



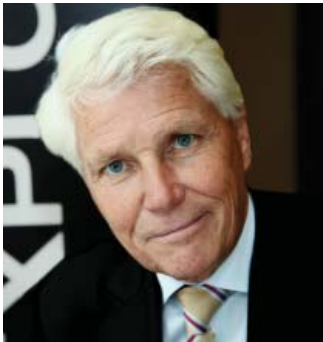
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## Corporate Governance

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# A word from our Chairman



Paul Bergqvist  
Chairman of the Board

In November 2012, East Capital Explorer had its 5<sup>th</sup> anniversary. The Company was founded to provide a broader investor base with the opportunity to get exposure to smaller and hard-to-reach companies geared towards domestic growth in the Eastern European region through a share listed on the Stockholm stock exchange. These five years have not turned out as we expected in 2007.

These years have been difficult for a strategy like East Capital Explorer's focusing on smaller companies in Eastern Europe. Despite this, we continue to believe that this strategy is valid and perhaps even more so than it was in 2007, considering the fact that the valuation levels are very attractive right now and, to a large part, have not yet recovered since the global financial crisis.

During the five years since the Company was established, the Board has focused mainly on two things; developing the processes for good corporate governance, and how to maximize shareholder value. Since 2007, we have come a long way when it comes to further developing the internal processes and controls. During 2012, we had an increased focus on risk control. We have also continued strengthening our monitoring of our service providers, of which our Investment Manager, East Capital, is the most important.

*"We have clear rules for the decisions which are to be made by the independent Board in order to ensure that all decision making is undertaken in the best interest of our shareholders."*

The Board also has an important responsibility in terms of handling conflicts of interest. Being close to our Investment Manager, East Capital is very beneficial for the Company but it also underlines the importance of a good governance structure. We have clear rules for the decisions which are to be made by the independent Board in order to ensure that all decision making is undertaken in the best interest of our shareholders. The monitoring and internal control is something which is performed by the Board, and also by Management, but we are also assisted in this work by both our external, as well as, internal auditors.

As for shareholder value, we decided to utilize the authorization for the repurchase of shares granted by the 2012 Annual General Meeting. We have since 2009 used this mandate every year in periods of

high discount to NAV, and so also in 2012. Even if this has been beneficial for our shareholders, we have not seen any long term effects of these share repurchases. In October 2012, we, therefore, decided it was time to try something new. The Board proposed to the shareholders a redemption program giving the possibility to redeem 1 out of 20 shares to the NAV, thereby, enabling our shareholders to realize the full value of a portion of their shares. This also shows the confidence we have in the Company's NAV. This was not only to be a one-off but a similar proposal will be made during three years if the share would continue to trade at a discount to NAV exceeding 10%. That means that until 2015, nearly 15% of the shares can be realized at full value. Those of us on the Board believe that this is a more transparent means of distributing cash to our shareholders, and at the same time, making it possible for our shareholders to receive a high yield, if they accept the offer. During this period, we do not intend to propose either dividends or further share buy-backs. We want to balance between distributions and new investments, which right now can be made at very attractive levels. And we prefer to focus on only one distribution strategy for better clarity and, hopefully, better effect. The first redemption program was finalized in January 2013, with a participation of 97%.

*"Sometimes people ask if the redemption programs are a way to start deconstructing the company. The answer is no."*

Sometimes people ask if the redemption programs are a way to start deconstructing the Company, considering that a considerable part of the capital can be distributed in forthcoming years. The answer is no, our confidence in our strategy's ability to, in time, realize the potential we see in this region and this segment of the market in which we invest, is intact. We are convinced that long term value will be created in our investments and not by the short term measures for enhancing shareholder value. And, furthermore, we have full trust in our Investment Manager's ability to help us increase the size of the Company in coming years, far beyond the scope of the amounts that will be distributed to our shareholders through the redemption programs. And it seems that there are investors that agree - during 2012 we have seen a change in the previous trend with a declining number of shareholders. We added during the year approximately 2,500 new shareholders, an increase of 35%, to whom I would like to extend my warmest of welcomes and to thank for their confidence in East Capital Explorer!

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 under the control of the Investment Manager are in compliance with the Investment Policy. The Board may decide to amend or deviate from the Investment Policy from time to time.

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

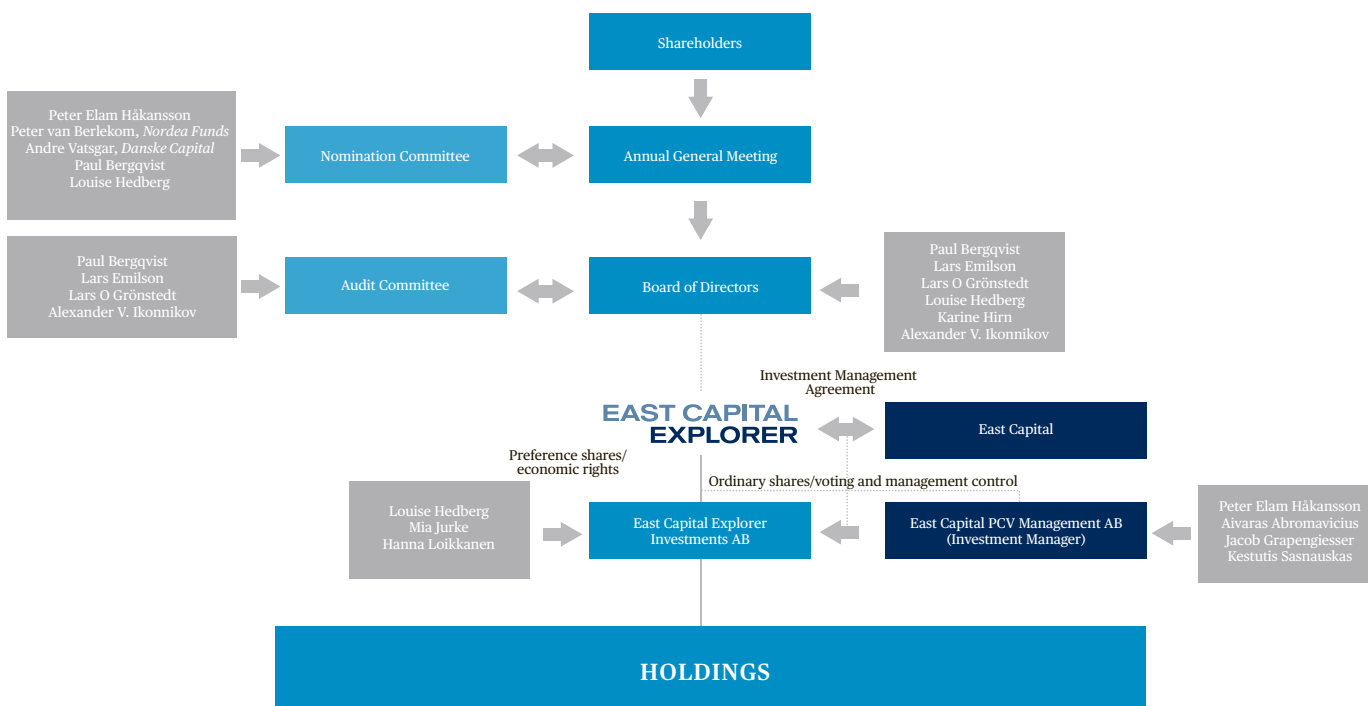
OMX Stockholm Rule Book including the Swedish Code of Corporate Governance, as well as other applicable Swedish and foreign laws and rules. The Company's internal framework includes the Articles of Association, the Investment Management Agreement with East Capital, the rules and procedures of the Corporate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

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 10-11 and "Board of Directors" sections of the Administration Report on page 57.

## 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 Board and the Investment Manager. Any investment which deviate from the Investment Policy require approval by the Board. 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 alternative investment 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 limited 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 was 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 Grapengisser 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.

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, Louise Hedberg, are members of the Board of East Capital Explorer Investments AB, together with Hanna Loikkanen, member of the Investment Management team at East Capital. Hanna Loikkanen replaced Pia Gisgård (fd Nilsson), Group Compliance Officer at East Capital, in March 2013.

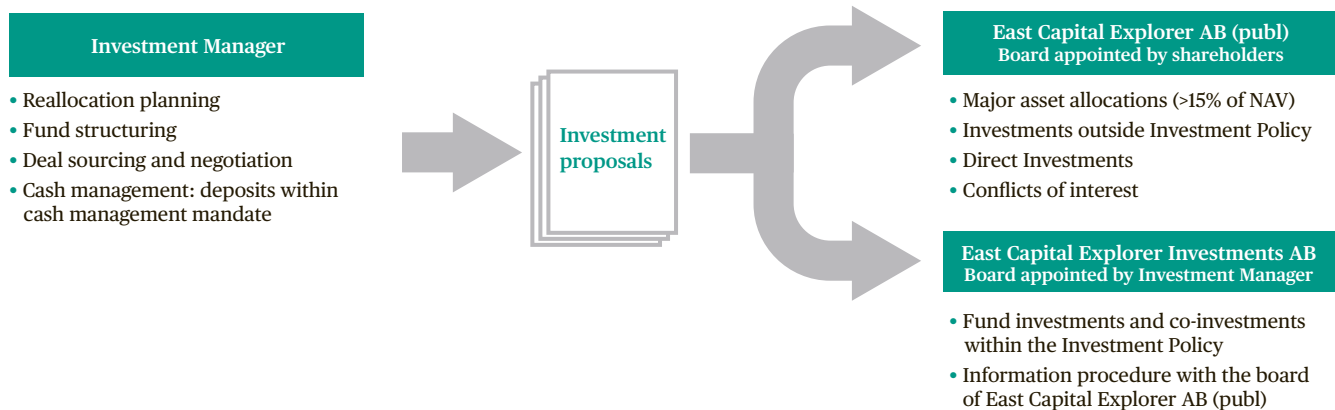
### Functions of the Board of the Company

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 existing investments, monitors management performance, and decides on management remuneration. Another function of the Board is to monitor the operations of the Investment Manager,

## Investment decision process



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 receive all material related to the investment proposals decided by the Board of East Capital Explorer Investments AB as well as the Board minutes. 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.

## Board of Directors

### Composition of the Board

According to the articles of association of the Company, the Board shall consist of three to six members without deputies. Further, the Investment Manager always has the right to appoint one Board member. Board members are elected by the Annual General Meeting for a one-year term. The 2012 Annual General Meeting re-elected Paul Bergqvist, Lars Emilson, Karine Hirn and Alexander V. Ikonnikov to the Board. Anders Ek and Justas Pipinis had declined re-election. Lars O Grönstedt and Louise Hedberg were elected as new members of the Board. The meeting re-elected Paul Bergqvist as Chairman of the Board.

### Independence of the Board

Under applicable regulations, Paul Bergqvist, Lars Emilson, Lars O Grönstedt 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.

Louise Hedberg and Karine Hirn 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 2012 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 Louise Hedberg and Karine Hirn are not regarded as independent from major shareholders of the Company. As of 31 December 2012, 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 46-47.

### 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 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, General Counsel, Stefano Grace and Investor Relations Manager, Charlotte Åsberg also participated in the Board meetings during 2012 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 2012, the Board participated in the East Capital Summit in St. Petersburg, Russia in April.

### Board meetings and main discussions

During 2012, a total of 14 Board meetings were held. The main discussions held during the meetings were:

Meeting	Main discussion
1/2012	Approval of the Year-end report 2011
2/2012	<i>Per capsulam</i> meeting to approve the notice and statements to be made in connection with the Annual General Meeting 2012
3/2012	Meeting to approve the Annual Report 2011
4/2012	Telephone meeting to approve an investment proposal and a divestment proposal
5/2012	Board meeting held in conjunction with Annual General Meeting
6/2012	Telephone meeting to approve a divestment proposal
7/2012	Approval of the Interim Report 1 January - 31 March 2012
8/2012	<i>Per capsulam</i> meeting to approve an investment proposal
9/2012	Approval of the Interim Report 1 January - 30 June 2012
10/2012	Strategy meeting to address the share discount, share buyback program and evaluation of a share redemption program
11/2012	Second strategy meeting to address the share discount, share buyback program and evaluation of a share redemption program
12/2012	<i>Per capsulam</i> meeting to approve the share redemption program strategy and proposal
13/2012	Meeting to approve EGM notice and statements in relation to the 2013 share redemption program
14/2012	Approval of the Interim Report 1 January - 30 September 2011

In addition, Mia Jurke, in her capacity as Board member of East Capital Explorer Investments AB, participated in 15 meetings respectively for East Capital Explorer Investments AB (all of which were *per capsulam* meetings) during 2012.

### Evaluation of the Board

During 2012, the work of the Board was not formally evaluated by an external consultant as was the case in 2008. However, two independent members 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 2013. In 2009, 2010 and 2011 the Board was internally evaluated of its work to assist the work of the Nomination Committee.

## 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), Lars Emilson, Lars O Grönstedt 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, CFO, Mathias Pedersen, General Counsel, Stefano Grace and Investor Relations Manager, Charlotte Åsberg also participated in the Audit Committee meetings during 2012 to report on their respective areas.

## Audit Committee meetings and main discussions

During 2012, a total of five Audit Committee meetings were held. Topics of the main discussions held during the meetings were:

Meeting	Main discussion
1/2012	Discussion regarding the Year-end report 2011, Internal Audit Report and Internal Audit Plan for 2012-2014
2/2012	Discussion regarding the Annual Report 2011 and policy review
3/2012	Discussion regarding the Interim Report 1 January - 31 March 2012
4/2012	Discussion regarding the Interim Report 1 January - 30 June 2012
5/2012	Discussion regarding the Interim Report 1 January - 30 September 2012

## Directors' fees and executive remuneration

On 25 April 2012, the Annual General Meeting resolved to leave the Directors' fees in the Company unchanged and that the Chairman of the Board will receive an annual compensation of SEK 770,000 for the period until the 2013 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 Louise Hedberg and Karine Hirn waived their Directors' fees.

Remuneration for work in the Audit Committee was also left unchanged and totalled 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 to be able to make valid decisions.

The CEO has no significant assignments outside the Company. For more information about the CEO, see page 45.

## 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 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 SEK 30,000. During 2013, a variable salary for 2012 amounting to 27.5% of the fixed salary was paid to the CEO and CFO, respectively, out of a maximum variable salary corresponding to 50% of the fixed salary.

## The composition of the Board

Name	Position	Citizenship	Independent	Shareholdings as of 28 March 2013	Elected	Board meeting attendance 2012	Audit Committee	Audit Committee attendance 2012
Paul Bergqvist	Chairman	Swedish	Yes	21,110 shares	2007	14/14	Yes	5/5
Lars Emilson	Board member	Swedish	Yes	9,215 shares	2007	13/14	Yes	5/5
Lars O Grönstedt	Board member	Swedish	Yes	200 shares	2012	9/10	Yes	2/3
Louise Hedberg	Board member	Swedish	No	2,565 shares	2012	10/10	No	n/a
Karine Hirn	Board member	French	No	70,232 shares	2010	14/14	No	n/a
Alexander V. Ikonnikov	Board member	Russian	Yes	15,200 shares	2007	14/14	Yes	5/5

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 receives a benefits package of a limited scale. This benefits package was 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. It was subsequently added to the remuneration guidelines approved by the 2012 AGM.

For detailed information on the remuneration to executive management, see Note 4 on page 71.

### 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. In connection with the AGM, all shareholders are invited to a seminar about our markets and investments. 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 2012

The 2012 AGM was held on 25 April 2012 at Konserthuset in Stockholm. All documents from the 2012 AGM including notice, docu-

ments presented at the AGM and the full minutes from the meeting are available at [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

The 2012 AGM was attended by approximately 200 persons, including shareholders representing a total of 33% 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 2013

In accordance with a resolution by the 2012 AGM, the Nomination Committee for the 2013 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 2013 Nomination Committee consisted of:

- Peter Elam Håkansson, East Capital (Chairman)
- Peter van Berlekom, Nordea Funds
- André Vatsgar, Danske Capital
- 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 15 October 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 2013 AGM are specified in the notice of the AGM and are also available on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

### Annual General Meeting 2013

The 2013 AGM will be held on 24 April 2013, at 3.15 p.m. at Konserthuset 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 audits and reviews. During financial year 2012, the audit fee amounted to EUR 168t.

### 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. Auditor in charge for East Capital Explorer since 2007.

**Other auditing assignments:** Castellum AB, AB Traction, RusForest AB, Brummer & Partners AB and Nordea Bank AB.

# Staff



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

## 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

2,500 shares as of 28 March 2013

## 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

2,375 shares as of 28 March 2013

## 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 as of 28 March 2013

## 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 as of 28 March 2013

## Charlotte Åsberg

Investor Relations Manager since 2011.

Born 1976.

### Education

Master of Science in Business and Economics from Mithögskolan, 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

1,000 shares as of 28 March 2013



# Board of directors



## **Paul Bergqvist**

*Chairman of the Board since 2007*

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

Born 1946.

### **Education**

Engineering and business studies at Linköping University.

### **Work experience**

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

### **Other board assignments**

Board member and chairman of Sveriges Bryggerier AB, HTC Sweden AB and AB Pieno Zvaigzdes. Board member of TrygVesta AS.

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

21,110 shares as of 28 March 2013



## **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**

9,215 shares as of 28 March 2013



## **Lars O Grönstedt**

*Board member since 2012*

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

Born 1954.

### **Education**

BA in languages and literature from Stockholm University and an MBA from Stockholm School of Economics.

### **Work experience**

Currently a senior advisor to Nord Stream, 2001-2006 CEO of Handelsbanken and its Chairman 2006-2008.

### **Other board assignments**

Chairman of the Nordic Museum and ATC Industries Group and member of the board of Vostok Nafta Investment Ltd, the Swedish National Debt Office, MDM Bank (Moscow), the IT company Pro4U and Skansen Foundation.

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

200 shares as of 28 March 2013



### **Louise Hedberg**

*Board member since 2012*

Dependent in relation to the Company and its Management. Dependent in relation to the Company's major shareholders.  
Born 1974.

#### **Education**

Master of science from the Stockholm School of Economics and has completed studies in Sustainable Development at the Stockholm University/Stockholm Resilience Centre.

#### **Work experience**

Since 2010 Head of Corporate Governance at East Capital, 2007-2010 Head of Communications/IR at East Capital Explorer, 2002-2007 Investor Relations manager at Dometic Group, 1998-2002 Financial communications consultant at JKL Group.

#### **Other board assignments**

Chairman of East Capital Explorer Investments AB

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

2,565 shares as of 28 March 2013



### **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**

Since 1997 Partner and co-founder of East Capital, Numerous positions in the East Capital Group, including 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 (Lux) General Partner S.à.r.l, East Capital Global Advisory Committee and French Foreign Trade Advisor in the network CCE.

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

70,232 shares as of 28 March 2013



### **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. Chartered Director by the IoD, UK.

#### **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 Settlement Depository (Central Securities Depository), Russia. Also independent director and member of the personnel and remuneration committee in Sollers Plc, Russia.

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

15,200 shares as of 28 March 2013

# 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 79.

## 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 more than 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 together with the Investment Manager, 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% 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% 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 these risks:

- 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 these risks:

- 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 300 companies in our investment region on 31 December 2012, 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 these risks:

- 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 these risks:

- Considering our close relationship with East Capital, we have paid specific attention to ensuring the best interests of our share-

holders. 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 unlike investments in East Capital other funds, 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.

# The environmental, social and governance perspective in our investments



**Louise Hedberg**  
Board member in East Capital Explorer and East Capital's Head of Corporate Governance

The sustainability related challenges in our region are significant. Since its founding in 1997, East Capital has actively advocated to its portfolio companies that improved corporate governance practices translate into increased shareholder value. Working on the ground and in dialogue with portfolio companies, the Investment Manager highlights the importance of implementing a well thought through strategy that ensures that the companies are effectively managed in all relevant aspects, including issues related to environment, social or governance factors.

## Activities during 2012

In April, East Capital's Chairman sent his annual letter to all companies included in the portfolios of East Capital's funds. This year, the letter emphasized the importance of active strategies to create shareholder value and upholding best practice corporate governance standards - not least in the form of minority shareholder rights and transparent reporting. In the letter, East Capital also urged companies to support the work of the Carbon Disclosure Project (CDP) by taking time to report their carbon emissions data to the CDP framework as this information is becoming increasingly important to the investor community.

During the 2012 AGM season, East Capital continued to actively work to nominate and elect independent directors to the boards of numerous Russian companies. East Capital strongly encourages companies to appoint a board that is well suited to effectively able to carry out its duties and which also has an appropriate ratio of independent directors. The election of independent directors is largely achieved through collaboration with other minority investors in Russia, coordinated by the Investor Protection Association (IPA), a governance association for minority investors in Russia. East Capital is a member of the association since 2002 and Aivaras Abromavicius, partner of East Capital, is vice chairman of the board since 2010. The 2012

season was marked with considerable increase in activity with the IPA members collectively nominating directors to a total of 84 Russian companies of which approximately 30 directors were successfully elected. 14 of the successfully elected directors are on boards of companies held by funds in East Capital Explorer's portfolio.

The IPA also plays an important role in advocating greater transparency and improved standards in conjunction with AGMs and EGMs. Executing the voting rights associated to a holding is still a highly manual process in Russia. A major hurdle is the fact that information and ballots related to shareholders' meetings are disclosed very late or not at all. Although numbers are improving every year, less than 20% of the issuers currently post shareholder meeting related materials on their website and even fewer publish this information on their English websites despite having a large international investor base.

The investment manager also filed shareholder resolutions to the general meetings of and/or voted in approximately ten companies outside Russia. The investment manager also participated in the work of three nomination committees. Moreover, East Capital also continuously initiates dialogues and engages with portfolio companies on specific governance topics such as effective capital structures and dividend policies, improving transparency and protecting minority rights in conjunction with corporate actions such as share capital increases.

In October 2012, East Capital became a signatory to the United Nations Principles for Responsible Investment (PRI), an investor initiative supported by more than 1,000 institutions around the world representing in excess of USD 30 trillion in assets under management. The PRI affiliation further underpins East Capital's belief that considering material and relevant ESG factors is an important component in creating long term attractive returns and provides a valuable framework and network of likeminded investors to integrate the ESG perspective in the investment process.

Signatory of:



### Guiding policy documents

East Capital Explorer has two documents that define and describe the ESG perspective in relation to our investments. Both policies, adopted by the Board in 2008, are revised annually and available online at: [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com)

- **The Principles of Responsible Investment** specifies our expectations on the Investment Manager to implement an investment process that includes both the financial outlook as well as an assessment of risks and opportunities related to relevant and material environmental, social and governance factors.
- **The Code of Conduct** governs the principles of conduct and guidance for the Company's Board Members and for its employees.



East Capital's investment team spends a great deal of time on the ground, visiting companies and meeting managements. Face-to-face involvement through company visits provides a good opportunity to see and discuss how relevant and material ESG issues impact the companies.



East Capital's ESG related work is coordinated by East Capital's Head of Corporate Governance 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.*

#### **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 service providers. 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 can 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. The Investment Manager will reach their voting decisions independently and will not delegate decision making to any third party, although they may take third party recommendations into consideration.

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. 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. 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 priorities and issues of concern for the coming year*
- *Nomination or endorsement of independent board members*
- *Voting in shareholders' meetings*
- *Collaboration with other shareholders, investor initiatives or associations*
- *Dialogue with governments, stock exchanges and financial surveillance authorities to advocate improvements in the institutional framework*

# 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 2012 amounted to EUR 10m, of which EUR 5.7m was management fees and EUR 4.3m was performance fees.

## Fee structure for East Capital Explorer's investments

Fee for managing East Capital Explorer's investment portfolio	Subscription fee	Annual mgmt. fee <sup>1</sup>	Base amount <sup>2</sup>	Performance fee <sup>3</sup>	Period <sup>4</sup>	High water mark <sup>5</sup>	Hurdle rate	Catch-up	Profit share	Redemption fee <sup>6</sup>
East Capital Baltic Property Fund II	0%	2.0%	Committed capital	20%	Qtr		10%	50/50		
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 Russia Domestic Growth Fund	0%	2.0%	NAV	20%	Monthly		7%			
East Capital Special Opportunities Fund	0%	2.0%	Committed capital	20%	Monthly		7%	50/50		
East Capital Special Opportunities Fund II	0%	2.0%	Committed capital	20%	Monthly		7%	50/50		
Direct investments <sup>1,7</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 AB higher.

<sup>2</sup> The management fee is calculated in % of committed capital or opening NAV for each period for all investments except for the bond mandate that use closing NAV as base for fee.

<sup>3</sup> In East Capital Special Opportunities Fund and East Capital Special Opportunities Fund II, the performance fee is based on the development of the individual holdings in the funds. To ensure that the total performance fee charged to the fund does not exceed 20% of the profits for the entire fund, there is a claw-back mechanism by which the Investment Manager is required to pay back any such amount to the fund's investors upon termination of the fund.

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

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

<sup>6</sup> The redemption fee is paid to the fund and not to the Investment Manager to compensate other fund investors for the costs associated exits in illiquid assets. The fee starts at 20% and is gradually reduced to zero over a four-year-period from the time of each investment into the fund.

<sup>7</sup> Separate agreements regarding the investment in TEO LT and the MFG Loan have been made, reducing the management fee to 1.0% per annum and waiving the performance fee.

## 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.

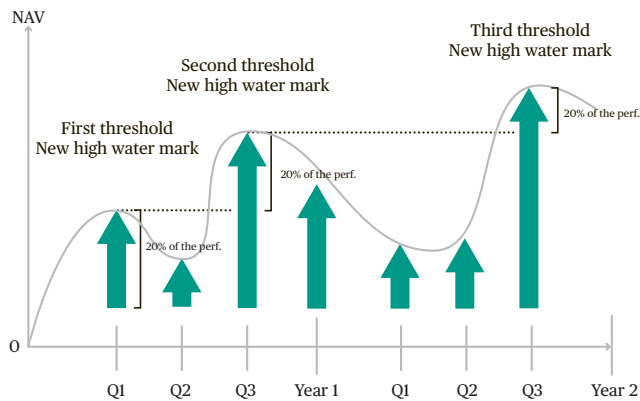
### Fees accrued to East Capital in 2012<sup>1</sup>

Fee for managing East Capital Explorer's investment portfolio (EUR thousands)	Management fees accrued	Performance fees accrued	Total fees accrued
East Capital Bering Russia Fund	606	-	606
East Capital Bering Ukraine Fund Class A	106	-	106
East Capital Bering Ukraine Fund Class R	113	-	113
East Capital Bering Balkan Fund	773	-	773
East Capital Bering Central Asia Fund	399	-	399
East Capital Bering New Europe Fund	267	-	267
East Capital Power Utilities Fund	612	-	612
East Capital Special Opportunities Fund	491	134	625
East Capital Special Opportunities Fund II	713	-	713
East Capital Baltic Property Fund II	124	-	124
East Capital (Lux) Eastern European Fund	164	-	164
East Capital Russia Domestic Growth Fund	95	1	96
Direct investments <sup>2</sup>	1,099	4,185	5,285
Bond mandate <sup>2</sup>	118	-	118
Cash and cash equivalent	-	-	-
Committed capital	-	-	-
<b>Total</b>	<b>5,681</b>	<b>4,320</b>	<b>10,001</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

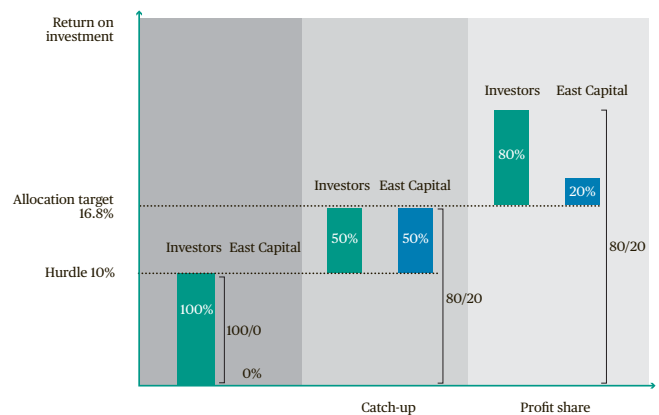
<sup>2</sup> Fees are stated including VAT

### Example fee structure when using High Water Mark



Performance fee with high water mark. A performance fee of 20% 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.

## Control environment

Control environment means 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 the 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 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 governing documents also defines the respective responsibilities to ensure an efficient handling of the operations in the Company. The Board is ultimately responsible for the financial reporting.

## 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, 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. Any risks that are considered material are reported to the Company's board.

## 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. 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 discussions and contacts with key individuals within East Capital including the members of the investment management team and the risk and compliance functions.

## 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, investment 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.

## 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. The specific areas for review are decided in a three year internal audit plan which is approved by the Board. Internal Audit's work for 2012 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. The audit plan for 2012 included a more extensive review of the outsourcing of supportive functions through the Service Agreement with East Capital, application of the fee clauses in the IMA and the adherence to governing documents. The results of these audit activities were reported to the Audit Committee as well as the Board.

Stockholm, March 2013  
Board of Directors of East Capital Explorer AB  
(publ)

Translation of Swedish original

## **Auditors' report of the Corporate Governance Statement**

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 2012 on pages 39-54 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 27, 2013

KPMG AB

(Signature on Swedish original)

Carl Lindgren  
Authorized Public Accountant