodians. This implies that the beneficial shareholders are not officially registered.

<sup>2</sup> East Capital's own investment and investments by Partners in East Capital.

## Shares and voting rights

East Capital Explorer has one class of shares, in total 35,499,160 shares. One share entitles the holder to one vote and all shares have equal rights in the assets and profits of the Group.

## Own shares

The 2008 Annual General Meeting authorized the Board to decide on acquiring the company's own shares. During March and April 2009, 771,000 share was bought back using this mandate. The 2009 Annual General Meeting then cancelled these shares and renewed the buy-back mandate. As of 31 December 2009, no shares had been bought back by the Company. During March 2010 the Board decided to utilise the mandate. On 18 March a total of 363,635 shares had been bought back.

## Net asset value

A monthly indicative net asset value (NAV) per share is calculated per the last day of each month. East Capital Explorer's net asset value is calculated as the value of total assets (all investments plus all other assets, such as cash) less all liabilities, divided by the number of issued shares. The value of East Capital Explorer's investments is based on the monthly net asset value reported for each respective East Capital fund in which we have invested plus the value of all our direct investments. For more information on the applied valuation principles, Note 1, page 70. The net asset value reports are not subject to review by the Company's auditors.

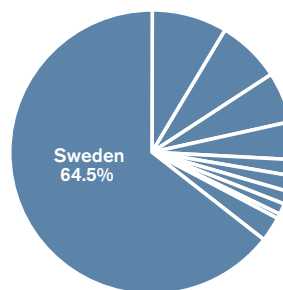
Please note that the base currency for East Capital Explorer's net asset value is EUR, while the base currency for the share price is SEK. Conversions of the net asset value to SEK and the share price to EUR are made only for information purposes. The resulting figure may vary according to the source and point in time of the conversion. East Capital Explorer obtains the applied exchange rates from Reuters at 16.00 GMT +01:00.

The net asset value is published through a press release and on our website five working days after the end of the month. The latest portfolio report and net asset value report are always available on our website: [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

## Distribution of ownership by size of holding

No. of shares per holding	Number of shareholders	% of shareholders	Total number of shares	% of shares and votes
1-500	7,049	75.1	1,508,242	4.2
501-1,000	1,001	10.7	885,428	2.5
1,001-5,000	938	10.0	2,409,624	6.8
5,001-10,000	159	1.7	1,227,038	3.5
10,001-15,000	49	0.5	618,915	1.7
15,001-20,000	28	0.3	515,557	1.5
20,001-	157	1.7	28,334,356	79.8
<b>Total</b>	<b>9,381</b>	<b>100.0</b>	<b>35,499,160</b>	<b>100.0</b>

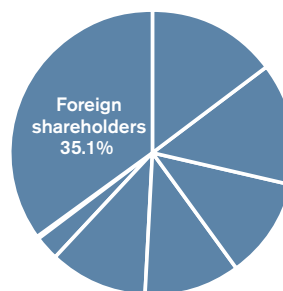
## Distribution of ownership by country\*



Great Britain	8.6%
Norway	7.2%
USA	5.8%
Luxembourg	4.3%
Switzerland	1.8%
Netherlands	1.8%
Ireland	1.5%
Finland	1.2%
Iceland	0.5%
Other 32 countries	2.8%

\* A majority of the shares registered by foreign shareholders are registered through custodians. This means that the beneficial shareholders are not officially registered and the actual domicile of the shareholder cannot be verified and may be different from the domicile of the custodian.

## Distribution of ownership by type of shareholder



Banks and insurance companies	15.1%
Other legal entities	13.2%
Mutual funds	12.5%
Pension foundations	11.2%
Private individuals	9.8%
Non-governmental and labour organisations	2.5%
Swedish state and municipalities	0.2%

Source: Euroclear Sweden AB (formerly VPC).

## Share facts

<b>Listing:</b>	NASDAQ OMX Nordic, Mid Cap
<b>Listed since:</b>	9 November 2007
<b>ISIN-code:</b>	SE002158568
<b>GICS-code:</b>	40203010
<b>Ticker:</b>	ECEX
<b>Reuters:</b>	ECEX.ST
<b>Bloomberg:</b>	ECEX SS Equity
<b>Latest share price:</b>	See <a href="http://www.eastcapitalexplorer.com">www.eastcapitalexplorer.com</a>

# Report on Internal Control

This report regarding 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. The report describes the manner in which the internal control regarding the financial reporting is organised. This report is an independent report, and does not comprise a part of the formal annual financial statements. The Company's auditors have not audited the Board's report on internal control.

The internal control within East Capital Explorer is designed in order to manage the risks within the financial reporting processes and this includes, for example, ensuring an efficient and reliable accounting of buy and sell transactions of securities, and ensuring the valuation of the securities holdings, as well as that the information is efficiently and correctly communicated to the market. To further improve the internal control, East Capital Explorer established, during 2008, an internal control activity. This undertakes ongoing audits of the internal control and presents reports to the Board and management providing recommendations for improvements in the internal governance and control.

The 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 Investment AB via East Capital PCV Management AB (the Investment Manager).

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 the manner in which financial and other information regarding East Capital Explorer Investment's portfolio shall be managed 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 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 the indicative net asset value of East Capital Explorer. The Company management is responsible for designing a control system to prevent and identify 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 with 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 in monitoring the Investment Manager's and East Capital Explorer Investments AB's compliance with the Investment Management Agreement. In addition, 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 manage these risks are:

- Active participation in the work of the Board of Directors of East Capital Explorer Investments AB.
- On-going discussions and contacts with key individuals within East Capital.
- Ongoing review of documentation for decisions and formalia in conjunction with the investment activities.

- On-going review and valuation 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 stock market regulations. Furthermore, there are policies and instructions for, amongst other things, investing activities, short-term investments, including deposits and cash, accounting and financial reporting.

### Monitoring

The monitoring of the internal control of the financial reporting is executed by the Board, the Audit Committee, the CEO and Company management. Monitoring of the effectiveness of the internal control is undertaken at each Board meeting, during which the financial position is reviewed and where other materials in the form of investments are processed. The Audit Committee meets on a regular basis in order to manage and discuss accounting issues, forms of monthly reporting, internal audit, etc. The CEO and Company management, on an ongoing basis, monitor compliance with policies, instructions and administrative agreements.

Internal Audit is the Board of Directors' independent audit function which is assigned with the ongoing audit of the operations within the Company. Internal Audit's work for 2009 is based on a risk analysis undertaken by the Company management within East Capital Explorer AB and representatives from Internal Audit. During the year, the internal audit function has audited a number of areas identified by the risk analysis. The audit plan for 2009 included a more extensive review within the IT area, as well as within the areas of investing and short-term investing processes. The results of these audit activities were reported to the Audit Committee.

Stockholm, March 2010

Board of Directors of East Capital Explorer AB (publ)