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# Comments from the Chairman



Paul Bergqvist  
Chairman of the Board

During 2013, East Capital Explorer's net asset value per share increased by 8.7 percent, while at the same time further distributions were made to our shareholders through our redemption program. This took place during a year in which the Eastern European markets showed a weak development. It is particularly pleasing to note that our investment manager succeeded in creating value in the company's long-term investments. This is an area which is prioritised by the Board and where East Capital Explorer sees attractive investment opportunities.

Since the launch of East Capital Explorer in 2007, the financial markets, not only in Eastern Europe but in the entire world, have been characterised by turbulence and periods of high risk aversion amongst investors. The premises for East Capital Explorer's strategy with focus on smaller companies in Eastern Europe have been, without a doubt, very difficult. During the year, we Board members have sought a more clearly defined portfolio focus and it is with pleasure that we can see that the portfolio has changed during the last twelve months. The Russian fashion retailer, Melon Fashion Group, and the shopping center, Gedimino 9 (GO9) in Vilnius, are two examples of consumer-driven investments which are unique and difficult to access for common investors, characteristics that have been the basis of East Capital Explorer's concept from the very beginning. The Board looks forward to more investments of this kind, and our investment manager East Capital sees attractive opportunities in these areas.

*"We are convinced that long-term shareholder value will be achieved through our portfolio and through East Capital's capacity to identify attractive investment opportunities in Eastern Europe"*

We are convinced that long-term shareholder value will be achieved through our portfolio and through East Capital's capacity to identify attractive investment opportunities in Eastern Europe. Against the background of the relatively high discount vis à vis the net asset value at which the East Capital Explorer's share is being traded, the Board proposed in December 2012 to institute a redemption program providing the possibility for shareholders to redeem 1 of 20 shares at net asset value and, thereby, realising the full value of a portion of their holdings. The Board has major confidence in the net asset value of the company and we believe that a redemption program is a more transparent means of distributing capital to our shareholders and of making

possible a high yield. Consequently, it is our intention to neither propose a dividend nor utilize our authorization to repurchase shares during the period in which the redemption program is in effect, which is up until 2015. In January 2013, the first redemption program was completed with a 97 percent participation. A total of 1.6 million shares were redeemed. The next redemption program will be the subject of approval by the Annual General Meeting to be held on 22 April 2014.

*"Corporate governance has been in focus since the company's inception, not the least due to the company's close relationship with East Capital"*

Corporate governance has been in focus since the company's inception, not the least due to the company's close relationship with East Capital. We are of the opinion that we have succeeded in establishing a good corporate governance basis with a focus on maximising shareholder value. The supervision work is handled by the Board and company management, but we are also advised by auditors. During 2013, the internal audit's special focus was on the control of the company's statutory compliance and on contingency planning as regards the daily operations and activities. It was concluded that with our current governance work and routines we can ensure that the operations function in a satisfactory manner.

*"After the end of the year, the Board has proposed the introduction of a new class of shares, preference shares, in order to create the financial possibilities for us to undertake further investments"*

After the end of the year, the Board proposed the introduction of a new class of shares, preference shares, in order to create the financial possibilities for us to undertake further investments. East Capital Explorer sees interesting possibilities in commercial real estate with a good yield in the Baltic countries and consumer-driven companies with an exposure to the growing middle class in, primarily, the Baltic countries and Russia. The preference shares, which were approved by the Extraordinary General Meeting on 24 March 2014, entitle preference over ordinary shares, with an annual dividend of SEK 100 per preference share, to be paid out quarterly at SEK 25 per share, and this, consequently, provides a stable yield. We are pleased that the Board's proposal was adopted and that East Capital Explorer will, in this manner, expand its portfolio with a number of unique investments, resulting in a clearer profile as regards the investment portfolio and also further increasing interest in East Capital Explorer.

Paul Bergqvist  
Chairman of the Board

# Corporate Governance

## Governance structure

For the East Capital Explorer Group, 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 AB (publ) (the Company) is a public limited liability company that indirectly and directly invests in Russia and other CIS-countries, the Balkans, the Baltic States, Central Asia and Central Eastern Europe. Indirect investments are made through a selection of the East Capital Groups's current and future funds.

The East Capital Explorer Group is closely associated with the East Capital Group. The governance structure - in which the East Capital Group has significant control over the investment activities of the East Capital Explorer Group - 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 East Capital Group. These important monitoring duties comprise both evaluating the East Capital's performance as well as ensuring that the investment activities under the control of the East Capital Group 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 East Capital Group 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 the East Capital Explorer Group 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 Gov-

ernance, 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 the East Capital Group, 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.

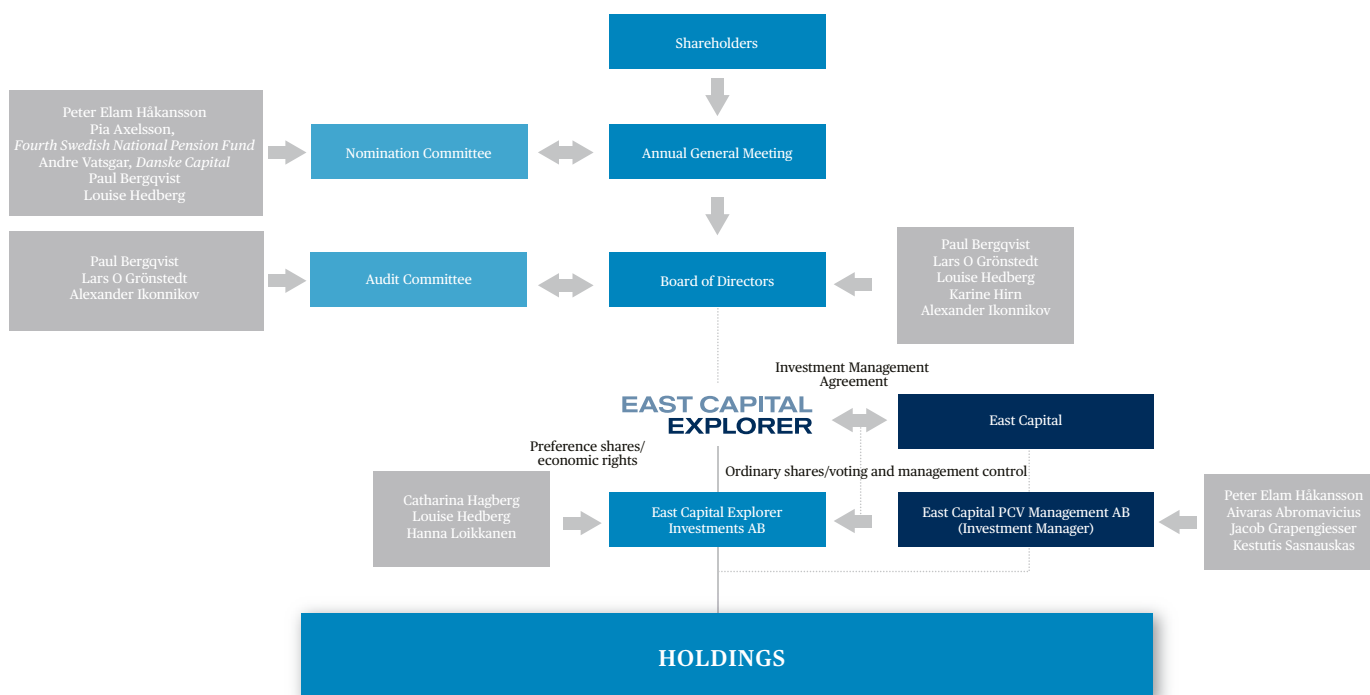
The Company complies with the Swedish Corporate Governance Board.

Further information on corporate governance is available on the Company's website, [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com). The separate corporate governance section 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 12-13 and "Board of Directors" sections of the Administration Report on page 59.

## Governance structure



## Investment Management Agreement

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

## Investment Policy

The Investment Policy stipulates the East Capital Explorer Group's key geographical segments and investment themes and the types of investments which may be undertaken by the East Capital Group without separate approval of the Board of East Capital Explorer AB. 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 East Capital Group. Any investment which deviates from the Investment Policy require approval by the Board. The key elements of our Investment Policy can be summarized in the following points:

### Countries

The East Capital Explorer Group may invest in Russia and the CIS countries, the Balkans, the Baltic States, Central Asia and Central Europe.

### Asset types

The East Capital Explorer Group invests primarily in the East Capital Group's existing and future alternative investment funds (with both listed and unlisted investments) and real estate funds, as well as the East Capital Group's future private equity funds (unlisted investments).

The East Capital Explorer Group also has the possibility to make direct investments in selected companies, as well as limited investments in East Capital Group'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.

## The East Capital Group and the investment structure

The day-to-day investment activities of the East Capital Explorer Group are managed by East Capital PCV Management AB (East Capital), 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 the East Capital Explorer Group, pending investments. In order to perform these duties, East Capital utilizes other functions and resources within the East Capital Group.

The Board of the East Capital PCV Management AB, consisting of East Capital partners Peter Elam Håkansson, Kestutis Sasnauskas, Jacob Grapengiesser and Aivaras Abromavicius, meets on a frequent basis in order to discuss the East Capital Explorer Group'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 East Capital Group. The Company holds all financial rights to East Capital Explorer Investments AB, while the East Capital Group controls the company. Currently, the Acting CEO of the Company, Catharina Hagberg and 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 the East Capital Group. Hanna Loikkanen replaced Pia Gisgård (fd Nilsson), Group Compliance Officer at the East Capital Group, in March 2013. Catharina Hagberg replaced the company's CEO Mia Jurke in May 2013 as Mia went on maternity leave.

## Functions of the Board of the Company

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

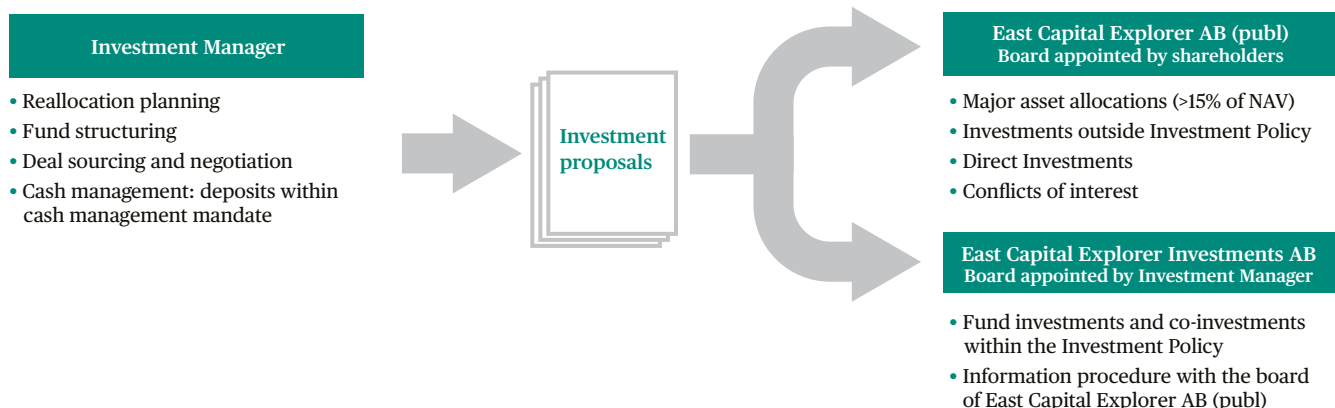
- Decisions on investments constituting more than 15 percent of NAV at the time of the investment;
- Direct investments (with no co-investment);
- Deviations to the Investment Policy; and
- Investments implying a conflict of interest between the East Capital Explorer Group and the East Capital Group.

The Board of East Capital Explorer AB 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, oversees management performance, and decides on management remuneration.

Another function of the Board is to monitor the operations of the East Capital Group, 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 independent Board members. The Board members also are invited to attend and 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

## Investment decision process



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 East Capital 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 percent 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 East Capital Group always has the right to appoint one Board member. Board members are elected by the Annual General Meeting for a one-year term. The 2013 Annual General Meeting re-elected Paul Bergqvist, Lars O Grönstedt, Louise Hedberg, Karine Hirn and Alexander Ikonnikov to the Board. Lars Emilson had declined re-election. The meeting re-elected Paul Bergqvist as Chairman of the Board.

### Independence of the Board

Under applicable regulations, Paul Bergqvist, Lars O Grönstedt and Alexander 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 the East Capital Group 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 2013 the East Capital Group, 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 2013, 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 page 46.

### 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 East Capital Group, Peter Elam Håkansson, the Company's CEO, Mia Jurke, Acting CEO, Catharina Hagberg, CFO, Mathias Pedersen, former General Counsel, Stefano Grace\* and former Investor Relations Manager, Charlotte Åsberg\*\* also participated in the Board meetings during 2013 to report on their respective areas. Other representatives from the East Capital Group 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 the East Capital Group organises in different parts of our investment region. Participation at these conferences provides the members of the Board with new insights into the investment region and an update on current financial and political events, and always includes company visits. In August 2013, the Board made a trip to Latvia, Lithuania and Estonia, where they met several portfolio companies and their Management. The annual strategy meeting was held in connection with the trip.

### Board meetings and main discussions

During 2013, a total of 15 Board meetings were held. The main discussions held during the meetings were:

Meeting	Main discussion
1/2013	Approval of the Year-end report 2012
2/2013	Meeting to discuss an investment proposal
3/2013	Telephone meeting to approve an investment proposal
4/2013	<i>Per capsulam</i> meeting to approve the notice and statements to be made in connection with the Annual General Meeting 2013
5/2013	Meeting to approve the Annual Report 2012
6/2013	Telephone meeting to approve an investment proposal
7/2013	Board meeting held in conjunction with Annual General Meeting
8/2013	Approval of the Interim Report 1 January - 31 March 2013
9/2013	Telephone meeting regarding the acquisition of Starman
10/2013	Strategy meeting in conjunction with company visits
11/2013	Second strategy meeting in conjunction with company visits
12/2013	Approval of the Interim Report 1 January - 30 June 2013
13/2013	<i>Per capsulam</i> meeting to appoint an external valuer
14/2013	Approval of the Interim Report 1 January - 30 September 2013
15/2013	Telephone meeting to approve an investment proposal

In addition, Mia Jurke and Catharina Hagberg\*\*, in their capacity as Board member of East Capital Explorer Investments AB, participated in seven and six meetings respectively for East Capital Explorer Investments AB (of which 12 were *per capsulam* meetings) during 2013.

\*Charlotte Åsberg left East Capital Explorer on 15 November 2013 and Stefano Grace left East Capital Explorer on 1 January 2014

\*\*Catharina Hagberg replaced the Company's CEO Mia Jurke in May 2013 as Mia went on maternity leave

## Evaluation of the Board

During 2013, 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 2014. In 2009-2013 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 East Capital. 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 O Grönstedt and Alexander Ikonnikov.

The Audit Committee may invite, as it sees fit, representatives from the Company, East Capital Explorer Investments AB or the East Capital Group as non-member attendees and may appoint appropriate legal counsel, audit expertise and independent valuation expertise for consultation in the performance of its duties. Anders Malmeby and Marten Asplund, auditors in charge, representing the Company's auditor KPMG, participate in all meetings where KPMG has performed a review of the report discussed at the meeting.

The Company's CEO, Mia Jurke, Acting CEO, Catharina Hagberg, CFO, Mathias Pedersen, former General Counsel, Stefano Grace and former Investor Relations Manager, Charlotte Åsberg also participated in the Audit Committee meetings during 2013 to report on their respective areas.

## Audit Committee meetings and main discussions

During 2013, a total of five Audit Committee meetings were held. Topics of the main discussions held during the meetings were:

Meeting	Main discussion
1/2013	Discussion regarding the Year-end report 2012 and Internal Audit Report
2/2013	Discussion regarding the Annual Report 2012 and policy review
3/2013	Discussion regarding the Interim Report 1 January - 31 March 2013
4/2013	Discussion regarding the Interim Report 1 January - 30 June 2013
5/2013	Discussion regarding the Interim Report 1 January - 30 September 2013

## Directors' fees and executive remuneration

On 24 April 2013, 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 2014 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. The Meeting resolved, in accordance with the proposal of the Nomination Committee, that the remuneration to a Director may, subject to a specific agreement with the company, be invoiced through a company or entity registered in the country where the Director is officially tax domiciled. In order for the company to enjoy cost neutrality, the invoiced remuneration shall be adjusted for social security charges and value added tax.

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 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 East Capital Group 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 2013 the Board has decided to grant both the CEO and CFO a variable salary for 2012 corresponding to 27.5 percent of their fixed salary, out of a maximum variable salary corresponding to 50 percent of the fixed salary.

During 2014, a variable salary for 2013 amounting to 22.75 percent of the fixed salary was paid to the CEO and CFO, respectively, out of a maximum variable salary corresponding to 50 percent of the fixed salary.

Catharina Hagberg, the Acting CEO, was not participating in the KPI evaluation for 2013, but the Board decided to grant her a variable salary of SEK 150,000.

The CEO and the CFO have individual premium-based pension plans, pursuant to which the Company pays premiums corresponding to 10 percent of their respective fixed salaries, up to 10 Swedish income base amounts and premiums corresponding to 20 percent 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 and the company pays pension contribution/premium during her maternity leave.

## The composition of the Board

Name	Position	Citizenship	Independent	Shareholdings as of 28 March 2014	Elected	Board meeting attendance 2013	Audit Committee	Audit Committee attendance 2013
Paul Bergqvist	Chairman	Swedish	Yes	21,526 shares	2007	14/15	Yes	4/5
Lars O Grönstedt	Board member	Swedish	Yes	190 shares	2012	15/15	Yes	4/5
Louise Hedberg	Board member	Swedish	No	300 shares	2012	14/15	No	n/a
Karine Hirn	Board member	French	No	70,232 shares	2010	15/15	No	n/a
Alexander Ikonnikov	Board member	Russian	Yes	20,000 shares	2007	15/15	Yes	5/5

For detailed information on the remuneration to executive management, see Note 5 on page 75.

### 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 2013

The 2013 AGM was held on 24 April 2013 at Konserthuset in Stockholm. All documents from the 2013 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 2013 AGM was attended by approximately 120 persons, including shareholders representing a total of 47 percent 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 2014

In accordance with a resolution by the 2013 AGM, the Nomination Committee for the 2014 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 East Capital Group. The 2014 Nomination Committee consisted of:

- Peter Elam Håkansson, the East Capital Group (Chairman)
- Pia Axlesson, The Fourth Swedish National Pension Fund
- André Vatsgar, Danske Capital
- Paul Bergqvist, as Chairman of the Board in East Capital Explorer
- Louise Hedberg, as representative for the East Capital Group

The composition of the Nomination Committee was published through press releases and updates on the Company's website on 14 October 2013.

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 2014 AGM are specified in the notice of the AGM and are also available on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

### Annual General Meeting 2014

The 2014 AGM will be held on 22 April 2014, at 3.00 p.m. at Nalen in Stockholm. For more information please visit: [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

## Audit

### External auditors

At the 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. At the AGM 2013 Carl Lindgren informed that he will leave KPMG and that he will therefore also leave the

assignment as head auditor of the company. The company's new auditors in charge are Anders Malmeby and Mårten Asplund.

### 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 2013, the audit fee amounted to EUR 48t.

### 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:

Anders Malmeby  
Born 1955

Authorized public accountant at KPMG AB. Chairman of the Board of KPMG AB.

Auditor in charge for East Capital Explorer since 2013.



**Other auditing assignments:** Boule Diagnostics, Concentric, Gamla Livförsäkringsaktiebolaget SEB Trygg Liv, Bankgirocentralen (BGC).

### Auditor in charge:

Mårten Asplund  
Born 1972

Authorized public accountant at KPMG AB.

Auditor in charge for East Capital Explorer since 2013.



**Other auditing assignments:** Trygg Hansa, East Capital, Länsförsäkringar Liv, Nordea Liv, Strukturinvest Fondkommission

# Staff



Mia Jurke



Catharina Hagberg



Mathias Pedersen



Lena Krauss



Kristina Karusuo

**Mia Jurke (on parental leave)**  
*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 2014

**Catharina Hagberg**  
*Acting CEO since 2013. Born 1957.*

#### Education

Bachelor degree in Accounting and Auditing orientation from Stockholm University.

#### Work experience

2012-2013 East Capital - CFO & Senior Advisor  
2009-2011 ICA Banken - CFO  
2006-2008 Nasdaq OMX - Head of Group Finance & Control  
2004-2005 Alfred Berg ABN Amro - CFO & Vice President  
2002-2004 Alfred Berg ABN Amro - Country Administrative Officer, CFO & Vice President  
1993-2001 Alfred Berg ABN Amro - Head of Finance

**Shareholding in East Capital Explorer AB**  
1,000 shares as of 28 March 2014

**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**  
3,625 shares as of 28 March 2014

**Lena Krauss**  
*Head of Investor Relations & Finance since 2014. Born 1976.*

#### Education

Master of Science in Economics and Finance from the Swedish School of Economics and Business Administration in Helsinki.

#### Work experience

2008-2013 Senior Vice President, Agency Manager and Senior Consultant at Diplomat Communications AB, Stockholm.  
2004-2007 Investor Relations Director at Tele 2 AB, Stockholm.  
2004 Partner at Shared Value Ltd, London.  
2000-2003 Equity Research Analyst at Alfred Berg ABN AMRO, Stockholm, London and Helsinki.

**Shareholding in East Capital Explorer AB**  
0 shares as of 28 March 2014

**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 2014



# Board of directors



Paul Bergqvist



Lars O Grönstedt



Louise Hedberg



Karine Hirn



Alexander Ikonnikov

## 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

21,526 shares as of 28 March 2014

## 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, ATC Industries Group and Vostok Nafta Investment Ltd, Vice Chairman of Skansen Foundation and the Swedish National Debt Office and board member of Pro4U.

### Shareholding in East Capital Explorer AB

190 shares as of 28 March 2014

## 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 and Board Member of East Capital (Lux) SCA, SICAV-SIF

### Shareholding in East Capital Explorer AB

300 shares as of 28 March 2014

## 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, Chief Representative of East Capital in China, currently Senior Advisor in Hong Kong, 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 2014

## Alexander 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

20,000 shares as of 28 March 2014

# 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. 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 23 on pages 88-91.

## 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 16 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 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 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 130 companies in our investment region on 31 December 2013, 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**  
East Capital's Head of  
Corporate Governance  
and Board member in East  
Capital Explorer

We believe that good corporate governance provides better value to shareholders. Well governed companies have more efficient and robust operations and as a result are better positioned to create long term shareholder value. We therefore believe that an integrated view of sustainability issues in our financial analyses will help us create the highest possible return on investment for our shareholders in the future.

In our investment region, the establishment and enforcement of environmental, social and governance (ESG) standards is still emerging. As an emerging markets investor, it is nevertheless in our best interest to, as early as possible, try to analyze and understand how environmental and social risks and opportunities will evolve in our region, and the potential impact they may have on our investments.

## Activities during 2013

### Utilizing shareholder rights

During the year, East Capital continued, where possible, to utilize its right to nominate independent candidates to boards and participate in nomination committee processes. East Capital firmly believes that boards should be well suited to effectively carry out its duties and have an appropriate ratio of independent directors. Thus nominations are a key tool in East Capital's active ownership. In Russia, shareholders holding at least 2 percent of the local shares are entitled to directly nominate directors to the Boards of Russian issuers. Once the nomination has been accepted by the company, the nominated directors are included on the voting ballot for the Annual General Meeting (AGM), and up for election through a cumulative voting system at the meeting. This cumulative voting system allows each shareholder to distribute his/her votes on one desired candidate or among several candidates as they see fit. If a company has a board comprising 6 directors, the 6 candidates with the largest total number of votes at the AGM are elected to the board until the next general meeting.

Where East Capital does not hold 2 percent of the shares on its own, nominations may be filed in collaboration with other minority investors. This work is coordinated by the Investor Protection Association (IPA), a governance association for minority investors in Russia where East Capital has been an active member since 2002. During the 2013

AGM season, IPA members collectively managed to nominate 44 directors to a total of 58 Russian companies and members managed to successfully elect directors in 29 of these. 16 of these companies are held by funds in East Capital Explorer's portfolio. The investment manager was also very active in the Balkan region this year and successfully managed to elect independent directors in several companies.

### Engagement and dialogue

Where possible, East Capital actively participates in discussions and initiatives to advocate improvements in the institutional framework of the markets in our investment region. For example, during 2013, East Capital was invited to participate with the international investor perspective in the OECD-Russia Corporate Governance Roundtable, an OECD initiative to support and comment on the first revision of the Russian Code of Corporate Governance since it was first published in 2002. The revised code is expected to be published during 2014.

Moreover, during the year, East Capital continued engaging with a number of portfolio companies and institutions on specific governance topics such as protecting minority rights in conjunction with corporate actions such as share capital increases and public takeover bids, effective capital structures and dividends or improving transparency.

In addition to the many company meetings dialogues and engagements carried out directly by East Capital's investment team, East Capital is also a member of an external engagement forum, joining forces with other investors to initiate a dialogue with the companies that are alerted to have confirmed violations of international conventions and norms in the norms based screening process that East Capital carries out twice per year. Depending on the company and the particular situation, East Capital can decide to either join the external engagement process together with other investors or initiate its own dialogue, or even try and influence using both channels. The ultimate aim is the same, to initiate and support positive change in the company.

### Rewarding best practice

Since 2004, East Capital awards portfolio companies in the categories Best Growth, Best IPO and Discovery of the Year in an annual celebration. In 2013 a new award for Best Corporate Governance was launched to recognize and celebrate companies that align their and their shareholders' interests through good corporate governance. The jury considers disclosure and transparency, equitable treatment of all shareholders, corporate structure and environmental and social understanding. The first ever recipient of the Best Corporate Governance Award was Russian electronics retailer M.video, a holding in the East Capital Russia Domestic Growth Fund.

### Guiding policy documents

East Capital Explorer has two documents that define and describe the ESG perspective in relation to our investments. Both documents were adopted by the Board in 2008 and are revised annually.

- **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.

The policies can be found on:  
[www.eastcapitalexplorer.com/en/about-east-capital-explorer/our-responsibility](http://www.eastcapitalexplorer.com/en/about-east-capital-explorer/our-responsibility)



In 2013, Russian electronics retailer M.Video was presented with the first East Capital Best Corporate Governance Award. M.Video was selected for its long track record of a stable dividend policy, transparent and open approach to communicating with external stakeholders and professional management team and board of directors, mainly comprising independent directors. Karine Hirn and Louise Hedberg, members of the board, presented the award to Christopher Parks, Financial Director of M.Video.

*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 and direct investments managed by the East Capital Group:*

**Exclusion criteria:** East Capital does not invest in any company knowingly producing weapons, tobacco products or pornography or known to generate a significant part of its turnover from sale of such products.

**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:** 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*
- *Participation in engagement forum together with other investors, coordinated and managed by external partner*
- *Nomination or endorsement of independent board members*
- *Voting in shareholders' meetings*
- *Member of externally managed engagement forum that initiates dialogue with all companies with confirmed violations in the semi-annual norms based screening process*
- *Dialogue with governments, stock exchanges and financial surveillance authorities to advocate improvements in the institutional framework*

*East Capital's collaboration with other shareholders, investor initiatives or associations:*

Signatory of:



Signatory of the United Nations PRI Principles Since 2012



Investor Protection Association (IPA), Moscow Since 2002



Transparency International, Sweden Since 2007



Carbon Disclosure Project Since 2014

# 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 2013 amounted to EUR 12.4m, of which EUR 6.2m were management fees and EUR 6.3m were performance fees.

## Fee structure for East Capital Explorer's investments

Fee for managing East Capital Explorer's investment portfolio	Annual mgmt. fee <sup>1</sup>	Base amount <sup>2</sup>	Performance fee <sup>3</sup>	High water mark <sup>4</sup>	Hurdle rate	Catch-up	Redemption fee <sup>5</sup>
East Capital Baltic Property Fund II	2.0%	Committed capital	20%		10%	50/50	
East Capital Bering Balkan Fund	2.0%	NAV	20%	Yes			Yes
East Capital Bering Central Asia Fund	2.0%	NAV	20%	Yes			Yes
East Capital Bering Russia Fund	2.0%	NAV	20%	Yes			Yes
East Capital Bering Ukraine Fund Class A	2.0%	NAV	20%	Yes			Yes
East Capital Bering Ukraine Fund Class R	2.0%	NAV	20%	Yes			Yes
East Capital Russia Domestic Growth Fund	2.0%	NAV	20%		7%		
East Capital Special Opportunities Fund	2.0%	Committed capital	20%		7%	50/50	
East Capital Special Opportunities Fund II	2.0%	Committed capital	20%		7%	50/50	
Direct investments <sup>1</sup>	2.0%	NAV	20%		8%	0/100	
Cash and cash equivalent	0%		0%				
Committed capital	0%		0%				

<sup>1</sup> The fees charged by East Capital for managing the direct investments 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 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> High Water Marks are set individually for each installment into the funds.

<sup>5</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.

## 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.

## Fees to East Capital in 2013<sup>1</sup>

Fee for managing East Capital Explorer's investment portfolio (EUR thousands)	Management fees 2013	Performance fees 2013	Total fees 2013
East Capital Bering Russia Fund	570	-	570
East Capital Bering Ukraine Fund Class A	79	-	79
East Capital Bering Ukraine Fund Class R	92	-	92
East Capital Bering Balkan Fund	818	-	818
East Capital Bering Central Asia Fund	452	-	452
East Capital Bering New Europe Fund	139	-	139
East Capital Power Utilities Fund	91	-	91
East Capital Special Opportunities Fund <sup>3</sup>	466	-638	-172
East Capital Special Opportunities Fund II	584	0	584
East Capital Russian Domestic Fund	701	1	702
East Capital Baltic Property Fund II	323	-	323
East Capital (Lux) Eastern European Fund	-6	-	-6
Direct investments <sup>2</sup>	1,875	6,888 <sup>4</sup>	8,763
<b>Total</b>	<b>6,184</b>	<b>6,251</b>	<b>12,435</b>

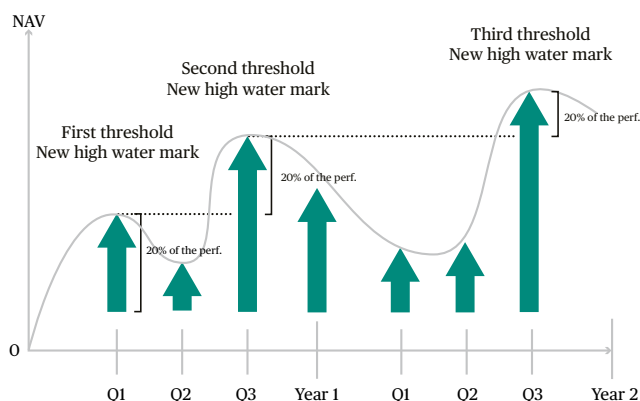
<sup>1</sup> These numbers differ from fees reported as expenses in the Comprehensive Income Statement as they include fees generated in unconsolidated fund investments and exclude fees attributable to non-controlling interests in consolidated funds.

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

<sup>3</sup> Negative performance fee due to reversal of earlier provisions.

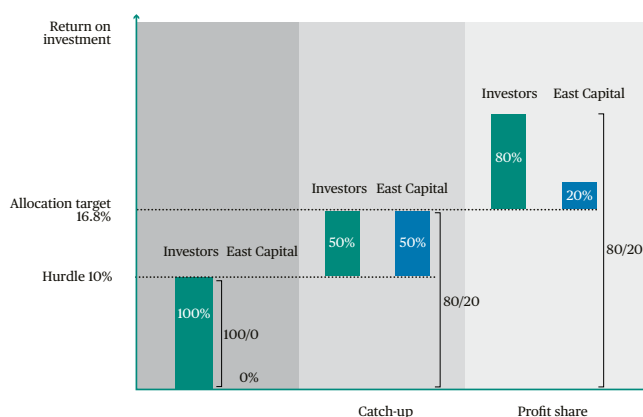
<sup>4</sup> Part of the amount will be paid out in 2016 if the value persist, while the rest is not to be paid until a later stage depending on the value development of the underlying direct investment.

### Example fee structure when using High Water Mark



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

### Example performance fee structure



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

# 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, Acting CEO Catharina Hagberg, 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 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 2013 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 2013 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 2014

Board of Directors of East Capital Explorer AB (publ)



# Auditor's report

To the annual meeting of the shareholders of East Capital Explorer AB (publ), corp. id. 556693-7404

## Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of East Capital Explorer AB (publ) for the year 2013, except for the corporate governance statement on pages 39 - 53. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 57 - 97.

### *Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 39 - 53. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company

and the statement of profit or loss and other comprehensive income and statement of financial position for the group.

## Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of East Capital Explorer AB (publ) for the year 2013. We have also conducted a statutory examination of the corporate governance statement.

### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act, and that the corporate governance statement on pages 39 - 53 has been prepared in accordance with the Annual Accounts Act.

### *Auditor's responsibility*

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained as above is sufficient and appropriate to provide a basis for our opinions.

Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have sufficient basis for our opinions. This means that our statutory examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted audit standards in Sweden.

### *Opinions*

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts and consolidated accounts.

Stockholm 28 March 2014

KPMG AB

Anders Malmeby  
Authorized Public Accountant

Mårten Asplund  
Authorized Public Accountant