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## Corporate Governance

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# A word from our chairman



Paul Bergqvist  
Chairman of the Board

*“During 2011, we will continue our work to seize unique opportunities in our markets. We expect to see our portfolio develop to include more new investments while some of the existing ones are reduced”*

*One of the most important roles of the Board of East Capital Explorer is to ensure sound corporate governance. Since the Company's inception in 2007, the Board has continuously worked to improve its internal control routines, governance measures and oversight of valuations in the Company's portfolio. With the necessary systems in place and working well, the Audit Committee, consisting of the independent members of the Board, is able to effectively achieve proper supervision.*

Turning to performance, 2010 was a very good year as we saw the net asset value (NAV) per share increase 29%. We are also satisfied with the fact that the share price of East Capital Explorer outperformed both the Stockholm Stock Exchange main index as well as the broader MSCI European Emerging markets index.

It is now safe to conclude that our previous decision to adjust our investment pace and act cautiously while markets returned to normal and then to start investing again really has paid off. This gave us the ability to invest in undiminished funds when markets were low.

The company is now fully invested and it has therefore entered a new era in its development. Firstly, it means that we together with our Investment Manager actively must prioritize existing investments and evaluate them in comparison to new investment alternatives. Secondly, we have decided upon a new dividend policy where the company starts to pay out dividend to its shareholders. As a result the board proposes that the AGM decides to pay a dividend of SEK 0.80 per share for 2010. Although in a new era of the company's development, our main strategy remains intact. We will continue to invest and to reinvest our funds into growing businesses in Eastern Europe.

The special relationship the company has with its Investment Manager East Capital continues to develop to their mutual benefit. In the board 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. Therefore, as stated before, the skills and competencies in East Capital Explorer are intended to complement, rather than duplicate, those of our Investment Manager.

Although not all of our investments have performed according to our expectations, we deem that the Investment Manager, more than well, has demonstrated its ability to capitalize on several of the unique opportunities that are available in our investment universe, and we expect this to continue. We often highlight our direct investments, but it is well worth noting that the majority of our investments are carried out through East Capital funds and that their performance is key to our success.

We are more than satisfied with the general developments in our direct investments and the prospects they hold. The latest addition, the Macedonian bank Komercijalna Banka Skopje, is very exciting. East Capital Explorer has become one of the bank's largest shareholders with approximately 10 percent of its shares. Although publicly listed, the liquidity in the market is not sufficient for regular investors to acquire such a large stake in a short time, and therefore it is another excellent example of the type of unique investments that East Capital Explorer can offer its shareholders.

During 2011, we will continue our work to seize unique opportunities in our markets. We expect to see our portfolio develop to include more new investments while some of the existing ones are reduced. I am confident that this portfolio will remain well-positioned to generate attractive long-term returns for our shareholders.

Paul Bergqvist, Chairman of the Board

# Corporate Governance at East Capital Explorer

## Governance structure

For East Capital Explorer, corporate governance refers to the manner in which we operate and are organized to maintain 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 that indirectly and directly invests in Russia and other countries within the Commonwealth of Independent States (CIS), the Balkans, the Baltic States, Central Asia and Central Eastern Europe. Our indirect investments are made through a selection of East Capital's current and future funds.

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 Stockholm, Mid Cap from November 2007.

### Framework for corporate governance

Corporate governance at East Capital Explorer is based on both external and internal frameworks. External frameworks comprise

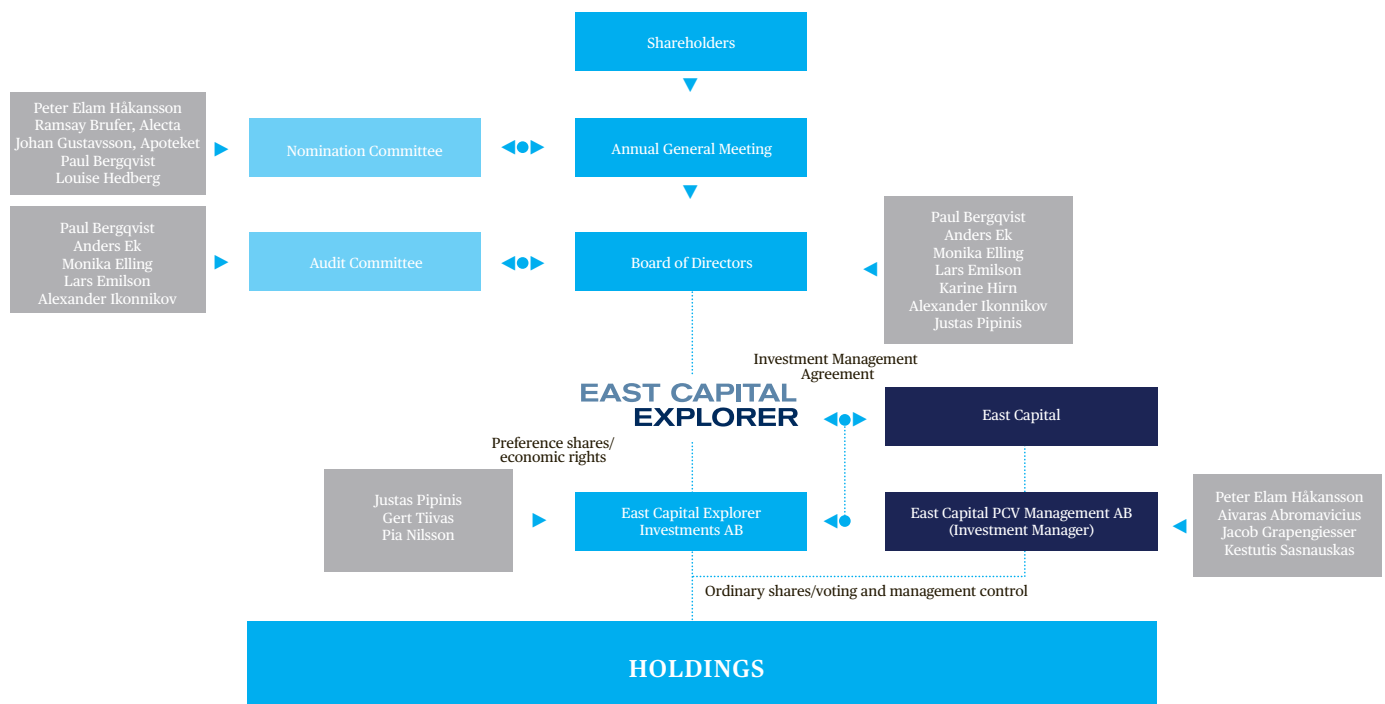
the Swedish Companies Act, the rules of NASDAQ OMX Stockholm Rule Book including the Swedish Code of Corporate Governance, as well as other applicable Swedish and foreign laws and rules. The Company's internal framework includes the Articles of Association, the Investment Management Agreement with East 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.

Further information on corporate governance is available on the Company's website, [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com). Under the "About East Capital Explorer" tab there is a separate corporate governance section that includes:

- East Capital Explorer's Articles of Association;
- The nomination Committee's principles and work;
- Information regarding Annual General Meetings; and
- Information on policies and guidelines.

Additional information regarding the Company's shares and provisions of its articles of association regulating the appointment of Board members and certain amendments of the articles of association can be found under the "Share information" and "Board of Directors" sections of the Administration Report on page 62.

## Governance structure



## 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 alternative investment funds, private equity funds 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 summarized in the following points:

### Countries

East Capital Explorer may invest in Russia and the CIS countries, the Balkans, the Baltic States, 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 attractive 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, Group Compliance Officer at East Capital.

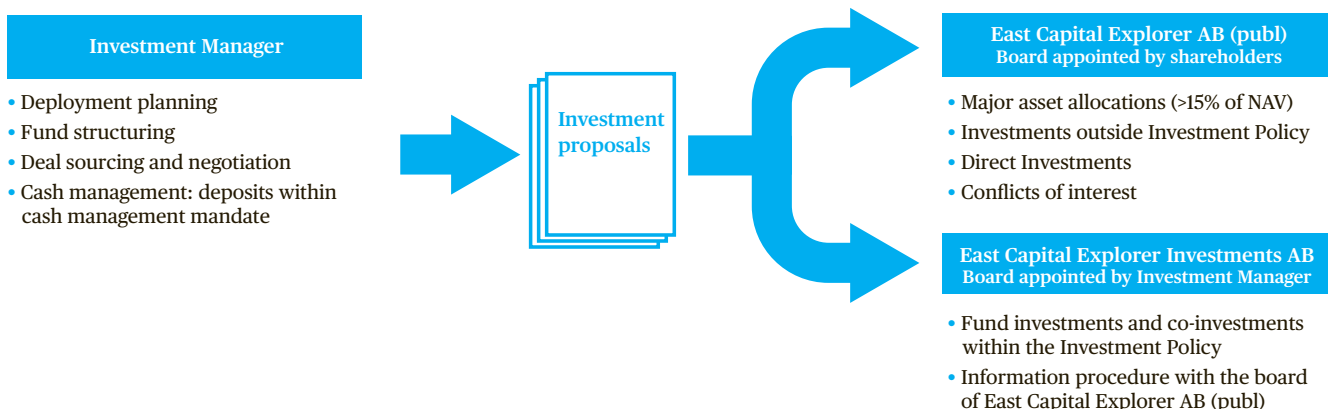
### Functions of the Board of the Company

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; and
- Investments implying a conflict of interest between East Capital Explorer and East Capital.

The Board of East Capital Explorer also continuously monitors 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.

## Investment decision process



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 Stockholm Exchange, the Investment Manager shall be reimbursed for the offering costs incurred during the initial listing on the exchange.

## Board of Directors

#### Composition of the Board

According to the articles of association of the Company, the Board shall consist of three to seven members without deputies. Further, the Investment Manager always has the right to appoint one Board member. Board members are elected by the Annual General Meeting for a one-year term. The 2010 Annual General Meeting re-elected Paul Bergqvist, Anders Ek, Lars Emilson, Alexander V. Ikonnikov and Justas Pipinis to the Board. The Meeting also elected Monika Elling and Karine Hirn as new members of the Board. Kestutis Sasnauskas had declined to be re-elected. The meeting re-elected Paul Bergqvist as Chairman of the Board.

#### Independence of the Board

Under applicable regulations, Paul Bergqvist, Anders Ek, Monika Elling, Lars Emilson and Alexander V. Ikonnikov are regarded as independent in relation to the Company and its management, as well as the major shareholders of 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.

Karine Hirn and Justas Pipinis are not defined as independent in relation to the Company and its management as they are affiliated with East Capital and, 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 should be noted that in 2010 East Capital together with its related parties was a major shareholder of the Company, as the term is defined in the Swedish Code of Corporate Governance, and therefore Karine Hirn and Justas Pipinis are not regarded as independent from major shareholders of the Company. As of 31 December 2010 there were no other major shareholders of the Company, as defined in the stock exchange rules and 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.

The Chairman of the Investment Manager, Peter Elam Håkansson, the Company's CEO, Gert Tiivas, CFO, Mathias Pedersen and General Counsel, Stefano Grace also participated in the Board meetings during 2010 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 organizes 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 includes company visits. During 2010, the Board participated in the East Capital Summit in Prague, Czech Republic in September.

#### Board meetings and main discussions

During 2010, a total of 13 Board meetings were held. The main discussions held during the meetings were:

Meeting	Main discussion
1/2010	Approval of the Year-end report 2009
2/2010	Telephone meeting to approve the Share Buy-back program
3/2010	Meeting to approve the Annual Report 2009
4/2010	<i>Per capsulam</i> meeting to approve the notice to the Annual General Meeting 2010
5/2010	<i>Per capsulam</i> meeting to approve Board's proposal to be presented at the AGM 2010
6/2010	Board meeting held in conjunction with Annual General Meeting
7/2010	Approval of the Interim Report 1 January - 31 march 2010
8/2010	<i>Per capsulam</i> meeting to approve investment proposal
9/2010	Approval of the Interim Report 1 January - 30 June 2010
10/2010	Board meeting in conjunction with East Capital Investor Summit in Prague, Czech Republic
11/2010	Telephone meeting to approve investment proposal
12/2010	Approval of the Interim Report 1 January - 30 September 2010
13/2010	Meeting to approve investment proposal

In addition, Gert Tiivas, in his capacity as Board member of East Capital Explorer Investments AB, participated at ten meetings for East Capital Explorer Investments AB (of which nine were *per capsulam*) during 2010. Paul Bergqvist was present as non-member attendee at one meeting.

#### Evaluation of the Board

During 2010, the work of the Board was not formally evaluated by an external consultant as was the case in 2008. As in 2009, the Board has once again 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 2011.

## Audit Committee

The Audit Committee is appointed annually by the Board, to serve the Board in an advisory function 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, Monika Elling, Lars Emilson and Alexander V. Ikonnikov.

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

The Company's CEO, Gert Tiivas, CFO, Mathias Pedersen and General Counsel, Stefano Grace also participated in the Audit Committee meetings during 2010 to report on their respective areas.

### Audit Committee meetings and main discussions

During 2010, a total of six Audit Committee meetings were held. Examples of the main discussions held during the meetings were:

Meeting	Main discussion
1/2010	Telephone meeting to discuss policy review in preparation for the February Audit Committee meeting
2/2010	Discussion regarding the Year-end report 2009 and policy review
3/2010	Telephone meeting to discuss the Annual Report 2009
4/2010	Discussion regarding the Interim Report 1 January - 31 March 2010
5/2010	Discussion regarding the Interim Report 1 January - 30 June 2010
6/2010	Discussion regarding the Interim Report 1 January - 30 September 2010. Review of compliance with Investment Management Agreement

## Directors' fees and executive remuneration

On 28 April 2010, the Annual General Meeting resolved that Directors' fees in the Company remain unchanged and that the Chairman of the Board will receive an annual compensation of SEK 700,000 for the period until the 2011 AGM. Each member of the Board, other than the Chairman, will receive an annual compensation of SEK 300,000 for the same period. Board members, Justas Pipinis and Karine Hirn, waived their Directors' fees.

Remuneration for work in the Audit Committee also remained unchanged and totaled SEK 50,000 for the Chairman of the Audit Committee, and SEK 30,000 per year to other members of the 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 of Executive Management

Remuneration to the CEO and the CFO consists of fixed salary, variable salary and pension and insurance benefits. The Board determines, at its own discretion, whether the executive management should be paid any variable salary. The decision is supported by key performance indicators (KPIs), including among others share price performance, defined annually by the Board. Targets are set and evaluated annually. During 2010, a variable salary for 2009 amounting to 25% of the fixed salary was paid to the CEO out of a maximum variable salary corresponding to 50% of the fixed salary. During 2011 the Board has decided to grant the CEO and the CFO\* a variable salary for 2010 corresponding to 43% of their fixed salaries, respectively, out of a maximum variable salary corresponding to 50% of the fixed salary.

The CEO and the CFO have individual premium-based pension plans, pursuant to which the Company pays premiums corresponding to 10% of their respective fixed salaries, up to 10 Swedish income base amounts and premiums corresponding to 20% of the

\* CFO hired in 2010

## The composition of the Board

Name	Position	Citizenship	Dependence	Shareholdings	Elected	Board meeting attendance 2010	Audit Committee	Audit Committee attendance 2011
Paul Bergqvist	Chairman	Swedish	No	11,000 shares	2007	13/13	Yes	6/6
Anders Ek	Board member	Swedish	No	4,000 shares	2008	13/13	Yes	6/6
Monika Elling	Board member	Swedish	No	7,200 shares	2010	8/8	Yes	3/3
Lars Emilson	Board member	Swedish	No	5,500 shares	2007	12/13	Yes	6/6
Karine Hirn	Board member	French	Yes	611,547 shares	2010	7/8*	No	n/a
Alexander Ikonnikov	Board member	Russian	No	8,000 shares	2007	12/13	Yes	6/6
Justas Pipinis	Board member	Swedish	Yes	34,742 shares	2007	11/13*	No	n/a

\*Karine Hirn and Justas Pipinis did not participate in the board meeting held by phone on 24 September 2010 due to a potential conflict of interest.

fixed salaries on the portion of the fixed salary exceeding 10 Swedish income base amounts.

For detailed information on the remuneration to executive management, see Note 4 on page 77.

#### Share-related incentive program

East Capital Explorer does not have any share-related incentive programs.

## The Annual General Meeting

The Annual General Meeting of Shareholders (AGM) is the Company's highest decision-making body and 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 of their intention to attend the AGM 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 the AGM in person may be represented by proxy.

The AGM decides on, among other things, matters such as the 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 AGM and are available to answer questions from the shareholders.

#### Annual General Meeting 2010

The 2010 AGM was held on 28 April 2010 at Konserthuset in Stockholm. All documents from the 2010 AGM including notice, documents presented at the AGM and the full minutes from the meeting are available on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

The 2010 AGM was attended by approximately 200 persons, including shareholders representing a total of 32% 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 duties of the Nomination Committee include evaluating the Board and its work prior to the AGM, and to prepare and present to the AGM proposals for resolutions regarding the Chairman of the meeting, members of the Board, Chairman of the Board, as well as the appointment of auditors, when appropriate. The Nomination Committee also proposes resolutions regarding remuneration to the members of the Board, remuneration (if any) for Committee work, fees to be paid to the Company's auditors, and the process for electing a Nomination Committee for the next AGM. All shareholders have the opportunity to submit proposals to the Nomination Committee.

#### The work of the Nomination Committee 2011

In accordance with a resolution by the 2010 AGM, the Nomination Committee for the 2011 AGM comprises five members; three members appointed by each of the three largest shareholders in the Company on 30 June 2010, East Capital Explorer's Chairman of the Board and a representative of the Investment Manager:

- Peter Elam Håkansson, East Capital (Chairman)
- Ramsay Brufer, Alecta
- Johan Gustavsson, Apoteket AB:s Pensionsstiftelse
- Paul Bergqvist, as Chairman of the Board in East Capital Explorer
- Louise Hedberg, as representative for the Investment Manager

The composition of the Nomination Committee was published through a press release and posted on the Company's website on 6 October 2010.

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

Shareholders have been invited to submit proposals to the Nomination Committee. The Nomination Committee's proposals prior to the 2011 AGM are specified in the notice of AGM and are also available on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

#### Annual General Meeting 2011

The 2011 AGM will be held at 3:00 p.m. on 12 April 2011, at 3.00 p.m. at Nalen in Stockholm. For more information please visit: [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

## Audit

#### External auditors

At the extraordinary general shareholders' meeting held on 25 May 2007, the registered auditing company KPMG was appointed auditors of East Capital Explorer for a four-year term until the close of the 2011 AGM, with authorized auditor Carl Lindgren as auditor in charge.

#### Compensation to auditors

The Company's auditor receives 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 2010, the total compensation paid to the auditors amounted to SEK 804,000 (corresponding to EUR 89,000), the entire amount referring to auditing services.

#### Communication with the Company's auditors

The Audit Committee maintains regular contact with the auditor. In addition, the auditor participates in the Audit Committee meetings at which the interim reports and full year report are addressed to report his 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 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 of East Capital Explorer Investments AB, East Capital Baltic Property Fund AB, East Capital Baltic Property Fund Investors AB and East Capital Power Utilities Fund AB, Board member of EEDF AG, Board member of JSC Populi, Supervisory Board Member of East Capital Real Estate AS and Branch Managing Director at East Capital International AB Eesti filial.

### 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

2,500 shares.

## Stefano Grace

General Counsel

General Counsel since October 2010.  
Born 1977.

### Education

Bachelor of Arts from the University of Virginia and Juris Doctor from Florida State University College of Law.



### Work Experience

2006-2010 Senior Associate leading the Private Equity Practice in SORAINEN's Tallinn Office,  
2004/2005 In-House Legal Counsel NASDAQ OMX Tallinn (Tallinn Stock Exchange),  
1999-2003 Paralegal at Pattishall, McAuliffe, Newbury, Hilliard and Geraldson.

### Shareholding in East Capital Explorer AB

0 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 and Björk Eklund Group AB.

**Shareholding in East Capital Explorer AB**  
11,000 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**  
Chairman of Banque Invik SA. Board member of Catella KAG, Hemfosa Fastigheter AB and CA Fastigheter AB.

**Shareholding in East Capital Explorer AB**  
4,000 shares.



## **Monika Elling** *Board member since 2010*

Independent of the Company, Company management and the Company's major shareholders. Born 1962.

**Education**  
Degree from the Stockholm School of Economics combined with MBA studies at McGill University in Montreal, Canada.

**Work experience**  
Since 2010 CEO of Poolia, 2009-2010 Regional Managing Director Scandinavia at Intrum Justitia, 2005-2009 CFO at Intrum Justitia, 1999-2005 Financial analyst at Enskilda Securities, 1994-1998 various positions at Securitas, 1992-1994 various positions at Assa Abloy, 1989-1992 Business controller at Industor, 1989-1992 Head of Finance and Administration at Sandvik Öberg.

**Other board assignments**  
Member of the board of Björn Borg, MQ and Poolia.

**Shareholding in East Capital Explorer AB**  
7,200 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.

**Justas Pipinis***Board member since 2007*

Dependent in relation to the Company and its Management. Dependent in relation to the Company's major shareholders. Born 1973.

**Education**

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

**Work experience**

Since 2004 Partner at East Capital, since 2005 CEO of East Capital Holding AB, since 2007 CEO of East Capital International AB, 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**

Number of board and other assignments within East Capital.

**Shareholding in East Capital Explorer AB**

34,742 shares.

**Karine Hirn***Board member since 2010*

Dependent in relation to the Company and its Management. Dependent in relation to the Company's major shareholders. Born 1972.

**Education**

Degree from EM Lyon, France and a post-graduate degree from IEP Paris.

**Work experience**

1997 Partner and co-founder of East Capital, Numerous positions in the East Capital Group, including CEO of East Capital Asset Management and CEO of East Capital AB, Currently Chief Representative of East Capital in China, 1995-1997 responsible East Bridge Bank in Moscow, 1994-1995 Financial consultant Adex Finance in Nizhny-Novgorod.

**Other board assignments**

Number of Board assignments in the East Capital Group, including East Capital Holding AB, East Capital AB and East Capital Asia Ltd. French Foreign Trade Advisor (CCE).

**Shareholding in East Capital Explorer AB**

611,547 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 the IoD, UK. In 2010 Yale School of Management recognizes Alexander Ikonnikov as Rising Star of Corporate Governance for outstanding work in, and contribution to, the field of corporate governance.

**Work experience**

Since 2005 Senior partner of Board Solutions, 2001-2004 Co-founder/CEO of the Investor Protection Association in Russia, 1998-2001 Deputy CEO, NAUFOR (National Association of Securities Market Participants in Russia), 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.

**Shareholding in East Capital Explorer AB**

8,000 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 starting on page 85.

## 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 teams have 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 alternative investment funds and private equity funds, effectively diversifying our portfolio across approximately 400 companies in our investment region on 31 December 2010, 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 minimize 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 unauthorized 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 con-

flicts 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.
- 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 unfavorable 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 alternative investment 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 five 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 fulfill 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 Environmental, Social and Governance perspective in our investments

*East Capital Explorer considers good corporate governance as well as environmentally and socially responsible behavior as essential in managing any company with the aim of maximizing long-term shareholder value. We believe that companies that successfully manage the risks and opportunities related to the material and relevant environmental, social and governance (ESG) issues of their sector are better positioned to enhance long term investor confidence and increase investor interest.*

## Guiding policy documents

East Capital Explorer has two documents that define and describe the ESG perspective in relation to its investments; its Code of Business Conduct and its Principles of Responsible Investment. Both documents were initially adopted by the Board in 2008 and are reviewed annually.

The Principles of Responsible Investment specifies East Capital Explorer's expectations on the Investment Manager to undertake investment decisions on the basis of an in-depth analysis that includes both the financial outlook as well as an assessment of the risks and opportunities related to relevant environmental, social and governance challenges. This also enables East Capital Explorer, through the Investment Manager to also consider specific ESG factors in conjunction with investments in which none of the East Capital funds have invested. The second document is the Code of Conduct. 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.

## Progress during 2010

Given the importance of assessing and managing the impact and materiality of certain ESG-factors in relation to a company's future prospects, East Capital has decided to further integrate these factors into East Capital's investment process. In September, East Capital appointed Louise Hedberg as Head of Corporate Governance at East Capital. This is a newly created specialist function within the investment management teams with responsibility for integrating ESG issues in the investment work of the analysts and portfolio managers. During 2011, East Capital's portfolio managers and analyst will increasingly be requesting transparent disclosure on relevant and material environmental and social risks and opportunities related to the operations of the portfolio companies.

In early 2011, East Capital adopted a revised Ownership policy in which the former Principles of Responsible Investment have been integrated into one document. The policy is applicable to all public equity funds, private equity funds, real estate funds as well as special fund products managed by the East Capital Group. The policy addresses how East Capital should act when exercising the ownership rights in the companies held by these funds on behalf of the investors. Typical ownership issues may include: Equitable treatment of all shareholders; Prohibiting Insider trading; Mandatory disclosure of conflicts of interest; Composition of the Board of Directors; Participation and voting at Shareholders' meetings, Establishing good shareholders' meeting practices; Transparent and equal communication and reporting to all investors; Managing environmental risks and opportunities; Addressing social issues and Abolishing unethical business practices.

## Methods of influence

The Investment Manager's strategy is characterised both by a focus on long-term investment value as well as active ownership through face-to-face involvement. This allows East Capital to apply a range of methods to address ESG issues in the portfolio companies:

- Discussions with managements and boards in company visits and meetings

- Annual letter to all portfolio companies highlighting general issues of concern for the coming year
- An introductory letter to new portfolio companies, including East Capital's Ownership policy
- Nomination or endorsement of independent board members
- Voting in shareholders' meetings
- Collaboration with other shareholders
- Dialogue with governments, stock exchanges and financial surveillance authorities to advocate improvements in the institutional framework with the purpose of promoting more well-functioning and transparent capital markets

East Capital will also consider initiating an engagement with portfolio companies that, in East Capital's view, do not satisfactorily manage to meet the specific ESG risks and opportunities related to their company. The aim of the engagement process is to be supportive and constructive in order to ultimately encourage and influence the company to make necessary improvements. East Capital's experience has shown that engaging with a company and the other owners usually generates greater positive effects as opposed to immediately exiting the investment. An exit may, however, be used as a last resort if a company does not respond in an adequate manner or undertake the necessary improvements.

During 2010, East Capital was formally engaged with several companies on various Governance issues and with one company on Environmental issues.

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

Louise Hedberg  
Head of Corporate  
Governance,  
East Capital





# Fees

*East Capital Explorer's investment structure has been designed to avoid duplication of fees, so that fees for fund investments are paid only on the underlying fund level at the same terms as by other fund investors. Total fees accrued for direct investments and through fund investments during 2010 amounted to EUR 22.2m, of which EUR 6.3m was management fees and EUR 15.9m was performance fees.*

## Fee structure for East Capital Explorer's investments

Investment	Sub-scrip-tion Fee	Annual Mgmt. Fee <sup>1</sup>	Base amount <sup>3</sup>	Perfor-mance Fee	Period <sup>4</sup>	High Water Mark <sup>5</sup>	Hurdle Rate	Catch-Up	Profit share	Redemption 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 Class A	0%	2.0%	NAV	20%	Mnth/Qtr	Yes				Yes
East Capital Bering Ukraine Fund Class R	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 <sup>1</sup>	0%	1.9%	NAV	15%	Yearly		7%	50/50	95/5	
East Capital Special Opportunities Fund	0%	2.0%	NAV	20%	Quarterly		7%	50/50		Yes
East Capital Special Opportunities Fund II	0%	2.0%	NAV	20%	Quarterly		7%	50/50		Yes
Direct investments <sup>1,2</sup>	0%	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>	0%	1.0%	NAV	0%						
Cash and cash equivalent	0%	0%		0%						
Committed capital	0%	0%		0%						

<sup>1</sup> The fees charged by East Capital for managing the Power Utilities fund, the direct investments, and the bond portfolio are subject to VAT which make the actual cost for East Capital Explorer higher

<sup>2</sup> Separate agreements regarding the investment in TE0 LT and Wimm-Bill-Dann have been made, reducing the management fee to 1.0% per annum based on the daily share price and waiving the performance fee

<sup>3</sup> The management fee is calculated in % of opening NAV for all investments

<sup>4</sup> The Bering funds management fees are based on monthly NAV, while performance fees are based on quarterly NAV. Performance fees for other funds are based on realized returns

<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 fees.

**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).

**High Water Mark** = Previous highest NAV above which performance fee was paid.

**Hurdle rate** = 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.

**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 water mark 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.

Fees to East Capital 2010<sup>1</sup>

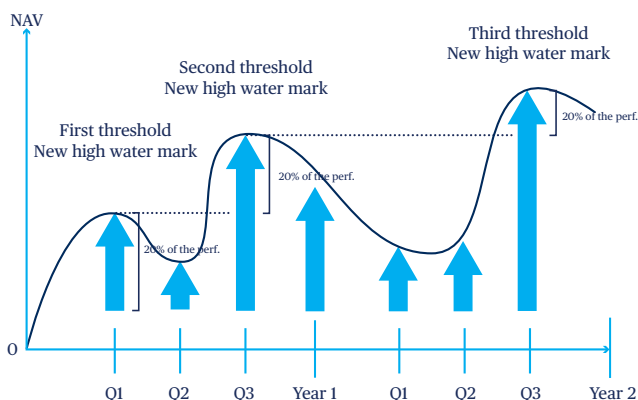
Investment	Management fees accrued 2010 (EUR thousands)	Performance fees accrued 2010 (EUR thousands)	Total fees accrued 2010 (EUR thousands)
Fee for managing East Capital Explorer's investment portfolio	-	-	-
East Capital Bering Russia Fund	774	1,214	1,988
East Capital Bering Ukraine Fund Class A	125	-	125
East Capital Bering Ukraine Fund Class R	113	-	113
East Capital Bering Balkan Fund	802	511	1,313
East Capital Bering Central Asia Fund	445	441	887
East Capital Bering New Europe Fund	350	234	583
East Capital Power Utilities Fund <sup>2,3</sup>	1,597	7,817	9,415
East Capital Special Opportunities Fund	734	4,153	4,887
East Capital Special Opportunities Fund II	178	558	736
Direct investments <sup>3</sup>	431	965	1,396
East Capital (Lux) Eastern European Fund (EUR)	272	-	272
Bond mandate <sup>3</sup>	486	-	486
Cash and cash equivalent	-	-	-
Committed capital	-	-	-
<b>Total</b>	<b>6,308</b>	<b>15,893</b>	<b>22,201</b>

<sup>1</sup>These numbers differ from the fees reported as expenses in the Comprehensive Income Statement as they include fees generated in unconsolidated fund investments and exclude fees attributable to non-controlling interests in consolidated funds.

<sup>2</sup>EUR 1.7m of the performance fee is accrued to the minority shareholding of East Capital in the fund. Hence formally it is not a fee, but profit sharing.

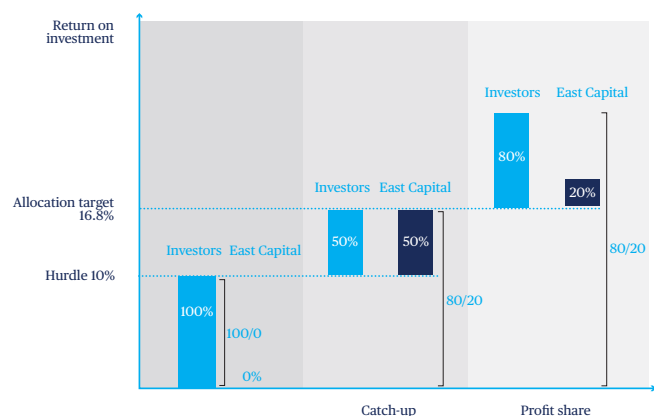
<sup>3</sup>Fees are stated including applicable VAT.

## Example fee structure when using High Water Mark



Performance fee with high water mark. A performance fee of 20 percent is paid to East Capital quarterly, when the NAV exceeds the previous highest water mark. In the example above, performance fees of 20 percent of the performance above the last high water mark 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 water mark during a given quarter are not locked in.

## Example fee structure with profit sharing



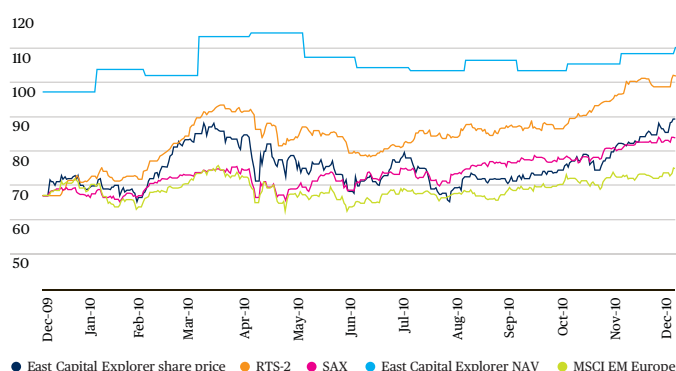
Profit distribution waterfall with 10 percent hurdle rate, 50/50 catch-up and 80/20 profit share arrangement. In the example above, investors receive the full return on an investment upon exit up to a 10 percent hurdle. After the hurdle, there is a catch-up in which investors and East Capital each receive 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.



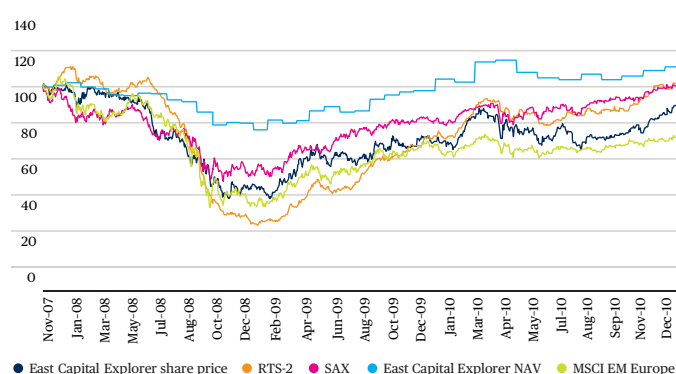
# The East Capital Explorer share

East Capital Explorer's portfolio comprises investments in East Capital funds, Direct Investments and Short-term investments. On 31 December 2010, total Net Asset Value amounted to EUR 430m, corresponding to EUR 12.33 per share. The fair value change of the total portfolio was +26 percent during 2010. Cash, cash equivalents and other short-term investments constituted approximately ten percent of the portfolio and amounted to EUR 44m, corresponding to EUR 1.27 per share, on 31 December 2010.

### East Capital Explorer vs indices during 2010



### East Capital Explorer vs indices since the launch date in November 2007



Net Asset Value and share price development	2010	2009	2008	2007*
Net Asset Value per share, EUR	12.33	9.61	7.31	10.87
Net Asset Value per share, SEK	111	99	80	103
Net Asset Value development during the year, EUR	26%	29%	-33%	1%
Share price on 31 December, SEK	84.75	67.00	40.20	100.00
Lowest, SEK	65.25	38.20	37.30	95.50
Highest, SEK	88.00	72.75	102.00	108.00
Market capitalization on 31 December, MSEK	2,954	2,378	1,458	3,627
Share price development during the year, SEK	26%	67%	-60%	0%
Premium/discount on 31 December	-24%	-32%	-50%	-3%
Average premium/discount during the year	-29%	-34%	-19%	-2%
Total turnover, shares	13,969,467	19,010,661	15,696,617	6,157,487
Average daily turnover, shares	55,215	75,740	62,288	186,591

#### Development of relevant indices

SAX (OMX Stockholm All Share index), SEK	26%	52%	-40%	-5%
RTS-2 (Russian Trading System 2nd tier index), SEK	48%	143%	-75%	11%
MSCI Emerging Markets Europe, SEK	9%	64%	-62%	3%

#### Share capital and number of shares

Share capital at 31 December, EUR	3,628,014	3,628,014	3,627,016	3,627,016
Number of shares at 31 December	34,851,675	35,499,160	36,270,160	36,270,160
Average number of shares	34,967,923	35,651,491	36,270,160	35,032,755

#### Ownership structure

Number of shareholders on 31 December	8,247	9,381	9,984	11,648
% shares held outside Sweden	44%	37%	35%	47%

\* 9 November - 31 December 2007.

20 largest shareholders and custodians* on 31 December 2010		
Name	Number of shares	Holding %
Alecta Pensionsförsäkring	2,400,000	6.9
Morgan Stanley & CO Intl PLC.	2,117,880	6.1
East Capital Eastern European Fund	2,081,392	6.0
Apoteket AB Pension Foundations	1,420,022	4.1
SSB CL Omnibus AC OM07	1,317,502	3.8
East Capital Partners**	1,218,026	3.5
Avanza Pension	951,069	2.7
Nordnet Pensionsförsäkring AB	686,470	2.0
East Capital AB Clients	613,031	1.8
Volvo Related Foundations	566,373	1.6
JP Morgan Bank	525,590	1.5
Handelsbanken fonder	503,144	1.4
SSB CL Omnibus AC OM03	478,251	1.4
Stena	450,000	1.3
Fjärde AP-fonden	440,000	1.3
SSB CL Omnibus AC OM09	419,210	1.2
Veritas Eläkevatuutusosakeyhtiö	375,000	1.1
Svenska Handelsbanken SA	354,773	1.0
JPM Chase NA	354,688	1.0
JPM Chase NA 2	354,532	1.0
<b>Total top 20 shareholders and custodians</b>	<b>17,626,953</b>	<b>50.6</b>
<b>Other 8,227 shareholders and custodians</b>	<b>17,224,722</b>	<b>49.4</b>
<b>Total</b>	<b>34,851,675</b>	<b>100.0</b>

\* A majority of the shares registered by foreign shareholders are registered through custodians. This implies that the beneficial shareholders are not officially registered. Certain shareholders may also register part of their holdings through custodians.

\*\* East Capital's own investment and investments by Partners in East Capital. The figure presented does not reflect all holdings by East Capital, its Partners and related parties which at the end of 2010 represented approximately 12% of the Company's shares.

### Shares and voting rights

East Capital Explorer has one class of shares, in total 34,851,675 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

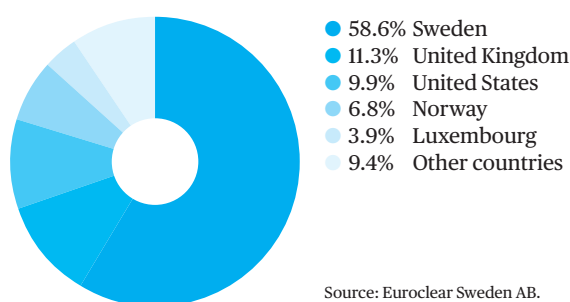
The Annual General Meeting 2009 issued a new repurchase authorization for the Board to decide on acquiring the company's own shares until the Annual General Meeting 2010. On 8 March 2010, East Capital Explorer announced that the Company's Board had decided to utilize the authorization for the purpose of giving the Board wider freedom of action in the work with the Company's capital structure and thus creating more value for the shareholders.

The utilization of the authorization allowed the Company to repurchase own shares from 8 March 2010 up to and including 9 April 2010. During the period, East Capital Explorer repurchased 647,485 own shares, corresponding to 1.8% of the shares in the Company. Average price per share paid was SEK 78.46. At the Annual General Meeting held in Stockholm on 28 April 2010, the 647,485 repurchased shares were resolved to be cancelled. Following the cancellation of shares, the new total number of shares in the Company amounts to 34,851,675.

On 28 April 2010, the Annual General Meeting 2010 issued a new repurchase authorization for the Board to decide on acquiring the company's own shares until the Annual General Meeting 2011. The new authorization has not been utilized.

Distribution of ownership by size of holding				
Number of shares per holding	Number of shareholders	% of shareholders	Total number of shares	% of shares and votes
1 - 500	6,081	73.7	1,281,148	3.7
501 - 1,000	883	10.7	772,142	2.2
1,001 - 5,000	858	10.4	2,329,340	6.7
5,001 - 10,000	170	2.1	1,292,112	3.7
10,001 - 15,000	64	0.8	805,511	2.3
15,001 - 20,000	30	0.4	540,559	1.5
20,001 -	161	2.0	27,830,863	79.9
<b>Total</b>	<b>8,247</b>	<b>100.0</b>	<b>34,851,675</b>	<b>100.0</b>

### Distribution by ownership by country\*



Source: Euroclear Sweden AB.

\* 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.

### Share facts

<b>Listing:</b>	NASDAQ OMX Stockholm, 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>

### 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 72. 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 Bloomberg at the end of the day.

The net asset value is published through a press release and on our website five business 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).

# 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 organized. 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 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 function. 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 moni-

tor 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. Currently, the Company's CEO, Gert Tiivas, and East Capital Explorer Board member, Justas Pipinis, serve as 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 formalities in conjunction with the investment activities.
- On-going review and valuation of internal methods and processes 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 2010 was based on a risk analysis undertaken by the Company management within East Capital Explorer AB together with the outside auditing firm Ernst & Young and their internal audit team. During the year, the internal audit function has audited a number of areas identified by the risk analysis. The audit plan for 2010 included a more extensive review of the implementation aspects of the roles and responsibilities within the core process and activities of the Company taking into account the frameworks and policies in place. The results of these audit activities were reported to the Audit Committee.

Stockholm, March 2011

Board of Directors of East Capital Explorer AB  
(publ)

## Auditors' report of the Corporate Governance Statement - translation

To the annual meeting of the shareholders in East Capital Explorer AB (publ), corporate identity number 556693-7404

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2010 on pages 42-46 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Statement has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the Corporate Governance Statement and assessed its statutory content based on our knowledge of the company.

In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, March 18, 2011

KPMG AB

(Signature on Swedish original)

Carl Lindgren  
Authorized Public Accountant