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## Corporate Governance

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# A word from our Chairman



Paul Bergqvist  
Chairman of the Board

2011 has been a challenging year for East Capital Explorer. The global scene has been eventful and increased uncertainty has had a negative effect on our investments as well. It has also been an eventful year for our Company. In April, the AGM approved the proposal to start paying a dividend, a way to partially forward income to our shareholders, a decision based on the fact that the portfolio was more or less fully invested in 2010.

In the autumn, Gert Tiivas, who served as CEO of East Capital Explorer since its launch, resigned and joined the Investment Management team at East Capital. Thus, Gert still works, but now more closely, with some of East Capital Explorers investments. Gert's contribution in the creation of the Company has been very important. In October, Mia Jurke joined the Company as the new CEO. Mia, with a background in regulated products, most recently as CEO for East Capital's fund company, brings solid experience in corporate governance and good organizational skills, something that we in the board believe is of great value for our Company that has now entered a more mature stage where both the Company itself as well as our portfolio have left the build-up phase.

*"Lots of things has happened in the world this year and so also in our Company".*

The most important task for the board remains to focus on the interest of our shareholders. The board has during the year continued working with the corporate governance, developing the established processes and improving the internal control and monitoring of the management of the portfolio. One important tool in this work is the internal audit, which is performed by Ernst & Young, and gives an in-depth control of areas that we in the board think are especially valuable to have an independent view on. The Audit Committee, consisting of the independent members of the board, is thereby assisted in its work of carrying out a high level and quality supervisory function.

One of the board's most prioritised areas during the year has been NAV discount control. The discount in the beginning of the 2011 was just over 20% but increased in the first half of the year, culminating during the late summer in parallel with the increasing uncertainties in the market. In September the board decided to once again utilize the mandate

given by the AGM to start a repurchasing program. In October, the program was extended and until the end of the year 3.1% of the Company's own shares were repurchased. The board believes that the repurchases serve as an important tool to increase shareholder value at the current discount levels. We are still convinced that the shareholder value in the long-run will be created through the value growth in the portfolio.

*"One of the board's most prioritised areas during the year has been NAV discount control."*

So far during 2012, we have started to see a recovery both globally and in our investment universe. We believe that we are well positioned in a strengthening market, and are confident that many of the companies in which East Capital Explorer has invested will be able to perform well. We are also confident in the fact that our Investment Manager, East Capital, will continue to find interesting companies with high growth potential also going forward.

Paul Bergqvist, Chairman of the Board

# Corporate Governance

## 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

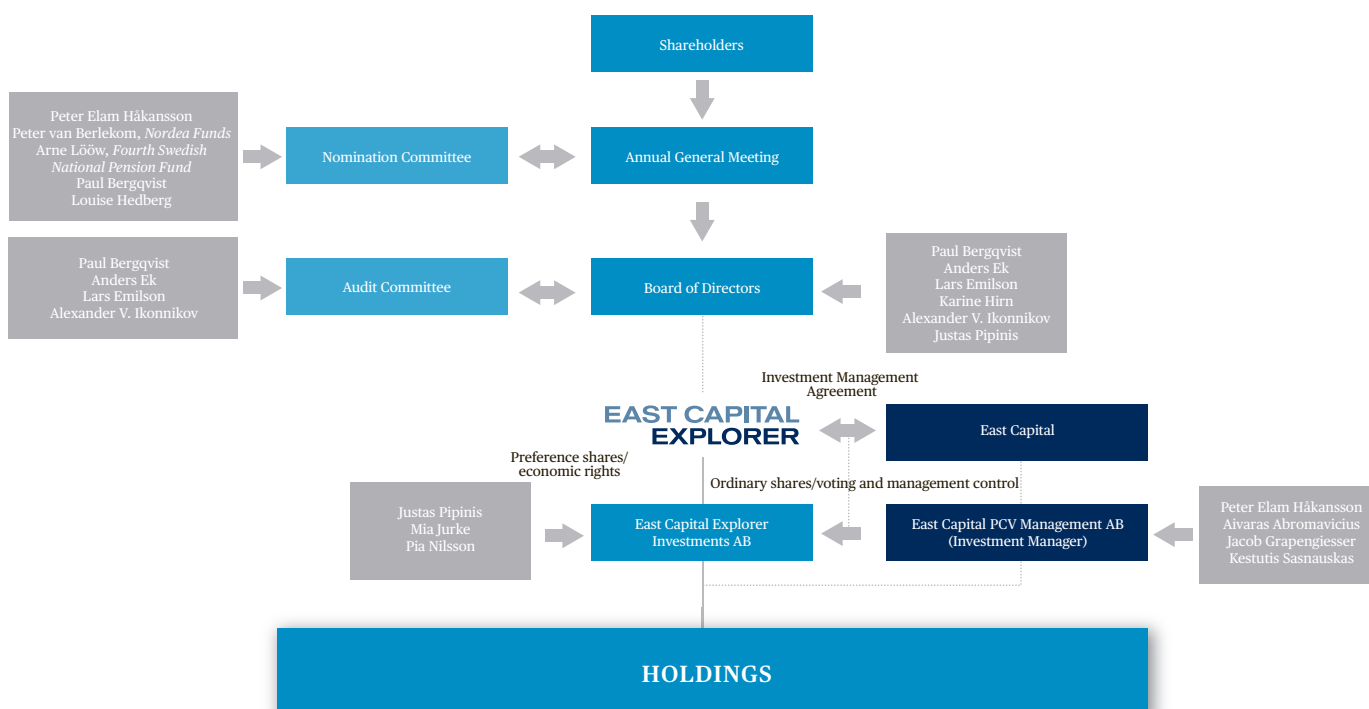
Corporate governance at East Capital Explorer is based on both external and internal frameworks. External frameworks comprise the Swedish Companies Act, the rules of NASDAQ OMX Stockholm Rule Book including the Swedish Code of Corporate Governance, as well as other applicable Swedish and foreign laws 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" on page 8-9 and "Board of Directors" sections of the Administration Report on page 65.

## 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 investment 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) and real estate funds, as well as East Capital’s future private equity funds (unlisted investments).

East Capital Explorer also has the possibility to make direct investments in selected companies, as well as 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 reallocation of the portfolio 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 divestments and investments 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, Mia Jurke 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.

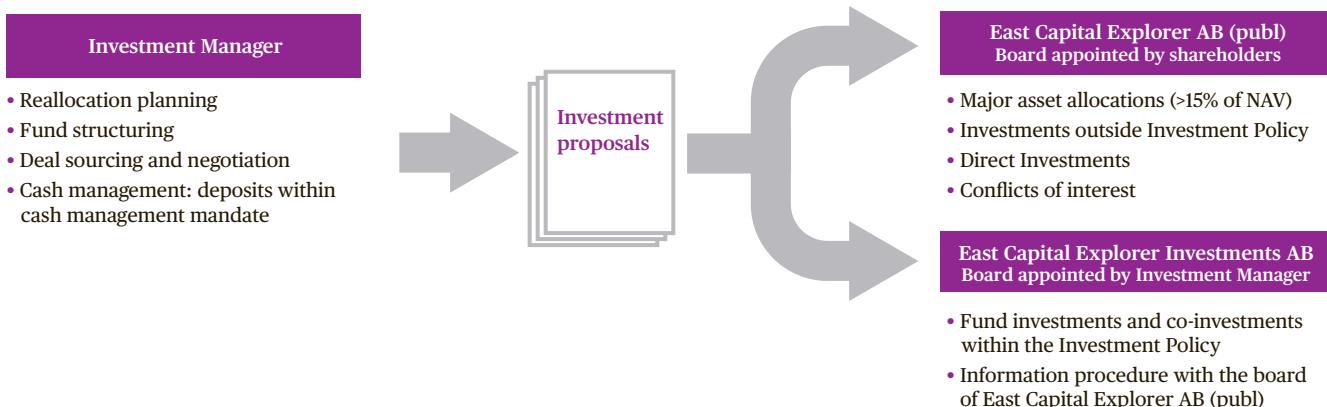
## Functions of the Board of the Company

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 evaluates made investments,

## Investment decision process



monitors management performance, and decides on management remuneration. 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 receives the Board minutes and all supporting material for the investment decisions carried out by the Board of East Capital Explorer Investments AB. 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 2011 Annual General Meeting re-elected Paul Bergqvist, Anders Ek, Lars Emilson, Karine Hirn, Alexander V. Ikonnikov and Justas Pipinis to the Board. Monika Elling 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, 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 within 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 2011 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 2011 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 54-55.

#### 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, Mia Jurke, CFO, Mathias Pedersen and General Counsel, Stefano Grace also participated in the Board meetings during 2011 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 2011, the Board participated in the East Capital Summit in Istanbul, Turkey in September.

#### Board meetings and main discussions

During 2011, a total of 15 Board meetings were held. The main discussions held during the meetings were:

Meeting	Main discussion
1/2011	Approval of the Year-end report 2010
2/2011	Telephone meeting to approve the notice to the Annual General Meeting 2011
3/2011	Meeting to approve the Annual Report 2010
4/2011	<i>Per capsulam</i> meeting to approve the statements to be made in connection with the Annual General Meeting 2011
5/2011	Board meeting held in conjunction with Annual General Meeting
6/2011	Approval of the Interim Report 1 January - 31 March 2011
7/2011	Telephone meeting to approve an investment proposal
8/2011	Approval of the Interim Report 1 January - 30 June 2011
9/2011	Telephone meeting to approve an investment proposal
10/2011	Board meeting in conjunction with East Capital Investor Summit in Istanbul, Turkey
11/2011	Telephone meeting to approve recruitment of the new CEO
12/2011	<i>Per capsulam</i> meeting to approve the statements to be made in connection with share buyback program
13/2011	Approval of the Interim Report 1 January - 30 September 2011
14/2011	<i>Per capsulam</i> meeting to approve to continue the share buyback program
15/2011	Telephone meeting to approve an investment proposal

In addition, Gert Tiivas and Mia Jurke\*, in their capacity as Board member of East Capital Explorer Investments AB, participated at nine and four meetings respectively for East Capital Explorer Investments AB (all of which were *per capsulam* meetings) during 2011.

#### Evaluation of the Board

During 2011, the work of the Board was not formally evaluated by an external consultant as was the case in 2008. However, an independent member of the Nomination Committee conducted an evaluation of the Board 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 2012. In 2009 and 2010, the Board was internally evaluated of its work to assist the work of the Nomination Committee.

\*Mia Jurke replaced Gert Tiivas as Board member of East Capital Explorer Investments AB on 20 October 2011

## Audit Committee

The Audit Committee is appointed 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 AB 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, Lars Emilson and Alexander V. Ikonnikov.

The Audit Committee may invite, as it sees fit, representatives from the Company, East Capital Explorer Investments AB 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, Mia Jurke, former CEO, Gert Tiivas, CFO, Mathias Pedersen and General Counsel, Stefano Grace also participated in the Audit Committee meetings during 2011 to report on their respective areas.

### Audit Committee meetings and main discussions

During 2011, a total of five Audit Committee meetings were held. Topics of the main discussions held during the meetings were:

Meeting	Main discussion
1/2011	Discussion regarding the Year-end report 2010 and policy review
2/2011	Discussion regarding the Annual Report 2010
3/2011	Discussion regarding the Interim Report 1 January - 31 March 2011
4/2011	Discussion regarding the Interim Report 1 January - 30 June 2011
5/2011	Discussion regarding the Interim Report 1 January - 30 September 2011

## Directors' fees and executive remuneration

On 12 April 2011, the Annual General Meeting resolved to increase the Directors' fees in the Company and that the Chairman of the Board will receive an annual compensation of SEK 770,000 for the period until the 2012 AGM. Each member of the Board, other than the Chairman, will receive an annual compensation of SEK 330,000 for the same period. Board members Justas Pipinis and Karine Hirn waived their Directors' fees.

Remuneration for work in the Audit Committee was also increased and totaled SEK 100,000 for the Chairman of the Audit Committee, and SEK 50,000 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 to a Remuneration Committee are, instead, performed by the Board as a whole.

## CEO

The CEO, Mia Jurke\*, 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 CEO has no significant assignments outside the Company. For more information about the CEO, see page 53.

### 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 2011, a variable salary for 2010 amounting to 43% of the fixed salary was paid to the CEO and CFO out of a maximum variable salary corresponding to 50% of the fixed salary. During 2012 the Board has decided to grant the CFO a variable salary for 2011 corresponding to 17.5% of his fixed salary, out of a maximum variable salary corresponding to 50% of the fixed salary. Mia Jurke, the new CEO, was not participating in the KPI evaluation for 2011, but the Board decided to grant her a variable salary of 30,000 SEK. Gert Tiivas, the former CEO, was not granted any variable salary for 2011.

\* Mia Jurke replaced Gert Tiivas as CEO on 15 October 2011

## The composition of the Board

Name	Position	Citizenship	Independent	Shareholdings	Elected	Board meeting attendance 2011	Audit Committee	Audit Committee attendance 2011
Paul Bergqvist	Chairman	Swedish	Yes	16,000 shares	2007	15/15	Yes	5/5
Anders Ek	Board member	Swedish	Yes	4,000 shares	2008	15/15	Yes	5/5
Lars Emilson	Board member	Swedish	Yes	8,500 shares	2007	15/15	Yes	5/5
Karine Hirn	Board member	French	No	611,542 shares	2010	14/15*	No	n/a
Alexander V. Ikonnikov	Board member	Russian	Yes	10,500 shares	2007	15/15	Yes	5/5
Justas Pipinis	Board member	Swedish	No	40,000 shares	2007	13/15*	No	n/a

\*Karine Hirn and Justas Pipinis did not participate in the board meeting held by phone on 6 December 2011 due to a potential conflict of interest

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 fixed salaries on the portion of the fixed salary exceeding 10 Swedish income base amounts. In addition, CEO Mia Jurke received a benefits package in 2011 of a limited scale. Compensation for these services is a deviation from the remuneration guidelines approved by the 2011 AGM, and were part of the employment package agreed with the CEO during her recruitment.

For detailed information on the remuneration to executive management, see Note 4 on page 81.

### 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 2011

The 2011 AGM was held on 12 April 2011 at Nalen in Stockholm. All documents from the 2011 AGM including notice, documents presented at the AGM and the full minutes from the meeting are available at [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

The 2011 AGM was attended by approximately 200 persons, including shareholders representing a total of 30% 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 2012

In accordance with a resolution by the 2011 AGM, the Nomination Committee for the 2012 AGM comprises five members; three members

appointed by each of the three largest shareholders in the Company who chose to participate in the Committee, East Capital Explorer's Chairman of the Board and a representative of the Investment Manager.

The 2012 Nomination Committee consisted of:

- Peter Elam Håkansson, East Capital (Chairman)
- Peter van Berlekom, Nordea Funds
- Arne Lööv, Fourth Swedish National Pension Fund
- 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 press releases and updates on the Company's website on 25 October 2011 and 1 February 2012.

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 2012 AGM are specified in the notice of the AGM and are also available on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

### Annual General Meeting 2012

The 2012 AGM will be held on 25 April 2012, at 3.00 p.m. at Konsert-huset in Stockholm. For more information please visit: [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

## Audit

### External auditors

At the 2011 AGM held on 12 April 2011, the registered auditing company KPMG AB was re-elected auditor of East Capital Explorer for a four-year term until the close of the 2015 AGM, with authorized auditor Carl Lindgren as auditor in charge for as long as the Swedish Companies Act allows.

### 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 2011, the audit fee amounted to EUR 31,000.

### 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 give 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:** Castellum AB, AB Traction, RusForest AB, and Brummer & Partners AB.

# Staff



East Capital Explorer's staff: Stefano Grace, Charlotte Åsberg, Mia Jurke, Mathias Pedersen and Kristina Karusuo

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## Mia Jurke

CEO since 2011. Born 1973.

### Education

Master of Science in Business Administration from the University of Uppsala.

### Work experience

2008-2011 CEO of East Capital Asset Management AB, 2006-2008 Product Manager for East Capital (Lux), 2005-2007 Head of Portfolio Administration at East Capital, 1998-2005 E. Öhman J: or Asset Management and E. Öhman J: or Funds AB (2000-2005 Responsible for the Administrative Departments).

### Shareholding in East Capital Explorer AB

1,000 shares.

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## Mathias Pedersen

CFO since 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.

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## Stefano Grace

General Counsel since 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.

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## Kristina Karusuo

Administrative Coordinator since 2010.

Born 1987.

### Education

Business administration studies at Stockholm University School of Business.

### Work experience

2007-2009 Intern Client Service and Administration, East Capital.

### Shareholding in East Capital Explorer AB

0 shares.

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## Charlotte Åsberg

Investor Relations Manager since 2011.

Born 1976.

### Education

Master of Science in Business and Economics from Mitthögskolan, Sundsvall/Stockholm University. Private Banking Executive Education, Handelshögskolan in Stockholm.

### Work experience

2010-2011, CEO for Asia Growth Investors AB (merged into East Capital Group in 2011), 2005-2008, Head of Private Sales, East Capital, 2005, Senior Account Manager, East Capital, 2004-2005, Product Specialist/Alternative Investments, SEB Asset Management, 2000-2004, Sales and Marketing Manager, SEB External Funds 1999-2000, Operations/Securities, SEB Asset Management.

### Shareholding in East Capital Explorer AB

300 shares.

# Board of directors



East Capital Explorer's Board of Directors: Justas Pipinis, Alexander V. Ikonnikov, Paul Bergqvist, Karine Hirn, Lars Emilson, Anders Ek

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## **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**

16,000 shares.

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## **Anders Ek**

*Board member since 2008*

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

Born 1948.

### **Education**

Bachelor's degree from Stockholm University.

### **Work experience**

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

### **Other board assignments**

Board member of Catella KAG, Hemfosa Fastigheter AB and CA Fastigheter AB.

### **Shareholding in East Capital Explorer AB**

4,000 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**

Non-executive director of Filtrona PLC and Luvata Oy.

**Shareholding in East Capital Explorer AB**

8,500 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 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. Also independent director and member of the audit committee in Sollers plc, Russia.

**Shareholding in East Capital Explorer AB**

10,500 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**

Masters of Science in Business from EM Lyon, France and a Post-graduate degree in Eastern European studies 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, East Capital Asia Ltd, East Capital Global Advisory Committee and French Foreign Trade Advisor in the network CCE.

**Shareholding in East Capital Explorer AB**

611,542 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, including Chairman of East Capital Asset Management AB. Board member of Melon Fashion Group.

**Shareholding in East Capital Explorer AB**

40,000 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 focused on designing our structure to be able to ensure our ability to do so. The 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 89.

## 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 or to withstand new crises.

### Managing these risks:

- Political risks vary between countries and sectors, and our access to the local presence, experience, know-how and to the network of our Investment Manager East Capital, that has been established during almost 15 years of operations, gives us the ability to integrate a well-grounded analysis of the political risks in the investment decisions.
- 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. Examples of such issues are 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 also regularly meets with politicians and macro economists to discuss the political situation and future trends. East Capital's advisory committees, also consisting of several highly experienced external advisors, are an additional source of knowledge.
- East Capital avoids association with any political groups 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

2008/2009 and 2011. 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, which may be amended by the Board, 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 stipulates 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 the avoidance of counterparties, projects and situations in which corruption and other inappropriate business practices are 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 suitable over time.

- The Investment Manager continuously reports on the latest developments in the investment region and follows up on the investments 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, private equity funds and real estate funds, effectively diversifying our portfolio across approximately 400 companies in our investment region on 31 December 2011, 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 model 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 and direct 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 and IT. 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 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 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.
- 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 investing at the same time on the same terms, 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 all materials and investment proposals for decision by East Capital Explorer Investments AB. Our CEO is also a member of the Board of East Capital Explorer Investments AB.

# A more sustainable investment approach

We believe that companies that successfully understand and manage the risks and opportunities related to the material and relevant environmental, social and governance issues of their sector will be better positioned to enhance the long term value of their business. During 2011 our Investment Manager took further steps to implement a number of tools in the investment process related to this perspective - commonly referred to as the ESG perspective.

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## Progress during 2011

In early 2011, our Investment Manager adopted a revised Ownership policy which integrates East Capital's Principles of Responsible Investment and Ownership policy into one policy document. The policy addresses how East Capital should act when exercising the ownership rights in the portfolio companies, including addressing risks and opportunities associated with different environmental, social and corporate governance factors. The policy is applicable to all funds managed by East Capital.

In April, East Capital's Chairman, Peter Elam Håkansson continued the tradition of sending an annual letter to all companies held by East Capital's funds. The theme of the 2011 letter was the importance of good corporate governance, transparency and strategically managing relevant sustainability themes in creating long term shareholder value.

During the year, East Capital also continued to further implement a number of ESG related tools in the investment management process. This work is coordinated by East Capital's Head of Corporate Governance, Louise Hedberg, who has a specialist role in the investment management team. The following ESG tools are currently applied to all public equity funds, private equity funds, real estate funds as well as special fund products managed by the East Capital Group. Upon request from the client, East Capital also has the capacity to apply these tools when managing segregated accounts.

**Exclusion criteria:** East Capital does not invest in any company that knowingly generates a material part of its revenue from producing or selling weapons, tobacco products or pornography. The investment management team conducts an annual review of all portfolios to confirm that they comply with these exclusion criteria.

**Norm-based screening:** East Capital conducts a norm-based screening on all portfolios on a semi-annual basis using external partners. The screening alerts East Capital of any holdings that are alleged to have breached the spirit of international conventions and norms on human rights, labour standards, environmental pollution, health & safety or bribery. The screening results may also be used as an input for any decision to initiate an engagement dialogue with the company.

**Voting and Engagement:** Exercising the voting rights associated with an investment is an important component of active ownership and one way to communicate views to the companies and their management. East Capital's general policy is to exercise voting rights if it is deemed to be in the best interest of the investors.

East Capital will also evaluate whether it is relevant and suitable to initiate an engagement dialogue with portfolio companies that, in East Capital's view, do not satisfactorily manage the ESG risks and opportunities relevant to their operations. There are several channels and

methods that East Capital may use when initiating and maintaining such dialogue, these include:

- Specific discussions with managements and boards during company visits and meetings
- Annual letter to all portfolio companies highlighting general issues of concern for the coming year
- Nomination or endorsement of independent board members
- Voting in shareholders' meetings
- Collaboration with other shareholders and investor initiatives or associations
- Dialogue with governments, stock exchanges and financial surveillance authorities to advocate improvements in the institutional framework

East Capital's experience has shown that an engaged dialogue usually has greater impact on a company - as opposed to simply exiting the investment - and will more often lead to convincing the company to initiate positive change. An exit may, however, be used as a last resort if a company does not respond in an adequate manner.

During 2011, East Capital was involved in several governance related engagements and one major environment related engagement.

**Integrate ESG factors in the investment process:** Our Investment Manager sees good corporate governance as well as a thought-through strategy that correctly addresses applicable environmental and social risks and opportunities as essential in maximizing long-term shareholder value. Hence, gaining further understanding of how - and to what extent - different ESG risks and opportunities may affect a company, and its value is seen as one important tool to continue to create long-term superior risk-adjusted investment returns in the funds. Going forward, East Capital's investment team will therefore increasingly seek further insight on relevant and material ESG factors from a global, regional and/or company perspective to ensure that the investment decisions rightly reflect all factors that may affect the risk/reward assessment. This process will also include actively requesting that portfolio companies provide transparent disclosure on relevant and material ESG risks and opportunities.

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## Guiding policy documents

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

The Responsible Investment Policy specifies our 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 factors.

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

Colourful buildings in Kyiv, the capital of Ukraine



# 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 2011 amounted to EUR 5.7m, of which EUR 7.7m was management fees and EUR -2.0m was performance fees. The negative performance fees stems from reversal of previously recognized fees in certain funds and direct investments whose performance during 2011 have declined.

## Fee structure for East Capital Explorer's investments

Investment	Subscription Fee	Annual Mgmt. Fee <sup>1</sup>	Base Amount <sup>3</sup>	Performance Fee <sup>4</sup>	Period <sup>5</sup>	High Water Mark <sup>6</sup>	Hurdle Rate	Catch-Up	Profit Share	Redemption Fees
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 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 (Lux) Eastern European Fund	0%	2.0%	NAV	0%	Daily					
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 Special Opportunities Fund II	0%	2.0%	NAV	20%	Monthly		7%	50/50		
Direct investments <sup>1,2</sup>	0%	2.0%	NAV	20%	Yearly		8%	0/100		
Bond mandate <sup>1</sup>	0%	1.0%	NAV	0%	Monthly					
Cash and cash equivalent	0%	0%		0%						
Committed capital	0%	0%		0%						

<sup>1</sup> The fees charged by East Capital for managing 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 into TEO 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 except for the bond mandate that use closing NAV

<sup>4</sup> The performance fees in both East Capital Special Opportunities funds are only based on realized investments within the funds. In the other funds they are based on NAV

<sup>5</sup> The Bering funds management fees are based on monthly NAV, while performances fee are based on quarterly NAV

<sup>6</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 superior returns (above hurdle).

**High Water Mark** = Previous highest quarterly 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 to 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.

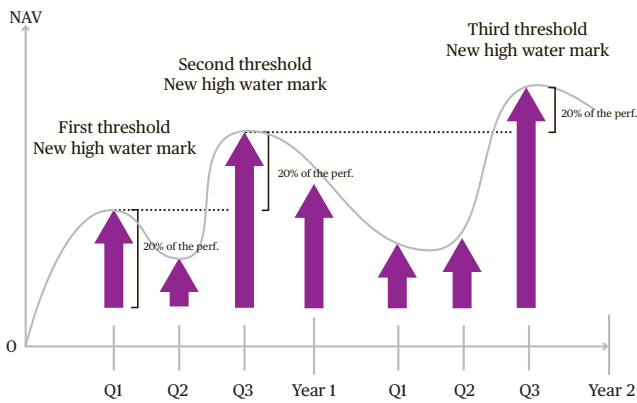
**Subscription fee** = Fee paid upon investment in a fund, amounting to a certain percent of invested capital. East Capital Explorer has waived all subscription fees.

Fees accrued to East Capital in 2011<sup>1</sup>

Fee for managing East Capital Explorer's investment portfolio	Management fees accrued 2011 (EUR thousands)	Performance fees accrued 2011 (EUR thousands)	Total fees accrued 2011 (EUR thousands)
<b>Investment</b>			
East Capital Bering Balkan Fund	1,373	334	1,707
East Capital Bering Central Asia Fund	473	44	517
East Capital Bering New Europe Fund	352	296	649
East Capital Bering Russia Fund	781	165	945
East Capital Bering Ukraine Fund Class A	148	-	148
East Capital Bering Ukraine Fund Class R	122	-	122
East Capital (Lux) Eastern European Fund	293	-	293
East Capital Power Utilities Fund	1,542	-	1,542
East Capital Special Opportunities Fund <sup>2</sup>	581	-1,768	-1,187
East Capital Special Opportunities Fund II <sup>2</sup>	639	-90	549
Direct investments <sup>2,3</sup>	1,098	-965	133
Bond mandate <sup>3</sup>	285	-	285
Cash and cash equivalent	-	-	-
Committed capital	-	-	-
<b>Total</b>	<b>7,686</b>	<b>-1,983</b>	<b>5,703</b>

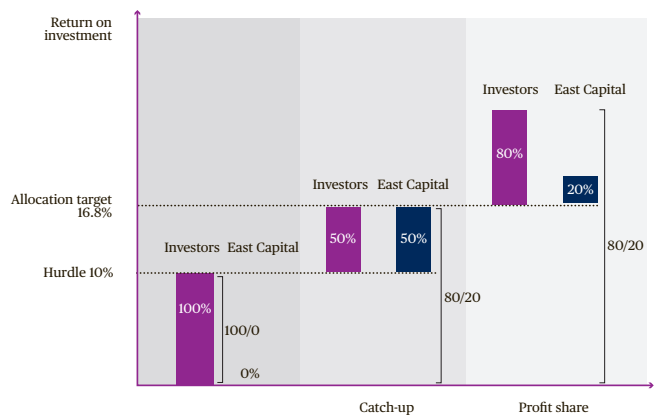
<sup>1</sup> These numbers differ from the fees reported as expenses in the Comprehensive Income Statement as they include fees generated in unconsolidated fund investments and exclude fees attributable to non-controlling interests in consolidated funds  
<sup>2</sup> The negative performance fee comes from reversal of fees recognized in previous reporting periods that no longer are accrued to the investment manager following negative performance during 2011  
<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% 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% 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% hurdle. After the hurdle, there is a catch-up in which investors and East Capital each receive 50% of the return on the investment until the allocation target of 80% of the return to investors and 20% of the return to East Capital, has been reached (in this case at a 16.8% return on investment). Thereafter, all excess returns are allocated 80% to investors and 20% to East Capital.

# Internal Control

This section describes the manner in which the internal control regarding the investment management and financial reporting is organized.

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. As investment management is outsourced to East Capital, the structure has been built also to ensure the best interest of our shareholders. The Board is responsible for the monitoring of the investment activities, and is ensured access to all relevant information through the Investment Management Agreement and relevant policies. 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.

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## Control environment

By control environment is meant the overall structure of the Company ensuring sound internal control as regards to investment activity and financial reporting. Reflecting the specific nature of the Company's operations, the Board's function in monitoring the investment activities carried out by East Capital Explorer Investment AB via East Capital PCV Management AB (the Investment Manager) is central.

The Investment Management Agreement regulates the activities of the Investment Manager and the rights and obligations of the Company in relation to investment management. The Investment Management Agreement also includes the Investment Policy which stipulates the limitations of the management of the portfolio.

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 reported to the company, and stipulate, among other things, that the company shall fulfill its obligations pursuant to applicable law, regulations and stock exchange regulations. The Board is ultimately responsible for the financial reporting.

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## Risk assessment

The Company's 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's management is responsible for designing a control system to prevent and identify these risks. The Company's management reports to the Board regarding any risks that are considered material.

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## 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 access all relevant material and investment proposals to East Capital Explorer Investments AB's Board meetings prior to decision, and to review the minutes of the Board meetings.

Furthermore, the Company regularly requests 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, Mia Jurke, serves as a Board member of East Capital Explorer Investments AB. The majority of the 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 investment management and financial reporting. Examples of control activities implemented in order to manage these risks are:

- Participation in the work of the Board of Directors of East Capital Explorer Investments AB.
- Ongoing review of documentation for decisions and formalities in conjunction with the investment activities.
- Right for the Company's management to participate in the valuation committee meetings at East Capital ensuring control of the valuation process.
- Ongoing review and valuation of internal methods and processes to ensure correct reporting of East Capital Explorer's indicative net asset value and portfolio.
- Ongoing discussions and contacts with key individuals within East Capital including the risk and compliance functions.

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## Information and communication

East Capital Explorer has produced governance documents aimed at ensuring the quality of the internal control regarding investment management and 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.

All material outsourcing agreements regulate that the outsourcing partner is obligated to comply with relevant policies as well as rules and regulations applicable to the Group. Staff are required to read and follow the policies of the Company. Staff and outsourcing partners are also regularly informed about changes in policies applicable to them.

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## Monitoring

The monitoring of the internal control of the investment management and financial reporting is executed by the Board, the Audit Committee, and the Company's management. Monitoring of the internal control is undertaken by the board, in particular in respect to the financial activities of the Company. The Audit Committee meets on a regular basis in order to manage and discuss accounting issues, forms of financial reporting, internal audit, the appropriateness of policies etc. The Company's management monitors, on an ongoing basis, 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 2011 was based on a risk analysis undertaken by the Company management within East Capital Explorer AB and representatives from Ernst & Young to which the internal audit function is outsourced. During the year, the internal audit function has audited a number of areas identified by the risk analysis. The audit plan for 2011 included a more extensive review of the investment decision process, including roles and responsibilities within the process. The results of these audit activities were reported to the Audit Committee.

Stockholm, March 2012

Board of Directors of East Capital Explorer AB (publ)

Translation of Swedish original

## **Auditor's report on the Corporate Governance report**

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 report for the year 2011 on pages 47-63 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

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

Stockholm, 28 March 2012

KPMG AB

Carl Lindgren  
Authorized Public Accountant