

# East Capital Explorer

## *Annual Report 2013*



# This is East Capital Explorer

*East Capital Explorer is a Swedish investment company listed on NASDAQ OMX Stockholm, founded in 2007 with the specific aim of bringing unique investment opportunities in Eastern Europe to a broader investor base.*

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## Our business concept

East Capital Explorer's business concept is to maximize risk-adjusted shareholder return by offering our shareholders a liquid exposure to a unique investment portfolio of unlisted and listed companies in Eastern Europe. Value is added through active ownership made possible by our investment manager East Capital's local presence, extensive network and long experience in the Eastern European markets.

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## Our strategy

Our strategy is to invest in sectors and companies that have the most to gain from the long-term trends in our investment universe, such as EU convergence and the catch-up process. Strong domestic demand is a key driver for growth in Eastern Europe and this is our main investment theme. We target fast growing sectors such as retail, consumer goods, financials and real estate.

The investment portfolio is actively managed to optimize the long-term value for our shareholders. All investments are considered carefully from a risk-reward perspective. Risks are managed on the basis of a number of methods and tools, among others, through emphasis on corporate governance, including material and relevant environmental and social factors. Active ownership also involves board representation and close relations with the companies in which we invest. Long-term capital allows us to invest throughout the economic cycle.

Do you want to know more about ...

... our portfolio, see page 21.

... the risks, see page 47.

... the environmental, social and governance perspective in our investments, see page 49.

# Our key investment theme

## Domestic growth

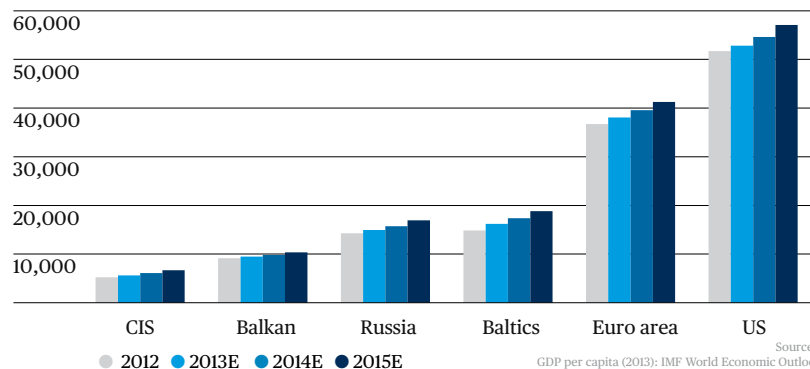
*Russia is our biggest market, representing 49 percent of our investment portfolio. Despite the prevailing uncertainty about inflation and economic growth for the current year, the domestic sectors of the Russian economy are expected to grow faster than the economy as a whole, supported by a number of macro-economic trends.*

- Consumption, which has grown faster than the overall economy in Russia, is the main growth driver
- The middle class is growing rapidly and has a strong purchasing power due to low expenses and leverage, increasing wages and flat income taxes
- Russian domestic companies are growing faster than export oriented companies and the trend is expected to continue
- The unemployment rate is at record low and decreasing



### GDP per capita (USD)

The development that has occurred in the Eastern European EU-member countries is likely to continue in the countries which have not progressed as far in the convergence process.



*High catch-up potential among under-penetrated sectors in Eastern European countries*



# Benefitting from domestic growth

## Target sectors



### Portfolio company: Aeroflot

One of our top 10 holdings, leading Russian airline Aeroflot, has one of the youngest aircraft fleets in Europe. Following strong operational performance and strategic repositioning, Aeroflot's share price rose by 70 percent in 2013.

### Retail and consumer goods

Rising wages and standard of living combined with growing disposable income and greater access to credit markets continue to positively influence the retail and consumer goods sectors in our investment region.



### Portfolio company: Melon Fashion Group

MFG is one of the largest and fastest growing Russian fashion houses. Since our initial investment in 2008, the number of stores has gone from 192 to 586 across 90 Russian cities, fuelled by a rapidly increasing middle class and growing consumption. In 2013 alone, the total selling space increased by 40 percent.

### Real estate

The Baltic real estate markets have stabilized and provides investment opportunities in properties with strong cash flow and sustainable rental terms.



**Portfolio company: Tānassilma Logistics**  
Tānassilma Logistics, one of three holdings in East Capital Baltic Property Fund II, is a 40,000 square meter state of the art logistics center in Estonian capital Tallinn. Thanks to stable rent income in combination with low interest levels, the property has generated strong cash flow and return.

### Financials

The rising consumer income and demand as well as growing confidence in retail banking services create potential within the financial sector, which still has low penetration levels within our markets.



**Portfolio company: Zavarovalnica Triglav**  
Zavarovalnica Triglav, the largest insurance company in the Balkans and one of our top 10 holdings, gained 25 percent in 2013 thanks to solid results and growing earnings. East Capital is the second largest shareholder after the Slovenian government, and has as such taken an active ownership role. In 2013, we nominated an independent board member, among other things.



### Portfolio company: Starman

We have a 51 percent holding in Starman, Estonia's leading cable TV and broadband operator that offers speeds of up to 200 Mbit/s. Given Estonia's rising disposable income levels and Starman's strong product offering, we have a positive outlook for the company, that grew sales by 8 percent with strong profitability in 2013.

# East Capital Explorer offers access to...

## ... an economically dynamic region

*Economic integration with Western Europe and strong domestic demand are key drivers for growth. Eastern Europe is expected to grow more than three times faster than Western Europe over the next five years, with a third of the debt levels*

## ... attractive sectors

*We concentrate on sectors benefitting from strong domestic demand assessed to provide the best long-term growth prospects, such as retail, consumer goods, financials and real estate*

## ... a unique and well-diversified portfolio

*East Capital Explorer primarily provides exposure to small and medium-sized Eastern European companies with high growth potential, which otherwise are not easily accessible for investors. At the end of 2013, the portfolio included more than 130 companies across 16 countries*

## ... an experienced investment manager

*Our investments are managed by East Capital, which has more than a 16-year track-record, and is one of the largest investors in the region with local presence and an extensive network in these countries*



**130** companies...

in **16** countries...

with **340** million people



### Portfolio 31 December 2013

#### Direct investments, %

● Melon Fashion Group	22.7
● Starman	8.1
● Trev-2 Group	3.2
● Komercijalna Banka Skopje	2.1

#### Fund investments, %

● East Capital Russia Domestic Growth Fund	13.6
● East Capital Bering Balkan Fund	13.2
● East Capital Bering Russia Fund	7.4
● East Capital Bering Central Asia Fund	7.4
● East Capital Baltic Property Fund II	6.7
● East Capital Special Opportunities Fund II	5.7
● East Capital Special Opportunities Fund	4.9
● East Capital Bering Ukraine Fund A	1.1
● East Capital Bering Ukraine Fund R	0.8
● Other assets and liabilities, incl. cash	3.1

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## Our Portfolio

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## Highlights 2013

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# Main events during the year

## Q1

- 1,600,286 shares were tendered for redemption during the share redemption program in January 2013, corresponding to an acceptance level of approximately 97 percent. Consequently, SEK 123.2m (corresponding to EUR 14.3m) was paid out on 30 January to shareholders who participated in the redemption program
- Additional investments of EUR 25m were made into East Capital Russia Domestic Growth Fund
- Due to changed IFRS control requirements, East Capital Explorer was no longer required to consolidate fund investments in which the Company previously regarded as having controlling influence over. Starting from 2013, all fund holdings are instead reported at fair value in the financial statement

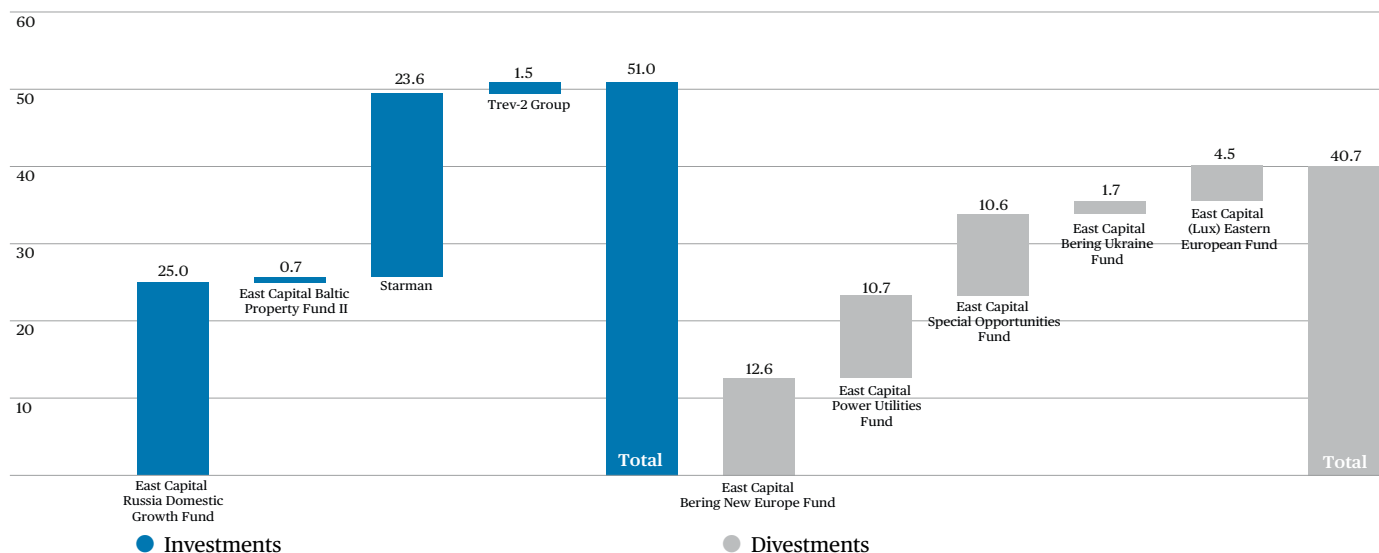


With 143 million people, Russia is the ninth largest consumer market.

## Q2

- East Capital Explorer acquired a majority stake of 51 percent in Starman, the leading cable TV and broadband internet provider in Estonia. The transaction was completed on 30 May at a transaction price of EUR 23.6m. Starman is managed as a subsidiary of East Capital Explorer and is consolidated into the Group as of 30 May 2013
- Payouts of EUR 9.4m were received from East Capital Power Utilities Fund, EUR 3.1m from East Capital Special Opportunities Fund and EUR 5.8m from East Capital Bering New Europe Fund
- Dividends of EUR 0.4m and EUR 1.2m were received from Komercijalna Banka Skopje and Melon Fashion Group, respectively
- The remaining holding of EUR 4.5m in East Capital (LUX) Eastern European Fund was divested
- A drawdown of EUR 0.7m was made for previously committed capital to East Capital Baltic Property Fund II for the acquisition of a retail property in Latvia
- The Board of Directors appointed Catharina Hagberg as acting CEO during Mia Jurke's maternity leave

## Portfolio activity during 2013 (EURm)



Q3

- An additional dividend of EUR 1.1m was received from Melon Fashion Group
- An additional payout of EUR 6.1m was received from East Capital Bering New Europe Fund



Q4

- An external valuation of Russian fashion retailer Melon Fashion Group (MFG) in December resulted in a fair value increase of 59 percent, excluding dividend received during the period. The positive net contribution to East Capital Explorer's total net asset value was 7 percent per share. After the revaluation, the total value of East Capital Explorer's holding in MFG was EUR 70m, an increase of EUR 26m
- An additional 6 percent of the shares in Trev-2 Group were acquired from East

Capital Funds for EUR 1.5m, after which East Capital Explorer owns 40 percent of Trev-2 Group. The acquisition price per share was 12 percent higher than book value, which was supported by an independent external valuation. After the acquisition and revaluation, the Trev-2 holding was valued at EUR 9.8m

- The remaining holdings in East Capital Power Utilities Fund and East Capital Bering New Europe Fund were divested according to plan

- Payments of EUR 11.1m in total were received during the quarter; EUR 1.2m from East Capital Power Utilities Fund, EUR 0.8m from East Capital Bering New Europe Fund, EUR 7.4m from East Capital Special Opportunities Fund and EUR 1.7m from East Capital Bering Ukraine Fund R
- A third tranche of dividend amounting to EUR 1.6m was received from Melon Fashion Group. Total dividend from MFG during 2013 amounted to EUR 3.9m



The Kazakh telecom operator KCell is the largest holding in the East Capital Bering Central Asia Fund. The KCell share rose by 48 percent, contributing 8 percent performance to the Fund at the end of 2013.



Trev-2 Group is one of the largest infrastructure construction and maintenance companies in Estonia. East Capital Explorer holds 40 percent of the company.



Serbian confectionary producer Bambi, representing a total of 18.5 percent of the East Capital Special Opportunities Fund II's portfolio, showed very strong performance in 2013.

## Main events after year-end

- An Extraordinary General Meeting on March 24 resolved to introduce a new class of shares, preference shares, and to authorize the Board to resolve to issue no more than 1,000,000 preference shares, with the purpose of seizing attractive investment opportunities that the company sees mainly within the Baltic real estate and the Baltic and Russian private equity markets
- East Capital Explorer will be covered by the new EU directive for alternative investment funds (AIFMD), currently implemented across the EU. Management of East Capital Explorer anticipates that the changes will be managed in a cost effective way by transferring its subsidiary East Capital Investments AB from Sweden to Luxemburg and thereby utilising the existing organisation and resources available to East Capital
- The Russian ruble declined during the first few months of the year, due to increased instability in Russia and Ukraine. As Russia represents 49 percent of East Capital Explorer's geographic exposure, currency fluctuations have an effect on the portfolio's performance



In May East Capital Baltic Property Fund II completed its third investment, a newly constructed big box retail property in Riga, which is fully let to the Finnish retail chain Prisma, part of the SOK Group. The property is a strong cash flow generating investment.

# The portfolio in brief

The ten largest holdings' share of the total portfolio increased from 38 to 54 percent during 2013, as a result of our work of concentrating the portfolio and increasing the portion of direct investments. In addition to benefitting from interesting investment opportunities, we wish, through an increased focus, to clarify our portfolio's profile and enhance the transparency of the company.

## The ten largest holdings in East Capital Explorer's portfolio on a see-through basis (total of direct and indirect holdings)<sup>1</sup>

On 31 December 2013						
Company	Value in portfolio, EURm	% of NAV	Perf. 2013, % <sup>2</sup>	Country	Sector	East Capital Explorer's investment vehicle
Melon Fashion Group	70.5	22.7	68.4	Russia	Consumer Discretionary	Direct Investment
Starman	25.0	8.1	6.1	Estonia	Consumer Discretionary	Direct Investment
Fondul Proprietatea	17.4	5.6	58.7	Romania	Financials	East Capital Bering Balkan Fund East Capital Special Opportunities Fund
Trev-2 Group	9.8	3.2	10.1	Estonia	Industrials	Direct Investment
Gedimino 9 (GO9)	8.5	2.8	4.6	Lithuania	Real Estate	East Capital Baltic Property Fund II
Komercijalna Banka Skopje	8.1	2.6	-19.7	Macedonia	Financials	Direct Investment East Capital Bering Balkan Fund
Tänassilma Logistics	7.6	2.4	25.9	Estonia	Real Estate	East Capital Baltic Property Fund II
Aeroflot Russian Airlines	7.2	2.3	70.4	Russia	Industrials	East Capital Russia Domestic Growth Fund
Zavarovalnica Triglav	6.1	2.0	25.4	Slovenia	Financials	East Capital Bering Balkan Fund East Capital Special Opportunities Fund II
Sberbank	6.1	2.0	-1.3	Russia	Financials	East Capital Russia Domestic Growth Fund
<b>Total</b>	<b>166.4</b>	<b>53.6</b>				

<sup>1</sup> As if East Capital Explorer had owned its pro-rata share of all the underlying securities in the different funds it has invested in

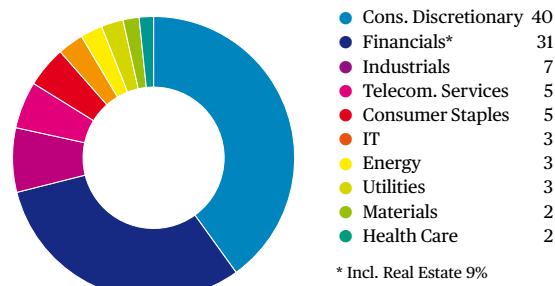
<sup>2</sup> Adjusted for invested and received amounts over the course of the period; that is, it represents the change, in percent, between the opening value plus investments during the period, and the closing value plus funds received during the period

## Our ten largest holdings in brief

- **Melon Fashion Group (MFG)** is one of the fastest-growing Russian fashion retailers, with 586 stores in 90 cities
- **Starman** is Estonia's leading provider of cable TV and broadband services, with approximately 200,000 customers and a market-leading range of services providing the fastest broadband speed in the country
- **Fondul Proprietatea (FP)** is a listed Romanian restitution fund with a portfolio of state-owned companies that have been or are set to be privatised
- **Trev-2 Group** is one of the largest infrastructure construction and maintenance companies in Estonia, providing road maintenance, asphalt production and road safety products
- **Gedimino 9 (GO9)** is one of the most-well known shopping centers in the central part of Vilnius in Lithuania
- **Komercijalna Banka Skopje (KBS)** is the largest bank in Macedonia, listed on the Macedonian stock exchange. KBS offers a comprehensive range of banking services to individuals as well as companies
- **Tänassilma Logistics** is a modern, 40,000-square meter logistics centre in Estonia's capital Tallinn
- **Aeroflot Russian Airlines** is Russia's largest airline with one of Europe's youngest aircraft fleets
- **Zavarovalnica Triglav** is the largest insurance company in Slovenia and the Balkans, operating in seven countries
- **Sberbank** is the largest bank in Russia, with a market share of 30 percent, and is the third largest banking group in Europe

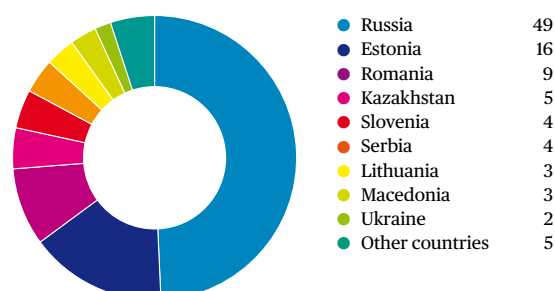
### Sector breakdown, %

In line with our investment theme, the majority of our holdings can be found within sectors benefitting from domestic growth, such as retail, consumer goods, finance and real estate. The largest change during the year took place within retail (consumer discretionary), growing from 27 percent to 40 percent of the portfolio, largely due to the appreciation of our holding in Melon Fashion Group. Exposure toward the finance industry decreased over the course of the year, from 37 percent to 31 percent, as did the extent of power utilities holdings, declining from 12 percent to 6 percent. This was a result of removing the power utility sector from our list of prioritised investment sectors.



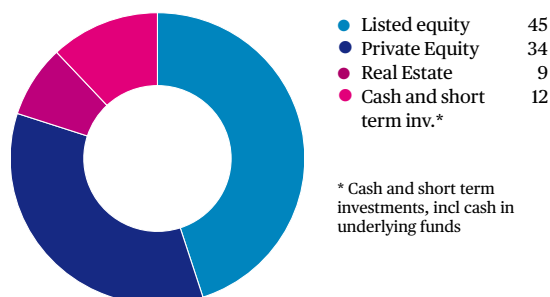
### Country breakdown, %

Russia accounts for our largest geographical exposure, with a portfolio weight of 49 percent, compared with 46 percent at the end of 2012. Despite the geopolitical uncertainties in Russia this past period, Russia remains a very attractive market due to low valuations and strong fundamentals. We have a substantial portion, approximately 23 percent of the portfolio, invested in the Balkan region, down from 25 percent the year before. The largest change from the previous year is that we have increased our exposure towards the Baltics, the fastest-growing region in Europe, from 11 percent to 20 percent of the portfolio. A large part of our investments in the Baltics over the past year has been within the real estate sector and direct investments, primarily in the Estonian cable TV and broadband provider, Starman, acquired in 2013.



### Asset class breakdown, %

At the end of 2013, listed companies comprised 45 percent of the investment portfolio, down from 51 percent at the end of 2012. We have successively increased the proportion of unlisted companies and real estate, comprising, together, a total of 43 percent of total holdings, as part of an effort to create a more concentrated and focused portfolio. We expect to continue to increase the portion of direct investments in primarily unlisted holdings that are usually difficult for the individual investor to access, as well as increasing our real estate holdings. We continue to believe that smaller and medium-sized companies have the greatest growth potential in the long term, which is why we will continue to focus on these types of companies in the future.



# The East Capital Explorer share

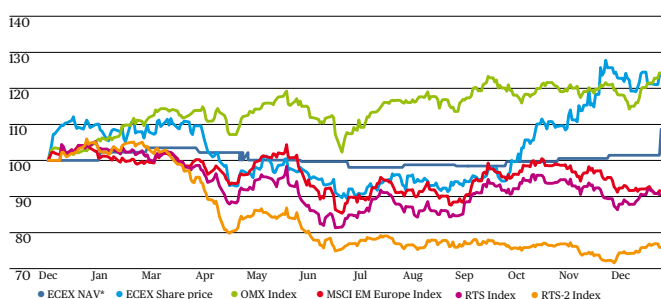
## Facts

Listing	NASDAQ OMX Stockholm, Mid Cap
Listed since	9 November 2007
ISIN-code	SE002158568
GICS-code	40203010
Ticker	ECEX
Reuters	ECEX.ST
Bloomberg	ECEX SS Equity
Latest share price	www.eastcapitalexplorer.com

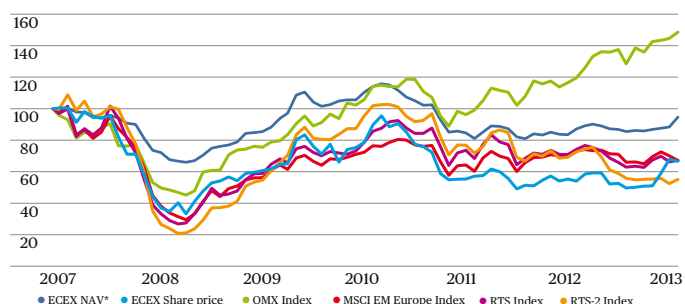
## Key figures per 31 December 2013

	EUR	SEK
Net Asset Value per share	9.89	88
Closing price per share	7.00	62.25
Net Asset Value per share development during 2013	8.7%	12.4%
Share price development during 2013	22.8%	27.0%

## East Capital Explorer vs indices during 2013, EUR



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



## Net Asset Value and share price development

	2013	2012	2011	2010	2009
Net Asset Value per share, EUR	9.89	9.10	8.69	12.33	9.61
Net Asset Value per share, SEK	88	78	77	111	99
Net Asset Value at 31 December, MSEK	2,762	2,582	2,618	3,863	3,502
Net Asset Value per share development during the year, adjusted for dividend, SEK	12%	2%	-29%	13%	22%
Share price at 31 December, SEK	62.25	49.00	53.75	84.75	67.00
Lowest, SEK	44.6	43.20	48.60	65.25	38.20
Highest, SEK	64.8	57.50	91.50	88.00	72.75
Market capitalization at 31 December, MSEK	1,956	1,618	1,815	2,954	2,378
Share price development during the year, adjusted for dividend and share redemption, SEK	27%	-7%	-36%	26%	67%
Premium/discount to NAV at 31 December	-29%	-37%	-30%	-24%	-32%
Average premium/discount during the year	-42%	-35%	-31%	-29%	-34%
Total turnover, shares, million	14.8	10.0	12.4	14.0	19.0
Average daily turnover, shares	59,219	39,985	49,911	55,215	75,740

## Development of relevant indices

RTS-2 (Russian Trading System 2nd tier Index), EUR	-24%	1%	-30%	68%	153%
MSCI Emerging Markets Europe Total Return Index, EUR	-9%	22%	-21%	25%	80%

## Share capital and number of shares

Share capital at 31 December, EUR	3,639,711	3,630,535	3,628,059	3,628,059	3,628,014
Number of shares at 31 December *	31,424,309	33,024,595	33,770,121	34,851,675	35,499,160
Average number of shares	31,424,309	33,474,634	34,645,318	34,967,923	35,651,491

## Ownership structure

Number of shareholders at 31 December	9,534	9,617	7,123	8,247	9,381
% shares held outside Sweden	47.3%	37%	46%	44%	37%

\* Excluding shares held by the Company following buy-backs

10 largest shareholders and custodians <sup>1</sup> on 31 December 2013		
Name	Number of shares	Holding, %
East Capital & Partners <sup>2</sup>	5,326,522	17.0
Skandinaviska Enskilda Banken S.A., W8IMY	2,005,957	6.4
JPM Chase NA	1,616,826	5.2
JPM Chase NA	1,574,594	5.0
Morgan Stanley & Co Intl PLC, W8IMY	1,151,835	3.7
Fourth Swedish National Pension Fund (AP4)	1,105,931	3.5
Fidelity Nordic Fund	1,005,000	3.2
Staffan Rasjö	986,653	3.1
Danske Capital Sverige AB	825,000	2.6
Försäkringsaktiebolaget Avanza Pension	822,898	2.6
<b>Total top 10 shareholders and custodians</b>	<b>16,421,216</b>	<b>52.3</b>
<b>Other shareholders and custodians</b>	<b>15,003,093</b>	<b>47.7</b>
<b>Total</b>	<b>31,424,309</b>	<b>100.0</b>

<sup>1</sup> A majority of the shares registered by foreign shareholders are registered through custodians. This implies that the beneficial shareholders are not officially registered. Certain shareholders may also register part of their holdings through custodians

<sup>2</sup> East Capital's own investment and investments by Partners in East Capital. The figure presented does not reflect all holdings by East Capital, its Partners and related parties (including funds represented by East Capital), which at the end of 2013 represented approximately 23% of the Company's shares

### Shares and voting rights

East Capital Explorer has one class of shares, in total the Company had 31,424,309 registered shares as of 31 December 2013. One share entitles the holder to one vote and all shares have equal rights in the assets and profits of the Group.

### Own shares

In light of the discount to NAV and the high confidence of both the Board and Management in the Company's NAV, the Board decided, as announced on 23 October 2012, to propose a share redemption program to the Company's shareholders. The program was approved by an EGM on 4 December 2012, allowing the shareholders to redeem 1 out of 20 shares at NAV.

The application period for East Capital Explorer's offer to redeem shares ended on 14 January 2013. The offer entitled redemption of a maximum of every twentieth share held in the Company, at a redemption price of SEK 77 per share (corresponding to the Net Asset Value per share on 31 October 2012). 1,600,286 shares were tendered for redemption during the redemption program, corresponding to an acceptance level of approximately 97 percent. Consequently, a total of SEK 123.2m (EUR 14.3m) was paid out to the shareholders participating in the redemption program.

In accordance with the extraordinary general meeting's resolution on 4 December 2012, in the end of January 2013 East Capital Explorer redeemed shares as well as cancelled the 685,111 shares that were repurchased during the period of 8 August 2012 - 5 October 2012 through the share buyback program. The Company does not hold any of its own shares following the cancellation. Following completion of the redemption and cancellation, and a bonus issue effected in connection therewith without issuing new shares, East Capital Explorer's share capital at 31 December 2013 amounted to EUR 3.6m and 31,424,309 shares. The Board has committed to making the same proposal to the 2014 and 2015 AGMs in case the share is trading at a discount to NAV exceeding 10 percent.

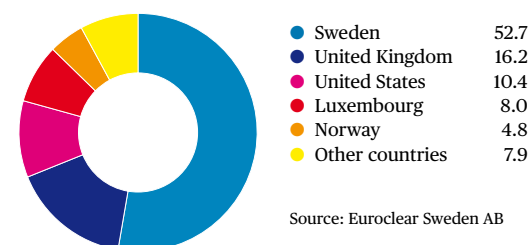
In order to be able to take advantage of attractive investment opportunities in assets which are estimated to generate strong cash flow and good growth, it was resolved at the Extraordinary General Meeting on 24 March 2014 to introduce a new class of shares, preference shares, in the articles of association and an authorization for the Board to, at one or several occasions before the Annual general meeting 2014, with or without deviation from the preferential rights of the shareholders, resolve to issue no more than 1,000,000 preference shares. The two main areas of focus for new investments, the Russian and Baltic domestic consumer sector, which are expected to continue to benefit from a growing domestic consumption, and the Baltic real estate sector with current attractive prices, low interest rates and rising rents provide the

conditions for an attractive dividend yield and positive growth. The new financing possibility, combined with the expected return on these investments, creates a higher return on invested capital for the owners of ordinary shares of East Capital Explorer.

### Ownership distribution by size of holding

Number of shares per holding	Number of shareholders	% of shareholders	Total number of shares	% of shares and votes
1 - 500	7,862	82.5	956,223	3.0
501 - 1,000	639	6.7	527,997	1.7
1,001 - 5,000	688	7.2	1,829,557	5.8
5,001 - 10,000	146	1.5	1,087,776	3.5
10,001 - 15,000	56	0.6	702,567	2.2
15,001 - 20,000	27	0.3	479,076	1.5
20,001 -	116	1.2	25,841,113	82.2
<b>Total</b>	<b>9,534</b>	<b>100.0</b>	<b>31,424,309</b>	<b>100.0</b>

### Ownership distribution by country (top 5, %)



### Dividend policy

A three year redemption program (2013-2015) proposed by the Board for 2013 was approved by the Extraordinary General Meeting (EGM) of East Capital Explorer on 4 December 2012. A corresponding redemption program for 2014 is proposed by the Board to the Annual General Meeting (AGM) 22 April 2014. The redemption program is replacing the Company's dividend policy and the Board does not intend to use its authorization for repurchase of shares during the period.

### Net asset value

A monthly indicative net asset value (NAV) per share is calculated per the last day of each month. East Capital Explorer's net asset value is calculated as the value of total assets (all investments plus all other assets, such as cash) less all liabilities, divided by the number of registered shares, i.e. the total number of outstanding shares less any repurchased shares held by the company. The value of East Capital Explorer's investments is based on the monthly net asset value reported for each respective East Capital fund in which the Company has invested plus the value of all our direct investments. For more information on the applied valuation principles, see Note 1, page 67.

The net asset value reports are not subject to review by the Company's auditors.

Please note that the base currency for East Capital Explorer's net asset value is EUR, while the base currency for the share price is SEK. Conversions of the net asset value to SEK and the share price to EUR are made only for information purposes. The resulting figure may vary according to the source and point in time of the conversion. East Capital Explorer applies exchange rates from Bloomberg at the end of the day.

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

# Comments from the CEO



**Catharina Hagberg**  
Acting CEO

*“As regards Russia, our Investment Manager sees the direct impact on that economy as limited, at the same time any negative sentiment should pass relatively quickly provided the crisis does not escalate”*

2013 was a weak year for emerging markets, in general, and Eastern Europe was no exception. However, East Capital Explorer can look back at the year as being very positive. Net asset value per share rose by 8.7 percent (in EUR) between January and December.

The portfolio's performance was significantly stronger than that of the underlying markets. The Russian stock market lost 9.6 percent of its value during 2013, due to both internal factors and unfulfilled growth expectations, as well as being a result of external factors, primarily the tapering of the Federal Reserve's quantitative easing program. At the same time, a number of smaller stock markets in the Baltic countries and Balkans experienced double-digit upturns. We experienced a particularly positive development in our private equity and real estate investments, which have a limited correlation with the stock markets, and in which we continue to increase our portfolio exposure.

The interest in the company and in the East Capital Explorer share finished the year with an upturn of all of 27 percent (in SEK). Both the average volume and the trade turnover of the share increased, which we see as very positive.

## Portfolio activity

2013 was another active year for East Capital Explorer. We continued to invest in the real estate sector in the Baltic Region and increased our exposure towards Russian domestic growth through a further investment in the East Capital Russia Domestic Growth Fund, while at the same time, undertaking a significant direct investment in the Baltics by acquiring a majority holding in the unlisted Estonian cable tv company, Starman. In addition to a high level of investment activity, we have sold holdings in East Capital's alternative investment funds, which is in line with both the Board's and our Investment Manager's ambition to establish a clearer profile of the portfolio. From 31 December 2012 to 31 December 2013, the portion of direct investments rose from 20 percent to 36 percent of our net asset value, and the ten largest holdings increased from 38 percent to 54 percent of net asset value.

*“The largest event during the year was the acquisition of Starman, the leading cable tv operator in Estonia”*

The largest contribution to the positive net asset value development came from our direct investment in the Russian fashion retailer, Melon Fashion Group (MFG), which was revalued upwards by 59

percent during the fourth quarter. East Capital Explorer's ownership share of 36 percent of the shares in MFG was, at year-end, valued at MEUR 70. It is very encouraging to receive such a clear confirmation of our Investment Manager's long-term involvement in this company which has developed into one of the largest and most rapidly growing fashion chains in Russia, with 586 shops as at 31 December 2013.

The largest event during the year was the acquisition of Starman, the leading cable tv operator in Estonia. During the spring, East Capital Explorer invested EUR 23.6m for a majority holding of 51 percent of the shares. Starman is a consumer-driven, stable and well-managed company, which is entirely in line with our investment strategy. Our Investment Manager see a major potential for growth and consolidation within this industry, both in Estonia and in other Baltic countries. Starman is the portfolio's second largest holding and represented 8.1 percent of the total portfolio as at 31 December 2013.

During 2013, we continued to invest in Baltic real estate by adding a retail property in Riga to the East Capital Baltic Property Fund II, which from previous years included a logistics property in Tallinn and the shopping center, GO9, in central Vilnius. A strong cash flow, in combination with an external valuation of the real estate during the fourth quarter, increased the Fund's net asset value by 13.8 percent during 2013. The yield has been 21 percent since East Capital Explorer's first investment in May 2012.

*“The East Capital Russia Domestic Growth Fund, which our manager instigated against the background of the company's focus on the Russian domestic growth sector being very attractively valued”*

During the year, East Capital Explorer increased its exposure vis à vis the Russian domestic growth market. At the beginning of the year, a further EUR 25m was invested in the East Capital Russia Domestic Growth Fund, which our manager instigated against the background of the company's focus on the Russian domestic growth sector being very attractively valued. These investments have proved to be successful both in terms of timing and in terms of stock picking. Consumption continued to drive the Russian economy during 2013 and the fund rose by 9 percent during the period, at the same time, the comparative index backed by 3 percent. Aeroflot and the search engine, Yandex, performed particularly well and our manager have a long-term positive view of these two companies.

During the year, East Capital Explorer received a number of payments from East Capital Power Utilities Fund and East Capital Bering New Europe Fund, East Capital Special Opportunities Fund and East Capital Bering Ukraine Fund R. The two first funds were closed down and the latter two are currently



*“During 2014, our Investment Manager is focusing especially on the Baltics and Russia, both as regards existing and new investments”*

also being wound up. In addition, after year-end, a further four of the remaining Bering Funds were converted into two new funds, East Capital New Markets Fund and East Capital Deep Value Fund, with a clear portfolio focus. This change takes place partly to adapt the funds to the EU’s new directive on alternative investment funds (AIFMD) and, at the same time, increases transparency in East Capital Explorer’s portfolio.

### Redemption program

Together with the value creation in the investment portfolio, the redemption program that was proposed by the Board in October 2012, is also underway and implies that our shareholders can redeem 1 of 20 shares at net asset value and, thereby, benefiting from the share price discount to the net asset value. During 2013, a total of 1.6 million shares were redeemed, which the Board sees as a more efficient means of distributing value to shareholders than dividends or the repurchase of shares. The next redemption program will be subject to the approval of East Capital Explorer’s Annual General Meeting, which will take place on 22 April 2014.

### 2014

The year began weakly for emerging markets, in general, and the Moscow stock exchange fell very notably in January. At the end of February, the situation deteriorated even further when the protests in Kiev developed into a geopolitical crisis of a global nature. The Russian stock market fell 12 percent on the first trading day after the Russian military presence was established in Ukrainian territory but recovered, successively, thereafter. The direct exposure to Ukraine is very limited for East Capital Explorer as our Investment Manager have had a negative view of the political and economic development in that country during recent years.

As regards Russia, our Investment Manager sees the direct impact on that economy as limited, at the same time any negative sentiment should pass relatively quickly provided the crisis does not escalate. Against the background of the current changes in East Capital Explorer’s portfolio, the company’s net

asset value is determined, to an increasing degree, by our Investment Manager’s ability to create long-term growth in our direct investments, rather than being determined by the short-term developments in the stock markets, which was the case a number of years ago when we had a larger exposure towards listed shares. In addition, the portfolio has a clear focus on cash flow generating assets such as MFG, Starman and real estate investments.

During 2014, our Investment Manager is focusing especially on the Baltics and Russia, both as regards existing and new investments. In order to create the financial possibilities to benefit from attractive investment opportunities, our Board has proposed the introduction of a new class of shares, preference shares. The proposal was decided upon by an Extraordinary General Meeting on 24 March. East Capital Explorer intends to invest the new capital in consumer companies driven by the strong purchasing power of the growing middle class, both in the Baltic countries and in Russia, and in commercial real estate in the Baltic region that offers attractive yields.

For me, personally, 2013 has been an exciting year as I have, since May, been serving as Acting CEO during Mia Jurke’s maternity leave. I see a major potential in the company, both in terms of its existing holdings and as regards new investment opportunities and I hope that I have succeeded in continuing with Mia’s work in improving communication to investors and helping the Board to ensure good corporate governance. During the year, the transparency of the portfolio has been enhanced and within the near future we will expand the financial reporting as regards the Melon Fashion Group. The new year started on a negative note with the escalation of the crisis in Ukraine and there are differing views as regards developments in our investment universe. I am convinced that East Capital Explorer’s continued work with concentrating the portfolio and seeking new investments within private equity and in the Baltic real estate sector will create opportunities for long-term value growth.

Catharina Hagberg, Acting CEO



Gedimino 9 (GO9), the well-known high street shopping centre in the heart of Vilnius, was acquired in December 2012. The grand opening of the new anchor tenant H&M in the spring of 2014 is one of the most significant and anticipated events of the planned make-over of the shopping centre and is an important first step in the development of GO9.

# Q&A with our Investment Manager



**Peter Elam Håkansson**  
Chairman, East Capital

## The portfolio activity was especially high during 2013. What has driven this change?

Firstly, we see a very interesting investment opportunities in private equity and real estate, especially in the Baltics, where we since May 2012 have invested more than EUR 40m in three properties and a majority stake in Starman, the leading cable television operator in Estonia. The Baltic economies have recovered from the financial crisis and we see increased activity on the transaction market for private equity. The Baltic property market has especially caught our interest as vacancy rates have stabilized at low levels around 4-5% and we continue to see potential in rental levels, high yield and good financing opportunities. Secondly, the portfolio activity is a part of our efforts to clarify East Capital Explorer's investment portfolio. In addition to the investments we made in 2013, we also exited several fund investments. This helped concentrate our investment portfolio, while at the same time a larger proportion of unlisted holdings have increased the uniqueness not only of the portfolio, but of East Capital Explorer as a company.

## What makes East Capital Explorer's portfolio unique?

This type of unlisted assets in Eastern Europe are difficult for investors to access, while East Capital Explorer, unlike traditional private equity and real estate funds, provides a daily liquidity through its listing on the Nasdaq OMX Stockholm stock exchange. Moreover, many of the most exciting companies in Eastern Europe are still unlisted, while the local stock exchanges often offer limited opportunities to get exposure to domestic growth in the region. For example, there is no publicly listed fashion chain in Russia, despite the Russian clothing market already being one of Europe's largest. East Capital Explorer's investment in the Russian fashion retailer Melon Fashion Group (MFG), with 586 stores in 90 Russian cities, is in other words particularly unique.

## At the same time, you see possibilities in larger listed companies such as Aeroflot where East Capital Explorer has an exposure via its investment in the East Capital Russia Domestic Growth Fund?

The focus of East Capital Explorer's portfolio is smaller, Eastern European companies driven by domestic growth but we were opportunistic when we saw that the valuations of even larger growth companies on the Moscow Stock Exchange, which have previously been associated with higher valuations, came down to historically low levels. This has so far proved successful. The Fund, which we launched in August 2012, rose 9% in 2013 while the Russian stock market dropped, and has since launch beat the benchmark index by six percentage points. Aeroflot, the Fund's largest holding, is a particularly interesting company that benefit from increased traveling among Russians. The company, where East Capital is, in total, the second largest shareholder after the Russian state has one of the youngest fleets and is quite a different story from the Soviet-controlled company it once was.

## East Capital Explorer undertook a significant direct investment in Starman during the year. What has happened in the company since May 2013 which has accounted for 8.1% of the company's total net worth at year-end?

Starman, Estonia's leading cable television and broadband operator, puts a successful year behind it. Sales increased by 7.9% while profitability improved. Since we became a majority shareholder in the company, we have established a strategy to maintain the strong profitability and secure a leading position in terms of technology. During the year, Starman launched the fastest broadband speed in Estonia while its video-on-demand offering improved, giving the company a significant competitive advantage. Ebitda for 2013 landed at EUR 16.6m, which is impressive considering the company's revenues of more than EUR 30m. With one of Estonia's strongest brand names, non-cyclical revenues and continued possibilities for both organic growth and profitability improvements, Starman is interesting in and of itself. The company also has a strong platform for further consolidation in both Estonia and the rest of the Baltics, where markets are fragmented compared with other countries. This interests us particularly, and we are investigating opportunities for further acquisitions.

### About the Investment Manager: East Capital

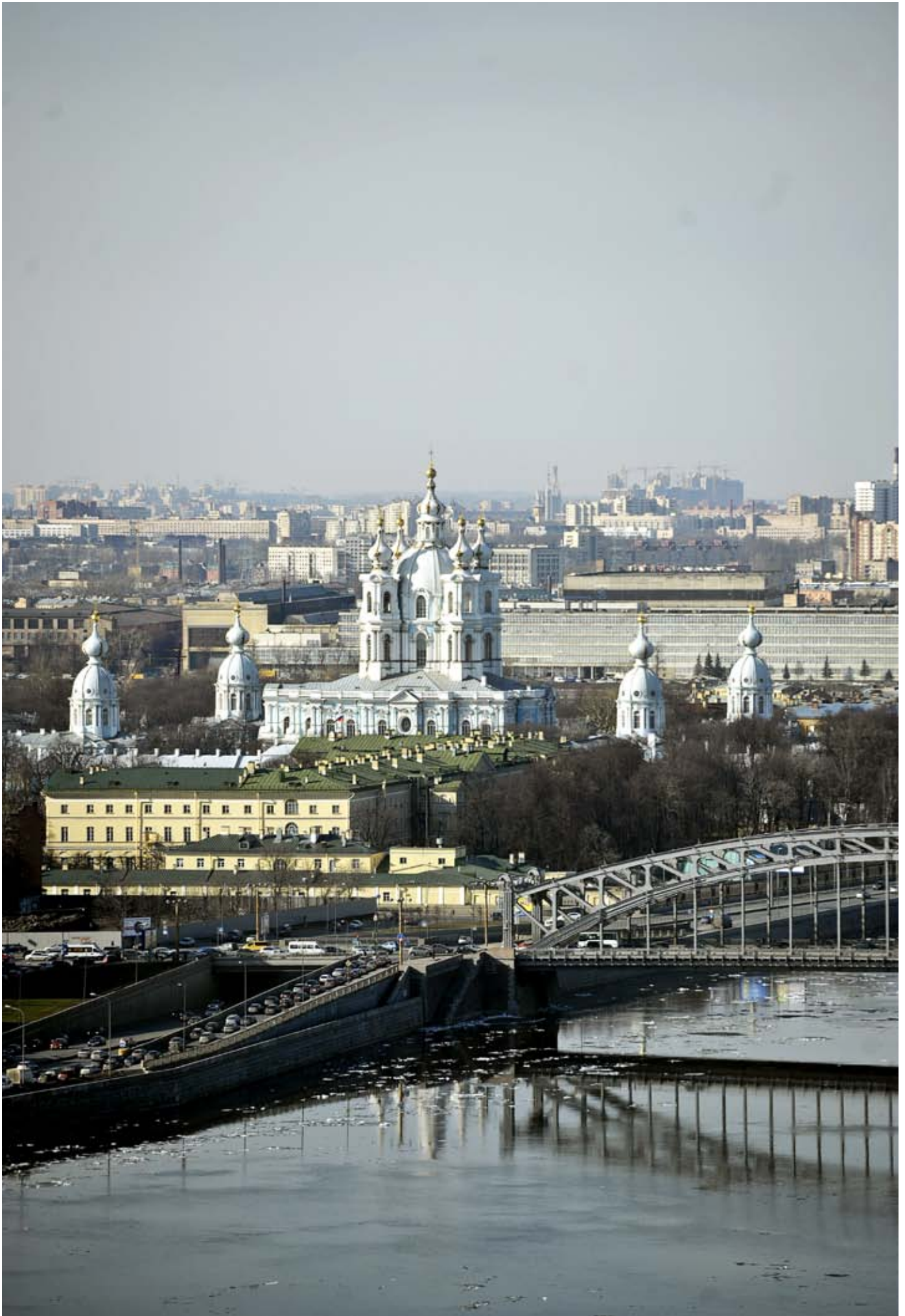
East Capital is the leading independent asset manager specializing in the emerging markets of Eastern Europe and Asia. The company, founded in 1997, bases its investment strategy on thorough knowledge of the markets, fundamental analysis and frequent company visits by its investment teams. East Capital actively manages SEK 31 billion in public equity, private equity and real estate. It is headquartered in Stockholm with offices in Hong Kong, Kyiv, Luxembourg, Moscow, Oslo, Paris and Tallinn. Learn more about East Capital on: [www.eastcapital.com](http://www.eastcapital.com)

## How do you view the events that took place in Ukraine and Russia in the spring, and the effects of these on East Capital Explorer?

We were surprised by the Russian decision to send troops to Ukraine, but our main scenario today is that the troops will not move outside of the Crimea and that Ukraine will continue to be backed by the U.S. and EU. East Capital Explorer's direct exposure to Ukraine is very limited, as we have seen the country heading in the wrong direction in recent years and, consequently, we have chosen not to make any major investments there. Sentiment towards Russia, which is the largest geographical exposure, has deteriorated further and the portfolio's listed holdings have lost value since the crisis escalated in late February, enhanced by a falling ruble. We base our Russian scenario on a continued weak ruble and a low or even zero economic growth due to capital outflows, higher interest rates and higher inflation. The effects on East Capital Explorer's holdings are, however, not entirely negative. The largest holding, Melon Fashion Group, is sensitive to ruble fluctuations since its purchases are made in dollars. Nonetheless, we believe the company can strengthen its market position versus foreign competitors that we believe will slow down their expansion pace in Russia going forward. Furthermore, we believe that the crisis has very little, if any, effect on Estonian Starman which has stable and non-cyclical operations. The same goes for our property investments in the Baltics. I continue to believe that our strategy of focusing on holdings that generate strong cash flow and good growth, is the right one for East Capital Explorer.

## What are your expectations as regards 2014?

Our intention is to continue to increase the share of unlisted holdings in the portfolio and we are seeking new investments in the Baltic real estate market and within private equity where we are particularly interested in consumer-driven companies in the Baltics and Russia. Of course, we will also continue to work actively with our existing holdings.



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## Our portfolio

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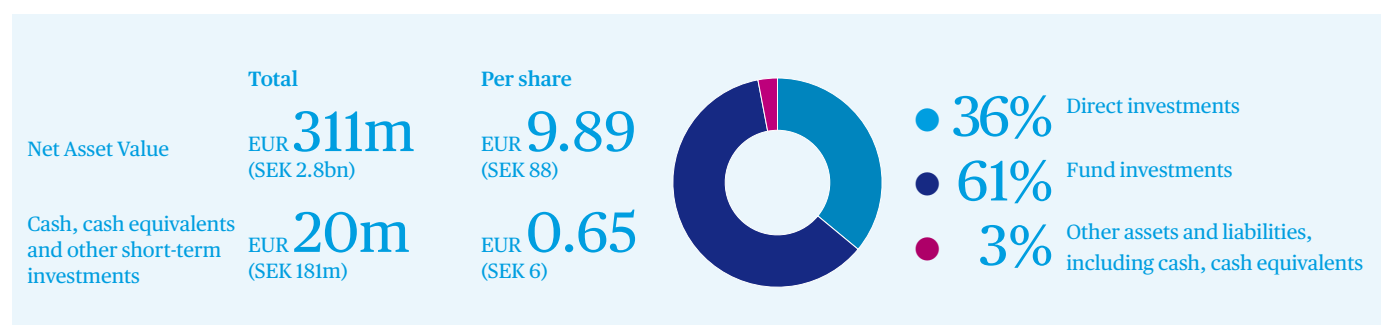
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# Portfolio Overview



Portfolio per 31 December 2013	Fair value 31 Dec 2013, EURm	NAV/Share, EUR	% of NAV	Fair value 31 Dec 2012, EURm	Value change Jan-Dec 2013, % <sup>1</sup>
<b>Direct investments</b>					
Melon Fashion Group	70.5	2.24	22.7	44.2	68.4
Starman	25.0	0.80	8.1	-	6.1
Trev-2 Group	9.8	0.31	3.2	7.4	10.1
Komercijalna Banka Skopje	6.6	0.21	2.1	8.7	-19.7
<b>Total direct investments</b>	<b>112.0</b>	<b>3.56</b>	<b>36.0</b>	<b>60.3</b>	<b>36.1</b>
<b>Fund investments</b>					
East Capital Russia Domestic Growth Fund	42.3	1.35	13.6	14.5	7.2
East Capital Bering Balkan Fund <sup>4</sup>	41.1	1.31	13.2	38.9	5.6
East Capital Bering Russia Fund <sup>4</sup>	23.0	0.73	7.4	27.8	-17.4
East Capital Bering Central Asia Fund <sup>4</sup>	23.0	0.73	7.4	18.5	23.9
East Capital Baltic Property Fund II	20.7	0.66	6.7	17.4	13.8
East Capital Special Opportunities Fund II	17.8	0.57	5.7	19.3	-7.6
East Capital Special Opportunities Fund	15.2	0.48	4.9	21.5	19.6
East Capital Bering Ukraine Fund Class A <sup>4</sup>	3.4	0.11	1.1	3.9	-12.8
East Capital Bering Ukraine Fund Class R	2.5	0.08	0.8	5.2	-19.5
East Capital (Lux) Eastern European Fund (EUR)	-	-	-	4.4	2.9
<b>Total fund investments</b>	<b>188.9</b>	<b>6.01</b>	<b>60.8</b>	<b>171.5</b>	<b>4.3</b>
<b>Short-term investments</b>					
Short-term Investments <sup>2</sup>	0.1	0.00	0.0	25.8	
Cash and cash equivalents	20.3	0.65	6.5	46.4	
<b>Total short-term investments</b>	<b>20.4</b>	<b>0.65</b>	<b>6.6</b>	<b>72.2</b>	
<b>Total portfolio</b>	<b>321.3</b>	<b>10.22</b>	<b>103.4</b>	<b>304.0</b>	
Other assets and liabilities, net	-10.4	-0.33	-3.4	-3.5	
<b>Net Asset Value</b>	<b>310.8</b>	<b>9.89</b>	<b>100.0</b>	<b>300.5</b>	<b>8.7<sup>3</sup></b>

<sup>1</sup> The value change calculation is adjusted for investments and distributions during the relevant period. i.e. it is the percentage change between; the ending value plus any proceeds from dividends divided by the starting value plus any added investment during the period

<sup>2</sup> Due to the ongoing liquidation of East European Debt Finance, as from June 2013 these holdings are no longer separately reported but included in short-term investments as the remaining assets are limited and are expected to be divested during 2014

<sup>3</sup> NAV per share development. The value change takes overhead cost and fees for direct investments into account

<sup>4</sup> As of January 1, 2014 East Capital has restructured four of its Bering funds; East Capital Bering Russia Fund, East Capital Bering Balkan Fund, East Capital Bering Central Asia Fund and East Capital Bering Ukraine Fund A. The funds, previously domiciled on the Cayman Islands, are transferred to Luxembourg and transformed into two new funds; East Capital New Markets Fund and East Capital Deep Value Fund. For more information of the two new funds, please refer to page 34 in The year end report 2013.

1 EUR = 8.89 SEK on 31 December 2013. Source: Bloomberg

Note that certain numerical information may not sum up due to rounding

# Melon Fashion Group

*One of the fastest growing Russian fashion retail companies*

## Investment facts

East Capital Explorer's first investment in the company: 2008

East Capital Explorer's holding in the company: 36% (additional 11% stake is owned by East Capital Holding)

Fair Value 31 December 2013: EUR 70.5m

Annualized return on investment: 31.6%

Learn more about Melon Fashion Group on: [www.melonfashion.ru](http://www.melonfashion.ru)

## Investment rationale

- Well positioned for future growth and increase of market share
- Further improvements in profitability expected
- Benefits from strong consumer demand and a growing middle class in Russia



## History

Melon Fashion Group (MFG) is one of the largest and fastest growing fashion retailers in Russia. At the end of 2013, the company operated 586 stores (468 own and 118 franchise) under three own concepts: Zarina, befree and Love Republic. After being a leading female apparel producer during the Soviet era, the company outsourced production in 2004, and today has turned into a pure-play retailer. At the beginning of the financial crisis in 2008, MFG's strong financial position allowed the company to take advantage of the opportunity to expand, both organically and through two acquisitions.

East Capital Explorer first invested in MFG in 2008, amid expectations of a strong growth in the Russian consumer market, supported by a rapidly growing middle class with increasing purchasing power. MFG was believed to be well positioned to take advantage of this market growth. Over this period, the company has increased its revenue from RUB 2.1bn in 2008 to RUB 9.2 in 2013 and the number of stores from 192 to 586 in the same period.

## Highlights and results 2013\*

Although MFG was adversely affected by several external factors in 2013, the company succeeded to outpace its previous growth target of 100 new store openings, by opening 139 new stores during the year. Towards the end of 2013, an external valuation was made of MFG, which resulted in East Capital Explorer's holding in MFG being revised up by 59 percent, corresponding to EUR 70m, excluding dividends received during the period.

In the first half of 2013, many fashion retailers across Europe and Russia were hit by unfavorable weather conditions that affected traffic to the stores. On top of that MFG, in the second half of the year experienced company specific problems such as collection misses and postponed store launches due to delays in shopping mall openings. Despite this, 2013 revenues from continued operations grew by 27 per-

cent to approximately RUB 9bn (EUR 199m), excluding contributions from the divested master-franchise concepts Springfield and Women's Secret. Total growth in comparable sales amounted to 6.5 percent compared to the previous year. Costs related to continuing expansion, increased promotional campaigns and a somewhat lower gross margin, put downward pressure on the Ebitda margin, which decreased to 9.8 percent for the first nine months 2013 from 13.8 percent in the corresponding period 2012.

On a brand level, Love Republic strongly outperformed the other brands with an Ebitda margin of 14.4 percent. Zarina and befree posted Ebitda margins of 11.7 percent and 4.5 percent respectively. Extensive store refurbishment on the back of befree's initiative to implement its new strategy, accompanied by an aggressive store expansion plan, affected befree's profitability throughout the year.

During the year the company opened 139 new stores on net basis, outperforming its target of 100 openings, communicated at the beginning of the year. As of year-end 2013 the number of befree stores reached 228, while Zarina and Love Republic chains feature 196 and 162 stores, respectively.

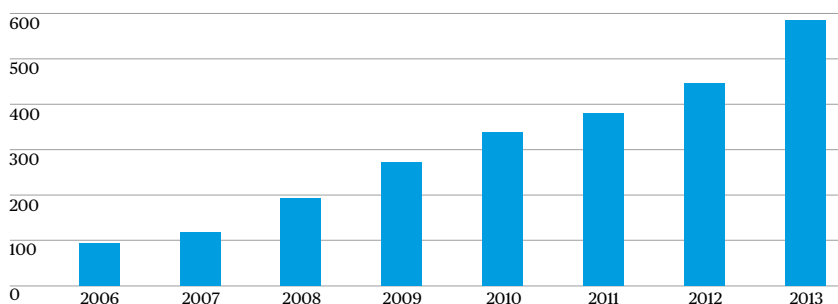
## Outlook 2014

A number of projects launched in 2013, targeting improvements in business processes in the areas of allocation and replenishment as well as assortment and store management, will be continued throughout 2014. On a brand level, following a new strategy launch at the beginning of 2013, befree posted a positive dynamic in comparable store sales in the second half of 2013, and we expect to see further improvements in the brand's performance in 2014.

While acknowledging existing concerns that weaker macroeconomic environment may lead to slower consumption in the first half of 2014, the company management remains firmly focused on its strategy of high organic growth in Russia.

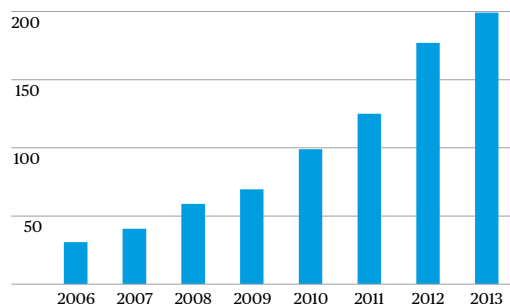
\*Based on preliminary IFRS results

## Number of stores\*\*



● Own concepts

## Revenue\*\* (EURm)



\*\* Excluding discontinued operations

# Starman

*Estonia's leading cable television and broadband provider founded in 1992 and located in Tallinn.*

## Investment facts

East Capital Explorer's first investment in the company: 2013

East Capital Explorer's holding in the company: 51%

Fair Value 31 December 2013: EUR 25.0m

Annualized return on investment: 6.1%

Read more about Starman on: [www.starman.ee](http://www.starman.ee)

## Investment rationale

- *Loyal customer base with good payment discipline*
- *Strong cash flow*
- *Opportunity for organic revenue and profit growth*
- *Domestic consumer-driven, non-cyclical business*
- *Strong platform for Pan-Baltic consolidation*

## History

Starman is Estonia's leading cable television and broadband provider, founded in 1992 and located in Tallinn. The company has been growing organically as well as through acquisitions, having integrated approximately 20 local service providers within the past 20 years. The company has around 130,000 cable TV and 60,000 broadband customers, with a 100 percent digital network covering all major cities in Estonia. Starman has close to 300 employees. Between 2005 and 2009, Starman was listed on the Tallinn Stock Exchange.

In May 2013, East Capital Explorer acquired a majority stake of 51 percent in Starman. The remaining 49 percent stake was held by Starman's founders, Peeter Kern and Indrek Kuivallik, who increased their holdings in the company during the transaction.

## Highlights and results 2013

Starman continued to leverage on its experienced and professional management team. Its Board was further strengthened with the election of Johan Röhss, who previously worked for Investor AB. After East Capital Explorer became the majority owner in May 2013, the Board approved Starman's strategy, which focuses on maintaining profitability and technology leadership. In the second half of 2013, Starman launched internet speeds of up to 200 Mbit/s, the fastest service available for home users in Estonia, giving the company a competitive advantage.

The company also improved its "video-on-demand" product offering, enabling customers to

record up to 80 channels during a two week period. In September, Starman expanded its operations into re-selling electricity. The electricity market has recently been liberalized in Estonia and the company's management considers this a good way to expand the product offering.

Starman enjoys stable revenue streams based on fixed subscriptions with a loyal customer base. Revenues in 2013 amounted to EUR 30.2m, a 7.9 percent growth compared to the previous year. Ebitda was EUR 14.6m, a 12 percent increase year-on-year. The Ebitda margin was a strong 48.5 percent.

## Outlook 2014

Revenue growth is expected to continue in 2014. Estonia's growing disposable household income in combination with Starman's strong product offering provides opportunities for further expansion of digital TV and broadband ARPUs (average revenue per user) as well as increased opportunities for upgrading customers to premium services. The number of cable customers is expected to stabilize in 2014, with further growth expected to come from broadband and Starbox subscribers. The DTT customer base is expected to decrease slightly as cable TV networks continue to expand into previously rural areas.

Peeter Kern, Founder and CEO of Starman, sadly passed away in on 11 March 2014. COO Toomas Tiivel, with many years of past experience as CEO of Tele2 Estonia and CEO of the Estonian operations of Bauhof Group among other positions, has been appointed Acting CEO of Starman.



# Trev-2 Group

*One of the largest infrastructure construction and maintenance companies in Estonia*

## Investment facts

East Capital Explorer's first investment in the company: 2011

East Capital Explorer's holding in the company: 40% (additional 13% held by East Capital funds)

Fair Value 31 December 2013: EUR 9.8m

Annualized return on investment: 20.4%

Learn more about Trev-2 Group on: [www.trev2.ee](http://www.trev2.ee)

## Investment rationale

- Well-positioned company to become one of the largest infrastructure construction companies in the Baltics
- Exposure to EU infrastructure funding dedicated to the Baltics
- Strong local presence, market knowledge and operational know-how
- Possibility to unlock extra value by improving efficiency



## History

Trev-2 Group's main business segments are road construction and maintenance, as well as environmental construction. The company's operations also comprise the production of asphalt, aggregates and traffic safety products. In 2013, Trev-2 Group exited the general construction segment to focus on its core business of infrastructure construction and maintenance.

The company's history dates back to the 1950's, when the Estonian state initiated larger road construction projects in Tallinn. Tallinn Road Administration unit was established and the operations of Administration No. 2 (in Estonian abbreviated as "Trev-2") became a separate legal entity in 1961. In 1993, the employees of the company participated in the privatization of the Trev-2 Group. The main activity of Trev-2 Group until 2000 was road construction. During the period of 2000-2003, the company became an active player in the road maintenance segment. In 2006 the operations were extended further by providing construction services to external parties. In 2011, the company entered the environmental construction segment, which is a strong growth area.

East Capital Explorer made its initial EUR 4m direct investment in August 2011, followed by additional investments of EUR 1.6m in 2012 and EUR 1.5m in 2013, bringing its total ownership to approximately 40 percent.

## Highlights and results 2013

Trev-2 Group is today one of the most profitable construction companies in the Baltics, with revenue and Ebitda margin reaching historical highs during 2013. The company continued to implement its strategic turnaround plan that was launched in 2012 and involved the selling of non-core assets and businesses, as well as deleveraging of its balance sheet.

Group restructuring continued with the sale of Trev-2's general construction unit and the shutdown

of Latvian and Russian operations. The company also disposed of non-core assets such as land plots and gas stations, and restructured its environmental construction unit. In June 2013, Trev-2 Group opened a new asphalt production facility, one of the most modern production facilities in Estonia.

Trev-2 Group's management was strengthened by the appointment of a new CFO, Rein Rätsep, with extensive experience from several listed companies. The Board was reinforced with the appointment of an independent director, Teuvo Salminen, who has experience from senior management roles in various Nordic construction and engineering companies. During 2013, the Board launched a new share option program for key employees in the group.

According to preliminary numbers, Trev-2 increased its revenues considerably in 2013, with net sales of EUR 99.7m which corresponds to an increase of 12 percent year-on-year. The Group's Ebitda was EUR 9.4m (EUR 5m in 2012), which implies a margin of 9.5 percent. Net profit for the year is expected at EUR 3.8m (EUR 1m). Net debt by the end of 2013 was negative, having come down from EUR 16m since East Capital Explorer's initial investment.

## Outlook 2014

Trev-2 revenues are expected to decrease in 2014 with the main focus being on maintaining profitability. The environmental construction segment is expected to shrink substantially from 2014 onwards, due to a shift in EU budget priorities. Also, revenues in 2014 will be lower due to exits from the general construction business as well as divestments. The overly fragmented market structure and increasingly fierce competition in public tenders will likely put pressure on profitability. The challenge for management is to maintain good margins, despite declining volumes and an expected constant number of players in the market. The company will again look for new opportunities to grow now that operational performance is strong, the balance sheet has been deleveraged and the management team has proven its execution capabilities.



# Komercijalna Banka Skopje

*The largest bank in Macedonia in terms of assets and capital*

## Investment facts

East Capital Explorer's first investment in the company: 2011

East Capital Explorer's holding in the company: 10% (additional 3% held by East Capital funds)

Fair Value 31 December 2013: EUR 6.6m

Annualized return on investment: -16.3%

Learn more about Komercijalna Banka Skopje on: [www.kb.com.mk](http://www.kb.com.mk)

## Investment rationale

- Leading bank in Macedonia with large market share in several market segments
- Strong operational performance with historical return on equity above 15%
- Attractive valuation relative to other leading regional banks
- Bank is an obvious acquisition target for strategic investors



komercijalna banka ad skopje

## History

Komercijalna Banka Skopje (KBS), the largest bank in Macedonia in terms of assets and capital, assumed its current company form and name in 1990, shortly after the Law on Banks and Financial Institutions came into force. In the early 1970s, the Bank merged with three local banks and became the first Macedonian bank to offer current accounts for citizens. KBS is a joint-stock company listed on the Macedonian stock exchange, and is one of ten companies comprising the Index MBI-10.

KBS offers universal banking services to both individuals and companies through a nationwide network of branches and offices. The Bank's loan portfolio consists of more than 80 percent corporate loans to clients, including many of Macedonia's blue chip companies. Similar to the majority of corporate banks in the region, retail deposits dominate its funding base, a segment in which the Bank's market share is roughly 30 percent. This deposit base is quite stable and growing - KBS posted 5.7 percent deposit growth in 2013, despite reducing interest rates on various deposit products on four separate occasions during the year.

## Highlights and results 2013

KBS continued during 2013 to struggle with some loan quality issues against the backdrop of a weak economy. The Bank reported a net profit of MKD 79m (EUR 1.3m) for the full year, a drop from last year's MKD 562m figure. Gross interest income declined slightly in comparison to 2012, but KBS was able to compensate the lost income with reductions in interest expenses, resulting in a 4.8 percent

increase in net interest income.

Net fee and commission income saw a slight decrease year-on-year while operating expenses grew by 1 percent. The main differences compared to 2012, however, were a negative contribution of write-downs on foreclosed assets in 2013 on one hand, and a one-off capital gain in 2012 on the other hand.

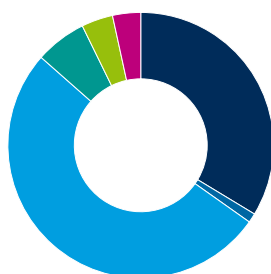
The bank made several loan loss provisions during 2013 that were higher than those made in 2012. However, the year-end results were helped by two large recoveries of bad loans that management succeeded in completing before year-end. Thus, the year-end balance sheet actually shows slightly lower loan loss provisions than in 2012, but the absolute level is still quite a significant burden on profitability. Management has put a lot of effort into diligently cleaning up the portfolio, in order to avoid further provisioning hits in the coming years, which should enable the Bank to return to a more normalized profit level.

KBS's net interest margin for the full year 2013 was a low 3.3 percent with a ROE of 0.8 percent, while the capital adequacy ratio stood at 14.1 percent.

## Outlook 2014

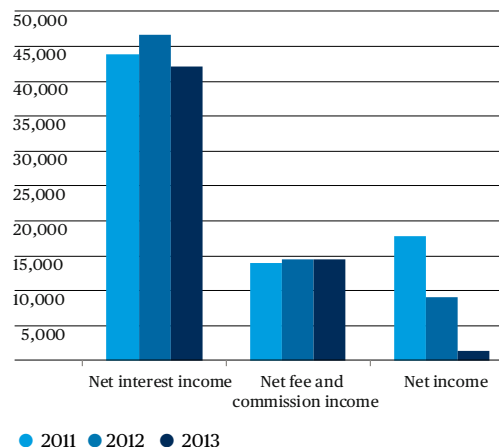
The outlook for 2014 shows continued slow single digit growth. The Bank hopes to grow its retail loan portfolio slightly faster than its corporate portfolio, in percentage terms, taking advantage of loan demand from its existing client base. The quality of the Bank's existing retail loan portfolio is seen as excellent. Profitability is expected to be modest, but nevertheless stronger than in 2013.

## Asset structure (%)



● Cash and liquid assets	34
● Loans and advances to banks	1
● Loans to Customers	52
● Investments and traded portfolio	6
● Property and equipment	4
● Intangible and other assets	3

## Core income (EURt)



## Company cases



### Yandex

Russian Yandex is among the world's top five search engines by number of searches, operating Russia's most popular search engine and the country's most visited website. According to LiveInternet, as of December 2013, Yandex generated 62 percent of all search traffic in Russia. The company also operates in Ukraine, Kazakhstan, Belarus and Turkey. As one of the top holdings in East Capital Russia Domestic Growth Fund, the share price of Yandex rose by all of 91 percent in 2013.

### Caucasus Energy and Infrastructure (CEI)

Georgia with its high mountains and fast flowing rivers is one of the leading countries in the world in terms of hydropower potential. With less than a third of hydro resources utilized, the Georgian government has outlined hydropower sector development as one of its top priorities, aiming to transform Georgia into a key regional electricity provider. CEI, East Capital Bering Central Asia Fund's second largest holding, invests in Transcaucasian electricity companies. The value of CEI increased by 120 percent in 2013, partly on the back of active sales negotiations.



### Sollers

Sollers is the leading Russian automotive company with local production in cooperation with leading global automotive companies such as Ford, Toyota, Mazda and Isuzu. Despite a slow start to 2013, with a weak outlook for car sales in Russia, the stock ended the year with a strong rally of 21 percent. In 2013, Sollers paid dividends with an initial pay-out ratio of 30 percent, which will gradually increase to 40 percent. At year-end, this corresponded to a yield of 7 percent. East Capital remains positive about this holding, which is supported by attractive opportunities due to the joint venture with Ford.

# East Capital Russia Domestic Growth Fund

## Fund comment

The NAV of East Capital Russia Domestic Fund increased by 9 percent in 2013, compared to a negative 3 percent return for the MSCI Russia benchmark index. When the Fund was launched in August 2012, East Capital identified many investment opportunities among domestically oriented companies with high growth potential and attractive valuations. Since then, the Fund has had a value increase of 5 percent, while its benchmark index has had a negative performance.

The Fund's largest holding, leading Russian airline Aeroflot, was the best contributor to the Fund's absolute performance. The stock jumped an impressive 70 percent adding 5.5 percent positive contribution. East Capital is now the second largest owner in Aeroflot after the Russian government. Following meetings with Aeroflot's management team, East Capital increased the holding of Aeroflot several times throughout the year based on the company's impressive operational performance, its plans to start operations in a low-cost segment from the second half of 2014 and also by its consideration to place up to a 10 percent of

the shares, including part of the shares owned by the state and treasury, abroad. This would increase liquidity and interest in the stock. Despite the share price rally, East Capital still finds it the most attractively valued stock among international peers.

The second best contributor was Yandex, Russia's dominant internet search engine, with 91 percent share price performance and 4.6 percent positive contribution to the Fund's performance. The company has increased its 2013 revenue growth estimate to 30-35 percent year-on-year from previously communicated estimates of 28-32 percent, in addition to announcing the introduction of a share buy-back program. East Capital believes in the success of the company's key strategies and product areas such as Yandex Market and Yandex Maps, which could support earnings growth of about 30 percent in 2014. East Capital believes that the high valuation is justified given the strong growth profile of the company.

In contrast, East Capital saw negative performance from Russian power generation company E.ON Russia, which is still facing a

challenging regulatory environment in the Russian utilities sector, and from Dixy that is facing increasing competition in the currently more mature Russian retail market in addition to expectations of a number of new retail IPOs in 2014. These two stocks contributed a negative 1 percent performance to the Fund.

**Aivaras Abromavicius**  
Partner and Senior  
Advisor, East Capital



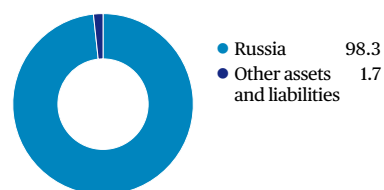
## Fund facts

The aim of the Fund is to exploit the potential of the strong domestic growth in the Russian economy. The portfolio consists of between 10 and 20 listed companies which generate at least half of their revenue in Russia and have a market capitalization of above USD 500m. The Fund operates across all sectors and invests in securities that are believed to be undervalued and have a significant performance potential. East Capital Explorer's annualized return since the first investment in 2012 is 5.3 percent.

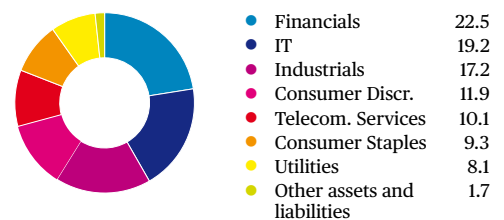
Launch date	31 August 2012
Risk	High
Minimum investment	EUR 125,000
Volatility since inception	N/A
Management fee	2.0%
Performance fee	Carried interest, equal to 20% of outperformance over a 7% hurdle, calculated on annual basis
ISIN code	LU0823634083
East Capital Explorer's share on 31 Dec 2013	95% of the Fund
10 largest holdings	87% of the Fund
Unlisted holdings	0% of the Fund
Total number of holdings	13

Fund performance (EUR), %	2013	Since first investment Aug 2012
East Capital Russia Domestic Growth Fund	9	5

## Country breakdown, %



## Sector breakdown, %



## Top 10 holdings

Company	Weight, %	Performance, %*	Contribution, %	Country	Sector
Aeroflot Russian Airlines Jsc	17.2	70.4	5.5	Russia	Industrials
Sberbank	14.5	-2.6	-1.6	Russia	Financials
Yandex	13.5	91.0	4.6	Russia	IT
Sistema	10.1	61.6	4.4	Russia	Telecom. Services
M.Video	7.7	14.6	1.0	Russia	Cons. Discretionary
Mail.Ru Group	5.7	22.2	1.0	Russia	IT
Magnit	4.8	3.2	0.1	Russia	Consumer Staples
E.ON Russia	4.6	-12.2	-0.7	Russia	Utilities
Bank Sankt-Peterburg	4.6	-25.0	-0.9	Russia	Financials
Dixy	4.6	-11.1	-0.5	Russia	Consumer Staples

\* Change in share price during 2013, EUR

# East Capital Baltic Property Fund II

## Fund comment

The Fund was launched in May 2012 in conjunction with its first property acquisition, the Tännasilma Logistics Centre (previously VGP Park Tallinn), a 40,000 sqm state of the art logistics centre in Tallinn, Estonia. The Fund has made two further acquisitions since, and now holds three properties, one in each of the Baltic capital cities. The second property, "Gedimino 9" (GO9), was acquired in December 2012. GO9 is a well-known high street shopping centre in the heart of Vilnius, located on the best stretch of Gedimino Avenue. At the end of May, the fund completed its third investment, a newly constructed big box retail property in Riga, which is fully let to the Finnish retail chain Prisma, part of the SOK Group.

### Fund performance 2013

The external valuation of the properties completed at the end of the fourth quarter 2013, together with strong cash flow, added a positive performance of 13.9 percent to the Fund's NAV for 2013, an increase of 21.1 percent since the launch of the Fund.

Stable rent revenues from Tännasilma Logistics and low interest on its fixed rate debt, resulted in earnings of more than 20 percent on invested equity and a strong positive cash flow. During the fourth quarter, one tenant representing 10 percent of total rental revenue terminated its contract due to company restructuring. Negotiations are in the final stages with two candidates to take over the vacated premises. The financial effect of this change is expected to be limited.

The Fund has invested additional capital in the commercial improvement of GO9. During the second quarter, H&M signed a long term lease agreement to open a large store in GO9. Construction work in the main areas of the shopping centre was completed, allowing for a partial reopening of the market hall on the lower ground floor, restaurants and a number of stores including RIMI and Lindex. The grand opening will take place in early spring 2014 in conjunction with the opening of H&M.

Deglava Prisma is a strong cash flow generating investment, with a ten-year plus lease

agreement with a stable and reliable tenant and with low interest rates on its long-term loans.

Kestutis Sasnauskas  
Head of Real Estate,  
East Capital



## Fund facts

The strategy of the fund is to invest in commercial properties in the Baltic region, primarily in shopping centres and retail properties, as well as logistics and office properties. Value will be added through improvements in tenant mix, refurbishment, extension or redevelopment. East Capital Explorer's annualized return since the first investment in 2012 is 12.5 percent.

Launch date	02 May 2012
Risk	High
Structure	Closed-end fund Lux SICAV-SIF SCA
Management fee	2% of committed capital
Profit sharing	Investors 80% and East Capital Real Estate AS 20% (at exit) after a hurdle rate of 10% return has been reached annually
Redemption	No
ISIN code	LU0536056483
East Capital Explorer's share on 31 Dec 2013	65% of the Fund

### Country breakdown, %



### Sector breakdown, %



Fund performance (EUR), %	2013	Since first investment May 2012
East Capital Baltic Property Fund II, EUR	14	21

### Properties in the portfolio

	% of portfolio	Performance,%*	Country	Sector
Tännasilma Logistics	64	25.9	Estonia	Logistics
Deglava Prisma	20	3.7	Latvia	Retail
Gedimino 9 (GO9)	16	4.6	Lithuania	Retail

\* Change in share price during 2013, EUR

# East Capital Special Opportunities Fund II

## Fund comment

The Fund's two largest holdings, Slovenian insurance company Zavarovalnica Triglav and Serbian confectionary producer Bambi, represented a total of 43.2 percent of the portfolio's NAV at the end of 2013. Both holdings had a positive performance in 2013.

The Triglav share rose by 28 percent during the year. East Capital participated in the company's AGM, and together with other shareholders managed to increase the dividend pay-out from EUR 0.4 per share in 2011 to EUR 2 per share in 2013. The company reported strong results during the year, with risk perception of Slovenia decreasing after the country recapitalised its banks without asking for international support.

Bambi rallied by 17 percent in 2013, following significant buybacks during the year. By the end of the period, the company had accumulated 8 percent of outstanding shares in treasury although the company had already cancelled 21 percent. If all the remaining treasuries are cancelled, East Capital's stake in the company could increase to above 10 percent.

Bambi reported impressive results with first half 2013 sales rising 15 percent on the previous year and net profit surging by 90 percent.

In August, the controlling stake in Russian pharmaceutical producer Verofarm was sold by its previous major shareholder Pharmacy Chain 36.6 to MKB Capital, which announced a buyout offer to minorities at a 33 percent premium to the market price. The company has a number of obstacles ahead, such as high capital expenditures during the next two years to meet requirements by the Russian government to install new GMP-compliant facilities. Also, as competition among generic producers intensifies, profitability may deteriorate. Thus East Capital's shares in Verofarm were included in the tender offer which expired in January 2014. Prior to this, the stock represented 12 percent of the Fund's NAV.

A major divestment from Hungarian real estate developer Ablon at a 25 percent premium to market price was completed, which contributed 0.6 percent to the Fund's NAV. East Capital's holding in Ablon was acquired in

2009 on expectations that the low valuation would be rerated after listing on the London and Budapest exchanges. However, over time, the company started having cash flow and bank payment problems and development projects were stalled. Following meetings with management and other shareholders, East Capital decided to sell by the end of 2012.

Shares in the illiquid holding Rao Far East were used as a payment in the additional share issue of RusHydro, the controlling shareholder of the Rao Far East. East Capital in return received shares in the more liquid RusHydro, now representing 4 percent of the Fund.

Jacob Grapengiesser  
Partner and Senior  
Advisor, East Capital



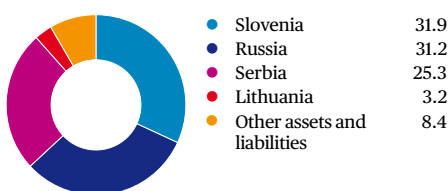
## Fund facts

The aim of the fund is to invest in companies with a solid business model and outlook, which for market or owner specific reasons could be acquired at low valuation levels. The fund has targeted investments in the whole Eastern European region, with both a clear trigger for revaluation and an exit opportunity within four years from the launch of the fund. East Capital Explorer's annualized return since the first investment in 2010 is -18.7 percent.

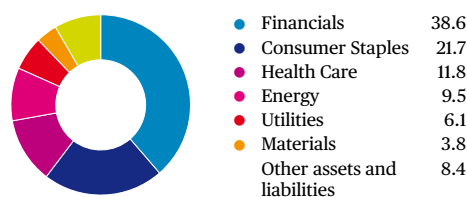
Launch date	30 September 2010
Risk	High
Minimum investment	EUR 125,000
Volatility since inception	15%
Management fee	2.0%
Performance fee	20% on realized profits, hurdle rate of 7% (with a 50/50 catch-up)
Redemption fee	1% (Max 10% of NAV per quarter)
ISIN code	KYG2906U1076
Bloomberg	ECSHAE LX
East Capital Explorer's share on 31 Dec 2013	57% of the Fund
10 largest holdings	89% of the Fund
Unlisted holdings	8% of the Fund
Total number of holdings	14

Fund performance (EUR), %	2013	Since first investment Oct 2010
East Capital Special Opportunities Fund II	-8	-49

## Country breakdown, %



## Sector breakdown, %



## Top 10 holdings

Company	Weight, %	Performance, %*	Contribution, %	Country	Sector
Zavarovalnica Triglav	24.7	28.3	4.5	Slovenia	Financials
Bambi	18.5	17.1	2.1	Serbia	Cons. Staples
Verofarm	11.8	1.1	-0.1	Russia	Health Care
Nfd 1 Delniski Investicijski Sklad Dd	7.1	-7.2	-0.6	Slovenia	Financials
AIK Banka	6.8	0.6	-0.1	Serbia	Financials
IG Seismic Service GDR	5.7	44.8	1.4	Russia	Energy
Hydro Ogc	4.0	2.4	0.1	Russia	Utilities
Integra	3.9	12.0	0.3	Russia	Energy
Sibirskiy Cement	3.8	-15.5	-0.7	Russia	Materials
Linas Agro Group	3.2	20.2	0.4	Lithuania	Cons. Staples

\* Change in share price during 2013, EUR

# East Capital Special Opportunities Fund

## Fund comment

East Capital Special Opportunities Fund delivered a growth of 21.8 percent in 2013, resulting in a 37.4 percent performance since inception. The investment period is now complete and the Fund made several successful exits during the period. Divestments included Russian generic producer Verofarm, Russian provider of land seismic services, IG Seismic Services, Russian oil field service operator Integra Group and a number of other smaller companies.

The Fund's largest holding, Romanian restitution fund, Fondul Proprietatea (FP), was the top performer with a 21.2 percent positive contribution to the Fund's performance. The stock gained 61 percent during the period. There were three key reasons for this strong performance. Firstly, a favourable court ruling at the beginning of March that enabled FP to launch an extensive EUR 150m share buyback program. Secondly, the successful listing of Romgaz above book value and thirdly, an extended management contract with Templeton that was modified on initiative of several large institutional shareholders, including East

Capital. FP's dividends yield in combination with active measures to reduce its discount, makes it an attractive investment for East Capital also going forward.

The second best contributor was the car manufacturer Sollers, which added 4.6 percent to the Fund's performance. Sollers was off to a slow start in light of a poorer outlook for car sales in Russia for 2013. The stock nevertheless ended the year with a strong rally. East Capital remains positive, supported by attractive opportunities from the Ford joint venture that will be fully operational by 2015, which is expected to have a positive effect on Sollers' earnings in the coming years. East Capital is also positive towards Sollers' ongoing efforts to improve its corporate governance, which is expected to give additional support to the share.

In contrast, Russian nuclear fuel producer Mashstroy, which was revalued down by 66 percent, contributed a negative 2.5 percent to the Fund's performance. The State Duma last summer approved a law limiting the trading of shares in Russian nuclear production compa-

nies without approval by the President of the Russian Federation. East Capital is in contact with the State Duma and the Financial Supervisory Authority to lobby for a buyout opportunity for minority investors of the companies affected by the above-mentioned law.

**Jacob Grapengiesser**  
Partner and Senior  
Advisor, East Capital



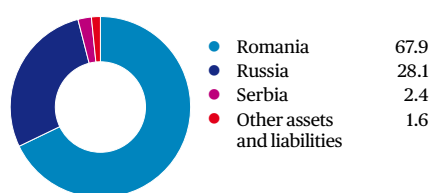
## Fund facts

The aim of the fund is to invest in companies with a solid business model and outlook, which for market or owner specific reasons could be acquired at low valuation levels. The fund has targeted investments in the whole Eastern European region, with both a clear trigger for revaluation and an exit opportunity within four years from the launch of the fund. East Capital Explorer's annualized return since the first investment in 2009 is 10.2 percent.

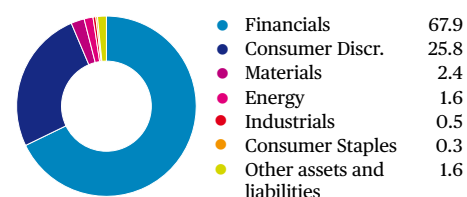
Launch date	8 May 2009
Risk	High
Minimum investment	Closed for further subscriptions
Volatility since inception	25%
Management fee	2.0%
Performance fee	20% on realized profits, hurdle rate of 7% (with a 50/50 catch-up)
Redemption fee	1% (Max 10% of NAV per quarter)
ISIN code	KYG2906U1076
Bloomberg	EACASPU KY
East Capital Explorer's share on 31 Dec 2013	83% of the Fund
10 largest holdings	98% of the Fund
Unlisted holdings	0% of the Fund
Total number of holdings	7

Fund performance (EUR), %	2013	Since first investment May 2009
East Capital Special Opportunities Fund	22	37

## Country breakdown, %



## Sector breakdown, %



## Top 10 holdings

Company	Weight, %	Performance,%*	Contribution, %	Country	Sector
Fondul Proprietatea	67.9	61.0	21.2	Romania	Financials
Sollers	25.8	18.8	4.6	Russia	Consumer Discr.
Stirol	2.2	-9.3	-0.2	Ukraine	Materials
Mashstroy	1.6	-66.0	-2.5	Russia	Energy
Trans Signalstroy	0.5	-47.9	-0.3	Russia	Industrials
Sintal	0.3	-77.6	-0.9	Ukraine	Consumer Staples
Belon	0.2	-61.6	-0.5	Russia	Materials

\* Change in share price during 2013, EUR

# East Capital Bering Ukraine Fund R

## Fund comment

Given the difficult political and economic situation in Ukraine, the Fund's focus in 2013 was to exit as many positions as possible, while supporting the remaining ones. Three holdings were divested during the year, resulting in a distribution of EUR 1.7m to East Capital Explorer. Adjusted for this distribution, the Fund's performance was a negative 25.1 percent for the year.

The do-it-yourself retailer Nova Linya was sold in a two-step transaction where the first part was completed in September and the second in December. Nova Linya's performance had been deteriorating during the year and by the time East Capital sold its shares the situation was critical, with rapidly declining sales and large losses. The sale price was 46 percent below the value at the beginning of 2013. Given the risk of continued value loss and possibly default, the Fund decided that selling was a more prudent choice than holding, in which case a capital increase probably would have been necessary.

In connection with the sale of Nova Linya, the Fund also divested its holding in Henry-

land, the real estate company holding properties leased by Nova Linya. The sale was at 15 percent below the value at the beginning of the year.

The real estate company Cantik's performance continued in line with 2012. The occupancy rate has remained high at above 98 percent throughout the year and Ebitda ended at EUR 5.4m, or 1 percent below the 2012 level. Each year, an international real estate consultancy performs an external valuation per end-December. Due to the current macro-economic and political instability in Ukraine, the risk premium increased significantly. For this reason, the external valuation resulted in a write-down of the holding by 23 percent compared to the previous year.

The food processing company Chumak continued to perform relatively well in 2013, despite difficult market conditions. For the full year, local currency revenues grew by 5 percent compared to the previous year, while the market was flat or declining for the company's main categories. Preliminary 2013 figures indicate a profitability slightly above 2012 levels.

The annual external valuation led to a 20.3 percent decrease in the value of Chumak compared to a year earlier.

In December, the Fund sold its holding in Estonian road construction company Trev-2 Group to East Capital Explorer, at a price 12 percent higher than the Fund's book value. The price was based on an external valuation.

**Aivaras Abromavicius**  
Partner and Senior  
Advisor, East Capital



## Fund facts

The aim of the fund is to achieve long term capital appreciation from investments in Ukrainian equities. The fund may also invest in companies that have significant trade with, or active investments in, Ukraine. The fund is split into two classes: Class A, comprising mainly of listed holdings; and Class R that comprises the illiquid private equity assets. East Capital Explorer's annualized return since the first investment in 2008 is -22.0 percent.

Launch date	1 January 2010
Risk	High
Minimum investment	USD 150,000
Volatility since inception	50%
Management fee	2%
Performance fee	20% above high water mark
Redemption fee	Closed for redemption
ISIN code	KYG290652505
Bloomberg	BERINGU KY
East Capital Explorer's share on 31 Dec 2013	12% of the Fund
10 largest holdings	82% of the Fund
Unlisted holdings	100% of the Fund
Total number of holdings	4

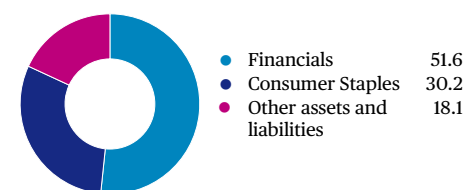
Fund performance (EUR), %	2013	Since first investment Jan 2008
East Capital Bering Ukraine Fund R	-25	-78
PFTS Index <sup>1</sup>	-14	-83

<sup>1</sup> The PFTS Index is the Ukraine stock market index composed of the twenty largest shares on the stock exchange in Kiev.

## Country breakdown, %



## Sector breakdown, %



## Top 10 holdings

Company	Weight, %	Performance, %*	Contribution, %	Country	Sector
Cantik	49.7	-22.9	-11.2	Ukraine	Financials
Chumak	30.2	-20.3	-4.2	Ukraine	Consumer Staples
Rtc Irpin	1.9	-4.3	-0.1	Ukraine	Financials

\* Change in share price during 2013, EUR

# East Capital Bering Balkan Fund

## Fund comment

Active ownership continues to be one of the main themes for East Capital. Another focus area has been portfolio concentration. Ten positions were divested in 2013, bringing the total number of divestments since 2012 to close to 30.

The most positive contribution to the Fund came from the largest holding, Romanian restitution fund Fondul Proprietatea, which gained an impressive 52 percent in 2013 after an already strong 2012. Among key performance triggers are privatization and that a buyback program was enabled. Privatization took off with the successful IPOs of two of Fondul's larger holdings Romgaz and Nuclearelectrica. The discount to NAV shrunk from 48 percent to 33 percent over the course of the year. The large discount combined with an attractive dividend yield makes East Capital optimistic about the stock going forward.

Among other strong contributors were the two Slovenian insurance companies Sava Re and Zavarovalnica Triglav, both ranked among the top five largest holdings in the Fund. Triglav has continued to deliver solid results, increasing 9m 2013 earnings by 14 percent.

East Capital has taken an active ownership role in Triglav in nominating an independent Board member and being instrumental in increasing the company's dividend per share by 150 percent over the last two years, resulting in a dividend yield of more than 10 percent.

After gaining 25 percent in 2013, the Triglav share traded at an attractive level, according to East Capital. Sava Re, on the other hand, made a significant acquisition doubling the size of its business. In order to finance the deal, Sava Re made a share capital increase, in which East Capital was one of the anchor investors. The stock returned 13 percent in 2013 and has increased by 20 percent since the SPO price.

At the other end, the Fund performance was negatively affected by an external valuation of Serbian media company B92. The valuation reduced the value of the B92 share by almost 60 percent, which had a negative effect corresponding to 9 percent of the Fund's overall performance in 2013. The lower valuation was based on relatively conservative assumptions and negatively revised profit development, on the back of a difficult adver-

tising market in combination with aggressive competition. East Capital continues the active work at Board level and has together with its strategic partner prepared a new strategy that will hopefully help turn the business around over the next three years.

Jacob Grapengiesser  
Partner and Senior  
Advisor, East Capital



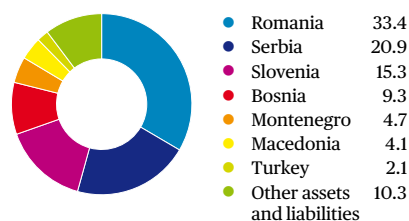
## Fund facts

The aim of the fund is to achieve long term capital appreciation from investments in Balkan equities, both listed and unlisted. The fund may also invest in companies that have significant trade with, or active investments in, the Balkan countries. East Capital Explorer's annualized return since the first investment in 2007 is -5.6 percent.

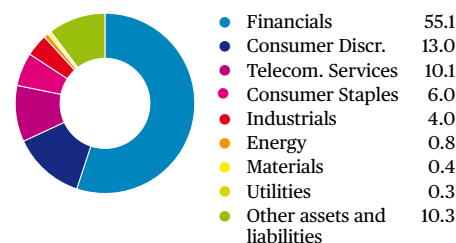
Launch date	31 July 2006
Risk	High
Minimum investment	USD 150,000
Volatility since inception	30%
Management fee	2%
Performance fee	20% above high water mark
Redemption fee	Year 1: 20% Year 2: 15% Year 3: 10% Year 4: 5%
ISIN code	KYG290601031
Bloomberg	BERINGB KY
East Capital Explorer's share on 31 Dec 2013	73% of the Fund
10 largest holdings	61% of the Fund
Unlisted holdings	5% of the Fund
Total number of holdings	50

Fund performance (EUR), %	2013	Since first investment Dec 2007
East Capital Bering Balkan Fund	6	-54

## Country breakdown, %



## Sector breakdown, %



## Top 10 holdings

Company	Weight, %	Performance, %*	Contribution, %	Country	Sector
Fondul Proprietatea	17.3	61.0	7.8	Romania	Financials
B92	9.3	-49.6	-8.9	Serbia	Cons. Discretionary
Reinsurance Co Sava	6.4	13.9	0.7	Slovenia	Financials
Montenegro Telekom	4.4	46.3	1.5	Montenegro	Telecom. Services
Impact	4.3	370.1	3.5	Romania	Financials
Zavarovalnica Triglav	4.2	25.1	1.2	Slovenia	Financials
Sif 4 (Muntenia)	4.0	31.9	1.0	Romania	Financials
Sif 5 (Oltenia)	3.9	51.1	1.3	Romania	Financials
Telekom Srpske	3.7	21.1	0.6	Bosnia	Telecom. Services
Komercijalna Banka Skopje	3.6	-20.9	-1.0	Macedonia	Financials

\* Change in share price during 2013, EUR

# East Capital Bering Russia Fund

## Fund comment

As a result of significant reallocation within the Fund, its holding in Bank Saint-Petersburg was increased in 2013. East Capital believes that the bank's valuation hit bottom during the year, after having had bad loan problems. Bank Saint-Petersburg was considered by East Capital as being the most attractively valued banking stock, with the largest upside potential.

The Fund's second biggest holding, Russia's largest pharmaceuticals distributor Protek, returned an impressive 58 percent during the year adding 2.5 percent to NAV. The company turned around following a share price drop of more than 70 percent after an overpriced IPO in 2010. Protek consistently reported impressive results throughout 2013, while improving its communications within the investment community and outlining a clear dividend strategy that yields approximately 10 percent. Still, the company remains attractively valued, according to East Capital.

East Capital tendered its shares in the buyout offer for Nomos Bank when taken private by new owners. At the beginning of the year, the stock represented 10 percent of the Fund.

The Fund also exited automotive conglomerate GAZ after the Swedish CEO Bo Anderson, who was seen as instrumental in the company's turnaround and improved corporate governance, left the company. The stock lost 54 percent and contributed negatively to the Fund's performance by 3 percent.

Russian pharmaceutical producer Vero-farm reported a severe dip in sales at the beginning of 2013 after intensified competition in the market of generic products put further pressure on public tender pricing. In August, the new owners MKB Capital announced a buyout offer for minorities, following a change in control after Pharmacy chain 36.6 exited the company. The deal and buyout was followed through at a 33 percent premium to the market price. East Capital decided to participate in the tender offer given a questionable upside in the stock and assumptions that the next two years would most likely be challenging for the company, following large CAPEX requirements for new GMP compliant facilities, which will become obligatory in Russia by the end of the year.

Jacob Grapengiesser  
Partner and Senior  
Advisor, East Capital



## Fund facts

The aim of the fund is to achieve long term capital appreciation from investments in Russian equities, both listed and unlisted. The fund may also invest in companies that have significant trade with, or active investments in, Russia. East Capital Explorer's annualized return since the first investment in 2007 is -11.6 percent.

Launch date	1 June 2004
Risk	High
Minimum investment	USD 150,000
Volatility since inception	31%
Management fee	2%
Performance fee	20% above high water mark
Redemption fee	Year 1: 10% Year 2: 7.5% Year 3: 5% Year 4: 2.5%
ISIN code	KYG290611014
Bloomberg	BERINGF KY
East Capital Explorer's share on 31 Dec 2013	59% of the Fund
10 largest holdings	50% of the Fund
Unlisted holdings	13% of the Fund
Total number of holdings	53

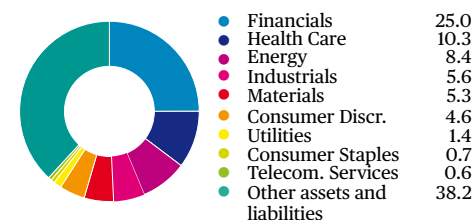
Fund performance (EUR), %	2013	Since first investment Dec 2007
East Capital Bering Russia Fund	-17	-67
RTS-2 Index <sup>1</sup>	-24	-45

<sup>1</sup> The Russian Trading System Second-tier Stock Index is the Russian mid-cap stock market index composed of 78 companies on the RTS that have limited trading volumes.

## Country breakdown, %



## Sector breakdown, %



## Top 10 holdings

Company	Weight, %	Performance, %*	Contribution, %	Country	Sector
Bank Sankt-Peterburg	11.9	-26.5	-1.0	Russia	Financials
Protek	9.9	57.9	2.5	Russia	Health Care
Integra	6.3	-2.1	0.9	Russia	Energy
Cantik	5.5	-22.9	-1.5	Ukraine	Financials
FESCO	4.0	-63.1	-4.8	Russia	Industrials
Rosinter	3.3	-22.8	-0.7	Russia	Cons. Discretionary
Bank Tsentrkredit	3.2	-15.3	-0.6	Kazakhstan	Financials
Highland Gold Mining	2.4	-37.1	-1.0	Russia	Materials
Moskovskiy Bank Rek.I Razvitiya	1.6	-26.3	-0.4	Russia	Financials
Ob Ng Geology	1.3	-24.2	-0.3	Russia	Energy

\* Change in share price during 2013, EUR

# East Capital Bering Central Asia Fund

## Fund comment

East Capital Bering Central Asia fund gained 26.5 percent in 2013, which compares positively to the Kase index that lost 11 percent during the year. Bank of Georgia, that has been the Fund's top holding for many years, was the largest positive contributor to the Fund. This stock contributed 14 percent to performance, while the stock's total return reached 75 percent during the period. Amid the share price surge, the holding was sold off during 2013. Despite the fact that East Capital is still positive to the bank's management team and its strategies, the valuation was considered strained given the region's political risks and the size of the bank's operations, especially in comparison to its Russian peers.

The second largest holding entering 2013 was the Kazakh telecom operator KCell that was listed on the stock exchange in 2012. Solid operating performance and high governance standards coupled with a high dividend yield led East Capital to increase the exposure further in the second quarter of 2013, making KCell the Fund's largest holding. KCell continued to perform well, contributing 8 percent performance to the Fund by the end of 2013. At year-end, the stock traded at attractive

valuation multiples. The third largest contribution to fund performance originated from Caucasus Energy and Infrastructure. Despite being revalued sharply up during the year, the valuation of the share still implied more than 50 percent discount to its book value.

Teliani Valley, Georgia's largest wine maker in revenue terms, began exporting wine to Russia in the fourth quarter, following the lift of a ban on Georgian wine earlier in the year. For the full year, Teliani's revenues grew by approximately 25 percent and the share price consequently gained 70 percent over the period.

One of the portfolio's oil stocks, Dragon, had a positive performance, advancing 6 percent over the year, in the wakes of satisfactory drilling results in line with expectations. The other oil stock, KMG EP, had a negative performance of some 10 percent, after failing to bring production in line with its communicated targets in terms of growing domestic sales.

Aivaras Abromavicius  
Partner and Senior  
Advisor, East Capital



## Fund facts

The aim of the fund is to achieve long term capital appreciation from investments in Central Asian equities, both listed and unlisted. The fund may also invest in companies that have significant trade with, or active investments in, the Central Asian countries. East Capital Explorer's annualized return since the first investment in 2008 is -4.4 percent.

Launch date	28 February 2007
Risk	High
Minimum investment	USD 150,000
Volatility since inception	27%
Management fee	2%
Performance fee	20% above high water mark
Redemption fee	Year 1: 20% Year 2: 15% Year 3: 10% Year 4: 5%
ISIN code	KYG2906R1048
Bloomberg	BERINGC KY
East Capital Explorer's share on 31 Dec 2013	67% of the Fund
10 largest holdings	68% of the Fund
Unlisted holdings	1% of the Fund
Total number of holdings	17

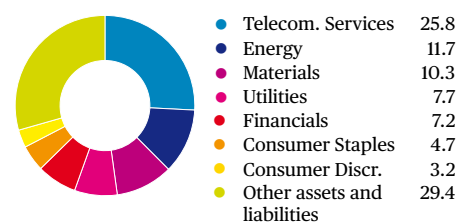
Fund performance (EUR), %	2013	Since first investment Jan 2008
East Capital Bering Central Asia Fund	27	-46
KASE Index <sup>1</sup>	-11	-71

<sup>1</sup>The Kazakhstan Stock Exchange index is composed of the seven most traded companies on the exchange

## Country breakdown, %



## Sector breakdown, %



## Top 10 holdings

Company	Weight, %	Performance,%*	Contribution, %	Country	Sector
KCell	25.8	48.4	8.0	Kazakhstan	Telecom. Services
Caucasus Energy & Infrastructure	7.7	120.5	6.0	Georgia	Utilities
Steppe Cement	6.8	67.2	3.1	Kazakhstan	Materials
Dragon Oil	5.5	6.3	0.4	Turkmenistan	Energy
Halyk Bank	5.1	26.5	0.9	Kazakhstan	Financials
Kazmunaygaz	4.3	-9.8	-0.5	Kazakhstan	Energy
Teliani Valley	4.3	69.9	1.6	Georgia	Cons. Staples
Chagala Group	3.2	2.1	-0.1	Kazakhstan	Cons. Discretionary
Kazakhmys	3.2	-71.3	-0.4	Kazakhstan	Materials
Bank Tsentrkredit	2.1	-13.3	-0.5	Kazakhstan	Financials

\* Change in share price during 2013, EUR

# East Capital Bering Ukraine Fund A

## Fund comment

Ukraine remained one of the weakest markets in our geographical scope for the second year running. East Capital Bering Ukraine Fund A however finished the year ahead of its benchmark index with a performance of -12 percent, compared to the benchmark index that lost -14 percent (EUR). The two largest Fund holdings, Bank Aval that is a subsidiary of Raiffeisen Bank International (RBI), and poultry producer Myronivsky Hliboproduct (MHP), that together constitute over 20 percent of the Fund, were among the best performers with returns of 24.7 percent and 11.9 percent, respectively. Most of the remaining key positions declined during the year, due to either lack of investor interest for local companies such as Ukrtelecom and Retail Group, or negative news flow from companies such as Tsentr Energo, or a combination of the two.

MHP was unquestionably in the spotlight during the first half of the year. At the beginning of March, the company started paying up to 50 percent of profits in dividends as a result of declining capital expenditures. It hence became the first Ukrainian consumer company to share profits with minority holders. The news dominating the remaining part of the year

was less exciting, however. High fodder costs and poultry price deflation markedly eroded the company's profitability. MHP has said that it expects declining grain prices to lower input costs starting with the new harvesting season in the autumn of 2014, which should result in higher profitability for the full year 2014.

Similar to MHP, Bank Aval also enjoyed solid interest from investors during the year. Operational results improved quarter by quarter, which was welcomed by the market. Bank Aval, with the fifth largest bank assets in a country of forty-six million people, has become one of the most profitable banks in the region. Despite net interest margins of 8.6 percent for the first nine months of the year, East Capital finds the valuation of Bank Aval very low. The share price received a second breath towards the end of the year, when rumors spread that Bank Aval's main owner, RBI, may be considering selling its Ukrainian subsidiary. RBI later confirmed that the bank had indeed been approached by various parties and was currently reviewing offers. Should there be a change of ownership, East Capital believes it would likely take place at a significant premium to the current market price.

The share price of the Fund's third largest holding, fixed line telecom operator Ukrtelekom, declined by 23.5 percent in 2013. The share had a rally during the second quarter, when the company announced that System Capital Management, the largest business conglomerate in Ukraine, took over the company from Austrian EPIC Group. However, lack of strategy by the new management led the stock to decline again.

Electric utility company Tsentr Energo lost 28.5 percent in 2013, becoming one of the weakest stocks in the Fund in 2013 after a severe fire damaged one of the company's plants that produced a third of its total electricity output.

**Aivaras Abromavicius**  
Partner and Senior  
Advisor, East Capital



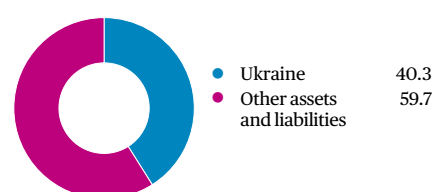
## Fund facts

The aim of the fund is to achieve long term capital appreciation from investments in Ukrainian equities. The fund may also invest in companies that have significant trade with, or active investments in, Ukraine. The fund is split into two classes: Class A, comprising mainly of listed holdings; and Class R that comprises the illiquid private equity assets. East Capital Explorer's annualized return since the first investment in 2008 is -21.7 percent.

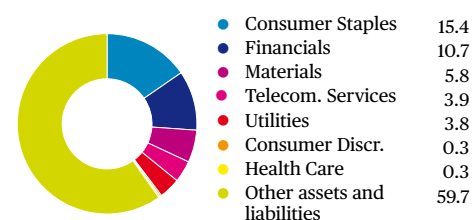
Launch date	29 July 2005
Risk	High
Minimum investment	USD 150,000
Volatility since inception	34%
Management fee	2%
Performance fee	20% above high water mark
Redemption fee	Year 1: 20% Year 2: 15% Year 3: 10% Year 4: 5%
ISIN code	KYG290651028
Bloomberg	BERINGU KY
East Capital Explorer's share on 31 Dec 2013	25% of the Fund
10 largest holdings	39% of the Fund
Unlisted holdings	6% of the Fund
Total number of holdings	17

Fund performance (EUR), %	2013	Since first investment Jan 2008
East Capital Bering Ukraine Fund A	-12	-76
PFTS Index <sup>1</sup>	-14	-83

## Country breakdown, %



## Sector breakdown, %



## Top 10 holdings

Company	Weight, %	Performance, %*	Contribution, %	Country	Sector
Bank Aval	10.4	24.7	1.0	Ukraine	Financials
Myronivsky Hliboproduct	10.3	11.9	1.6	Ukraine	Consumer Staples
Ukrtelecom Jsc	3.9	-23.5	-1.6	Ukraine	Telecom. Services
Tsentr Energo	3.8	-28.5	-3.3	Ukraine	Utilities
Retail Group	3.2	-2.1	-0.5	Ukraine	Consumer Staples
Koryukivska Fabryka Tekh. Paperiv	2.7	-6.1	-0.5	Ukraine	Materials
Stirol	1.7	-6.6	-0.4	Ukraine	Materials
Poltava	1.4	-25.7	-0.7	Ukraine	Materials
Sun Interbrew Ltd	1.0	7.0	-0.1	Ukraine	Consumer Staples
Ukrprodukt	0.9	-2.0	-0.0	Ukraine	Consumer Staples

\* Change in share price during 2013, EUR

<sup>1</sup> The PFTS Index is the Ukraine stock market index composed of the twenty largest shares on the stock exchange in Kiev.

## Restructured Funds

As of 1 January 2014, East Capital restructured parts of its alternative investment funds, in which East Capital Explorer has invested. The restructuring concerns four of East Capital's Bering funds - East Capital Bering Russia Fund, East Capital Bering Balkan Fund, East Capital Bering Central Asia Fund and East Capital Bering Ukraine Fund A - which have been transferred into two new funds, East Capital New Markets Fund and East Capital Deep Value Fund. The change comes partly to adapt the funds to the new EU directives for Alternative Investment Fund Managers (AIFMD) while, at the same time, it increases transparency in East Capital Explorer's portfolio.

### East Capital New Markets Fund

#### Fund facts

Launch date	1 January 2014
Risk	High
Minimum investment	EUR 125 000
Management fee	2%
Performance fee	20% in excess of Benchmark
ISIN code	LU1001588174
East Capital Explorer's share on Jan 2004	69%

The investment objective of the East Capital New Markets Fund is to give exposure to some of the fastest growing markets and companies in Eastern Europe, in particular Russia, other CIS countries and the Balkans. The Fund is a more concentrated pan-eastern European frontier fund, focusing on the largest but also second tier companies on these markets. East Capital will work actively with the investments and companies will be selected on their valuations and operational merits, but also on their fit in the current market environment. East Capital might take an active shareholder role in search of good value realization. This includes board member nominations and shareholder actions in order to assure minority rights and proper corporate governance standards.

The fund manager aims to outperform the relevant market return as specified by the composite MSCI frontier and CIS index.



### East Capital Capital Deep Value Fund

#### Fund facts

Launch date	1 January 2014
Risk	High
Minimum investment	EUR 125,000
Management fee	2%
Performance fee	20% in excess of i) High watermark and ii) Hurdle rate
ISIN code	LU1001588331
East Capital Explorer's share on Jan 2004	66%

The strategy of the East Capital Deep Value Fund is to give investors exposure to the most conservative market valuations and to companies with strong revenue generation where there is a significant potential for revaluation. This includes private equity holdings as well as small and medium sized companies with proven business models at attractive valuations. East Capital might seek turnaround cases and be an active shareholder in its portfolio investments in the search of good value realization. This includes board member nominations and shareholder actions in order to assure minority rights and proper corporate governance standards, pushes for trade sale, repurchase of shares or other value realization measures. The returns of the fund will be less linked to general market returns as the portfolio companies normally are found outside of the main indices.



# 3

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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.

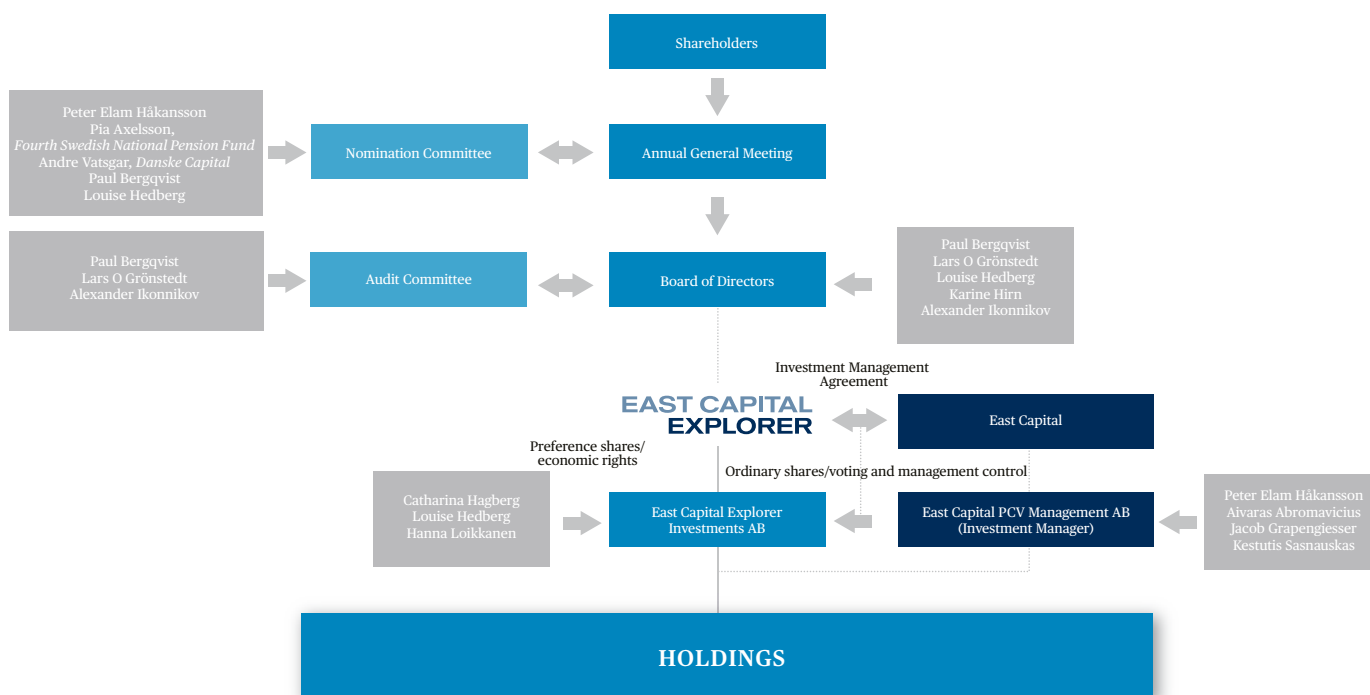
The Company complies with the Swedish Corporate Governance Board.

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:

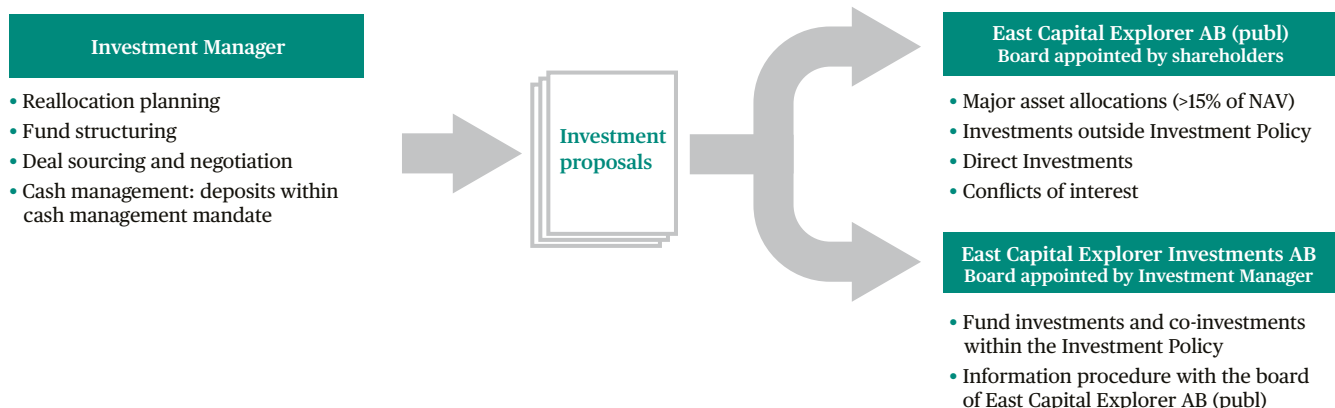
- Decisions on investments constituting more than 15 percent of NAV at the time of the investment;
- Direct investments (with no co-investment);
- Deviations to the Investment Policy; and
- Investments implying a conflict of interest between the East Capital Explorer Group and the East Capital Group.

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>

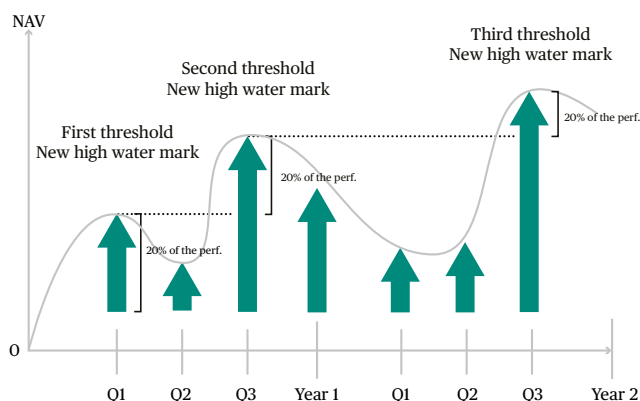
<sup>1</sup> These numbers differ from fees reported as expenses in the Comprehensive Income Statement as they include fees generated in unconsolidated fund investments and exclude fees attributable to non-controlling interests in consolidated funds.

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

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

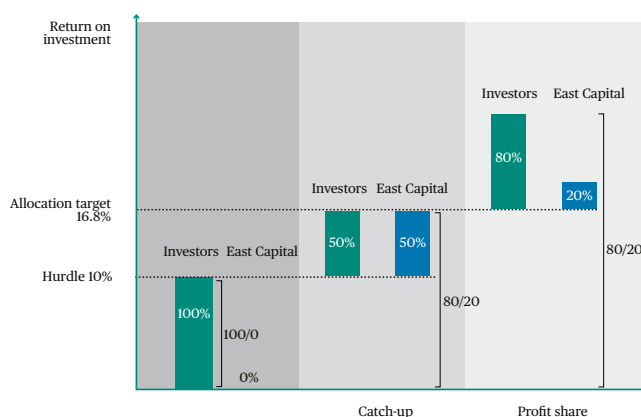
<sup>4</sup> Part of the amount will be paid out in 2016 if the value persist, while the rest is not to be paid until a later stage depending on the value development of the underlying direct investment.

### 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

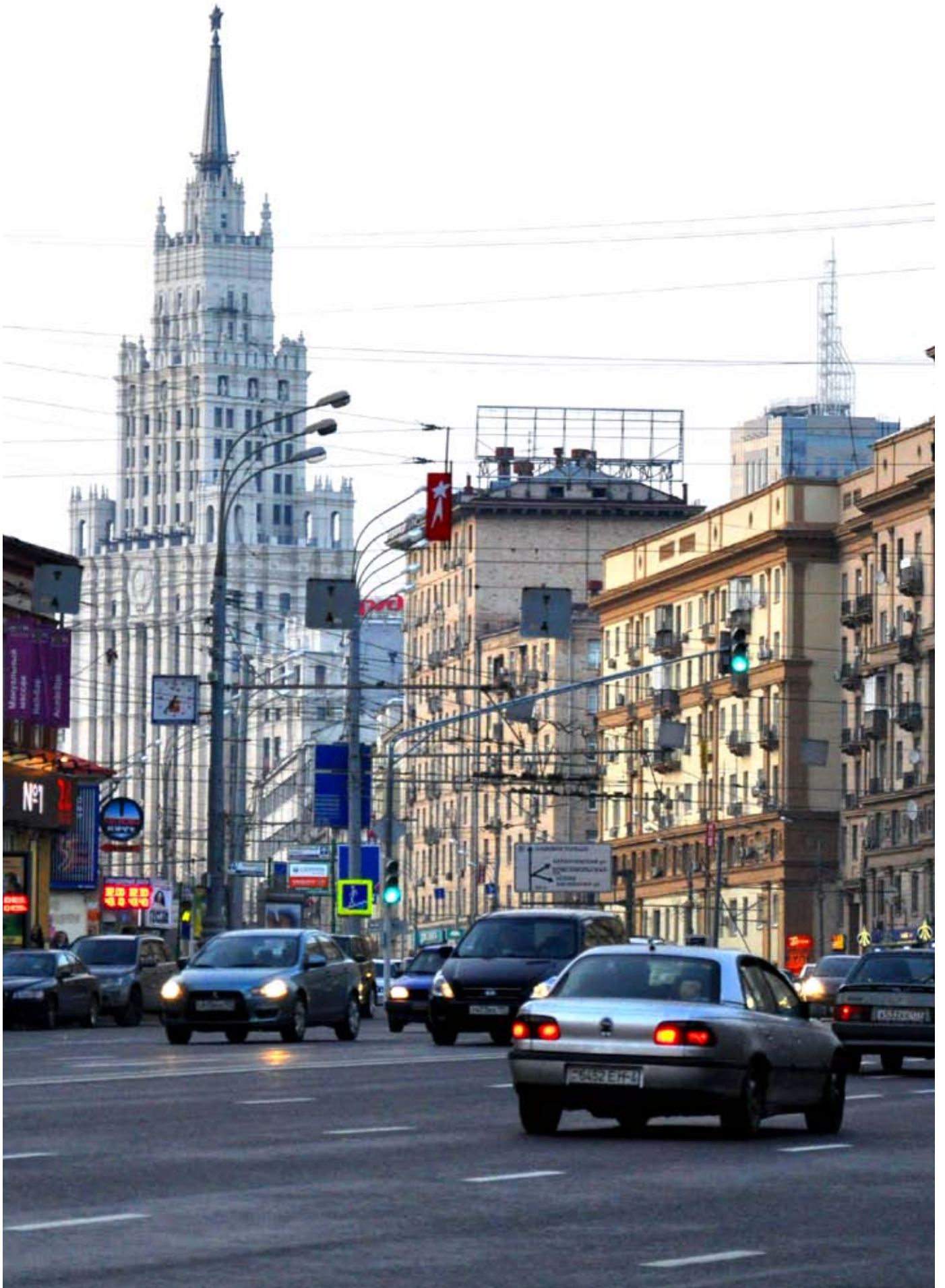
East Capital Explorer has produced governance documents aimed at ensuring the quality of the internal control regarding investment management and financial reporting. The Information Policy describes the manner in which East Capital is to communicate financial and other information to the market in accordance 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)







# Administration Report

The board of Directors of East Capital Explorer AB (publ), (East Capital Explorer AB, the Company) Corporate registration Number 556693-7404, hereby submits the consolidated financial statements for the year 1 January - 31 December 2013 and the annual report for the Parent Company for the financial year 1 January - 31 December 2013.

## The Group

East Capital Explorer AB (publ) is a Swedish company, created with the specific aim of bringing unique investment opportunities in Eastern Europe to a broader investor base. The Company is listed on NASDAQ OMX Stockholm, Mid Cap, which entails advantages, such as liquidity and transparency. The East Capital Explorer Group makes direct investments into private and listed companies as well as invests in East Capital's special fund products.

The Group consists of the Parent Company East Capital Explorer AB (publ), the operating subsidiary East Capital Explorer Investments AB, Humarito Ltd and as of 30 May 2013 also Baltic Cable Holding OÜ (Starman). East Capital Explorer Investments AB manages the Group's investment activities and portfolio in accordance with the investment policy.

Due to the application of changed IFRS (IFRS 10) control requirements, starting 2013, East Capital Explorer AB is no longer consolidating its fund investments in those cases in which the Company was previously regarded as having a controlling influence. Effectively, all fund holdings are, instead, reported at fair value in the financial statements. The application of IFRS 10 for annual periods begins on or after 1 January 2014, but earlier application is permitted. East Capital Explorer decided to implement the standard starting 1 January 2013. All comparable figures for the corresponding period in the previous year have been restated. See note 28.

The Company's functional currency and presentational currency is euro (EUR).

## Net asset value

The total net asset value at year-end amounted to EUR 311m (EUR 301m)\*. This was an increase of 3.4 percent (2.4 percent) compared to 31 December 2012. Note that distributions to shareholders through a redemption program decreased the total net assets value with EUR 14.3m during 2013. However, this effect was offset by the positive results which brought the total change to a net increase.

The net asset value per share at year end was EUR 9.89 (EUR 9.10). The investment portfolio was divided into three segments, where 35 percent (20 percent) was held in direct

investments, 59 percent (65 percent) in East Capital funds and the remaining 6 percent (15 percent) was held in cash and cash equivalent and short term investments.

## Results

Total Comprehensive Income for the year 2013 amounted to EUR 25.0m (EUR 14.5m), which included fair value adjustments on cash flow hedges of EUR -0.3m (-).

Net profit for the year amounted to EUR 25.3m (EUR 14.4m) including EUR 31.7m (EUR 18.4m) of changes in value of portfolio investments. EUR 24.7m (EUR 14.3m) of net profit was attributable to the shareholders of the Parent Company, corresponding to earnings per share of EUR 0.79 (EUR 0.42).

The main contribution to net profit refer to value changes from the investment portfolio of EUR 31.7m (EUR 18.4m) and EUR 4.3m (EUR 2.4m) from dividend.

Net sales and other operating income refer to the operations in Starman, acquired in May, which contributed EUR 17.8m in total operating income and EUR 3.9m in operating profit. The Ebitda margin of the Starman operations was 48.5 percent.

Of total operating expenses of EUR -25.0m (EUR -7.2m), EUR -13.9m (-) was related to Starman (of which EUR 1.4m refers to amortisation of intangible assets included in the purchase price allocation) and EUR -2.1m (EUR -1.8m) to the Parent Company. The remaining EUR -9.1m (EUR -5.4m) was related to operating expenses in subsidiaries, mainly fees for direct investments.

To calculate total fees related to the East Capital Explorer Group, fees originated in funds should be added. The total fees accrued to the Investment Manager generated by the fund investments and direct investments held by the East Capital Explorer Group for the year amounted to EUR 12.4m (EUR 10.0m) including VAT. Of this EUR 6.3m (EUR 4.3m) was performance fees mainly attributable to direct investments. For more details about fees, please see page 51 in this report.

Financial income for the year amounted to EUR 0.1m (EUR 1.1m). The decrease is explained by a high amount of interest generated from short-term investments during 2012.

Financial expenses amounted to EUR -2.3m (EUR -0.3m). The increase in financial expenses was due to the external loan financing of Starman.

Taxes of EUR -1.3m (EUR 0.3m) were mainly withholding taxes relating to dividend received.

The Parent Company's net profit for the year amounted to EUR 23.3m (EUR 15.6m). This mainly referred to reversal of write down

of shares in East Capital Explorer Investments AB due to increased value of the investment portfolio. Operating expenses amounted to EUR -2.1m (EUR -1.8m). No investment activities were carried out in the Parent Company.

## Key events during the year

During 2013, East Capital Explorer Group made new direct- and fund investments amounting to EUR 49.9m (EUR 40.5m). Proceeds from divestments amounted to EUR 40.7m (EUR 56.0m).

External valuations were carried out on the holdings in Melon Fashion Group and Trev-2 Group, resulting in fair value adjustments of EUR 27.2m. As an effect, provisions were also made for performance fees in accordance with the investment management agreement of EUR 6.9m, including VAT. Part of this will be paid out in 2016 if the value persists, while the rest is not to be paid until a later stage depending on the value development of the underlying direct investment.

## Direct Investments

At the end of May, East Capital Explorer Investments AB acquired a majority stake of 51 percent in Starman, the leading cable TV, broadband internet and voice cable services provider in Estonia for a consideration of EUR 23.6m. Legally, the operations in Starman are owned through an Estonian holding structure. See further information in note 24, "Operations Acquired During 2013". The figures for the Group include the impact from the acquisition of Starman. Group results were only affected by seven months of Starman's activity. The structure of the Statement of Profit or Loss, Other Comprehensive Income and the Statement of Financial Position was affected by the acquisition with new line items.

In December, the Group acquired an additional 6 percent of the shares in Trev-2 Group from East Capital funds for a consideration of EUR 1.5m. The price was in line with the external valuation of Trev-2 Group which was carried out during December. After the acquisition, East Capital Explorer Investments AB holds 40 percent of the shares in Trev-2 Group.

During the year, dividend payments have been received from Komerčijalna Banka Skopje of EUR 0.4m (EUR 0.7m) and from Melon Fashion Group of EUR 3.9m (-).

## Fund Investments

During the financial year, the remaining holdings in East Capital Bering New Europe Fund, East Capital Power Utilities Fund and East Capital (Lux) Eastern European Fund were divested/redeemed at a total

\* Figures stated in parentheses refer to information for the previous financial year.

consideration of EUR 27.8m, a value which was EUR -1.1m lower than the fair value as of 31 December 2012. Payments of EUR 10.6m were received in two pay-outs from East Capital Special Opportunities Fund during the year, adding EUR 1.5m to net profit for the year. In October, the East Capital Explorer Group received EUR 1.7m from East Capital Bering Ukraine Fund R, which was in line with the valuation from previous year.

In the beginning of 2013, the Group invested EUR 25.0m in East Capital Russia Domestic Growth Fund and in May, EUR 0.7m was drawn down by East Capital Baltic Property Fund II.

### Share buyback mandate and redemption program

In light of the discount of East Capital Explorer AB's share price to Net Asset Value (NAV) and the high confidence of both the Board and Management in the Company's NAV, an extraordinary general meeting on 4 December 2012 resolved to approve a share redemption program to the Company's shareholders, allowing the shareholders to redeem 1 out of 20 shares at NAV. The Board has committed to making the same proposal to the 2014 and 2015 AGMs in case the share is trading at a discount to NAV exceeding 10 percent of the six month average NAV preceding approval of agenda for the AGM. The application period for East Capital Explorer's first offer to redeem shares ended on 14 January 2013. The offer entitled redemption of a maximum of every twentieth share held in the Company, at a redemption price of SEK 77 per share (corresponding to the NAV per share on 31 October 2012 of EUR 8.95 per share). A total of 1,600,286 shares were tendered for redemption during the redemption program, corresponding to an acceptance level of approximately 97 percent. Consequently, SEK 123.2m (EUR 14.3m) was paid out to the shareholders participating in the redemption program. Payment of the redemption amount was completed at the end of January 2013. The redemption program is replacing the Company's dividend policy and the Board intends to use its authorization for a second offer for repurchase of shares by proposing the Annual General Meeting on 22 April 2014 to allow the shareholders to redeem a maximum of every twentieth share held in the Company, at a redemption price of SEK 83 per share corresponding to the NAV per share on 28 February 2014.

### Dividend

The redemption program has replaced the Company's dividend policy and, therefore, no dividend is expected to be paid out on the ordinary shares for 2014.

### Share information

In the end of January 2013, East Capital Explorer AB cancelled the 1,600,286 redeemed shares from the first redemption offer noted

above as well as the 685,111 shares that were repurchased during the period of 8 August 2012 - 5 October 2012 through a share buyback program. The Company does not hold any own shares following the cancellation. Following completion of the redemption and cancellation, and a bonus issue effectuated in connection therewith without issuing new shares, East Capital Explorer AB's share capital amounted to approximately EUR 3.6m by 31,424,309 shares. The total number of shares in East Capital Explorer AB as of 31 December 2013 amounted to 31,424,309. The average number of shares outstanding for the reporting period was 31,424,309.

The closing price per share on 31 December 2013, the last trading day of the year, was SEK 62.25, equivalent to EUR 7.00 (SEK 49.00 equivalent to EUR 5.70). East Capital Explorer AB's share price, consequently and adjusted for dividend, increased by 22.8 percent (decreased by 3.9 percent) in EUR during the year while the OMXSPI index increased by 24.2 percent (increased by 16.5 percent) in EUR. By comparison, the RTS Index decreased by 9.5 percent (increased by 8.4 percent), the RTS 2 Index decreased by 24.1 percent (increased by 1.3 percent) and the MSCI EM Europe Index decreased by 8.6 percent (increased by 17.5 percent) in EUR. In SEK, East Capital Explorer AB's share price increased by 27.0 percent (decreased by 4.7 percent) in 2013.

### Events after the end of the period

As per 1 January 2014, East Capital restructured part of its alternative investment funds in which the East Capital Explorer Group has invested. The objective is to adapt the funds to the EU regulatory framework for alternative investment fund manager (AIFMD). Four of East Capital's Bering funds were included in the restructuring; East Capital Bering Russia Fund, East Capital Bering Balkan Fund, East Capital Bering Central Asia Fund and East Capital Bering Ukraine Fund (A), all domiciled in the Cayman Islands. At year-end, these funds comprised approximately 29 percent of the East Capital Explorer AB NAV. The assets in the funds were transferred to two new funds, East Capital New Markets Fund and East Capital Deep Value Fund, domiciled in Luxembourg. For more information, please refer to page 34 in the Year-End Report 2013 and note 13 in this report.

In order to be able to take advantage of attractive investment opportunities in assets which are estimated to generate strong cash flow and good growth, it was resolved at the Extraordinary General Meeting on 24 March 2014 to introduce a new class of shares, preference shares, in the articles of association and an authorization for the Board to, at one or several occasions before the Annual general meeting 2014, with or without deviation from the preferential rights of the shareholders,

resolve to issue no more than 1,000,000 preference shares. The two main areas of focus for new investments, the Russian and Baltic domestic consumer sector, which are expected to continue to benefit from a growing domestic consumption, and the Baltic real estate sector with current attractive prices, low interest rates and rising rents provide the conditions for an attractive dividend yield and positive growth. The new financing possibility, combined with the expected return on these investments, creates a higher return on invested capital for the owners of ordinary shares of East Capital Explorer AB.

East Capital Explorer AB will be covered by the new EU directive for alternative investment funds (AIFMD), currently being implemented across the European Union, aiming to strengthen the financial system and increase investor protection. Businesses and entities covered by the directive, including East Capital Explorer AB, are now preparing to comply with these rules within the transition period that ends on 22 July 2014. At the Extraordinary General Meeting on 24 March 2014, it was resolved to amend the articles of association in order to adapt the Company to the new directive. The directive will entail supervision and licensing requirements as well as changes to the internal organisation and reporting to shareholders. The management anticipates that the changes will be managed in a cost efficient manner by utilizing the existing organisation and resources available to East Capital, in Sweden and in Luxembourg.

In November 2013 Ukraine discontinued the discussions on cooperation with the EU and opted instead for closer economic cooperation with Russia, which led to widespread protests in Kiev, the capital of Ukraine. In January 2014, the Ukrainian government introduced a ban on demonstrations, which led to violent clashes between police and protesters. In February, the violence escalated further. By reason that the President of Ukraine, Viktor Yanukovich, gave the police permission to shoot at protesters, the Parliament chose to dismiss him on 22 February. On 1 March, the Russian President Putin gave ahead to send Russian troops to the Crimean peninsula. Already before the decision Russian troops had arrived in the area. The campaign was condemned from several parts of the world. Despite strenuous efforts to resolve the crisis diplomatically Russia chose to hold a referendum on the Crimean peninsula. The result was a clear majority for a connection to Russia. In March, Russia formally annexed the Crimea. At present, it is unclear how these decisions will affect the Russian economy and whether it will lead to economic sanctions from the outside world, which in turn may affect the East Capital Explorer Group's holdings and future investment climate.

In the February 2014 NAV report, the value of the Group's holding in Russian fashion

retailer Melon Fashion Group (MFG) was depreciated by EUR 8.5m or 12 percent, corresponding to the decline of the ruble against the euro since December 2013, when the most recent external valuation of MFG was made. The underlying growth and profitability forecasts that the valuation is based on, are however unchanged. Provisions for performance fees have been adjusted accordingly.

NAV per share on 28 February 2013 amounted to EUR 9.35 (corresponding to SEK 83). The share price on 28 February 2012 was SEK 55.25 (corresponding to EUR 6.25). Cash, cash equivalents and other short-term investments on 28 February 2013 amounted to EUR 21m. Of those, EUR 21m were available for future investments.

#### Risks and factors of uncertainty

East Capital Explorer AB has an investment and finance policy with the purpose of providing guidelines for managing and controlling the effects of the risks inherent in the investments. The dominant risk in East Capital Explorer AB's and the Group's operations is commercial risk in the form of exposure to specific sectors, geographic regions or individual holdings and financial risk in the form of market risk, equity price risk, foreign exchange risk and interest rate risk. The Group's fund investments and direct investments are also exposed to commercial risks, financial risks, and market risks. In addition, through the business activities of their holdings, i.e. their offerings of products and services, within the respective sectors, the funds and direct investments are also exposed to legal/regulatory risk and political risk, for example political decisions on public sector expenditures and industry regulations.

Many risks are also associated with opportunities. The goal is to eliminate the risks that are not associated with opportunities (e.g. inadequate procedures). One material risk in East Capital Explorer's business is the commercial risk associated with exposure to certain industries, geographic regions or individual holdings. Equity price risk is also a key risk in the Group's business activities. The Group's policy is to manage price risk through diversification and selection of investments within specified limits set by the Board. The Group's finance policy for management of financial risk has been prepared by the Board and represents a framework of guidelines and regulations in the form of risk mandates and limits for financial activities.

Operational risk is defined as the risk of loss resulting from inadequate internal processes or systems, or from external events not related to investments. Operational risks occur throughout the business and are managed by constantly improving the management of system-related issues, administrative processes, information security and legal matters. Moreover, the Company monitors obligations

arising from external regulations and laws, agreement-related undertakings and the Company's internal rules.

For more information, please see Note 23 on page 88 "Financial risks and Risk management" for the Group's material risks and uncertainties.

#### Personnel and remuneration guidelines

On 31 December 2013, the Group had 265 employees of which three employees, two women and one man were employed by East Capital Explorer AB, while the remaining employees refer to the acquired operations in Starman. In accordance with current guidelines, the Board proposes the Annual General Meeting 2014 the following with regard to remuneration of executive management, in this case the CEO and CFO: Remuneration is comprised of fixed salary, variable salary, pension and insurance benefits, as well as other non-monetary benefits and other compensation. The Board determines at its own discretion on the basis of specific key performance indicators whether the CEO and CFO should be paid any variable salary. The CEO and CFO may receive a maximum variable salary corresponding to 50 percent of their fixed salary. In addition, CEO Mia Jurke, is entitled a benefits package of a limited scale. The CEO and CFO have an individual premium-based pension plan, pursuant to which the Company pays premiums corresponding to 10 percent of their fixed salary up to 10 Swedish income base amounts and premiums corresponding to 20 percent of their fixed salary on the portion of the fixed salaries exceeding 10 Swedish income base amounts. In the event the Company terminates the CEO's employment, the Company is required to observe a six-month period of notice. The CEO is entitled to a severance payment corresponding to six months' salary. The acting CEO is not entitled to severance payments.

Information about salaries and current remunerations guidelines, other compensation and social charges for the Board and executive management, as well as other employees, is found in Note 5 on page 75.

#### Corporate Governance and the Board of Directors

The Board shall be comprised of three to seven directors without deputies. Board Members are elected annually at the Annual General Meeting for the period up and until the next Annual General Meeting. East Capital PCV Management AB, Corporate Registration Number 556729-6941, has the right to appoint one Board Member for the same period, as long as the Investment Management Agreement to which the Company is a party, (described in §13 of the Articles of Association), is in place. Certain

resolutions to amend these articles are valid only if supported by shareholders with at least 75 percent of the votes cast and of the shares represented at the meeting of shareholders. The complete Articles of Association can be found on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

For information as to the manner in which the Company is governed and controlled, such as via the Board and committees, and for information on the Board's internal control, please refer to the Corporate Governance section on pages 40-44. See pages 47-48, 53 regarding internal control and risk management in connection with the preparation of the consolidation.

The Board of Directors proposed that the unappropriated earnings in East Capital Explorer AB (publ) are distributed as follows:

Total available funds for distribution:	
Share premium reserve	348,182,615
Retained earnings	-64,510,063
Profit for the year	23,317,071
<b>Total EUR</b>	<b>306,989,623</b>

The extraordinary shareholders' meeting on 24 March 2014 resolved to introduce a new class of shares, preference shares, in the articles of association. The board of directors proposes, in the event that the company issues preference shares, to pay dividend on preference shares in accordance with the provisions of company's articles of association. Total funds available for distribution by the annual general meeting amount to EUR 306,989,623, of which EUR 348,182,615 consist of share premium reserve. The board of directors proposes that dividend is paid with an amount that, at the date of the annual general meeting's resolution, corresponds to maximum SEK 100 in euro per preference share. The total dividend on the preference shares shall not exceed an aggregate amount of EUR 40,000,000. The dividend shall be paid in SEK and in the amount of SEK 25 per record date and preference share.

The record dates shall be 5 May 2014, 5 August 2014, 5 November 2014 and 5 February 2015. A preference share entitles to dividend for the first time on the first record date subsequent to the issue of the preference share.

The board of directors proposes that no dividend is paid on the company's ordinary shares.

The profits not distributed are proposed to be carried forward.

## Statement of Profit or Loss and Other Comprehensive Income

EUR thousands	Note	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012 Restated
Net sales	3	17,369	-
Other operating income		383	-
Changes in value of portfolio		31,741	18,352
Received dividends		4,313	2,373
<b>Total operating income</b>		<b>53,805</b>	<b>20,725</b>
Goods, raw materials and services	4	-4,829	-
Staff expenses	5	-3,644	-833
Depreciation and amortisation of non-current assets	10, 11	-4,600	-
Other operating expenses	4, 6	-11,971	-6,495
<b>Operating profit/loss</b>	<b>2</b>	<b>28,761</b>	<b>13,396</b>
Financial incomes	7	83	1,070
Financial expenses	7	-2,311	-336
<b>Profit/loss before tax</b>		<b>26,533</b>	<b>14,130</b>
Income tax expense/income	8	-1,280	317
<b>NET PROFIT/LOSS FOR THE YEAR</b>		<b>25,253</b>	<b>14,447</b>
<b>OTHER COMPREHENSIVE INCOME:</b>			
<b>Items that are or may be reclassified to Profit or loss</b>			
Cash flow hedges - effective portion of changes in fair value		-277	-
Exchange differences on translating foreign operations		-	77
		-277	77
<b>Items that will never be reclassified to Profit or loss</b>			
		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>24,976</b>	<b>14,524</b>
<b>Net profit/loss for the year distribution:</b>			
Shareholders of the Parent Company		24,712	14,346
Non-controlling interest		541	101
		<b>25,253</b>	<b>14,447</b>
<b>Total comprehensive income distribution:</b>			
Shareholders of the Parent Company		24,571	14,424
Non-controlling interest		405	101
		<b>24,976</b>	<b>14,524</b>
Earnings per share, EUR			
- shareholders of the Parent Company	9	0.79	0.42
No accumulated dilution effects			
No dilution effects during year			

# Statement of Financial Position

EUR thousands	Note	31 Dec 2013	31 Dec 2012 Restated	1 Jan 2012 Restated
<b>Assets</b>				
Property, plant and equipment	10	27,710	-	-
Intangible assets	11	73,213	-	-
Shares and participations in investing activities	13, 22, 23	275,818	257,599	254,557
Deferred tax assets	8	-	403	70
<b>Total non-current assets</b>		<b>376,742</b>	<b>258,002</b>	<b>254,627</b>
Inventories	14	2,423	-	-
Other current receivables	15, 22	1,047	32	-
Tax receivables		-	740	103
Accrued income and prepaid expenses	16, 22, 23	1,352	80	110
<b>Total current receivables</b>		<b>4,822</b>	<b>852</b>	<b>213</b>
Short-term Investments	22, 23	112	-	22,793
Cash and cash equivalents	22	21,504	46,497	16,639
<b>Total current assets</b>		<b>26,438</b>	<b>47,349</b>	<b>39,644</b>
<b>Total assets</b>		<b>403,179</b>	<b>305,350</b>	<b>294,271</b>
<b>Shareholders' equity</b>				
Share capital	17	3,640	3,631	3,628
Other contributed capital		348,180	362,458	369,922
Other reserves		-141	77	-
Retained earnings, including profit/loss for the year		-40,864	-65,653	-79,999
<b>Equity attributable to shareholders of the Parent Company</b>		<b>310,814</b>	<b>300,513</b>	<b>293,551</b>
Non-controlling interest		415	8	-92
<b>Total equity</b>		<b>311,229</b>	<b>300,521</b>	<b>293,459</b>
<b>Liabilities</b>				
Non-current interest bearing liabilities	18, 22	68,634	-	-
Derivatives	19, 22	277	-	-
<b>Total non-current liabilities</b>		<b>68,911</b>	-	-
Current interest bearing liabilities	18, 22	8,203	-	-
Tax liabilities		26	-	-
Derivatives	19, 22	2	-	-
Other current liabilities	20, 22	2,171	188	200
Accrued expenses and deferred income	21, 22	12,637	4,641	612
<b>Total current liabilities</b>		<b>23,039</b>	<b>4,829</b>	<b>811</b>
<b>Total liabilities</b>		<b>91,950</b>	<b>4,829</b>	<b>811</b>
<b>Total equity and liabilities</b>		<b>403,179</b>	<b>305,350</b>	<b>294,271</b>

## Statement of Changes in Equity - Group

EUR thousands	Share capital	Other contributed capital	Other reserves	Retained earnings incl. profit /loss for the year	Total equity shareholders in Parent Company	Non-controlling interest	Total equity
<b>2013</b>							
Opening equity 1 January 2013	3,631	362,458	77	-65,653	300,513	8	300,521
Net profit/loss for the year	-	-	-	24,712	24,712	541	25,253
Other Comprehensive Income	-	-	-219	77	-142	-136	-277
<b>Total comprehensive income</b>	-	-	-219	24,789	24,571	405	24,976
Acquired subsidiaries	-	-	-	-	-	2	2
Bonus issue/cancellation of share	9	-9	-	-	-	-	-
Redemption program	-	-14,269	-	-	-14,269	-	-14,269
<b>Closing equity 31 December 2013</b>	<b>3,640</b>	<b>348,180</b>	<b>-141</b>	<b>-40,864</b>	<b>310,814</b>	<b>415</b>	<b>311,229</b>

EUR thousands Restated	Share capital	Other contributed capital	Other reserves	Retained earnings incl. profit /loss for the year	Total equity shareholders in Parent Company	Non-controlling interest	Total equity
<b>2012</b>							
Closing equity 31 December 2011	3,628	369,923	4,183	-84,182	293,551	45,627	339,178
Effect of changes in accounting principles	-	-	-4,183	4,183	-	-45,719	-45,719
<b>Opening equity 1 January 2012</b>	<b>3,628</b>	<b>369,923</b>	<b>-</b>	<b>-79,999</b>	<b>293,551</b>	<b>-92</b>	<b>293,459</b>
Net profit/loss for the year	-	-	-	14,346	14,346	101	14,447
Other Comprehensive Income	-	-	77	-	77	-	77
<b>Total comprehensive income</b>	-	-	77	14,346	14,424	101	14,524
Bonus issue	2	-2	-	-	-	-	-
Paid dividend to shareholders	-	-3,033	-	-	-3,033	-	-3,033
Share buy-back	-	-4,429	-	-	-4,429	-	-4,429
<b>Closing equity 31 December 2012</b>	<b>3,631</b>	<b>362,458</b>	<b>77</b>	<b>-65,653</b>	<b>300,513</b>	<b>8</b>	<b>300,521</b>

# Statement of Cash Flow - Group

EUR thousands	Note	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012 Restated
<b>Operating activities</b>			
Operating profit		28,761	13,396
Changes in value in portfolio		-31,741	-18,352
Adjustment for non cash items <sup>2</sup>		2,991	-
Interest received and other financial payments		55	626
Interest paid and other financial payments		-1,107	-
Tax paid		-149	-640
<b>Cash flow from current operations before changes in working capital</b>		<b>-1,190</b>	<b>-4,970</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/decrease (+) in other current receivables		95	3
Increase (-)/decrease (+) in inventory		239	-
Increase (+)/decrease (-) in other current payables		6,868	4,017
<b>Cash flow from operating activities</b>		<b>6,012</b>	<b>-951</b>
<b>Investing activities</b>			
Acquisition of group companies	24	-22,605	-
Investment in shares and participations		-27,279	-40,541
Repaid shareholders contribution		-	21,536
Sale of short-term investments		11,258	23,164
Sale of shares and participations		29,431	34,456
Purchase of property, plant, equipment and intangible assets		-3,728	-
<b>Cash flow from investing activities</b>		<b>-12,925</b>	<b>38,616</b>
<b>Financing activities</b>			
Repayment of loans		-3,670	-
Paid dividend to shareholders		-	-3,033
Redemption program / Share buy-back		-14,269	-4,429
<b>Cash flow from financing activities</b>		<b>-17,939</b>	<b>-7,462</b>
<b>Cash flow for the year</b>		<b>-24,851</b>	<b>30,203</b>
Cash and cash equivalents at beginning of the year <sup>1</sup>		46,497	16,639
Exchange rate differences in cash and cash equivalents		-142	-345
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR<sup>1</sup></b>		<b>21,504</b>	<b>46,497</b>

<sup>1</sup> Cash equivalents comprise deposits and cash

<sup>2</sup> Adjustment for non-cash items:

Depreciation and amortisation	4,600	-
Dividend not paid	-1,609	-
	<b>2,991</b>	<b>-</b>

## Income statement - Parent Company

EUR thousands	Note	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
Staff expenses	5	-1,086	-833
Other operating expenses	4, 6	-1,029	-985
<b>Operating profit/loss</b>		<b>-2,115</b>	<b>-1,818</b>
Result from participation in Group Companies	7	24,048	15,616
Financial income from Group Companies	7	1,660	1,984
Financial income excluding Group Companies	7	65	6
Financial expenses excluding Group Companies	7	-	-124
<b>Profit/loss before tax</b>		<b>23,657</b>	<b>15,664</b>
Income tax expenses/income	8	-340	-78
<b>NET PROFIT/LOSS FOR THE YEAR</b>		<b>23,317</b>	<b>15,586</b>

## Statement of Comprehensive Income - Parent Company

EUR thousands	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
<b>NET PROFIT/LOSS FOR THE YEAR</b>	<b>23,317</b>	<b>15,586</b>
Other Comprehensive Income	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>23,317</b>	<b>15,586</b>

## Balance Sheet - Parent Company

EUR thousands	Note	31 Dec 2013	31 Dec 2012
<b>Assets</b>			
<b>Financial non-current assets</b>			
Participations in group companies	12	280,921	271,272
Deferred tax assets		-	340
<b>Total non-current assets</b>		<b>280,921</b>	<b>271,612</b>
<b>Current receivables</b>			
Other short-term receivables		1	30
Loans to Group Companies	22	29,315	29,315
Accrued income and prepaid expenses	16	21	23
<b>Total current receivables</b>		<b>29,337</b>	<b>29,368</b>
<b>Cash and cash equivalents</b>			
Cash and bank		776	1,131
<b>Total current assets</b>		<b>30,113</b>	<b>30,499</b>
<b>Total assets</b>		<b>311,034</b>	<b>302,111</b>
<b>Shareholders' equity</b>			
17			
<b>Restricted equity</b>			
Share capital		3,640	3,631
<b>Total restricted equity</b>		<b>3,640</b>	<b>3,631</b>
<b>Non-restricted equity</b>			
Share premium reserve		348,183	362,461
Retained earnings		-64,510	-80,096
Net profit/loss for the year		23,317	15,586
<b>Total non-restricted equity</b>		<b>306,990</b>	<b>297,952</b>
<b>Total shareholders' equity</b>		<b>310,629</b>	<b>301,581</b>
<b>Liabilities</b>			
Other liabilities	20, 22	108	198
Accrued expenses and prepaid income	21, 22	296	332
<b>Total current liabilities</b>		<b>404</b>	<b>530</b>
<b>Total liabilities</b>		<b>404</b>	<b>530</b>
<b>Total equity and liabilities</b>		<b>311,034</b>	<b>302,111</b>
<b>PLEGGED ASSETS AND CONTINGENT LIABILITIES</b>			
Pledged assets		-	-
Contingent liabilities		-	-

## Statement of changes in Equity - Parent Company

EUR thousands	Restricted equity		Non-restricted equity	
	Share capital	Share premium reserve	Retained earnings incl. profit for the year	Total equity
<b>2013</b>				
Opening equity 1 January 2013	3,631	362,461	-64,510	301,581
Net profit/loss for the year	-	-	23,317	23,317
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	-	-	23,317	23,317
Bonus issue	9	-9	-	-
Redemption program	-	-14,269	-	-14,269
<b>Closing balance 31 December 2013</b>	<b>3,640</b>	<b>348,183</b>	<b>-41,193</b>	<b>310,629</b>

EUR thousands	Restricted equity		Non-restricted equity	
	Share capital	Share premium reserve	Retained earnings incl. profit for the year	Total equity
<b>2012</b>				
Opening equity 1 January 2012	3,628	369,923	-80,096	293,455
Net profit/loss for the year	-	-	15,586	15,586
Other Comprehensive Income	-	-	-	-
<b>Total comprehensive income</b>	-	-	15,586	15,586
Bonus issue	2	-2	-	-
Paid dividend to shareholders	-	-3,033	-	-3,033
Share buy-back	-	-4,429	-	-4,429
<b>Closing balance 31 December 2012</b>	<b>3,631</b>	<b>362,461</b>	<b>-64,510</b>	<b>301,581</b>

## Cash flow statement - Parent Company

EUR thousands	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
<b>Operating activities</b>		
Operating profit/loss	-2,115	-1,818
Interest received	3	-17
Interest received from group companies	1,660	2,187
Tax paid	-30	30
<b>Cash flow from current operations before changes in working capital</b>	<b>-482</b>	<b>381</b>
<b>Cash flow from changes in working capital</b>		
Increase(-)/decrease in other current receivables	29	3
Increase(+)/decrease in other current payables	-96	-69
<b>Cash flow from operating activities</b>	<b>-549</b>	<b>315</b>
<b>Financing activities</b>		
New share issue	-	2
Repayment of shareholders contribution	14,400	6,500
Redemption program/Share buy back	-14,269	-4,429
Payment of dividend	-	-3,033
<b>Cash flow from financing activities</b>	<b>131</b>	<b>-959</b>
<b>Cash flow for the year</b>	<b>-418</b>	<b>-644</b>
Cash and cash equivalents at beginning of the year <sup>1</sup>	1,131	1,916
Exchange rate differences	62	-141
<b>Cash and cash equivalents at the end of the year<sup>1</sup></b>	<b>776</b>	<b>1,131</b>

<sup>1</sup> Cash and cash equivalents comprise deposits and cash.

# Notes to the financial statements

## Note 1 Accounting Principles

### Statement of compliance

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) as approved by the European Commission for application within the European Union. In addition, the Swedish Financial Reporting Board recommendation RFR 1 has been applied.

The accounting policies have been consistently applied to all periods presented in the Group’s financial statements, unless otherwise stated. Compared to 2012 Annual report the financial statements of the Group have been changed due to the early adoption of IFRS10 “Consolidated Financial Statements”. The comparable figures for the corresponding periods in the previous year have been restated. Due to the acquisition of Starman in 2013, a number of new principles have also been added. The Group’s accounting policies have been consistently applied by Group Companies.

The Parent Company applies the same accounting policies as the Group, unless otherwise noted. See section below “Accounting policies of the Parent Company”.

The annual report and the consolidated financial statements were approved for issue by the Board on 28 March 2014. The Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial position for the Group and the Income statement and the Balance sheet for the Parent Company will be submitted to the shareholders’ meeting for adoption on 22 April 2014.

### Changes in accounting policies due to new or amended IFRS.

The following accounting policies are applied by the Group as of January 1, 2013:

IFRS 10 “Consolidated Financial Statements” outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. Control requirements have changed compared to “IAS 27 Consolidated and Separate Financial Statements” and “SIC-12 Consolidation—Special Purpose Entities” which form the basis for the year-end report 2012. IFRS 10 requires exposure to variable returns and the ability to affect those returns through power over an investee in order for the investee to be considered to comprise a controlled entity. The application of IFRS 10 for annual periods begins on or after 1 January 2014, but earlier application is permitted. East Capital Explorer has chosen early adoption of these standards as published in May 2011 and approved by the EU Commission in December 2012, i.e. before the standard was adjusted for investment

entities. As a consequence funds and similar entities are no longer consolidated due to lack of influence, and these holdings are instead held at fair value under IAS 39 starting on 1 January 2013. Consequently, the funds that were consolidated in the Annual report 2012 no longer qualify as subsidiaries, and were therefore deconsolidated and instead held at fair value from 1 January 2013. All of the comparable figures for the corresponding period in the previous year have been restated. Effect of changes in the accounting principles can be seen in the Statement of Changes in Equity for the Group on page 62 and in the restated statements in note 28.

East Capital Explorer AB continues to consolidate its subsidiaries East Capital Explorer Investments AB, Humarito Ltd and Baltic Cable Holding OÜ and 51% of AS Starman. During the year, 100% of Baltic Cable Holding OÜ was acquired which in turn acquired 51% of AS Starman, jointly referred to as Starman.

IFRS 13 “Fair Value Measurement” and Amendment to IFRS 7 “Financial Instruments - Disclosures” does not have any material monetary effect on the Group or Parent Company. The effects of the new requirements according to IFRS 12 “Disclosure of Interests in Other Entities” are included in Note 12 and 13.

In addition, the early adoption of IFRS 10 has also lead to early adoption of IFRS 11, IAS 27 and IAS 28. These have not had any material effect on the consolidated accounts.

### New IFRS standards to come into force from 2014 and later

In accordance with the changes of foremost IFRS 10 and IAS 27, imposed on investment entities, the Company will, from 1 January 2014 report all investments at fair value and will not consolidate any of its subsidiaries. Comparatives for 2013 will be recalculated. The only notable difference is attributable to the holding in Starman, acquired in 2013. The Statement of Financial Position as at the beginning of 2013 is therefore not affected materially by the change. As the value of Starman has not changed significantly during the holding period, the equity at the end of 2013 will not be affected to any significant amount by the recalculation.

Nevertheless, the net result for 2013 is affected, but only to a small extent. The main difference will consist of a changed appearance as several lines in the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position as the income, expenses and balance sheet items relating to subsidiaries and sub-subsidiaries will not be recognised as part of the Group.

A number of other new standards, amendments standards and interpretations than discussed above are effective for annual periods beginning after 1 January 2014. The Group does not plan early adoption of these stand-

ards and they are not assessed to have any material impact on the consolidated financial statements.

### Basis for measurement for preparing Parent Company and Group Financial Statements

Shares and participations in investing activities and short-term investments are recognised at fair value through Profit or Loss. The efficient part of fair value on derivatives is recognised in Other Comprehensive Income, the remaining part through the Statement of Profit or Loss. Other financial and non-financial assets and liabilities are recognised at cost or amortised cost.

### Functional and presentation currency

The Parent Company’s functional currency is euro (EUR), which is also the presentation currency for the Parent Company and the Group. This means that the financial statements are presented in EUR. All amounts, unless stated otherwise, are rounded off to the nearest thousand. Note that certain figures may not sum exactly due to rounding.

### Estimates and assumptions

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Management has discussed the developments, decisions made and information regarding the Group’s most important accounting principles and estimates, as well as the application of these principles and estimates with the Audit Committee.

### Significant judgments made in the application of the Group’s accounting policies

The significant accounting assessments used in applying the Groups’ accounting policies are described below:

The measurement of financial assets at fair value will mainly be based on price quotes from active markets. In cases where the market for a financial instrument cannot be seen as active, such assets will be measured using market information as much as possible and company-specific information as little as possible. Whether a market for a specific financial instrument is considered active is largely a matter of professional judgment. For more information concerning assessments of Financial Instruments please see page 71.

In applying IFRS 10 “Consolidated Financial Statements” a judgment has been made to consolidate East Capital Explorer Invest-

ments AB despite the fact that the share of votes is less than 50%. The majority of the proceeds from the share issue in East Capital Explorer AB in 2007 were transferred to East Capital Explorer Investments AB through conditional shareholders' contributions since all investment activities take place in this subsidiary. The Parent Company however, retained all the benefits of East Capital Explorer Investments AB's activities, and the majority of the residual or ownership risks related to its assets, and is therefore exposed to risks incident to the activities of the company.

As noted above, funds and similar entities are no longer consolidated due to lack of control over the variable returns and the ability to affect those returns. The fact that the Group owns over 50% of the shares in some of the funds where simple majority may terminate the fund has been assessed not to qualify as control as this does not give the owner right to affect the returns.

#### Key sources of uncertainty

The sources of uncertainty in the estimates below refer to the significant risk of substantial adjustments to reported assets or liabilities for the next financial year.

In those cases where portfolio investments are not traded on a market seen as an active market and fair value is not set against the background of actual bid quote, but by means of valuation models (see below under financial instruments), there is uncertainty that the holding will not be assigned a correct fair value. The Group applies its models consistently between the periods, but the calculation of fair value is characterised by uncertainty. Based on controls and reliability procedures, the Group considers the fair values recognised in the Statement of Financial Position to be carefully calculated and balanced and to reflect the underlying economic values.

The value of subsidiaries and goodwill is tested annually by calculating a recoverable amount, i.e. a value in use of fair value with deduction for selling costs for each holding. Calculating these values requires a number of assumptions of future conditions and estimations of parameters such as profit multiples, growth rates, margins and discount factors. A description of this procedure is provided in Note 11. Future events and new information can change these assessments and estimations.

#### Classification etc

Non-current assets and non-current liabilities consist predominantly of amounts expected to be used or paid more than 12 months after the Statement of Financial Position date. Current assets and current liabilities consist predominantly of amounts

expected to be utilised or paid within 12 months of the date of the Statement of Financial Position.

#### Segment reporting

An operating segment is a component of an entity engaging in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed and for which discrete financial information is available. The Group reports the financial information and evaluates the performance based on the nature of its investments, and it has the following three operating segments: Investments in Equity Funds, Direct Investments and Short-term Investments. Equity Funds include all investments made into East Capital funds. Direct Investments include equity investments made directly by the subsidiary East Capital Explorer Investments AB, i.e. not held through East Capital Funds. Short-term Investments include cash, cash-equivalents and other short-term investments. Unallocated refers to costs and prepaid expenses in the Parent Company.

#### Basis for consolidation

The consolidated financial statements are prepared in accordance with IFRS 10 Consolidated Financial Statements.

#### Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns from its power over the entity. In assessing whether the controlling influence exists, potential shares conveying voting rights, and that can be converted or utilized without delay, are taken into consideration.

#### Acquisition of subsidiaries

Subsidiaries are accounted for using the purchase method. In accordance with this, an acquisition is treated as a transaction in which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. The consolidated cost is determined by a purchase price allocation. In the analysis, the fair value of the identifiable assets and assumed liabilities and any non-controlling interest is determined. For business combinations there are two alternative methods for recognizing goodwill; proportional share of goodwill or full goodwill. Full goodwill means that a non-controlling interest is recognised at fair value. The choice between the two methods is made for each acquisition. Transaction costs, with the exception of transaction costs attributable to the issue of an equity- or debt instrument, are expensed.

In acquisitions in several steps, goodwill is identified on the date when control is obtained. If the company already owns interest in the acquired subsidiary, this is remeasured at fair value and the value change is recognised in Profit or Loss. The same rule applies for loss of control, where the value change is also recognised in Profit or Loss.

For business combinations where the cost exceeds the net carrying amount of the acquired identifiable assets and assumed liabilities, the difference is reported as goodwill in the Statement of Financial Position. If the difference is negative, negative goodwill is recognised directly in Profit or Loss when it arises. Acquisitions that are made subsequent to having obtained a controlling influence and divestments that do not result in a loss of the controlling influence are reported under equity as a transfer between equity attributable to the Parent company's shareholders and non-controlling interests.

Consideration that is contingent upon the outcome of future events is valued at fair value at the date of the control and the change in value is recognised in Profit or Loss and Other Comprehensive Income.

The financial statements of subsidiaries are reported in the consolidated financial statements as of the acquisition date and until the time when a controlling interest no longer exists.

#### Loss of control

On the loss of control, the Group no longer recognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the Statement of Profit or Loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

#### Transactions eliminated upon consolidation

Intra-group balances and transactions, and any unrealised income and expenses or gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### Foreign currency transactions

Transactions in currencies other than euro are translated into the functional currency at the exchange rate prevailing on the transaction date. The functional currency is the currency in the primary economic environment in which the companies operate. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the period's closing rate of exchange. Exchange rate differences arising from currency translations are recognised net as either

financial income or financial expenses in the Statement of Profit or Loss.

The assets and liabilities of foreign entities, including goodwill and fair value adjustments arising on consolidation, are translated to euro at the exchange rates prevailing at the end of the reporting period. The revenues and expenses are translated at average exchange rates, which approximate the exchange rate for the respective transactions. Foreign exchange differences arising on translation are recognised in Other Comprehensive Income and are accumulated in a separate component of equity as a translation reserve. On divestment of foreign entities the accumulated exchange differences are recycled from equity to the Statement of Profit or Loss.

Certain calculations are based on the following exchange rates:

EUR/USD average 2013 = 1.3283 (1.2855)  
 EUR/SEK average 2013 = 8.6541 (8.7066)  
 EUR/USD closing 2013 = 1.3763 (1.3198)  
 EUR/SEK closing 2013 = 8.8868 (8.5904)

#### Income

Income in the core business, excluding the consolidated subsidiary Starman, consists primarily of Value changes in portfolio and dividends. The business in Starman is mainly included in Net sales and Other operating income, described further below.

Revenue is recognised in the Statement of Profit or Loss when it is likely that the future economic benefits will accrue to the Company, and when these benefits can be calculated in a reliable manner. Income is recognised at the fair value of the consideration received or receivable. When payment occurs during a longer than normal period of time, revenue is recognised at the present value of the consideration receivable.

For Statement of Financial Position items included at both the beginning and the end of the period, changes in value comprise the difference in the values at these times. For Statement of Financial Position items realized during the period, changes in value comprise the difference between the payment received and the value at the beginning of the period. For Statement of Financial Position items acquired during the period, changes in value comprise the difference between the value at the end of the period and the acquisition cost.

Income from dividends is recognised when the right to receive the dividends can be determined.

#### Net sales

Revenue from the sale of goods (i.e. installment sale) is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits asso-

ciated with the transaction will flow to the entity. Revenue from the provision of services is recorded upon the provision of the service.

Starman offers various products and services as bundled packages to its customers. Such packages may include the transfer of several products or provision of several services. In some cases, the offering also includes installation, launching and activation of the product, for which fixed fees or fixed fees with periodic payments are charged. Telecommunication products are treated separately from the service to be provided in case a separate market exists for the equipment to be transferred to the customer, i.e. they can be sold separately from the service. The costs related to such products are recognised simultaneously with recognition of revenue. Combined contracts are divided into parts if individual parts meet the criteria for allocation. Contract terms are allocated to individual parts according to the percentage of their fair value. Revenue is allocated to the equipment and services proportionately to the fair value of single elements. Similarly to the breakdown of revenue between products and services, packages made up of several different services are recognised as components. For a package made up of several different services, the management evaluates and distinguishes components of the services to be received within a package from the point of view of the consumer of the service.

Connection fees are recognised as revenue, considering the useful life of the investment attributable to the connection on the one hand and management estimates about the loyalty of new customers on the other hand. Connection fees are recognised in revenue over the average length of the customer relationship. Connection fees are recognised upon connection if these fees do not include future income from services but only compensation for the costs related to the connection.

#### Expenses

Operating expenses refers to costs of an administrative nature, such as staff costs, management fees, notary fees and bank fees. Costs for operating leases are recognised in the Statement of Profit or Loss on a straight-line basis over the term of the lease. The cost for variable remuneration is estimated and accrued at the end of the year. The difference between the accrued variable remuneration and the actual payment is recognised in the statement of comprehensive income during the following year. Obligations related to contributions to defined contribution plans are expensed in the Statement of Profit or Loss the related service are provided.

#### Financial Income and expenses

Interest income and interest expenses related to financial instruments are recognised in the

Statement of Profit or Loss in the period to which the amounts refer. Financial income consists of interest income from bank balances, receivables, as well as interest-bearing securities. Financial expenses consist of interest expenses on borrowings and other interest-bearing liabilities. Exchange rate gains and losses on monetary assets and liabilities are reported net. Moreover, fair value changes in short-term investments classified as financial instruments measured at fair value through profit or loss (fair value option) are reported net as financial income or expense.

Interest income on receivables and interest expenses on liabilities are calculated applying the effective interest method. The effective interest is the interest required to be applied in order that the current value of all estimated future receipts and payments during the expected fixed-interest term is equal to the reported value of the receivable or liability.

Interest income includes the allocated amount of transaction costs and any discounts, premiums and other differences between the original value of the receivable and the amount to be received upon maturity.

Interest expenses include the allocated amount of issue expenses and similar direct transaction costs for loans raised.

#### Taxes

Income tax comprises current and deferred tax. Income tax is reported in the Statement of Profit or Loss except when the underlying transaction is reported in Other Comprehensive Income or directly in equity. In such cases, associated tax effects are reported in Other Comprehensive Income or directly in equity.

Current tax is tax to be paid or received during the current year, using the tax rates that have been enacted or substantively enacted by the reporting date, and adjustments of current taxes attributable to previous periods.

Deferred tax is recognised in respect of temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, applying the tax rates which have been enacted or announced as per the reporting date. Temporary differences are not considered in goodwill arising on consolidation or in differences attributable to subsidiaries and associated companies which are not expected to be taxed within the foreseeable future. Deferred tax assets attributable to deductible temporary differences and loss carry forwards are recognised only to the extent it is likely that they will be utilised and will result in lower tax payments in the future. The value of deferred tax assets is reduced when it is no longer considered likely that they can be utilised. Deferred tax assets and deferred tax liabilities in the same country are reported net.

In accordance with applicable laws of the Republic of Estonia, Estonian entities do not pay income tax on profits. Instead corporate income tax is paid on dividends. As income tax is paid on dividends and not on profit, no temporary differences arise between the tax bases of assets and liabilities and the carrying amounts of assets and liabilities relating to Estonian entities in the Group. A deferred income tax liability in respect of the Group's available equity which would accompany the payment of available equity as dividend, is not reported in the Statement of Financial Position. The maximum amount of income tax payable, which would arise paying out the retained earnings as dividends, is disclosed in the notes to the financial statements.

### Property, Plant and Equipment

Assets with useful lives of over one year are considered to be items of property, plant and equipment when it is probable that future economic benefits attributable to them will flow to the Group. An item of property, plant and equipment is initially measured at cost, comprising of its purchase price and any directly attributable expenditures.

An item of property, plant and equipment is subsequently carried at its cost less any accumulated depreciation and any accumulated impairment losses. Items of property, plant and equipment are written down to their recoverable amount (higher of fair value less costs to sell and value in use), if it is lower than the asset's carrying amount. An impairment test is performed to determine if the recoverable amount is lower than the carrying amount is performed whenever there is any indication that an impairment loss has incurred or if earlier impairment losses should be reversed as a reduction in cost.

Subsequent expenditure for items of property, plant and equipment which have been recognised (e.g. replacement of certain parts of assets) are added to the carrying amount of assets when the following criteria are met: (a) it is probable that future economic benefits attributable to the assets will flow to the Group (b) their cost can be measured reliably. The replaced parts are taken off the Statement of Financial Position. All other expenditures are recognised as expenses in the period in which the respectively expenditures were incurred.

The straight-line method is used for depreciation of items of property, plant and equipment. The depreciation rates are set separately for each item of property, plant and equipment depending on their useful lives. The Group applies component depreciation which means that the estimated useful life of the components forms the basis for depreciation.

The annual depreciation rates for the groups of property, plant and equipment are as follows:

#### Land and buildings

- buildings and facilities 3% - 10%
- cable networks 8% - 12%
- base stations 13% - 22%

#### Machinery and equipment

- modems 20% - 25%
- digital boxes 20%
- machinery and equipment 10% - 40%
- equipment related to provision of services 17% - 59%

#### Other items of property, plant and equipment

- other fixtures, tools and fittings 20% - 33%

Land is not depreciated.

The residual value and useful life of an asset are assessed annually.

Items of property, plant and equipment are derecognised when no future benefits from the use or sale of this asset are expected to flow to the Group. Gains and losses from derecognition of the items of property, plant and equipment are recognised in other income or other expenses in the Statement of Profit or Loss.

Items of property, plant and equipment that are expected to be sold within the next 12 month, are reclassified as held for sale in separate lines in the Statement of Financial Position.

Employee wages and salaries related to the construction of property, plant and equipment (cable networks) that the Group constructs itself are capitalised at their cost.

### Intangible assets

An intangible asset is initially recognised at cost, comprising its purchase price and any directly attributable expenditure. An intangible asset is subsequently carried at its cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets acquired through business combinations are accounted for separately from goodwill when these assets can be separated or they have arisen as a result of contractual or other legal rights and their fair value can be determined reliably at the date of acquisition.

Intangible assets are divided into assets with finite useful lives and assets with indefinite useful lives. The straight-line method is used for amortising intangible assets with finite useful lives and is reported in Profit or Loss.

The annual amortisation rate for all the groups of intangible assets with finite useful life is 14.3 percent.

The amortisation period and method of intangible assets with finite useful lives are reviewed once at the end of each financial

year. Useful lives and recoverable amounts are tested annually or when required.

An impairment test is performed annually also for intangible assets with indefinite useful lives. Intangible assets with indefinite useful lives are not subject to amortisation.

The wages and salaries of employees engaged in the additional development of the customer management program of the Group are capitalizes in the cost of program in licenses and software in Note 11.

### Goodwill

Goodwill is initially recognised at its cost which is the positive difference of the consideration paid, the fair value of the non-controlling interest in the acquired entity, the equity interest previously held before the acquisition (at the date of acquisition) and the identifiable assets acquired and liabilities assumed of the Group's interest. Goodwill is subsequently carried at cost less any impairment losses. Impairment tests are performed once a year or more frequently when certain events or changes in circumstances indicate that the recoverable amount may have decreased. Goodwill is not subject to amortisation. The allowance for impairment losses is recognised as an expense of the reporting period in the Statement of Profit or Loss. Impairment losses are not reversed.

### Financial instruments

Financial instruments recognised in the Statement of Financial Position on the assets side includes shares and participations in investing activities, short-term investments, cash and cash equivalents and other short-term receivables. On the liabilities side there are accounts payables, loans payable and derivatives.

### Recognition and derecognition

A financial asset or liability is recognised in the Statement of Financial Position when the Company becomes party to the terms and conditions of the instrument. Acquisitions and sales of financial assets are recorded on the transaction date, which is the date on which the Company becomes obligated to acquire or sell the asset. Borrowings are recognised on the date on which the transaction is completed, the settlement date.

Accounts receivable are recognised in the Statement of Financial Position when the terms and conditions of the agreement are met. Liabilities are recognised when the counterparty has fulfilled its undertaking and a contractual payment obligation exists, regardless of whether or not an invoice has been received. Accounts payable are recognised when the invoice has been received.

A financial asset (or part thereof) is

removed from the Statement of Financial Position when the rights in the agreement are realized or expire, or when the Company has transferred substantially all of the risks and benefits associated with ownership. A financial liability (or part thereof) is removed from the Statement of Financial Position when the obligation specified in the agreement is discharged or in any other manner extinguished. A financial asset and financial liability are offset and recognised in the Statement of Financial Position in a net amount only when there is legal right to offset and when it is intended to settle the item with a net amount or to simultaneously realize the asset and settle the liability.

#### Classification and measurement

Financial instruments are initially recognised at an acquisition cost equivalent to the fair value of the instrument, plus, in the case of receivables and liabilities valued at amortised cost, the addition of transaction costs. Financial instruments are classified upon first recognition based on the purpose for which the instrument was acquired. The classification determines how the financial instrument is valued after first recognition, as described below.

#### Financial assets at fair value through Profit or Loss

Shares and participations in investing activities and short-term investments are recognised in accordance with IAS 39 and the "fair value option" at fair value, including any change in value in Profit or Loss. The Group applies the "fair value option" due to the fact that it bases the follow-up of its holdings on fair value. In accordance with IAS 28.1, equity-related investments where the Group has a significant influence are also recognised according to IAS 39 at fair value, with fair value changes recognised in Profit or Loss ("fair value option"). The joint venture between Intrum Justitia and East Capital Explorer Investments AB was valued at initial recognition at fair value through Profit or Loss according to IAS 39 and under the exception in IAS 31.1, from using proportionate consolidation or the equity method, the joint venture is recognised at fair value through Profit or Loss.

Fair value is determined as follows:

##### *Listed holdings on active markets*

Financial instruments measured at fair value in the Statement of Financial Position are measured, at fair value based on bid quotes received on active markets.

Bid quotes are deemed representative if criteria such as bid and ask spread is less than 1%, only bid quotes are observed or last traded price is below the bid quote are met. If this is

not the case, the following hierarchy is used for valuation:

1. Last traded price
2. Mid price
3. Last available reliable market information (LARMI)

A financial instrument is regarded as listed on an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Fair value is defined in terms of a price agreed by a willing buyer and a willing seller in an arm's length transaction.

##### *Listed holdings on non-active markets*

If the conditions for an active market are not met the market is seen as non-active. Listed holdings on a non-active market will be measured according to International private equity and venture capital valuation guidelines (IPEVC Guidelines) as all private equity (unlisted) holdings described below.

##### *Unlisted holdings and holdings where market data is not reliable*

All private equity holdings ("unlisted") shall be initially measured at their acquisition price and shall be measured with the following methodologies, in order of priority depending on availability and relevance:

1. The Price of Recent Investment as set out in the IPEVC Guidelines.
2. The value determined by an independent broker, analyst or other knowledgeable party, which has become known, after it was concluded by the Company that (i) there is sufficient documentation available to support the valuation, (ii) such valuation is compliant with valuation methodologies set out in the IPEVC Guidelines, and that (iii) the value can be validated by at least one additional independent broker, analyst or other knowledgeable party.
3. Any other valuation methodology set out in the IPEVC Guidelines if it is considered that it clearly and indisputably provides a better estimate of the fair value.
4. As set out in the IPEVC Guidelines, in situations where Fair Value cannot be reliably measured the Company may conclude that the Fair Value at the previous reporting date remains the best estimate of Fair Value. The Company is required to consider whether events or changes in circumstances indicate that impairment may have occurred.
5. The Company may request, when it considers that there is a requirement to do so, an independent appraiser to perform a valuation of any investment or other holding based on the principles set out in this policy and the IPEVC Guidelines.

##### *Other holdings*

Redeemable funds are measured based on official NAV, as soon as such is published.

#### Loans and receivables

Loans, receivables and short-term investments comprising deposits in the Statement of Financial Position consist of immediately available balances at banks and equivalent institutions, as well as other accounts receivable. Loans and receivables are recognised at amortised cost. For accounts receivables the carrying amount, after deduction for individual assessment of doubtful debts, is deemed to reflect fair value since the remaining maturity is generally short. Note that loans to companies within the investment portfolio are held as short-term investments recognised at fair value through Profit or Loss.

#### Derivatives and hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposure. All derivative instruments are recognised at fair value in the Statement of Financial Position. Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognised in the Statement of Profit or Loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in different ways depending on whether or not the derivative instrument is classified as a hedging instrument. The effective part of the changes in fair value is recognised in Other Comprehensive Income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the Statement of Profit or Loss. If the hedge accounting ceases before the maturity of the derivative instrument, the derivative returns to classification as a financial asset or liability at fair value through the Statement of Profit or Loss, and the future changes in value are thereby recognised directly in the Statement of Profit or Loss.

In order to meet the requirement for hedge accounting, there must be a link to the hedged item and it is required that the hedge effectively protects the hedged item, that hedging documentation is prepared and that effectiveness can be shown to be sufficiently high. Gains and losses related to hedges are recognised in the Statement of Profit or Loss at the same time as gains and losses for the hedged items.

#### Loans and other financial liabilities

This category includes loans and other financial liabilities, such as accounts payable. Liabilities are valued at amortised cost, using the effective interest rate. For accounts payables the carrying amount is deemed to reflect fair value since the remaining maturity is gen-

erally short. Transaction costs are allocated at an effective interest rate over the expected term of the loan.

Classification of the Group's financial assets and liabilities and their carrying amounts can be seen in Note 22. Recognition of financial income and expenses is also addressed under "Financial income and expenses" above.

#### Impairment of financial assets

The carrying values of the Group's financial assets, excluding financial assets reported at fair value with changes in value reported in the Statement of Profit or Loss in accordance with IAS 39, are tested at the end of each reporting date for indications of impairment.

On each reporting date, the Company evaluates whether there is objective evidence that a financial asset or pool of assets is impaired as a consequence of loss events having impact on future cash flow which is significant or extended. Objective evidence comprises observable conditions which have occurred and which have a negative impact on the possibility of recovering the cost of the asset.

The recoverable amount of assets in the category loans and receivables, which are recognised at amortised cost, is determined as the present value of future cash flows discounted at the effective rate at initial recognition of the asset. Assets with short maturities are not discounted. An impairment loss is recognised as an expense in Profit or Loss.

Impairment losses of loans and receivables that are reported at amortised cost are reversed if a later increase in the recoverable amount can objectively be attributed to an event taking place after the impairment loss was made.

#### Inventories

Inventories are recorded initially in the Statement of Financial Position at cost, which consists of the purchase costs, customs duties, other non-refundable taxes and direct transportation costs, less discounts. The weighted average cost method is used for determining the cost of inventories.

Inventories are measured in the Statement of Financial Position at the lower of acquisition/production cost or net realisable value. The net realisable value is the sales price less estimated costs to sell. Inventory write-downs to their net realisable value are charged to expenses in the reporting period and they are carried in Goods, raw materials and services in the Statement of Profit or Loss.

#### Accounting for leases

Leases of property, plant and equipment which transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Other leases are classified as operating leases. Starman uses financial leases to fund its investments in cable networks, machinery and equipment.

Assets leased under finance lease terms are recognised at the lower of the fair value of

the asset and minimum lease payments in the Statement of Financial Position of the lessee. The depreciation period of assets acquired under finance lease terms is the useful life of the asset and the rental period. Assets leased out under the finance lease terms are recognised in the Statement of Financial Position as a receivable at the net investment amount. Lease payments are divided into finance cost/-income and payment of the lease liability/-receivable so that the interest remains constant at any time.

In case of an operating lease, the lessor recognises the leased asset in its Statement of Financial Position. Operating lease payments are recognised on a straight-line basis as income by the lessor and as expense by the lessee.

#### Equity

##### Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares.

##### Earnings per share

Earnings per share are calculated by dividing the Profit or Loss in the Group attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares registered during the year. When calculating diluted earnings per share, earnings and the average number of shares are adjusted to take account of the dilutive effects of potential ordinary shares. There were no dilutive effects during the reported periods.

##### Dividends

Holders of ordinary shares are entitled to dividends. The amount and timing is to be proposed and approved at the annual general meeting each year. Additionally, each share entitles the right to one vote at the shareholders' meeting and all shares entitle the same right to the Company's remaining net assets.

##### Contingent liabilities

A contingent liability is recognised when there is a possible obligation relating to past events and whose existence is confirmed only by one or more uncertain future events, or when there is an obligation that is not recognised as a liability or provision as it is not probable that an outflow of resources will be required.

#### Accounting principles of the Parent Company

The Parent Company, East Capital Explorer AB (publ), applies the same accounting policies as the Group except in the instances specified below. The variances arising between East Capital Explorer AB and the Group's

policies result from limitations in the possibility of applying IFRS in East Capital Explorer AB due to the Swedish Annual Accounts Act (1995:1554).

East Capital Explorer AB prepares its annual report in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board recommendations RFR2, Accounting for Legal Entities, as well as the pronouncements of the Swedish Financial Reporting Board for listed companies. Application of RFR 2 stipulates that, in its preparation of the annual report for the legal entity, East Capital Explorer AB applies all of the IFRS and interpretive statements approved by the European Union to the extent possible within the framework of the Swedish Annual Accounts Act and with consideration for the relationship between reporting and taxation. The recommendation stipulates the exceptions and additions to IFRS which must be undertaken.

#### Classification and presentation

The presentation in the financial statement of the Parent Company, is different from the Group. The Parent Company has separate reports for Income Statement and Total Comprehensive Income, while in the Group, two reports together constitute the Statement of Profit or Loss and Other Comprehensive Income. Further, the Parent company presents a balance sheet and cash flow statement while the Group has a Statement of Financial Position and a Statement of cash flow. The Income Statement and Balance sheet for the parent company are established in the Annual Accounts Act, while the statements of the Group are based on IAS 1 and IAS 7.

#### Subsidiaries

The acquisition value of subsidiaries are reported at historical cost, where transaction costs are included in the carrying amount of the investment. In the consolidated accounts, transaction costs are expensed as they arise. Holdings in subsidiaries are valued at the lower of the acquisition value and the fair value at the balance sheet date. Contingent consideration are measured based on the probability that the purchase price will be paid. Any changes to the provision/receivable are added to/deducted from the acquisition value. In the consolidated accounts, contingent consideration is measured at fair value through Profit or Loss.

The accounting principles specified for the Parent Company have been consistently applied to all periods presented in the financial statements, unless otherwise specified.

## Note 2 Segment Reporting

An operating segment is a component of an entity engaging in business activities from which it may earn revenues and incur expenses and whose operating results are regularly reviewed and for which discrete financial information is available. The Group reports the financial information and management evaluates the performance based on the nature of its investments, and it has the following three operating segments: Investments in Equity Funds, Direct Investments and Short-term Investments. Equity Funds include all investments made into East Capital funds. Direct Investments include equity investments made directly by the subsidiary East Capital Explorer Investments AB, i.e. not held through East Capital Funds. Short-term Investments include cash, cash equivalents and other short-term investments. Unallocated refers to costs and prepaid expenses in the Parent Company.

Group	Fund Investments 1 Jan - 31 Dec 2013	Direct <sup>1</sup> Investments 1 Jan - 31 Dec 2013	Short-term Investments 1 Jan - 31 Dec 2013	Unallocated 1 Jan - 31 Dec 2013	Total consolidated 1 Jan - 31 Dec 2013
<b>EUR thousands</b>					
Net sales	-	17,369	-	-	17,369
Other operating income	-	383	-	-	383
Changes in value of portfolio	7,188	25,092	-537	-2	31,741
Received dividends	-	4,313	-	-	4,313
Goods, raw material and services	-	-4,829	-	-	-4,829
Staff expenses	-	-2,558	-	-1,086	-3,644
Depreciation and amortisation of non-current assets	-	-4,600	-	-	-4,600
Other operating expenses	-	-10,942	-	-1,029	-11,971
<b>Operating profit/loss</b>	<b>7,188</b>	<b>24,227</b>	<b>-537</b>	<b>-2,117</b>	<b>28,761</b>
Financial income	-	2	78	3	83
Financial expenses	-	-2,008	-304	-	-2,311
<b>Profit/loss before tax</b>	<b>7,188</b>	<b>22,222</b>	<b>-762</b>	<b>-2,114</b>	<b>26,533</b>
<b>Assets</b>	<b>188,892</b>	<b>193,843</b>	<b>20,405</b>	<b>40</b>	<b>403,179</b>

Group Restated	Fund Investments 1 Jan - 31 Dec 2012	Direct Investments 1 Jan - 31 Dec 2012	Short-term Investments 1 Jan - 31 Dec 2012	Unallocated 1 Jan - 31 Dec 2012	Total consolidated 1 Jan - 31 Dec 2012
<b>EUR thousands</b>					
Changes in value of portfolio	-4,025	22,041	335	-	18,352
Received dividends	-	2,373	-	-	2,373
Staff expenses	-	-	-	-833	-833
Other operating expenses	-109	-5,401	-	-985	-6,495
<b>Operating profit/loss</b>	<b>-4,134</b>	<b>19,013</b>	<b>335</b>	<b>-1,818</b>	<b>13,396</b>
Financial income	606	-	463	-	1,070
Financial expenses	-334	-	-	-3	-336
<b>Profit/loss before tax</b>	<b>-3,861</b>	<b>19,013</b>	<b>798</b>	<b>-1,821</b>	<b>14,130</b>
<b>Assets</b>	<b>196,094</b>	<b>61,586</b>	<b>46,498</b>	<b>1,172</b>	<b>305,350</b>

<sup>1</sup> Starman's segment reporting is included in direct investments, see note 12 for more information.

### Note 3 Net sales

Group, EUR thousands	2013 <sup>1</sup>	Restated 2012
Cable television services	6,126	-
Internet services	5,221	-
Infrastructure services	4,675	-
Telephony service	1,207	-
Sale of goods and materials	140	-
<b>Total</b>	<b>17,369</b>	<b>-</b>

<sup>1</sup> Net Sales amounts relate only to acquired Starman activities, consolidated from 30 May 2013.

### Note 4 Goods, raw materials and services and Other operating expenses

Goods, raw material and services, EUR thousands	Group	
	2013	Restated 2012
Outsourced services	4,360	-
Materials	112	-
Goods purchased for sale	157	-
Maintenance expenses	105	-
Other direct expenses	95	-
<b>Total</b>	<b>4,829</b>	<b>-</b>

Other operating expenses, EUR thousands	Group		Parent Company	
	2013	Restated 2012	2013	2012
Fees to Investment Manager	8,723	5,285	-	-
Marketing and PR	747	99	61	99
Legal services	583	217	382	128
Services from related parties <sup>1</sup>	306	256	306	256
Rent <sup>2</sup>	317	52	48	52
Audit assignments <sup>3</sup>	-26	172	-59	168
Other external costs	1,322	413	291	280
<b>Total</b>	<b>11,971</b>	<b>6,495</b>	<b>1,029</b>	<b>985</b>

<sup>1</sup> Services from related parties are included in the service agreement with East Capital International AB. Comprise all services except rent charges. See note 26.

<sup>2</sup> Rent is included in the service agreement with East Capital International AB. See note 26.

<sup>3</sup> Audit assignment refers to auditing of the annual report, the accounting records and the administration of the Board of directors and the CEO, other tasks incumbent on the Company's independent auditor, and advice or other assistance prompted by observations from such audits or the performance of other such tasks. See note 6. Amount is positive in 2013 due to reversal of earlier provisions in excess.

## Note 5 Employees, staff expenses and executive management compensation

EUR thousands	Group		Parent Company	
	2013	2012	2013	2012
Board of directors and CEO	447	408	447	408
<i>of which variable</i>	32	37	32	37
Other employees	2,229	228	336	228
<b>Total</b>	<b>2,676</b>	<b>635</b>	<b>783</b>	<b>635</b>
Social charges	960	188	296	188
<i>of which pensions</i>	89	46	89	46
<b>Total</b>	<b>3,636</b>	<b>823</b>	<b>1,079</b>	<b>823</b>

Capitalised staff expenses related to Starman operation totalled EUR 0.6m, mainly capitalised as tangible assets. EUR 2.7m of the total staff expenses refer to Starman.

On 31 December 2013, the Group had 265 employees, of which three, two women in Sweden and one man in Estonia, were employed by East Capital Explorer AB while the rest, 124 women and 136 men, were employed by Starman in Estonia.

### Executive management compensation

#### Remuneration to the Board

On 24 April 2013, the Company's shareholders' meeting determined that the Chairman of the Board will receive annual compensation of SEK 770,000 for the period until the next annual general meeting. Other Board members will receive SEK 330,000 per person in compensation for the time until the next shareholders' meeting. Remuneration for Audit Committee is SEK 100,000 to the chairman of the Audit Committee and SEK 50,000 to each director in the Committee.

#### Remuneration to senior executives and other terms of employment

Guidelines for salary and other remuneration to the Company's CEO and CFO will be resolved on a yearly basis at the annual general meeting, based on proposals by the Board. Remuneration to the CEO and CFO consists of fixed salary, variable salary and pension, insurance and customary benefits. The Board decides at its own discretion whether the CEO and CFO should be paid variable salary. The CEO and CFO can receive a maximum variable salary corresponding to 50 percent of their fixed salary. The CEO and CFO have an individual premium-based pension plan, pursuant to which the Company pays premiums corresponding to 10 percent of the fixed salary up to 10 Swedish income base amounts and premiums corresponding to 20 percent of the fixed salary on the portion of the fixed salary that exceeds 10 Swedish income base amounts. In addition, CEO Mia Jurke received a benefits package in 2012 and 2013 of a limited scale. In the event the Company terminates the CEO's employment, the Company is required to observe a six-month notice period. In addition, the CEO is entitled to a severance payment corresponding to six months' salary. In the event the CEO or the CFO terminate their employment, they are required to observe a six-month notice period. The acting CEO is not entitled severance payments.

Remuneration and other benefits	2013					2012				
	Fixed salary	Variabel salary <sup>4</sup>	Board fee	Pension expenses	Total	Fixed salary	Variabel salary	Board fee	Pension expenses	Total
Parent Company, EUR thousands										
Paul Bergqvist Chairman	-	-	101	-	101	-	-	100	-	100
Anders Ek Board member during 2011	-	-	-	-	-	-	-	13	-	13
Lars Emilson Board member	-	-	12	-	12	-	-	44	-	44
Lars O Grönstedt Board member <sup>5</sup>	-	-	46	-	46	-	-	33	-	33
Louise Hedberg Board member <sup>1</sup>	-	-	-	-	-	-	-	-	-	-
Karine Hirn Board member <sup>1</sup>	-	-	-	-	-	-	-	-	-	-
Alexander Ikonnikov Board member	-	-	44	-	44	-	-	44	-	44
Mia Jurke CEO from 15 October 2011	68	15	-	25	109	137	37	-	24	199
Catharina Hagberg Acting CEO from 13 May 2013 <sup>2</sup>	144	17	-	23	184	-	-	-	-	-
Mathias Pedersen CFO <sup>3</sup>	65	15	-	10	90	58	16	-	15	89
<b>Total</b>	<b>277</b>	<b>47</b>	<b>202</b>	<b>58</b>	<b>584</b>	<b>195</b>	<b>53</b>	<b>233</b>	<b>39</b>	<b>521</b>

<sup>1</sup> Board members Louise Hedberg and Karine Hirn has waived their directors' fees

<sup>2</sup> Catharina Hagberg was appointed as acting CEO to replace Mia Jurke during her one year maternity leave

<sup>3</sup> Mathias Pedersen was employed part time (40 percent) during the year

<sup>4</sup> During 2014 the board resolved to pay out EUR 47 thousands for executive management for 2013.

<sup>5</sup> As from 2013 Lars O Grönstedt invoice his Board fees from Fabius Management AB, in which he has an indirect holding of 50 percent. In order to keep Lars O Grönstedts Board fee neutral in relation to the other Board members, the fee invoiced has been adjusted for social security contributions and VAT.

## Note 6 Fees and expenses for auditors

EUR thousands	Group		Parent Company	
	2013	Restated 2012	2013	2012
<b>KPMG</b>				
Audit fee <sup>1</sup>	-58	172	-59	52
Audit assignments except audit fees	77	-	-	57
Tax assignments	12	24	2	24
Other assignments	18	-	18	-
<b>Total</b>	<b>48</b>	<b>196</b>	<b>-39</b>	<b>133</b>
<b>PWC</b>				
Audit fee	32	-	-	-
Audit assignments except audit fees	-	-	-	-
Tax assignments	-	-	-	-
Other assignments	13	-	-	-
<b>Total</b>	<b>46</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Audit fee 2013 is positive due to reversal of earlier provisions in excess of the actual cost.

## Note 7 Financial income and expenses

EUR thousands	Group		Parent Company	
	2013	Restated 2012	2013	2012
Interest income on financial assets measured at fair value (fair value option) <sup>1</sup>	-	463	-	-
Result from participation in Group companies	-	-	24,048	15,617
Interest income on cash and cash equivalents	83	500	2	6
Interest income from Group companies	-	-	1,660	1,984
Other financial income	-	107	-	-
Net exchange rate gain <sup>2</sup>	-	-	62	-
<b>Total financial income</b>	<b>83</b>	<b>1,070</b>	<b>25,773</b>	<b>17,607</b>
Interest expenses on financial liabilities measured at amortised cost	-2,008	-2	-	-
Net foreign exchange loss <sup>2</sup>	-303	-334	-	-124
<b>Total financial expenses</b>	<b>-2,311</b>	<b>-336</b>	<b>-</b>	<b>-124</b>

<sup>1</sup> Includes gains from sale of assets within the bond mandate which was divested in 2012.

<sup>2</sup> Exchange rate gain/loss on cash and cash equivalents.

## Note 8 Taxes

Recognised in the Statement of Profit or Loss and Comprehensive income/ Income statement	Group		Parent Company	
	2013	Restated 2012	2013	2012
<b>EUR thousands</b>				
<b>Current tax expense (-)/income(+)</b>				
Tax expense/income for the year	-558	14	-	-
Tax expense/income adjustment in respect of prior years	-319	74	-	-
<b>Deferred tax expense (-)/income(+)</b>				
Deferred tax on temporary differences	242	-	-	-
Deferred tax on tax losses carried forward	-646	228	-340	-78
<b>Total recognised tax expenses/income</b>	<b>-1,280</b>	<b>317</b>	<b>-340</b>	<b>-78</b>

Reconciliation of effective tax EUR thousands	Group				Parent Company			
	2013 (%)	2013	2012 (%)	Restated	2013 (%)	2013	2012 (%)	2012
		26,533		14,130		2013 (%)	23,657	
Profit/loss before tax		26,533		14,130		23,657		15,664
Tax as per applicable tax rate for the Parent Company	22.0	-5,837	26.3	-3,716	22.0	-5,205	26.3	-4,120
Difference in tax rate in foreign operations	-1.4	363	0.6	-92	-	-	-	-
Withholding tax on non-taxable income from dividends	2.1	-558	-	-	-	-	-	-
Tax effect on non-taxable/non tax-deductible change in value of the portfolio	-26.2	6,963	-29.4	4,159	-22.4	5,291	26.2	4,107
Tax effect of other non-taxable income	-3.6	950	-	-	-	-	-	-
Tax effect on non tax-deductible expenses	0.2	-51	0.0	0	0.1	-16	0.0	-1
Change of tax rate from 26.3% to 22% on tax loss carried forward	-	-	0.8	-109	-	-	0.4	-61
Not recognised tax on tax losses carried forward for the year	7.7	-2,046	-	-	0.3	-70	-	-
Reversal of previously recognised deferred tax	3.1	-810	-	-	1.4	-340	-	-
Adjustments in respect of prior years	1.0	-253	-0.5	74	-	-	0.0	-4
<b>Recognised effective tax</b>	<b>4.8</b>	<b>-1,280</b>	<b>-2.2</b>	<b>317</b>	<b>1.4</b>	<b>-340</b>	<b>0.5</b>	<b>-78</b>

Deferred tax assets and receivables relate to the following:	Deferred tax asset 2013	Deferred tax liability 2013	Net 2013	Deferred tax asset 2012	Deferred tax liability 2012	Net 2012
<b>Group, EUR thousands</b>						
Loss carry forward	-	-	-	810	-	810
Tax allocation reserve	-	-	-	-	-407	-407
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>810</b>	<b>-407</b>	<b>403</b>

The average applicable tax rate of the Group was 4.8 percent (-2.2 percent). The increased tax rate is mainly attributable to the reversal of the relating to tax losses carried forward from prior years as well as withholding tax charged on dividends from direct investments, which according to the Swedish tax law is non taxable, but withholding tax has been charged in Russia and Macedonia. These taxes will be deductible towards future corporate tax charges for 5 year. In the financial year, withholding tax of EUR 0.5 m (EUR 0.3 m) has been charged which will be available to settle against future tax charges.

Deferred tax assets are reported to the extent it is possible that they can be utilised by future taxable profits. Potential unrealised tax effects on tax losses carried forward amount to EUR 2.4 m, which has not been recognised in the Statement of Financial Position as future profits will mainly be attributable to direct investments which are not taxable according to the Swedish tax law. During the year the group utilised all outstanding untaxed reserves and the deferred tax liability included in the balance sheet 2012 of EUR 0.4 m has been reversed and is included in deferred tax on temporary differences in Profit or Loss.

According to income tax regulations in Estonia, companies are not liable to pay tax for profits provided that the profits remain in the company. However, in the event that dividends are distributed, the company is liable for taxes on the distributed amount (from 1 January 2008 the tax rate on dividends is 21/79, reduced by dividends from the companies in which the participating interest exceeds 15 percent). As income tax is based on dividends and not on profits, deferred tax assets and liabilities on temporary differences referring to the company's income is not recognised. A company's potential income tax liabilities relative to the distribution of its retained earnings are not taken into account in the Statement of Profit or Loss and Total Comprehensive Income. Income tax on distribution of dividend is recognised as an expense in the Statement of Profit or Loss and Total Comprehensive Income. There are no unrealised tax effects on Starman profits at year-end.

The tax rate in Cyprus is 10 percent.

## Note 9 Earnings per share

Earnings per share EUR	2013	2012
Earnings per share, basic and diluted	0,79	0,42

The origin of the numerator and denominator used in the above calculations of earnings per share is shown below.

Earnings per share, basic and diluted Profit for the year attributable to the holders of ordinary shares in the Parent Company EUR thousands	2013	Restated 2012
Profit/loss attributable to the holders of ordinary shares in the Parent company.	24,712	14,346

Weighted average number of outstanding ordinary shares in the Parent company In thousand of shares	2013	2012
Total number of outstanding shares, 1 January	33,025	33,770
Share buy-back, 2012	-	-746
Redeemed shares January 2013	-1,600	
Total number of outstanding shares, 31 December	31,424	33,025
Weighted average number of ordinary shares, basic and diluted	31,424	34,394

## Note 10 Property, plant and equipment

Group EUR thousands, Accumulated costs	Land and buildings	Construction in progress	Machinery and equipment	Other property, plant and equipment	Total Group
Opening balance 1 January 2013	-	-	-	-	-
Business combinations	43,792	348	18,549	709	63,396
Additions	-	2,048	1,541	22	3,612
Sales and disposals	-	-	-274	-13	-287
Reclassifications	1,745	-1,867	-116	-	-238
Closing balance 31 December 2013	45,536	529	19,700	718	66,483

Accumulated depreciation and impairment EUR thousands	Land and buildings	Construction in progress	Machinery and equipment	Other property, plant and equipment	Total Group
Opening balance 1 January 2013	-	-	-	-	-
Business combinations	-23,685	-	-11,511	-539	-35,735
Sales and disposals	-	-	267	11	278
Depreciation	-1,854	-	-1,507	-51	-3,412
Reclassifications	-	-	97	-	97
Closing balance 31 December 2013	-25,539	-	-12,655	-579	-38,773
Carrying amount 31 December 2013	19,997	529	7,045	139	27,710

Property, plant and equipment relates only to acquired Starman activities, consolidated as from 30 May 2013.

As at 31 December 2013, the cost of fully depreciated non-current assets still in use was EUR 0.1m. The cost of items of property, plant and equipment disposed and written off as well as the carrying value was less than EUR 0.1m. Information about items of property, plant and equipment pledged as collateral for borrowings is disclosed in note 18.

## Note 11 Intangible assets

Accumulated costs Group, EUR thousands	Goodwill	Customer contracts and relationships	Trademarks	Licenses and software	Capitalised development expenditure	Total Group
<b>Opening balance 1 January 2013</b>	-	-	-	-	-	-
Business combinations	56,986	12,961	2,871	864	581	74,263
Additions	-	-	-	5	140	145
Sales and disposals	-	-	-	-	-	-
Reclassifications	-	-	-	-	122	122
<b>Closing balance 31 December 2013</b>	<b>56,986</b>	<b>12,961</b>	<b>2,871</b>	<b>869</b>	<b>843</b>	<b>74,530</b>

Accumulated amortisation and impairment EUR thousands	Goodwill	Customer contracts and relationships	Trademarks	Licenses and software	Capitalised development expenditure	Total Group
<b>Opening balance 1 January 2013</b>	-	-	-	-	-	-
Business combinations	-	8	-	-51	-87	-129
Sales and disposals	-	-	-	-	-	-
Amortisation	-	-1,089	-	-17	-82	-1,188
<b>Closing balance 31 December 2013</b>	<b>-</b>	<b>-1 080</b>	<b>-</b>	<b>-67</b>	<b>-169</b>	<b>-1,317</b>
<b>Carrying amount 31 December 2013</b>	<b>56,986</b>	<b>11,881</b>	<b>2,871</b>	<b>802</b>	<b>673</b>	<b>73,213</b>

Intangible assets relate only to acquired Starman activities, consolidated from 30 May 2013.

An impairment test was performed for goodwill as at 31 December 2013. For the purpose of the impairment test, Starman was treated as one cash-generating unit. Value in use was determined in the impairment test, using a 5-year projection, including estimates on customer numbers, ARPU, Ebitda margin and capital expenditure level. The part of cash flow associated with existing customer contracts separately assessed during the Purchase Price Allocation has been deducted from the cash flow used for impairment testing of the other assets.

### Assumptions used:

- Average revenue increase is forecast at 9.0 percent which is at a similar level with the company's historical growth rate and is supported by the company's strong market presence and product offering, recent new service lines added;
- EBIDTA margin is expected to decline slightly in a certain extent due to the expected increase in sales relating to services with lower returns;
- Capital expenditure level is expected to grow by annual inflation, in addition certain one-off known initiatives are budgeted;
- Long term growth rate of 5 percent is used after the 5 year business plan period, indicating a decrease from the budgeted five year period due to uncertainty over long term projections;
- Pre tax weighted average cost of capital of 11 percent has been used as discount rate based on the rate used in PPA (excluding existing customer contracts) carried out 2013. Impairment of assets was not identified as a result of the goodwill impairment test.

Information about items of intangible assets pledged as collateral for borrowings is disclosed in note 18.

## Note 12 Group companies

The Group consists of the Parent Company East Capital Explorer AB (publ), the operating subsidiary East Capital Explorer Investments AB and the sub-subsidiaries Humarito Ltd and as of 30 May 2013, the Baltic Cable Holding OÜ (Starman). At the end of May, East Capital Explorer Investments AB acquired the majority stake of 51 percent in Starman.

	Subsidiary's domicile, country	Share of Equity %	
		31 Dec 2013	31 Dec 2012
East Capital Explorer Investments AB	Stockholm, Sweden	100	100
East Capital Explorer Investments (Cyprus) Ltd	Nicosia, Cyprus	-	100
Humarito Limited	Nicosia, Cyprus	100	100
Baltic Cable Holding OÜ	Tallinn, Estonia	100	-
Starman AS	Tallinn, Estonia	51	-

At completion date, 30 May 2013, the Group acquired the majority stake in Starman. The 51 percent stake of Starman has been acquired by the wholly owned Estonian holding company, Baltic Cable Holding OÜ. Full goodwill has been applied and the result of the Starman operations has been included into consolidated accounts as from 30 May 2013. For more information see note 24, "Operations acquired during 2013". 49 percent of the ownership interest in Starman is held by non-controlling interests.

The Starman business, including Baltic Cable Holding OÜ, is consolidated starting from June and the contribution to Net sales and other operating income is EUR 17.8m and to operating profit EUR 3.9m. If the new business would have been consolidated from 1 January 2013, the consolidated Group would have reported an Income of EUR 30.2m and an operating profit of EUR 7.3m from Starman. EUR 0.5m of net profit and EUR 0.4m of total comprehensive income refer to non-controlling interests. As at 31 December 2013, the non-controlling interest part of total equity was 0.4m. No dividend payments have been made during the financial year.

In the balance sheet, all tangible and intangible assets as well as inventory, non-current interest bearing liabilities, current interest bearing liabilities and derivatives refer to the Starman business. EUR 2.4m of current assets refer to Starman, of which EUR 1.2m refer to cash and cash equivalents. Of the total current liabilities, excluding current interest bearing liabilities and derivatives, EUR 3.2m refer to Starman. EUR 7.6m of cash flow from operating activities, EUR -3.7m from investing activities and EUR -3.7m of cash flow from financing activities refer to Starman.

The loans from financial institutions in Starman include financial covenants depending on the net debt to Ebitda ratio, which may affect the ability to make dividend payments from the subsidiary. Starman meets all its obligations at 31 December 2013.

During the financial year, the holding in the dormant subsidiary East Capital Explorer Investment (Cyprus) Ltd has been divested.

As East Capital Explorer owns all preference shares in East Capital Explorer Investments AB, the Group has the right to all of the result, assets and liabilities of the subsidiary. Percentage of votes is 4.3. Only EUR 8 thousand of total equity refer to non-controlling interest relating to East Capital Explorer Investments AB.

Acquisition value EUR thousands	Parent Company	
	2013	2012
Opening balance 1 January	271,272	262,156
Repayment of shareholder contribution	-14,400	-6,500
Result from participation in Group companies	24,048	15,617
Closing balance 31 December	280,921	271,272

### Specification of the Parent Company's direct holdings of participations in subsidiaries

Subsidiary/corporate registration number / Domicile	No. Shares	31 Dec 2013	31 Dec 2012
		Carrying amount	Carrying amount
East Capital Explorer Investments AB/556693-7370/Stockholm	3,410	280,921	271,272
<b>Total</b>	<b>3,410</b>	<b>280,921</b>	<b>271,272</b>

## Note 13 Shares and participations

The Group applies fair value option in accordance with IAS 39 due to the fact that it bases the follow-up of its holdings on fair value. Also equity-related investments where the Group has a significant influence and the joint venture EEDF AG are recognised according to IAS 39 at fair value. All fair value changes are recognised in Profit or Loss.

Funds and similar holdings where the Group does not have the ability to affect the variable returns are not consolidated even if a majority of the shares or equity is owned by the Group. These holdings are valued at fair value through Profit or Loss.

Group		
EUR thousands	2013	2012
Closing balance 31 December 2012/2011	332,266	455,063
Effect of changes in accounting principles	-	-86,676
Opening balance 1 January 2013/2012	332,266	368,387
Acquisitions	27,277	40,541
Reclassifications to short-term investments <sup>1</sup>	-1,144	-
Disposals	-55,447	-76,662
Closing balance 31 December	302,952	332,266
<b>Change in value through Profit or Loss</b>		
Closing balance 31 December 2012/2011	-74,668	-161,478
Effect of changes in accounting principles	-	47,625
Opening balance 1 January 2013/2012	-74,668	-113,853
Reclassifications to short-term investments <sup>1</sup>	-144	-
Fair value change in the value through the income statement for the year	47,678	39,185
Closing balance 31 December	-27,134	-74,668
Carrying amount 31 December	275,818	257,599

### <sup>1</sup> Joint Venture

East Capital Explorer Investments AB holds 25 percent of the joint venture, EEDF AG, entered into with Intrum Justitia and East Capital Financial Fund. As from June 2013 these holdings are included in short-term investments as the remaining assets are limited and are expected to be divested during 2014. As at 31 December 2013, the fair value of the EEDF AB holding was EUR 110 thousands. All of the reclassification is attributable to the holdings in EEDF AG.

### <sup>2</sup> Holdings

Represents the ownership of the holding at year-end, either as a percentage of equity for certain Funds or of share capital for the remaining holdings. The number also represent the voting power of the holding.

### <sup>3</sup> Non-controlled entities

East Capital Explorer Group holds a majority of the shares or equity, but does not have the ability to affect the returns through power over the investee. The holdings are not consolidated but instead valued at fair value in Profit or Loss.

All of the unconsolidated entities are Funds managed by East Capital, of which capital is distributed by different investors, where East Capital Explorer Investments AB is one. The investment manager, East Capital, is a specialist in Eastern Europe and East Asian emerging and frontier markets. Basing its investment strategy on thorough knowledge of the markets, fundamental analysis and frequent company visits by its investment teams. Holdings in the Funds are valued at fair value on a current basis according to the valuation principles included in the accounting policy on page 67-72. For risks etc, please refer to note 23.

### <sup>4</sup> Fund restructuring

After year-end, four of the East Capital Bering Funds were restructured and all assets were transferred to two new funds, East Capital Deep Value Fund and East Capital New Markets Fund. Accumulated fair value changes attributable to the old funds were realised as at 1 January 2014 and the fair value of the old funds as at 31 December 2013 will represent the acquisition value of the new funds after deducting EUR 0.2m of transaction cost.

### <sup>5</sup> Associated companies

East Capital Explorer Investments AB holds direct investments in two associated companies, Melon Fashion Group (MFG) and Trev-2 Group. The holdings are valued at fair value through Profit or Loss. Presented below is the summarised financial information of the two companies.

Summarised financial information, associated companies	MFG* RUBm	Trev-2 Group** EURm
Current assets	2,369	22
Non-current assets	790	25
Revenue	6,302	103
Total comprehensive income	333	4

\* 9 month 2013 unaudited IFRS figures. During 2013, East Capital Explorer Group received dividends from MFG of EUR 3.9m

\*\* 12 month 2013 unaudited Estonian Gaap figures. There are no material differences in The Trev-2 Group financials according to Estonian Gaap compared to IFRS requirements

Holdings 2013	Place of business	Number of shares/Units	Cost	Value Change	Carrying amount	Holdings <sup>2</sup>
East Capital Bering Russia Fund <sup>3,4</sup>	Russia	1,660,805	43,590	-20,637	22,953	59%
East Capital Bering Ukraine Fund Class A <sup>4</sup>	Ukraine	738,641	11,039	-7,645	3,394	25%
East Capital Bering Ukraine Fund Class R	Ukraine	585,187	11,783	-9,275	2,508	12%
East Capital Bering Central Asia Fund <sup>3,4</sup>	Central Asian countries	5,933,960	29,478	-6,506	22,971	67%
East Capital Bering Balkan Fund <sup>3,4</sup>	Balkan countries	7,795,714	54,938	-13,835	41,103	73%
East Capital Special Opportunities Fund <sup>3</sup>	Russia	1,461,386	10,402	4,750	15,153	83%
East Capital Russia Domestic Growth Fund <sup>3</sup>	Russia	40,000	40,000	2,318	42,318	95%
East Capital Special Opportunities Fund II <sup>3</sup>	Eastern European countries	3,503,500	35,000	-17,180	17,820	57%
East Capital Baltic Property Fund II <sup>3</sup>	Baltic countries	170,688	17,671	3,000	20,670	65%
MFG (OAO Melon Fashion Group) <sup>5</sup>	Russia	11,545	28,873	41,597	70,471	36%
Trev2 - Group <sup>5</sup>	Estonia	21,405,953	7,151	2,695	9,847	40%
Komercijalna Banka Skopje	Macedonia	227,907	13,027	-6,418	6,609	10%
<b>Total</b>			<b>302,952</b>	<b>-27,134</b>	<b>275,818</b>	

East Capital Explorer has committed to invest EUR 20m in total in the East Capital Baltic Property Fund II. A total of EUR 17m was drawn down by the Fund during previous year and EUR 0.7m was drawn down 2013. EUR 2.3m remains to be invested at year-end.

Holdings 2012 Restated	Place of business	Number of shares/Units	Cost	Value Change	Carrying amount	Holdings <sup>2</sup>
East Capital Bering Russia Fund	Russia	1,660,805	43,590	-15,786	27,804	46%
East Capital Bering Ukraine Fund Class A	Ukraine	738,641	11,039	-7,146	3,893	37%
East Capital Bering Ukraine Fund Class R	Ukraine	912,395	18,372	-13,143	5,228	11%
East Capital Bering Central Asia Fund <sup>3</sup>	Central Asian countries	5,933,960	29,478	-10,938	18,540	56%
East Capital Bering New Europe Fund <sup>3</sup>	Central European & Baltic countries	2,461,010	14,972	-1,825	13,147	93%
East Capital Bering Balkan Fund <sup>3</sup>	Balkan countries	7,795,714	54,938	-16,030	38,908	66%
East Capital Special Opportunities Fund <sup>3</sup>	Russia	2,525,060	18,046	3,478	21,524	83%
East Capital Power Utilities Fund <sup>3</sup>	Russia	40,095	20,048	-8,687	11,360	73%
East Capital (Lux) Eastern European Fund	Eastern European countries	61,943	6,194	-1,781	4,413	4%
East Capital Russia Domestic Growth Fund <sup>3</sup>	Russia	15,000	15,000	-522	14,478	99%
East Capital Special Opportunities Fund II <sup>3</sup>	Russia	3,500,000	35,000	-15,715	19,285	56%
East Capital Baltic Property Fund II <sup>3</sup>	Baltic countries	163,898	16,931	500	17,431	91%
MFG (OAO Melon Fashion Group)	Russia	11,545	28,873	15,321	44,194	36%
EEDF AG	Russia	2,500	1,144	144	1,288	25%
Trev2 - Group	Estonia	18,064,014	5,614	1,792	7,406	34%
Komercijalna Banka Skopje	Macedonia	227,907	13,027	-4,330	8,697	10%
<b>Total</b>			<b>332,266</b>	<b>-74,668</b>	<b>257,599</b>	

## Note 14 Inventories

Group	31 Dec 2013	31 Dec 2012
EUR thousands		
Goods purchased for sale and customer equipment	1,709	-
Materials	457	-
Prepayment for inventories	257	-
<b>Total</b>	<b>2,423</b>	<b>-</b>

In 2013, inventories were written down and written off in the amount of EUR 50 thousands (-). All inventories refer to Starman.

## Note 15 Current receivables

Group	31 Dec 2013	31 Dec 2012
EUR thousands		
Trade receivables	711	-
Other receivables	336	32
<b>Total</b>	<b>1,047</b>	<b>32</b>

## Note 16 Prepaid expenses and accrued income

EUR thousands	Group		Parent Company	
	Restated		31 Dec 2013	31 Dec 2012
	31 Dec 2013	31 Dec 2012		
Accrued interest	21	46	21	23
Accrued income	1,128	-	-	-
Prepaid expenses	203	34	-	-
<b>Total</b>	<b>1,352</b>	<b>80</b>	<b>21</b>	<b>23</b>

## Note 17 Shareholders equity

Outstanding shares, thousands	2013	2012
Issued at 1 January	33,025	33,770
Share buy-back, 2012	-	-746
Redeemed shares January 2013	-1,600	-
<b>Issued at 31 December</b>	<b>31,424</b>	<b>33,025</b>

### Shareholders' equity in the Group

#### *Other contributed capital*

Pertains to shareholders' equity contributions. The share premium paid in conjunction with new issues is included here.

#### *Other Reserves - derivatives*

The derivatives reserve comprises the effective portion of the cumulative net change of the fair value of hedging instruments used in interest rate hedges pending in Starman, (See note 19).

#### *Retained earnings including profit/loss for the year*

Include profits or losses earned in the Parent Company and its subsidiaries.

### Non-restricted equity - Parent Company

#### *Share premium reserve*

When new shares are issued at a premium, implying that the price to be paid for a share is higher than the previous quotient value of the share, an amount corresponding to the amount received in excess of the share's quotient value is transferred to the share premium reserve.

#### *Retained earnings*

Retained earnings comprise retained profit from previous years after any provisions to reserves and after payment of any dividends. Previous provisions to the statutory reserve, less transferred share premium reserves are included in this item under equity.

#### *Capital management*

Capital is defined as total equity excluding non-controlling interest, and it amounted to EUR 311m (EUR 301m) per 31 December 2013. EUR 301m (EUR 258m) was invested in equity funds, direct investments and short-term investments.

The objective is to offer investors long-term capital appreciation of the Net Asset Value (NAV). The risk of short-term fluctuations in capital appreciation is deemed to be high due to the high level of risk in the markets in which the Company invests. The increase of the NAV for the year 1 January to 31 December 2013 was 3.4% (increase 2.4%).

The future liquidity will depend primarily on (i) the timing and sales of investments, (ii) the company's management of available cash, (iii) cash distributions from existing investments, (iv) capital contributions that are received in connection with the issuance of additional equity and (v) the issuance of debt, if any.

The Company may enter into a line of credit facility with one or more lenders for the purpose of obtaining an additional source of liquidity to fund short-term liquidity needs and for investments. The aggregate amount drawn by the Company under any line of credit facility may not exceed any amount equal to 30% of the Company's net asset value, excluding the debt and net asset value attributable to direct investments in real estate.

At year-end interest bearing liabilities of EUR 76.8m (-) existed in Starman, which are included in the Statement of Financial Position as non-current and current interest bearing liabilities. Starman has also entered into an interest hedge agreement. Both loans and hedges are described in more details in note 18 and 19.

## Note 18 Loans and borrowings

EUR thousands	Group	
	31 Dec 2013	31 Dec 2012
<b>Non-current interest-bearing liabilities</b>		
Secured Interest-bearing liabilities, financial institutions	44,962	-
Interest-bearing liabilities, financial institutions	23,650	-
Financial lease liabilities	21	-
<b>Total</b>	<b>68,634</b>	<b>-</b>
<b>Current interest-bearing liabilities</b>		
Secured Interest-bearing liabilities, financial institutions	8,136	-
Interest-bearing liabilities, shareholders loan from non-controlling interest	-	-
Financial lease liabilities	67	-
<b>Total</b>	<b>8,203</b>	<b>-</b>

### Terms and repayment schedule:

Interest-bearing liabilities has the following maturity profile (excluding future interest capitalisation):		31 Dec 2013
EUR thousands		
Within six months		4,126
7-12 months		4,078
1-2 years		8,167
2-3 years		8,180
3-4 years		8,191
4-5 years		20,445
More than 5 years		23,650
<b>Total</b>		<b>76,837</b>

EUR thousands	31 Dec 2013			
	Nominal interest rate <sup>1</sup>	Year of maturity	Carrying amount	Fair Value
Interest-bearing liabilities has the following terms (excluding future interest capitalisation):				
Secured bank loans	3.2%	2013-2018	53,099	53,099
Shareholders loans from non-controlling interest	5.6%	2020	23,650	23,650
Finance lease liabilities	2.1%	2014	88	88
<b>Total</b>			<b>76,837</b>	<b>76,837</b>

<sup>1</sup> Weighted rate as at balance date due to floating interest rate.

All loans are attributable to financing of Starman operations. All loans are originally denominated in EUR.

The Group has in total during 2013 raised an available facility from the banks of EUR 60.0m. Disbursed part of this facility was EUR 57.0m. The undrawn borrowing facility has a floating rate and expires in December 2014.

Starman has entered into interest rate hedging transactions that fix the interest rate for approximately 50% of bank loans in accordance with the amortised schedule of loans. See note 23.

The loans from the financial institutions are agreed to include financial covenants to be met. The ratio bank loans/Ebitda must be less than 4.5 until December 2014, and less than 3.5 between January-September 2015 and less than 3.0 from October 2015 to termination of the loan. The ratio between Ebitda/interest and principal payable must exceed 1.25 until December 2014 and 1.4 from January 2015 to termination of the loan. As at 31 December 2013 Starman was in compliance with its covenants.

The secured loans are secured over the movable property of Starman in the amount of EUR 50m for the benefit of AS SEB Pank (See note 10). Additionally, Trademarks have been pledged for a value of EUR 13m for the benefit of AS SEB Pank as well as other intangible assets of EUR 1m. (See note 11).

In the Starman operations, finance leases are used to fund its investments in cable networks, machinery and equipment. At year end, the outstanding finance lease liability was EUR 0.1m. All agreements mature in 2014.

## Note 19 Derivatives

EUR thousands	Group	
	31 Dec 2013	31 Dec 2012
Interest rate swaps used for cash flow hedging, Non-current liability	277	-
Interest rate swaps used for cash flow hedging, Current liability	2	-
<b>Total</b>	<b>279</b>	<b>-</b>
<b>Change in value through Other Comprehensive Income</b>	<b>2013</b>	<b>2012</b>
Opening balance 1 January	-	-
Fair value adjustment in the financial year	-277	-
Closing balance 31 December	-277	-

As from 28 June 2013 Starman has entered into a hedging arrangement with the external banks to hedge 50 percent of the interest rate risk from the bank loan agreements. The hedge is a financed cap by which the loans' floating interest rate of 1 month EURIBOR has a maximum interest level of 2.7 percent. The derivatives have a fixing rate between 0.39 percent and 1.70 percent and the derivatives mature within 5 years.

The fair values of the interest rate swaps have been calculated by the issuing banks.

100 percent of the interest rate hedges have been deemed as effective and value changes are recorded in Other Comprehensive Income.

## Note 20 Other current liabilities

EUR thousands	Group		Parent Company	
	31 Dec 2013	31 Dec 2012 Restated	31 Dec 2013	31 Dec 2012
Account payables	1,274	37	6	34
Other	897	150	102	163
<b>Total</b>	<b>2,171</b>	<b>188</b>	<b>108</b>	<b>198</b>

## Note 21 Accrued expenses and prepaid income

EUR thousands	Group		Parent Company	
	31 Dec 2013	31 Dec 2012 Restated	31 Dec 2013	31 Dec 2012
Vacation pay	50	27	50	27
Management fee KBS, Trev-2, EE DF AG	106	116	-	-
Performance fee, MFG, Trev-2	11,074	4,185	-	-
Other accrued expenses	1,407	312	246	305
<b>Total</b>	<b>12,637</b>	<b>4,641</b>	<b>296</b>	<b>332</b>

## Note 22 Financial instruments

Group 2013	Financial assets at fair value through Profit or Loss	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
EUR thousands					
Shares and participation in investing activities	275,818	-	-	275,818	275,818
Accounts receivable, Note 15	-	711	-	711	711
Other receivables, Note 15	-	336	-	336	336
Accrued interest, Note 16	-	21	-	21	21
Short-term investments	112	-	-	112	112
Cash and cash equivalents	-	21,504	-	21,504	21,504
<b>Total</b>	<b>275,930</b>	<b>22,572</b>	<b>-</b>	<b>298,501</b>	<b>298,501</b>
Non-current interest bearing liabilities	-	-	68,634	68,634	68,634
Current interest bearing liabilities	-	-	8,203	8,203	8,203
Other current liabilities	-	-	2,171	2,171	2,171
Derivatives used for cash flow hedging	-	-	279	279	279
Accrued expenses, Note 21, management and performance fees	-	-	11,180	11,180	11,180
<b>Total</b>	<b>-</b>	<b>-</b>	<b>90,467</b>	<b>90,467</b>	<b>90,467</b>

Group 2012 Restated EUR thousands	Financial assets at fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
Shares and participation in investing activities Note 15	257,599	-		257,599	257,599
Other receivables Note 16	-	32		32	32
Accrued interest	-	46		46	46
Cash and cash equivalents	-	46,497		46,497	46,497
<b>Total</b>	<b>257,599</b>	<b>46,575</b>		<b>304,173</b>	<b>304,173</b>
Other financial liabilities			188	188	188
Accrued expenses			4,302	4,302	4,302
<b>Total</b>			<b>4,489</b>	<b>4,489</b>	<b>4,489</b>

Parent Company	2013				2012			
EUR thousands	Loans and receivables	Other financial receivables / liabilities	Total carrying amount	Fair value	Loans and receivables	Other financial receivables / liabilities	Total carrying amount	Fair value
Loan to Group Companies	29,315	-	29,315	29,315	29,315	-	29,315	29,315
Other current receivables	1	-	1	1	30	-	30	30
<b>Total</b>	<b>29,316</b>	<b>-</b>	<b>29,316</b>	<b>29,316</b>	<b>29,345</b>	<b>-</b>	<b>29,345</b>	<b>29,345</b>
Other financial liabilities		108	108	108		198	198	198
<b>Total</b>		<b>108</b>	<b>108</b>	<b>108</b>		<b>198</b>	<b>198</b>	<b>198</b>

### Calculation of fair value

The following summarises the main methods and assumptions applied in determining the fair value of the Group's financial instruments.

#### Financial instruments measured at fair value through profit and loss

For a description of the method applied to measure financial instruments recognised at fair value through Profit or Loss, see Note 1 on pages 67-72.

The fair value of interest bearing liabilities is calculated on the basis of future cash flows of capital amounts and interest discounted to the market rate at the end of the reporting period. Since most of the interest bearing liabilities carry floating interest rate, fair value on the closing date corresponds to carrying amounts. Fair value of interest rate swaps is based on third party assessments of fair value.

#### Financial instruments not measured at fair value through profit and loss

For accounts receivable and accounts payable, the carrying amount is deemed to reflect fair value since the remaining maturity is generally short.

### Fair value estimation

The Group applies IFRS 13 for fair value measurement and IFRS 7 for disclosures. This requires the Group to classify, for disclosure purposes, fair value measurements using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorized in is determined on the basis of the lowest level of input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs requiring significant adjustment based on unobservable inputs, such measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the financial asset. For fair value estimation, see Note 1 Accounting Principles, pages 67-72.

The determination of what constitutes 'observable' requires significant judgment by the Group. The Group considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The remaining equity funds are classified in the level where underlying equities to a predominant proportion have been classified.

## Fair value hierarchy for financial assets (amounts in EUR thousands):

2013				
Shares and participations in investment activities designated at fair value through Profit or Loss at inception:	Level 1	Level 2	Level 3	Total balance
- Fund Investments	165,713	-	23,179	188,892
- Direct Investments	6,609	-	80,317	86,926
- Short-term investments	-	-	112	112
<b>Total assets measured at fair value</b>	<b>172,322</b>	<b>-</b>	<b>103,608</b>	<b>275,930</b>

2012				
Restated				
Shares and participations in investment activities designated at fair value through Profit or Loss at inception:	Level 1	Level 2	Level 3	Total balance
- Fund Investments	173,353	-	22,659	196,012
- Direct Investments	8,697	-	52,890	61,587
- Short-term investments	-	-	-	-
<b>Total assets measured at fair value</b>	<b>182,050</b>	<b>-</b>	<b>75,549</b>	<b>257,599</b>

Investments which values are based on quoted market prices in active markets and are, therefore, classified within level 1, include publicly listed companies in Equity fund investments and direct investments.

Financial investments traded in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs, are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include mainly private equity investments. As observable prices are not available for these holdings, the Group has used valuation techniques to derive the fair value. Level 3 instruments also include investments in other East Capital Equity funds, to the extent they primarily hold unlisted investments.

The following table presents the movement in level 3 investments for the period ended 31 December 2013 by class of financial instrument:

2013	Fund	Direct	Short term	Total
EUR thousands	Investments	Investments	investments	
<b>1 January 2013</b>	<b>22,659</b>	<b>52,890</b>	<b>-</b>	<b>75,549</b>
Purchase/addition	740	1,537	-	2,277
Reclassifications	-	-1,289	1,289	-
Sales/reduction	-1,698	-	-621	-2,319
- Result from financial assets at fair value through Profit or Loss	1,478	27,180	-557	28,101
<b>Closing balance 2013</b>	<b>23,179</b>	<b>80,318</b>	<b>112</b>	<b>103,608</b>

2012	Fund	Direct	Short term	Total
Restated, EUR thousands	Investments	Investments	investments	
<b>31 December 2011</b>	<b>15,565</b>	<b>24,799</b>	<b>-</b>	<b>40,363</b>
Effect of changes in accounting principles	-10,037	-	-	-10,037
<b>1 January 2012</b>	<b>5,528</b>	<b>24,799</b>	<b>-</b>	<b>30,326</b>
Purchase/addition	16,931	14,691	-	31,622
Sales/reduction	-	-11,322	-	-11,322
- Result from financial assets at fair value through Profit or Loss	200	24,722	-	24,922
<b>Closing balance 2012</b>	<b>22,659</b>	<b>52,890</b>	<b>-</b>	<b>75,549</b>

There has been no movements to or from level 3 during the financial year or in previous year.

## Note 23 Financial risks and risk management

The Group's activities expose the Group to a variety of risks. The main identified risks are financial risks, operating risks and commercial risks.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group Audit Committee oversees how management monitors compliance with the Group's different policies. The Committee is assisted in its oversight role by the Internal Auditors, which regularly reviews the Company's procedures and reports back to the Committee.

### Financial risks

The Group has exposure to the following risks arising from financial instruments: market risk (including equity price risk, currency risk and interest rate risk), liquidity risk and credit risk. The term "financial risks" refers to fluctuations in the Group's income, cash flow and values of its holding in financial instruments as a result of these risks. The Group's financial policy for the management of financial risks has been prepared by the Board and is a framework of guidelines and regulations in the form of risk mandates and limits for financial activities. Compliance with the financial policy is followed up by the Board.

The responsibility for and the handling of financial risks and treasury management activities within the Group is centralized to the CEO together with the Parent Company's finance and accounting department. This includes responsibility for raising capital, management of liquid assets, handling of financial risk exposure, cash management and bank relations. The Board makes decisions concerning the Investment Policy, public financing programs, as well as confirming the financial strategy. The Board also undertakes decisions, upon recommendation from the CEO, concerning the Group's long-term financial strategy.

The Board ensures that the Investment Policy, on which the Investment Manager bases the investment activities, is appropriate for the Group's objectives, decides on more significant investment decisions and monitors the operations of the Investment Manager. The Board also controls that the investment activities are in accordance with the Investment Policy and the Investment

Management Agreement which sets out the terms and conditions upon which the investment activities are to be performed. The Investment policy prescribes the types of assets, investment themes and key geographical segments in which investments may be made and stipulates certain limitations in order to assure diversification and an appropriate risk level. The Board may decide to amend or deviate from the Investment policy, as it deems appropriate.

### (a) Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings in financial instruments. East Capital Explorer AB is mainly exposed to changes in equity prices and foreign exchange rates.

The Group's exposure to market risk is generally increased by the location of the markets in which it invests. The Group invests in publically listed and privately held enterprises, either through East Capital Equity funds or through direct investments into companies in Russia and the other CIS countries, the Balkans, the Baltic States, Central Asia and Central Europe. Investing in companies based in these emerging markets involves risks and certain other considerations, such as political risks, that are not typically associated with investments in companies established in other parts of Europe.

The Group limits risk by following the Investment Policy that provides guidelines based on the following factors:

- Industry
- Geography
- Financial instruments
- Hedging

The table "Sensitivity analysis for market risks" on the following page summarises the effect of the most important market risks on the Group's total comprehensive income.

#### (i) Equity price risk

Equity price risk is the most significant risk in East Capital Explorer AB's business activities, which consists of investing in various forms of equities and equity-related instruments in emerging markets.

The Group's policy is to manage price risk through diversification and selection of investments within specified limits set by the Board. Please see paragraph (d) "Concentration of risk" below for more information about the Group's specified investment limits. The principal factors that affect the equity price risk are that the investments primarily are made in emerging markets and in the following industry sectors; power utilities, financials, consumer goods, and real estate.

When the Group realises an investment and is seeking an alternative investment in which to re-invest the capital realized, suitable investment opportunities may not always be available. It may take a significant amount of time to reinvest the capital. Although the Group has adopted a policy of active management of cash and liquid investments portfolio to enhance returns, such management may from time to time generate returns that are substantially lower than the returns that the Group anticipates receiving from investments in any East Capital Funds or any direct investments. Board approval is compulsory for investments that exceed 15% of net asset value and direct investments. Investments that differ from the Investment Policy and investments that may imply a conflict of interest between the Group and East Capital PCV Management AB also need approval from the Board. The Group's Investment Policy requires that the overall market position be monitored on a daily basis by the Investment Manager and that it will be reviewed on a quarterly basis by the Board.

On 31 December 2013, the total fair value of East Capital Explorer AB's investments exposed to equity price risk amounted to EUR 276m (EUR 258m) as specified in the table below.

Where equity investments are denominated in currencies other than euro, the price is initially expressed in foreign currency and then converted into euros and will also fluctuate because of changes in foreign exchange rates. Paragraph (ii) "Currency risk" below sets out how this component of price risk is managed and measured.

#### (ii) Currency risk

Currency risk arises as the value of future transactions, recognised monetary assets

At 31 December, the fair value of the Group's investments exposed to equity price risk was as follows:

	Fair value at 31 Dec 2013	Fair value at 31 Dec 2012 Restated
Shares and participations in investment activities designated at fair value through Profit or Loss at inception:		
Fund investments	188,892	196,012
Direct investments	86,926	61,587
Short term investments	112	-
<b>Total portfolio</b>	<b>275,930</b>	<b>257,599</b>

and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. The Group operates and invests its assets internationally and holds both monetary (investment of excess liquidity classified as cash and cash equivalents) and non-monetary financial assets (investments in shares and participations) denominated in currencies other than EUR, the functional currency.

The Group is exposed to currency risk primarily through its non-monetary assets, i.e. through its direct and indirect investments into companies that are domiciled and operate in countries outside the eurozone. Often, the various investment vehicles, such as equity funds, use US Dollar as reporting currency. However, the underlying investments remain exposed to the local currencies in the target region where the companies invested have their main operations. This exposure relating to non-monetary assets is considered a component of equity price risk, not currency risk, and the Group's general policy is not to hedge this exposure, although it might decide to deviate from this if deemed favorable from an investment perspective.

The Group is also exposed to currency risk in its monetary assets, i.e. its cash and cash equivalents and short-term investments. To avoid currency risk, cash and cash equivalents are mainly held in EUR.

The Group's operating expenses are mainly denominated in Swedish kronor (SEK) and it pays its dividend in SEK. In the future the Group may decide to hedge these transactions. Spot, forward or option transactions may be used as part of the currency hedging strategy. Hedging transactions entail costs and may result in losses.

The table "Concentration of foreign currency assets" below presents the Group's

monetary and non-monetary assets, which are denominated in a currency other than the euro.

The consolidated Profit or Loss includes exchange differences of EUR 0.3m (EUR 0.3m) in net financial items arising from exchange loss/gains on cash and cash equivalents as well as short term loans.

The Sensitivity analysis for market risks below summarizes the sensitivity of the Group's monetary and non-monetary assets and liabilities to changes in foreign exchange movements as at 31 December 2013. The analysis is based on the assumptions that the relevant foreign exchange rate increased/decreased by 5% to the EUR, with all other variables held constant. This represents the management's best estimate of a reasonable possible shift in the foreign exchange rates, having regard to historical volatility of those rates.

#### (iii) Interest rate risk

The East Capital Explorer Group is exposed to interest rate risk when excess liquidity is held in short-term investment while awaiting deployment in the long term portfolio of equity investments as well as the interest bearing loans in the acquired Starman. Changes in the level of interest rates can affect the rate of return on the Group's cash and cash equivalents and other short-term investments. Changes in the level of interest rates can also affect, among other things: (i) the cost and availability of debt financing and hence the Group's ability to achieve attractive rates of return on its investments, and (ii) the debt financing capability of companies which capital structures have a significant degree of leverage in which the Group has invested either through fund investments or direct investments.

The goal is to limit the interest rate exposure while achieving the best possible return on liquid assets. Hedging transactions are permitted for coverage of interest rate risks arising from investing liquidity according to the Group's financial policy. A review to re-assess and determine the definition of a neutral risk position from an interest perspective should be carried out on a regular basis.

The majority of the bank financing in Starman is linked to one-month Euribor. For hedging the change in Euribor, Starman has entered into interest hedging transactions that fix the interest rate for approximately 50% of bank loans in accordance with the amortised schedule of loans. As at 31 December 2013, the balance of loan liabilities linked to Euribor was EUR 53.1m, including EUR 26.7m for which the interest rate risk is hedged. Loans from shareholders with non-controlling interest are linked to an interest rate based on the interest rate of five- to ten-year loans as shown by the statistics of the Bank of Estonia, plus risk rate of 2.5%. This is a floating interest rate since the interest rate is reviewed twice a year. Loan interest are not due to current payment as they are capitalised to the loan amount principle. The loan liability is subordinated to bank loans taken by Starman and repayments can't be made before bank liabilities are paid. As at 31 December 2013, loans received from non-controlling interests totaled EUR 23.7m.

The table "Sensitivity analysis for market risks" presented below summarizes the Group's sensitivity to interest rate changes at 31 December 2013.

#### Concentration of foreign currency assets (amounts in EUR thousands)

31 December	EUR	USD	SEK	Total
Monetary assets, 2013	18,933	2,458	113	21,504
Monetary assets, 2012, Restated	31,006	49	15,442	46,497

31 December	EUR	USD	RUB	MKD	Total
Non-monetary assets 2013	90,656	108,083	70,583	6,609	275,930
Non-monetary assets 2012, Restated	74,373	129,045	45,483	8,697	257,599

#### Sensitivity analysis for market risks (EUR thousands)

Risk factors	Change	31 Dec 2013		31 Dec 2012 Restated	
		Effect on total comprehensive income for the period	Change	Effect on total comprehensive income for the period	Change
Currency rate EUR/RUB	+/- 5%	3,529	+/- 5%	2,274	
Currency rate EUR/USD	+/- 5%	5,527	+/- 5%	6,455	
Interest rate (assets)	+/- 1 percentage points	1	+/- 2 percentage points	19	
Interest rate (liabilities)	+/- 1 percentage points	376	+/- 2 percentage points	-	
Equity price	+/- 10%	27,642	+/- 10%	25,760	
Value of level 3 holdings	+/- 10%	10,361	+/- 10%	7,555	

**(b) Liquidity and financing risk**

Liquidity risk for the Group is the risk that financial investments can't be divested without considerable extra costs, and the risk that liquidity will not be available to meet payment obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group's activities should, both in short and long term, primarily be financed by available liquid assets and its own profits. Liquidity risk is always considered with respect to investments. The Group's investments in illiquid markets mean that liquidity risk is present in terms of the capacity to quickly divest holdings. This risk is taken on intentionally and it is offset by the assessed potential for returns. Due to the Group's high equity ratio, the risk of suspension of payments is deemed low. In accordance with the Group's financial policy, liquidity risk will be minimized through continual evaluation of exposure in the portfolio with respect to investments in illiquid markets, taking liquidity risks into account.

The Group's financial liabilities from the investment operations are mainly accrued performance and management fees. There are also financial liabilities in the Starman operations consisting of bank loans, interest liabilities, derivatives, trade- and other payables. In addition to this, loans have been raised from non-controlling interests (shareholder loans) in the amount of EUR 23.7m as at 31 December 2013. Loan interest connected to the shareholder loans is not payable as they are capitalised to loan principle. The shareholders' loan liability is subordinated to the bank loans in Starman and repayment can't be made before bank liabilities are paid. The repayment date of the principal loan amount and interest on the shareholders loans is not expected to be realized before the full repayment of the bank loans. More information about the financial liabilities is provided in note 18, 19 and 20.

In accordance with the Group's policy, the Investment Manager monitors the Group's liquidity position regularly. The Board reviews it on a quarterly basis.

Finance risk is the risk that the costs associated with raising new debt increases and the ability to raise debt is limited when needed for refinancing purpose. Normally, the Group shall not take on financial debt or provide

collateral. The finance function is working actively to secure access to capital and create flexibility for new investment opportunities for the Group.

**(c) Credit risk**

The Group takes on exposure to credit risk, which is the risk that a party to a financial instrument will cause a financial loss for East Capital Explorer AB by failing to discharge its obligation.

The Group is exposed to credit risk mainly through the investment of excess liquidity in interest-bearing securities classified as cash, cash equivalents and bonds, but also through loans made to companies in the equity investment portfolio. Credit risk could also arise from derivative financial instruments with positive fair values. The financial policy regulates counterparty exposure to minimize credit risk. According to the Group policy, the credit risk for cash and cash equivalents is limited by only granting credit to counterparties with an investment grade by a well-known rating agency and with a rating of two of three of the following levels; A (Standard & Poor's), A (Fitch) and A1 (Moody's Rating). Deposits can be made in EUR with a duration of up to 12 month. Deposits in one single bank may not exceed 15 percent of the total net asset value of East Capital Explorer AB.

The bond portfolio, which was managed by East Capital, was set up to generate higher returns on short-term investments. This mandate was regulated by separate investment guidelines adopted by the Board. These guidelines allowed the Group to take on higher credit risk in order to create higher returns. The bond portfolio was divested in 2012.

In accordance with the Group's policy, the Investment Manager monitors the Group's credit position regularly. The Board reviews it on a quarterly basis.

**(d) Concentration of risk**

Concentration of risk refers to single holdings or investment areas that represent a significant part of the total investment portfolio. The Group's investment policy assets that no investment in any single East Capital Fund may represent more than 40 percent of the Group's net asset value at the time of the investment, that no single direct investment may exceed 15 percent of the Group's net asset

value at the time of the investment and that total direct investments in real estate may not exceed 30 percent of the Group's net asset value. At the end of 2013, the largest exposure to a single company had a value of EUR 70.5m (EUR 44.2) or 22.7 percent (14.7 percent) of the net asset value. The top 10 holdings (when combining holdings in underlying funds) had a value of EUR 166.4 (EUR 113.3m) corresponding to 53.6 percent (37.7 percent) of the net asset value at year end 2013.

Other than that, the Group's Investment Policy only contains limited diversification requirements for the portfolio. Furthermore, the Board can deviate from or amend the Investment Policy. In addition, the Group Investment Policy does not impose any limitations on the terms of the funds in which the Group may invest, including the fund size, its affiliation with East Capital, geographic focus or other diversification, investment parameters or industry focus. At year-end 2013, 49 percent (46 percent) of the invested portfolio has its geographic exposure to Russia, followed by Estonia, Romania, Kazakhstan, Slovenia and Serbia, representing 16 percent, 9 percent, 5 percent, 4 percent and 4 percent respectively. By industry sectors 40 percent of the invested portfolio was held in Consumer Discretionary, followed by 31 percent in Financials, by 7 percent in Industry, 5 percent in Telecom Services and 5 percent in Consumer Staples. In the event that the portfolio is concentrated on relatively few investments, adverse performance by even just one of these investments could have a material adverse effect on the Group.

**EUR thousands****Analysis of undiscounted financial liabilities (principal and future interest payments) by payment term**

	Carrying amount	< 6 month	7-12 month	1-2 years	2-3 years	3-4 years	4-5 years
Repayments of bank loans	53,187	4,126	4,078	8,167	8,180	8,191	20,445
Interest	-	904	846	1,463	1,179	888	231
Derivative payments	277	22	62	122	155	182	52
Trade and other payments	2,171	2,171	-	-	-	-	-
<b>Total</b>	<b>55,635</b>	<b>7,223</b>	<b>4,986</b>	<b>9,752</b>	<b>9,514</b>	<b>9,261</b>	<b>20,728</b>

**Business risk****(a) 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 result in certain 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.

**(b) Country risks**

Investing in emerging markets generally means taking on a higher level of risk in the business environment than when investing in more developed countries. These markets are less mature and, thereby, often more volatile and more vulnerable to external shocks, as experienced in recent years. 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.

**(c) Investment strategy risk**

The business plan and objectives of the Company 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 of lack of efficiency in the choice of and development of the investments, and in the timing of the market conditions to make the investment at the most profitable moment.

**(d) Company specific risk**

The success of the Company depends on the ability to provide the shareholders with a portfolio of interesting and profitable investments. This also includes being able to manage the investments effectively during the 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.

**(e) Operational risks**

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 the Group. As almost all operative functions are in-sourced from East Capital, East Capital Explorer AB is therefore highly dependent on a limited number of key people working for the company as well as the on the successful on-going operations of East Capital.

**(f) Related party risk**

With East Capital as the Group's Investment Manager, the shareholders are ensured access to one of the most capable and merited investment teams active in the region. The Group relies on East Capital's capacity to manage the investment activities rather than having an in-house investment team. 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.

## Note 24 Operations Acquired During 2013

### Acquisitions 2013

#### Acquisition of Starman

At completion date, as at 30th of May, the Group acquired a majority stake in Starman. The acquired company is the leading cable TV, broadband internet and voice cable services provider in Estonia. The 51 percent ownership of Starman has been acquired by the wholly owned Estonian holding company, Baltic Cable Holding OÜ.

The consideration transferred amounted to EUR 23.6m for 51.0 percent of the shares in Starman.

Goodwill amounted to EUR 56.9m arising from the acquisition and is related to strong market presence combined with a product mix which is superior to competition and the expectation to utilise the growth potential in the coming years from recently developed new products. The recognised goodwill is not tax deductible.

The rationale for the investment was local customer base with excellent payment discipline, strong cash generating capability, opportunity for organic revenue and profit growth, domestic consumer-driven, non-cyclical business and strong platform for Pan-Baltic consolidation.

The fair value of assets acquired and liabilities assumed in the business combination and the net cash flow from business combination are presented below.

During the third quarter the Purchase Price Allocation (PPA) of Starman acquisition was finalised.

- The outcome of the analysis is that the following intangible assets have been identified:  
Client relationships EUR 13.0m, Trademark EUR 2.8m, Licenses and software EUR 1.3m.  
All these intangibles, except Trademarks, are amortised over a period of seven years. Trademarks are not depreciated due to the infinite useful life of the asset.
- In the PPA, a fair value of EUR 20.1m was attributed to Buildings (of which EUR 18.6m relates to values in Networks), EUR 7.0m to Plants & Machinery and the remaining EUR 0.5m to Equipment tools and construction in progress.

The new business is consolidated starting from June 2013 and the contribution to total operating income is EUR 17.8m and to operating profit EUR 3.9m.

If the new business would had been consolidated from 1 January 2013, the consolidated Group would have included a total operating income of EUR 30.2m and a total operating profit of EUR 7.3m relating to Starman.

Transaction costs total EUR 0.3m. Included in other operating expenses in the Statement of Profit or Loss and Other Comprehensive Income is EUR 0.1m and EUR 0.2m is included in bank debt.

The fair value of the possession of the non-controlling interest in Starman, which is a non-listed company, has been calculated on the basis of the fair values agreed in the PPA of net assets including Goodwill. Since East Capital Explorer's ownership is 51 percent and the acquisition was done at the same time as non-controlling interest acquired its shares, the fair value has been calculated proportional to the ownership.

### Acquisitions 2012

As a result of the early adoption of IFRS 10, the funds stated as acquired in previous year are no longer consolidated.

As of 17 July 2012 the Group acquired remaining 840 shares in Humarito Ltd, equivalent to 42 percent of the company's shares. After the acquisition the Group holds 100 percent of the shares of Humarito Ltd. Total assets of Humarito Ltd amounted to EUR 6.3m at the time of the acquisition. Total liabilities of Humarito Ltd amounted to EUR 6.4m at the time of the acquisition. The value of non controlling interest before the acquisition was EUR 0.1m.

#### Purchase price allocation regarding Starman

##### EUR thousands

	Finalised PPA
<b>Fair value of purchase consideration paid</b>	<b>23,609</b>
<b>Fair value of identifiable assets acquired and liabilities assumed</b>	
Intangible assets	17,148
Property, plant and equipment	27,662
Financial fixed assets	38
Inventory and other current assets	3,660
Cash and cash equivalents	1,004
Interest-bearing liabilities to financial institutes	-56,820
Interest-liabilities to non-controlling interest	-22,886
Current liabilities, non-financial	-3,180
<b>Total fair value of identifiable net assets</b>	<b>-33,375</b>
Non-controlling interest (49%)	-2
<b>Goodwill</b>	<b>56,986</b>
Total consideration paid in cash	23,609
Less acquired cash and cash equivalents	-1,004
<b>Net cash outflow from the combination</b>	<b>22,605</b>

## Note 25 Finance and operating leases

### Finance lease - Group as lessee

The outstanding total Finance lease liability at year-end was EUR 0.1m, maturing in 2014.

### Operating lease - Group as lessor

The Starman leases out machinery and equipment under operating lease terms, the cost and carrying amount are as follows:

EUR thousands	Group	
	31 Dec 2013	31 Dec 2012
Cost of assets leased out under operating lease as at period end date	5,516	-
Carrying amount of assets leased out under operating lease as at period end date	4,671	-
Depreciation of assets leased out under operating lease in the period	946	-
Operating lease income for the period	294	-

Lease agreements are cancellable on short notice.

### Operating lease - Group as a lessee

Passenger cars have been leased under operating lease. Operating lease payments during the period were EUR 42 thousands and future operating lease payments under non-cancellable lease agreements amount to EUR 0.2m.

## NOTE 26 Related parties

### Related party relationships

East Capital Explorer AB has a related party relationship with its subsidiaries, see Note 12, and with other companies in East Capital, see below, as well as with management and employees.

### License agreements

The Company and East Capital Explorer Investments AB have a licensing agreement with East Capital Explorer Licensing AB, pursuant to which East Capital Explorer Licensing AB has granted a non-exclusive, royalty-free license to use the trade name and trademark "East Capital Explorer."

### Management agreement

East Capital PCV Management AB (the "Investment Manager"), a subsidiary of East Capital Holding AB, implements investments according to the investment policy and provides investment management services pursuant to the Investment Management Agreement. The Company has an Investment Management Agreement with the Investment Manager and East Capital Explorer Investments AB. During the year the Group has paid fees to a total of EUR 12.4m (EUR 10.0m). For more details about fees, see page 51-52.

Management fees and performance fees to the following recipients, EUR thousands	2013	2012
East Capital Private Equity AB	8,763	4,962
East Capital Alternative Investments, Cayman	1,978	2,889
East Capital AB	1,377	1,986
East Capital Real Estate AS	323	-
ECAM SA/East Capital Advisory S.A	-6	164
<b>Total</b>	<b>12,435</b>	<b>10,001</b>

### Service agreement

The Company has a service agreement with East Capital International AB, a service com-

pany in East Capital, pursuant to which the Company buys certain administrative and other services. The company has a subrent premises agreement with East Capital Private Equity AB. During the year the East Capital Explorer Group purchased services for EUR 0.3m (EUR 0.2m), all of them through the Parent Company.

### Other transactions with related parties

In December 2013, the East Capital Explorer Group acquired an additional 6 percent of the shares in Trev-2 Group from East Capital funds for a consideration of EUR 1.5m. The price was in line with the external valuation performed of the Trev-2 Group in December 2013. The East Capital Explorer Group has also divested its holdings in the dormant subsidiary East Capital Explorer Investments (Cyprus) Ltd to a East Capital fund for face value of the shares. This subsidiary has never had any business. Both transactions are deemed to have been done on arm's length terms.

### Employees

The acting CEO of East Capital Explorer AB is a Board member of East Capital Explorer Investments AB.

### Receivables and liabilities

Liabilities to related parties at year-end amounted to EUR 11.2m (EUR 6.6m). This mainly comprises management and performance fees.

### Transactions with key management personnel and related companies

The Company's management, Board members and their close relatives and related companies control 23 percent (15 percent) of voting rights in the Company. For information about remuneration of senior executives please refer to Note 5 on page 75.

### Potential conflicts of interest

The Investment Management Agreement entered into between the Company and the Investment Manager contains provisions and

procedures to address potential conflicts of interest between the Company and East Capital. Any conflict of interest which is not contemplated by the investment policy agreed between the Company and the Investment Manager from time to time, shall be referred to the Board of the Company for resolution. Such conflicts include for example any (i) investments in any East Capital fund on terms which are materially adverse compared to existing East Capital funds or any fund of similar type (it being understood that any increase with respect to fees and carried interest shall be deemed as "materially adverse"); and (ii) any co-investments made on terms which adversely deviate from the terms on which other co-investors make their investments. There are also other terms in the agreement designed to assure that fees payable by the Company are always on market terms. In any such matter referred to the Board, the Board members affiliated with East Capital will not take part in such decision where a conflict exists, in accordance with the conflict of interest rules under the Companies Act.

The Investment Management Agreement further provides that direct investments offered by the Investment Manager with no co-investment by any other East Capital fund or by East Capital itself, shall be referred to the Board of the Company for resolution.

In addition, East Capital has in place a policy for managing conflicts of interests in relation to its investment business, the overriding principle of which is that East Capital will treat its clients fairly and will at all times act in accordance with its position as investment manager of the various East Capital funds. The policy sets out a strategy and provides measures which will enable the Investment Manager's team to actively identify, monitor and address any conflicts of interest that may arise in connection with the allocation of investment opportunities.

## Note 27 Pledged assets and contingent liabilities

As of 31 December 2013 shares in Starman have been pledged as collateral for the obligations within existing loan agreements with financial institutes. The group value of the pledged assets amounted at balance date to EUR 64.0m. For more details, see note 18.

East Capital Explorer has committed to invest EUR 20m in total in the East Capital Baltic Property Fund II. A total of EUR 17m was drawn down by the Fund during last year. EUR 0.7m was drawn down by the Fund during the year 2013 and EUR 2.3m remains to be invested.

## Note 28 Changes in accounting policies

As from 1 January 2013, East Capital Explorer AB has chosen an early adoption of IFRS 10, as published in May 2011 and approved by the European Commission in December 2012, i.e. before the standard was adjusted for investment entities. Comparable figures have been restated as if the standard had also been applied in 2012 both in the financial statements and in the notes to this annual report.

Impact of change in accounting policy on consolidated Statement of Financial Position	As at 1 January 2012			As at 31 December 2012		
	Previously stated 2011 31 Dec	Adjustments IFRS 10	Restated 2012 1 Jan	Previously stated 2012 31 Dec	Adjustments IFRS 10	Restated 2012 31 Dec
<b>Assets</b>						
Shares and participations in investing activities	293,585	-39,028	254,557	287,925	-30,327	257,599
Deferred tax assets	70	-	70	403	-	403
<b>Total non-current assets</b>	<b>293,656</b>	<b>-39,028</b>	<b>254,627</b>	<b>288,328</b>	<b>-30,327</b>	<b>258,002</b>
Other current receivables	100	-100	-	3,073	-3,041	32
Tax receivables	103	-	103	740	-	740
Accrued income and prepaid expenses	125	-15	110	50	30	80
Current investments	22,793	-	22,793	1	-1	-
Cash and cash equivalents	32,147	-15,508	16,639	61,210	-14,713	46,497
<b>Total current assets</b>	<b>55,266</b>	<b>-15,623</b>	<b>39,644</b>	<b>65,074</b>	<b>-17,725</b>	<b>47,349</b>
<b>Total assets</b>	<b>348,923</b>	<b>-54,652</b>	<b>294,271</b>	<b>353,402</b>	<b>-48,052</b>	<b>305,350</b>
<b>Equity and liabilities</b>						
<b>Equity</b>						
Share capital	3,628	-	3,628	3,631	-	3,631
Other contributed capital	369,923	-	369,922	362,458	-	362,458
Translation reserve	4,183	-4,183	-	1,729	-1,652	77
Retained earnings	43,743	3,674	47,417	-84,182	4,183	-79,999
Net profit/loss for the year	-127,925	509	-127,416	16,878	-2,532	14,346
<b>Equity attributable to shareholders of the Parent Company</b>	<b>293,551</b>	<b>-</b>	<b>293,551</b>	<b>300,513</b>	<b>-</b>	<b>300,513</b>
Non-controlling interest	45,627	-45,719	-92	44,120	-44,113	8
<b>Total Equity</b>	<b>339,178</b>	<b>-45,719</b>	<b>293,459</b>	<b>344,634</b>	<b>-44,113</b>	<b>300,521</b>
Deferred tax liabilities	-	-	-	-	-	-
<b>Total long-term liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Current liabilities</b>						
Other liabilities	3,609	-3,409	200	2,137	-1,949	188
Accrued expenses and deferred income	6,136	-5,524	612	6,632	-1,990	4,641
<b>Total current liabilities</b>	<b>9,745</b>	<b>-8,933</b>	<b>811</b>	<b>8,768</b>	<b>-3,939</b>	<b>4,829</b>
<b>Total equity and liabilities</b>	<b>348,923</b>	<b>-54,652</b>	<b>294,271</b>	<b>353,402</b>	<b>-48,052</b>	<b>305,350</b>

Impact of change in accounting policy on Statement of Profit or Loss and Other Comprehensive Income	Previously stated 2012	Adjustments	Restated 2012
EUR thousands	Jan-Dec	IFRS 10	Jan-Dec
Changes in value in portfolio	21,366	-3,014	18,352
Received dividends	9,385	-7,012	2,373
<b>Total operating income</b>	<b>30,750</b>	<b>-10,026</b>	<b>20,725</b>
Staff expenses	-833	-	-833
Other operating expenses	-11,897	5,402	-6,495
<b>Operating profit/loss</b>	<b>18,020</b>	<b>-4,623</b>	<b>13,396</b>
Financial income	1,746	-676	1,070
Financial expenses	-81	-255	-336
<b>Profit/loss before tax</b>	<b>19,685</b>	<b>-5,555</b>	<b>14,130</b>
<b>Income tax</b>	<b>-135</b>	<b>452</b>	<b>317</b>
<b>NET PROFIT/LOSS FOR THE PERIOD</b>	<b>19,550</b>	<b>-5,103</b>	<b>14,447</b>

**Other Comprehensive Income:**

Exchange differences on translating foreign operations	-3,000	3,077	77
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>16,550</b>	<b>-2,026</b>	<b>14,524</b>

**Net profit/loss for the period distribution:**

Shareholders of the Parent Company	16,878	-2,532	14,346
Non-controlling interest	2,673	-2,572	101
	<b>19,550</b>	<b>-5,104</b>	<b>14,447</b>

**Total comprehensive income distribution:**

Shareholders of the Parent Company	14,424	-	14,424
Non-controlling interest	2,127	-2,026	101
	<b>16,550</b>	<b>-2,026</b>	<b>14,524</b>
<b>Earnings per share, EUR</b>	<b>0.49</b>	<b>-0.07</b>	<b>0.42</b>

Impact of change in accounting policy on consolidated cash flow	Previously stated 2012	Adjustments	Restated 2012
EUR thousands	Jan-Dec	IFRS 10	Jan-Dec
<b>Operating activities</b>			
Operating profit/loss	18,020	-4,624	13,396
Changes in value of portfolio	-21,366	3,014	-18,352
Interest received	614	-95	519
Other financial expenses	143	-36	107
Tax paid	-1,092	451	-640
<b>Cash flow from current operations before changes in working capital</b>	<b>-3,681</b>	<b>-1,289</b>	<b>-4,970</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/decrease (+) in other current receivables	-1,141	1,143	3
Increase (+)/decrease (-) in other current payables	-1,783	5,799	4,017
<b>Cash flow from operating activities</b>	<b>-6,604</b>	<b>5,653</b>	<b>-951</b>
<b>Investing activities</b>			
Investment in shares and participations	-65,840	25,299	-40,541
Repaid shareholders contributions	-	-	21,536
Sale of short-term investments	23,164	-	23,164
Sale of shares and participations	105,458	-71,002	34,456
<b>Cash flow from investing activities</b>	<b>62,782</b>	<b>-45,702</b>	<b>38,616</b>
<b>Financing activities</b>			
Dividend to and redemption from non-controlling interest	-21,306	21,306	-
Paid dividend to shareholders	-3,033	-	-3,033
Share buy back	-4,429	-	-4,429
<b>Cash flow from financing activities</b>	<b>-28,768</b>	<b>21,306</b>	<b>-7,462</b>
<b>Cash flow for the year</b>	<b>27,410</b>	<b>-18,743</b>	<b>30,203</b>
Cash and cash equivalents at beginning of the year	32,147	-15,508	16,639
Reclassification from subsidiary to investment	2,219	-2,219	-
Exchange rate differences in cash and cash equivalents	-566	221	-345
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>61,210</b>	<b>-36,249</b>	<b>46,497</b>

## Note 29 Information about the parent company

East Capital Explorer AB is a registered Swedish limited liability company domiciled in Stockholm. The Parent Company's shares are registered on the NASDAQ OMX Stockholm. The address to corporate headquarters is Kungsgatan 33, Box 7214, 103 88 Stockholm, Sweden. The consolidated financial statements for 2013 include the Parent Company and its subsidiaries, together comprising the Group.

## Note 30 Events after the end of the financial year

As per 1 January 2014, East Capital has restructured part of its alternative investment funds in which East Capital Explorer Group has invested. The objective is to adapt the funds to the EU regulatory framework for alternative investment fund manager (AIFMD). Four of East Capital's Bering funds are included in the restructuring; Bering Russia Fund, Bering Balkan Fund, Bering Central Asia Fund and Bering Ukraine Fund (A), all domiciled in the Cayman Islands. The assets in the funds were transferred to two new funds, East Capital New Markets Fund and East Capital Deep Value Fund, domiciled in Luxembourg. For more information, please refer to page 34 in the Year-End Report 2013 and note 13 in this report.

In order to be able to take advantage of attractive investment opportunities in assets which are estimated to generate strong cash flow and good growth, it was resolved at the Extraordinary General Meeting on 24 March 2014 to introduce a new class of shares, preference shares, in the articles of association and an authorization for the Board to, at one or several occasions before the Annual general meeting 2014, with or without deviation from the preferential rights of the shareholders, resolve to issue no more than 1,000,000 preference shares. The two main areas of focus for new investments, the Russian and Baltic domestic consumer sector, which are expected to continue to benefit from a growing domestic consumption, and the Baltic real estate sector with current attractive prices, low interest rates and rising rents provide the conditions for an attractive dividend yield and positive growth. The new financing possibility, combined with the expected return on these investments, creates a higher return on invested capital for the owners of ordinary shares of East Capital Explorer.

East Capital Explorer AB will be covered by the new EU directive for alternative investment funds (AIFMD), currently being implemented across the European Union, aiming to strengthen the financial system and increase investor protection. Businesses and entities covered by the directive, including East Capital Explorer AB, are now preparing to comply with these rules within the transition period that ends on 22 July 2014. At the Extraordinary General Meeting on 24 March 2014, it was resolved to amend the articles of association in order to adapt the Company to the new directive. The management anticipates that the changes will be managed in a cost efficient manner by utilizing the existing organisation and resources available to East Capital, in Sweden and in Luxembourg.

In November 2013 Ukraine discontinued the discussions on cooperation with the EU and opted instead for closer economic cooperation with Russia, which led to widespread protests in Kiev, the capital of Ukraine. In January 2014, the Ukrainian government introduced a ban on demonstrations, which led to violent clashes between police and protesters. In February, the violence escalated further. By reason that the President of Ukraine, Viktor Yanukovich, gave the police permission to shoot at protesters, the Parliament chose to dismiss him on 22 February. On 1 March, the Russian President Putin gave ahead to send Russian troops to the Crimean peninsula. Already before the decision Russian troops had arrived in the area. The campaign was condemned from several parts of the world. Despite strenuous efforts to resolve the crisis diplomatically Russia chose to hold a referendum on the Crimean peninsula. The result was a clear majority for a connection to Russia. In March, Russia formally annexed the Crimea. At present, it is unclear how these decisions will affect the Russian economy and whether it will lead to economic sanctions from the outside world, which in turn may affect East Capital Explorer holdings and future investment climate.

In the February 2014 NAV report, the value of the East Capital Explorer Group's holding in Russian fashion retailer Melon Fashion Group (MFG) was depreciated by EUR 8.5m or 12 percent, corresponding to the decline of the ruble against the euro since December 2013. The underlying growth and profitability forecasts that the valuation is based on, are however unchanged. Provisions for performance fees have been adjusted accordingly.

NAV per share on 28 February 2013 amounted to EUR 9.35 (corresponding to SEK 83). The share price on 28 February 2012 was SEK 55.25 (corresponding to EUR 6.25). Cash, cash equivalents and other short-term investments on 28 February 2013 amounted to EUR 21m. Of those, EUR 21m were available for future investments.

## Five-Year Summary

Consolidated key figures	2013	2012	2011	2010	2009
Equity ratio, %	77.2	98.4 <sup>3</sup>	97.3	96.1	98.4
Net asset value, EUR thousands	310,814	300,513	293,551	429,853	341,369
Change in NAV, %	3.4	2.4	-31.7	25.9	28.8
Market capitalisation, SEKm	1,956	1,618	1,815	2,954	2,378
Market capitalisation, EUR thousands	225,149	188,374	208,807	328,661	231,817
Number of employees	265	5	4	4	4

Key figures/share	2013	2012	2011	2010	2009
Earnings per share <sup>1</sup>	0.79	0.42 <sup>3</sup>	-3.59	2.48	2.20
NAV, SEK <sup>2</sup>	88	78	77	111	99
NAV, EUR	9.89	9.10	8.69	12.33	9.61
Share price, SEK	62.25	49.00	53.75	84.75	67.00
Share price, EUR	7.00	5.70	6.03	9.43	6.53

<sup>1</sup> Following the company's redemption program all historical earnings per share calculations have been adjusted accordingly

<sup>2</sup> Some currency translations are made for informational purposes. 1 EUR = SEK 8,8868 on 31 December 2013 and SEK 8,5904 on 31 December 2012

<sup>3</sup> Restated

The Board and the CEO assure that this annual report has been prepared in accordance with generally accepted accounting principles in Sweden and the consolidation has been prepared in accordance with the international financial reporting standards referred to in Regulation (EC) no. 1606/2002 of the European Parliament and of the council of 19 July 2002 on the application of international accounting standards. The annual report and the consolidated accounts give a true and fair view of the financial position and results of the Parent Company and the Group. The statutory Administration Report of the Parent Company and the Group provides a fair review of the development of the Parent Company's and the Group's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, 28 March 2014

**Paul Bergqvist**  
Chairman of the Board

**Catharina Hagberg**  
Acting Chief Executive Officer

**Lars O Grönstedt**  
Board member

**Louise Hedberg**  
Board member

**Karine Hirn**  
Board member

**Alexander Ikonnikov**  
Board member

Our Auditors' Report was submitted on 28 March 2014

KPMG AB

**Mårten Asplund**  
Authorised Public Accountant

**Anders Malmeby**  
Authorised Public Accountant

The annual report and consolidated annual report, as indicated above, have been approved by the Board for publication on 28 March 2014. The statement of income statement and balance sheet of the Parent Company and the Group will be submitted to the shareholders' meeting for adoption on 22 April 2014.

# 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

# AGM 2014

The Annual General Meeting of East Capital Explorer AB (publ) will be held at 3.00 p.m. CET on Tuesday, 22 April 2014 at Nalen, Regeringsgatan 74 in Stockholm, Sweden.

## Participation

In order to be entitled to participate at the Annual General Meeting, shareholders must: be recorded in the register of shareholders maintained by Euroclear Sweden AB on Monday, 14 April 2014 and have notified the company of their attendance no later than 4.00 p.m. CET on 14 April 2014.

## Notification of attendance may be made:

On the web:

[www.eastcapitalexplorer.com/agm](http://www.eastcapitalexplorer.com/agm)

## In writing to:

East Capital Explorer  
"Annual General Meeting"  
P.O. Box 7839  
103 98 Stockholm  
Sweden

**By telephone to:** +46 8 402 90 46

When notifying regarding attendance, please state name, personal/ company registration number, address, daytime telephone number, e-mail, number of shares as well as any assistants attending (maximum two).

Please note that shareholders whose shares are registered in the name of a nominee, must temporarily re-register their shares in their own name. Such registration must be in effect with Euroclear Sweden AB no later than on Monday, 14 April 2014. Shareholders are requested to inform their nominees well in advance of this date.

## Program

12:30 Registration opens (registration is possible until 15:00)

13:00 East Capital Explorer on developments in 2013 and prospects for 2014

13:15 East Capital's Investment Management team present and discuss our investment portfolio as well as developments in our investment region, followed by a Q&A session

– Marcus Svedberg, *Chief Economist*

– Kestutis Sasnauskas, *CEO Private Equity and Partner*

– Peter Elam Håkansson, *Chairman and Partner*

14:30 Coffee Break

15:00 AGM

# Definitions

See page 51 - 52 for definitions related to fees

## **Average number of shares**

Balanced average of number of shares outstanding during the year, adjusted for share issues, splits and buybacks.

## **Change in value**

Change in market value.

## **Dividend per share**

Paid or proposed dividend per share adjusted for share issues and splits.

## **Earnings per share**

Net profit for the year, attributable to equity holders of the Parent Company, divided by average number of shares.

## **Ebitda**

(Earnings before interest, tax, depreciation and amortisation). Profit before depreciation and impairment.

## **Equity ratio**

Total equity as a percentage of total assets.

## **Enterprise value**

Sum of the company's market capitalisation, minority interests and net debt.

## **IRR**

(Internal Rate of Return). Annual average return.

## **Net Asset Value (NAV)**

Corresponds to the value of East Capital Explorer's net assets, i.e. total assets less net debt. An indicative NAV is calculated on a monthly basis and is published five working days after the end of the month.

## **Net asset value per share**

Net asset value per share in relation to the total number of registered shares on the Balance Sheet date.

## **Net debt/Net cash**

Interest-bearing current and long-term liabilities, including pension liabilities, less cash and cash equivalents, short-term investments and interest-bearing current and long-term receivables.

## **Outstanding number of shares**

Registered number of shares less any share held by the company.

## **Profit/loss for the year**

Profit/loss after tax.

## **Registered number of shares**

The number of shares in the company including shares held by the Company.

## **Return on equity**

Profit/loss for the year as a percentage of average shareholders' equity.

## **Shareholders' equity per share**

Shareholders' equity, attributable to equity holders of the Parent Company, divided by number of registered shares.

## **Total assets**

All assets and liabilities not included in net debt or net cash, which is the same as the Balance Sheet total less asset items included in net debt or net cash and less non-interest-bearing liabilities.

## **Total comprehensive income for the year**

Change in equity during the period resulting from transactions and other events, other than those changes resulting from transactions with the owners in their capacity as owners.

## **Volatility**

A measure of the variability in an asset's return. Volatility is usually measured as a standard deviation in the return of an asset during a certain given period of time.

This Annual Report is available in Swedish and English. In the case of any discrepancies between the two language versions, the Swedish version shall govern.

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Graphic design: Ilze Johnston, ITZIT Design  
Graphic production: Sunny Mountain Design  
Printed in Estonia by DixA AB

## **Photos:**

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Emil Holmström (Cover, 54), Niklas Larsson (Cover, 18, 50), Gera Kokybe (16),  
Maris Smiltieniks (9), Fredrik Folkesson (14, 45), Shutterstock and portfolio companies.

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## Financial information and calendar

- Indicative monthly Net Asset Value report on the fifth working day after the end of each month
- **22 April 2014**  
Annual General Meeting 2014
- **22 May 2014**  
Interim Report  
1 January - 31 March 2013
- **21 August 2014**  
Interim Report  
1 January - 30 June 2013
- **7 November 2014**  
Interim Report  
1 January - 30 September 2013

The annual report, other financial reports and information as well as press releases, are available on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com). Shareholders and other interested persons may sign-up on the website for a subscription to East Capital Explorer's reports and press releases to be sent directly to their e-mail address.

The printed annual report is sent to shareholders who have notified East Capital Explorer that they wish to receive printed financial information.

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## Contact us

### Investor relations and media contact:

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### Your opinion is very welcome

Let us know how we can improve our financial reports, investor service and website. Please email your suggestions or ideas to us at [ir@eastcapitalexplorer.com](mailto:ir@eastcapitalexplorer.com).

### Visiting address:

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Sweden

### Postal address:

P.O. Box 7214  
SE-103 88 Stockholm  
Sweden

[www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com)

### Change of address

Changes of address of physical persons who are registered as Swedish residents are made automatically by Euroclear Sweden AB. Please note that shareholders who have chosen not to have their addresses updated automatically must, themselves, notify their account-operating institute.

Shareholders whose holdings are registered in the name of a trustee, should notify the trustee as soon as possible of any changes in their name, address or account number. Other shareholders must notify changes of address and changes of account number to Euroclear Sweden AB:

+46 8 402 90 00  
[info@euroclear.eu](mailto:info@euroclear.eu)

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Do you want to know more about what happens in our investment region?

Please visit our Investment Manager East Capital's website [www.eastcapital.com](http://www.eastcapital.com) for news, analyses and market comments.

## **EAST CAPITAL EXPLORER**

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