

# East Capital Explorer *Annual Report 2015*

**EAST CAPITAL  
EXPLORER**



# East Capital Explorer

*East Capital Explorer is a Swedish investment company listed on Nasdaq Stockholm. The company was founded in 2007 and has since then invested with active ownership and high local presence in Eastern Europe. Since 2013, main focus is private equity and real estate in, primarily, the Baltic States.*

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## Our business concept

East Capital Explorer's business concept is to maximise risk-adjusted shareholder return by offering our shareholders a liquid exposure to a unique investment portfolio of mainly unlisted companies primarily in the Baltic States, Russia and the Balkans. Value is added through active ownership.

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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, financial and real estate.

The investment portfolio is actively managed to create 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, such as a thorough 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 ...

... the strategy, see pages 8.

... the environmental, social and governance perspective, see page 12.

... our portfolio, see page 18.

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### On the cover

Left: G09 a well-known high street shopping centre in the heart of Vilnius. The property was acquired by East Capital Baltic Property Fund II during 2012.

Right: Zarina, together with Save the children presents the SS2016 Collection at the Mercedes-Benz Fashion Week Russia in October 2015. Zarina is one of Melon Fashion Group's three brands.

Below: Vilnius, Lithuania. One of 3 Burès' two existing buildings is among the most modern office properties in the Baltics. The property was acquired in 2014.

# This is East Capital Explorer

» East Capital Explorer is a Swedish investment company, listed on NASDAQ OMX Stockholm, with the specific aim of maximizing risk-adjusted shareholder return through active ownership and local presence in Eastern Europe. The company invests primarily in private equity and real estate across mainly the Baltics, Russia and the Balkans. East Capital Explorer's main investment theme is domestic growth and the company targets companies in fast growing sectors such as retail, consumer goods, telecom and real estate.

Net Asset Value, 31 December 2015	EUR 254m
Market Cap, 31 December 2015	EUR 156m
Yield through 2015 redemption program	7.3%

## Our portfolio

	Investment	%	Description	% of the portfolio
<b>Private Equity</b>	• Starman	28.3	The leading pan-Baltic cable-TV and broadband provider (in sale process)	 41%
	• Melon Fashion Group	10.5	One of Russia's fastest growing fashion retail chains	
	• Trev-2 Group	2.4	Well-established Estonian road construction and maintenance company	
<b>Real Estate</b>	• 3 Burés	10.9	An A-Class office building located in Vilnius' central business district	 23%
	• East Capital Baltic Property Fund II	10.6	Acquires and manages commercial properties with well-established tenants on sustainable rental terms in the Baltic capitals	
	• East Capital Baltic Property Fund III	1.3	Acquires and manages commercial properties with well-established tenants on sustainable rental terms in the Baltic capitals	
<b>Public Equity</b>	• East Capital Deep Value Fund	15.9	The fund offers exposure to conservative market valuations of companies with strong revenue generation and high revaluation potential	 19%
	• Komercijalna Banka Skopje	3.4	Macedonia's largest commercial Bank	
<b>Short-term investments</b>	• East Capital Frontier Markets Fund	12.3	The fund focuses on investments in global frontier markets with a return potential that is higher than the market	 17%
	• Other assets	4.6	Cash and other short-term investments	

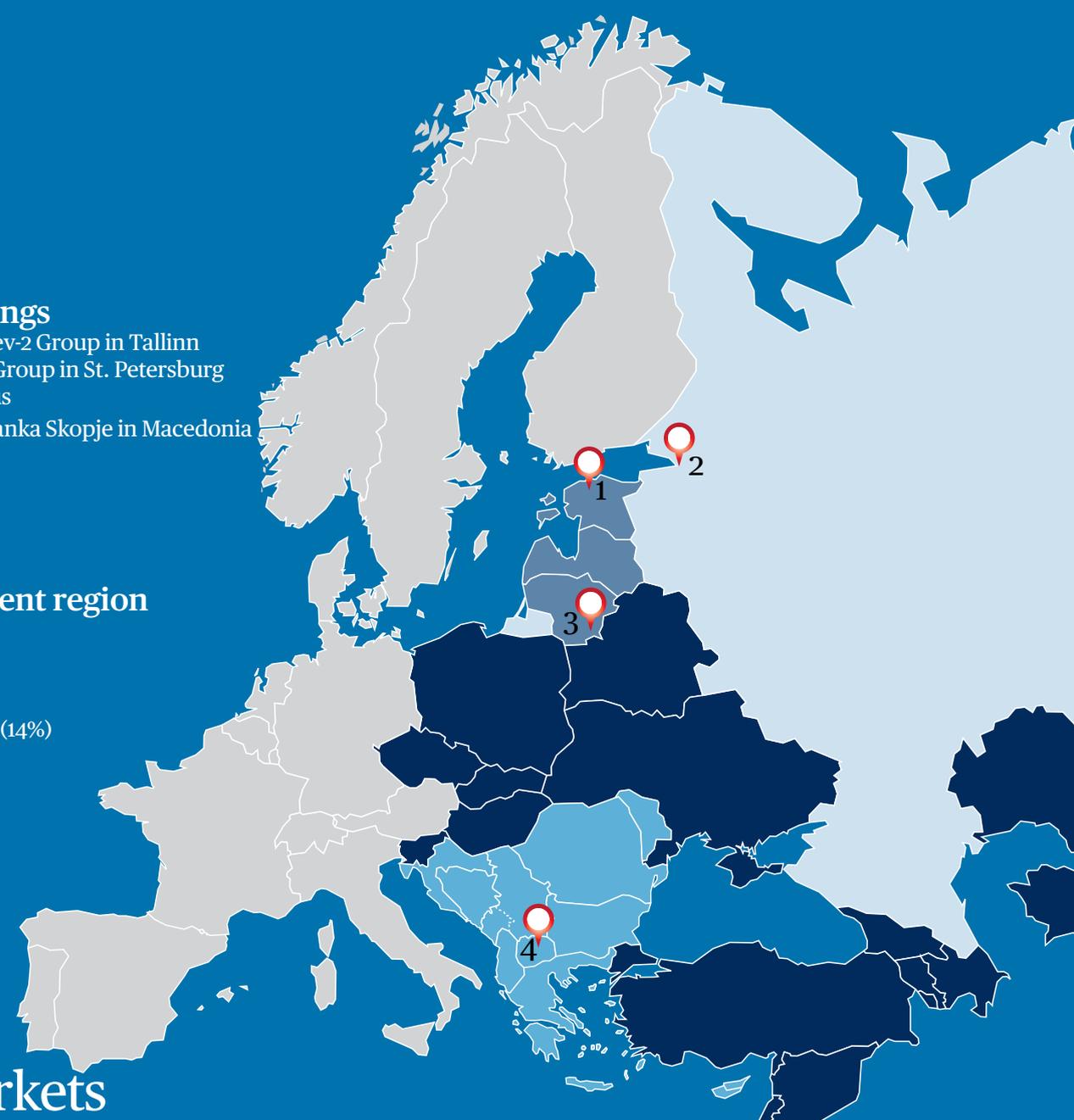
## Some of our largest holdings

1. Starman and Trev-2 Group in Tallinn
2. Melon Fashion Group in St. Petersburg
3. 3 Burès in Vilnius
4. Komercijalna Banka Skopje in Macedonia

## Our investment region

- Baltics (57%)
- Russia (16%)
- Balkans (13%)
- Other countries (14%)

## Our markets



### The Baltics

The Baltic countries offer something unique; the dynamics of a growth market combined with the stability of a developed market. Investments in this region benefit from a stable macroeconomic environment characterized by regulatory predictability, low interest rates and limited currency risk as all three countries are members of the EU and the euro zone. We believe that growth will accelerate to an average of three to four percent over the medium to long term, as the Baltic countries continue to steadily catch up with Western Europe. Inflation has dropped significantly and we believe that it will stay close to the two percent target over the medium term. The risks are primarily related to external factors, but the fact that there are no major imbalances opens to a good buffer.

### Russia

Russia has had a number of challenging years on the back of falling commodity prices and sanctions, resulting in a sharp devaluation of the currency and an economic recession. Russia is, however, not financially vulnerable and we believe that the economy has bottomed out. Moreover, many domestically focused companies have been well-managed and show good results despite the challenging environment, and are thus in a good position to benefit from an improved macroeconomic environment.

### The Balkans

The Balkan countries represent the next wave of EU members; some already have a membership and use the euro, while others are in different stages of the membership process. This means a driving force for long-term reforms and growth. Many of the economies in the region have gone through a prolonged recession, partly because of their proximity to Southern Europe and also due to domestic imbalances, but they now exit the crisis with accelerating growth and controlled inflation. We expect continued reforms and see opportunities as a result of these.

# 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 twice as fast as Western Europe over the next five years*

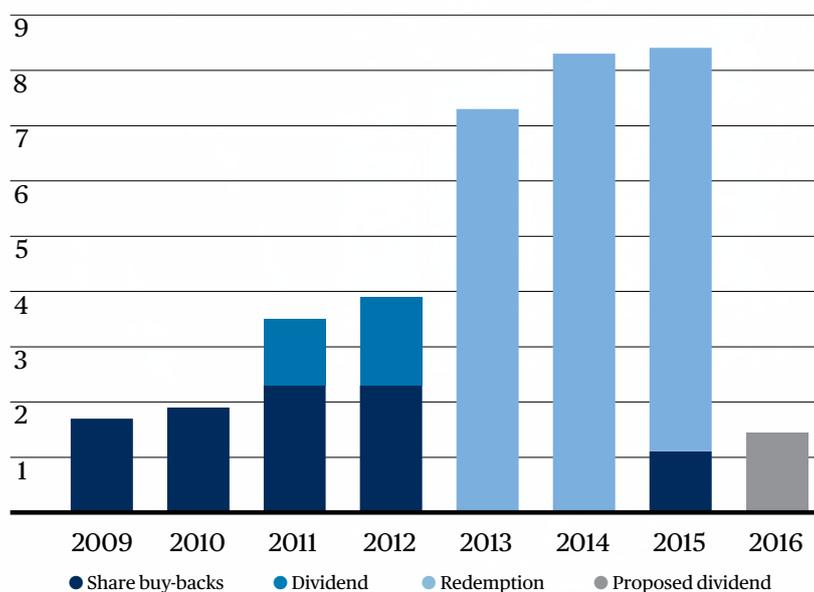
## ... attractive sectors

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

## ... a unique portfolio

*East Capital Explorer primarily provides exposure to private equity and real estate in the Baltic countries, Russia and the Balkan region. At the end of 2015, 41 percent of the portfolio was invested in private equity and 23 percent in real estate*

Distribution to the shareholders, % of market cap



# 1

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# 1

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## Highlights

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# Big leaps forward

The past year can be summarized in two clear and consistent strategic themes. The first concerns our efforts to refocus the portfolio towards Real Estate and Private Equity, where we have made significant progress in line with the strategic direction that was initiated in 2013. The second is obviously the alignment of the company in relation to the refocused strategy, where a review of the Investment Agreement between us and East Capital was initiated in the fall. The result was that an Extraordinary General Meeting on 9 May 2016 approved the proposal to terminate the Agreement. This is a milestone in our company's history as we now become an independent investment company and build our own investment organization.



Mia Jurke  
CEO

## Portfolio performance 2015

Looking back at 2015, we see a portfolio that has continued to develop in line with our strategic refocus. At the end of 2015, Real Estate and Private Equity accounted for nearly two-thirds of the net asset value (NAV), versus around half at end-2014. Further, the Baltics was clearly our largest region with 57 percent of the portfolio, primarily a result of investments, but also of good performance in our Baltic holdings. Our two largest holdings, Starman and 3 Burés, increased in value during 2015 by 15.8 and 14.1 percent, respectively, illustrating the growth and value creation that we are moving towards.

Another goal with refocusing the strategy was to increase the portfolio concentration. Compared with 2012, the number of holdings has halved and the concentration has increased significantly. In 2015, the entire holding in East Capital Russia Domestic Growth Fund and parts of the holdings in East Capital Frontier Markets Fund and East Capital Deep Value Fund were divested. The number of holdings will continue to decline with the continued sale of the funds with public equity holdings that remain in the portfolio.

Our largest investment during the year was the add-on investment of EUR 22.5m in the Baltic cable TV and broadband provider Starman, which enabled Starman's acquisition of its Lithuanian peer Cgates. This was

part of the consolidation strategy behind our initial investment in 2013, and transformed the company into a pan-Baltic operator. The acquisition also made Starman more interesting for other investors. In connection with an attractive offer that we received from Providence during the spring 2016, we chose to exit and thereby realized a strong average annual return of at least 24 percent, net of management fees and carried interest paid to East Capital. The transaction is expected to close in the second quarter.

During the year we also invested further in the Baltic Real Estate sector, which at the end of the year accounted for a quarter of our portfolio. This sector combines high yield with attractive financing opportunities and strong demand in the rental market, and is an area where we expect to invest more in the future.

As for Russia, 2015 was a turbulent year with an oil price that has fallen from USD 100 a barrel in the autumn of 2014, to USD 30 a barrel in December 2015. This has resulted in a weakened rouble and a negative pressure on all of our remaining Russian holdings. The Russian fashion retailer Melon Fashion Group was largely affected by the rouble decline, but has nevertheless successfully implemented a cost-efficiency program and reported an EBITDA margin of 6.4 percent for the full year, and 12.6 percent for the fourth quarter, impressive numbers given the weak Russian consumer demand.

The strategic shift is expected to be fully completed by 2017/2018, in line with our previously communicated ambitions. Looking ahead, our strong belief in the Baltics remains intact. All three countries had a good GDP growth in 2015, despite weak economic development in their key export markets. We see this as a sign of strength. Our strategy for investing in this region is to focus on domestic consumption that has historically proven to grow at a faster rate than the countries overall. We will also continue to invest in companies with strong potential for either growth, cash flows or revaluation.

## East Capital Explorer - independent investment company

The EGM on 9 May this year approved the proposal to terminate the Investment Agreement with East Capital, and to thereby take the step

towards becoming an independent investment company with our own investment organization. East Capital will, during a transitional period, continue to support us in the management of our portfolio and with the necessary structural changes, ensuring an orderly transition until the new organization is in place. A critical success factor in our investments has been Kestutis Sasnauskas, former Head of Private Equity and Real Estate within East Capital. We are very pleased that Kestutis, with his extensive knowledge, broad experience and wide network, has chosen to join East Capital Explorer as Chief Investment Officer. The changes will also enable us to reduce our costs considerably. We estimate that, once the new structure is fully implemented, our total management costs can be halved compared to the previous levels.

With these changes, we have taken the step towards becoming an independent investment company. Our strategic shift since 2013 has proceeded according to plan and we already begin to see the results of this shift. During the year, we continued to reduce the complexity of our portfolio and we will, with the new organization, reduce our costs significantly. In addition, we have launched a broad and active buyback program linked to the share discount. Buybacks will be carried out for as long as the discount exceeds 20 percent. I expect that this will also ensure that the value we have and will continue to create in our portfolio will benefit our shareholders. Overall, I am very positive about 2016. Once the changes are completed, we will have a more transparent and efficient structure. I also look forward to the business that the new team will do in 2016 and beyond, that I am convinced will create value for our shareholders during many years to come.

Mia Jurke  
CEO



## Q4

Continued stable growth despite the turbulent environment. Real Estate segment excelled with a strong positive trend

## Q1

The net asset value was positively affected by a recovery in public equity and a stronger rouble

## Q3

Baltic Real Estate and Starman performed well. Melon Fashion Group and the public equity segment were affected by the decline of the rouble and weaker market sentiment.

## Q2

The second quarter provided indications of recovery in the Russian market and stability in the Baltic countries, while concerns regarding Greece spread to the Balkans

### Q1

1. The year begins with a clear recovery in public equity and a strong rouble.
2. A share buyback program is initiated on the back of a strong belief in the portfolio and the net asset value.
3. An additional EUR 22.5m is invested in Starman in conjunction with the completed acquisition of Cgates.

### Q2

4. A new dividend policy was adopted, stating that at least 50 percent of dividends received shall be distributed to shareholders. At the April AGM, Lars O Grönstedt is elected new Chairman and the third share redemption program is approved (EUR 13.2m was paid out to shareholders in July).
5. Aivo Adamson is appointed CEO of Starman and Rein Rätsep replaces Erki Mölder as CEO of Trev-2 Group.
6. Cost efficiencies at MFG are beginning to show positive effects on profitability.

### Q3

7. The value of Starman is adjusted upwards by 15.8 percent as a result of continued strong performance and lower net debt.
8. East Capital Explorer and East Capital start discussions on review of the investment agreement.
9. East Capital Russia Domestic Growth Fund is liquidated, providing EUR 9.4m in Q3 - corresponding to 91 percent of East Capital Explorer's holding; the remainder is received in Q4.

### Q4

10. In line with an increased focus on real estate, the first investment is made in the new East Capital Baltic Property Fund III.
11. Starman's Lithuanian subsidiary Cgates completes its acquisition of Kava, providing it with full national coverage in Lithuania.
12. Following a turbulent Q3 there is a general recovery in global markets, with an improved macroeconomic and political outlook.

# An independent investment company

Since the listing in 2007, East Capital Explorer's portfolio has been managed by East Capital, one of the most well-renowned experts on Eastern European investments. However, since then both the company and the markets have changed. It is now time for East Capital Explorer to take the step toward becoming an independent and more cost efficient company with an in-house investment management.

We have come a long way since 2013 when we launched the strategic shift towards investments in private equity and real estate primarily in the Baltic countries. In addition to the more focused strategy, by terminating the Investment Agreement with East Capital we have taken an important step towards becoming a fully independent investment company.

Independence means that we will build an in-house investment organization headed by Kestutis Sasnauskas. In addition to significantly reducing costs, this will enable us to customize the organization entirely according to East Capital Explorer's strategy and needs. Moreover, the direct responsibility and control over our assets brings us closer to the investments.

The work with implementing the changes that follow the terminated Agreement will continue for most of 2016. Among other things, the joint

holding company with East Capital is expected to be wound up and a new investment organization built up. Hopefully, we will find opportunities to make new investments during the year.

The strategic refocus will continue and in connection with the reorganization, certain non-core holdings, in particular funds with listed holdings, will be divested. New investments will be focused on Private Equity and Real Estate in the Baltic countries and may take place in both existing and new holdings as opportunities arise.

In addition to value creative investing, our dividend policy allows the use of share buybacks, dividends or share redemption as additional tools to maximize shareholder value. In light of this, and to contain the share's discount to NAV, a buyback program linked to a NAV discount level of 20 percent was launched in May 2016.

## Checklist for East Capital Explorer's strategic transformation

### *Strategic refocusing*

- ✓ Increased concentration toward fewer holdings
- ✓ Increased exposure towards the Baltic countries
- ✗ Refined portfolio of Private Equity and Real Estate holdings

### *Independent investment company*

- ✓ Termination of the Investment Agreement with East Capital
- ✓ Building an in-house investment organization
- ✗ Reorganization and streamlining of the legal structure
- ✗ Establishing a track record of successful acquisitions, divestments and cash flows with the new organization

### *Lower management costs*

- ✓ Customized investment organization
- ✓ No external costs for portfolio management
- ✗ An annual management cost below 1.5% of NAV

### *Shareholder friendly measures*

- ✓ Dividend policy tied to dividends from holdings with the possibility to use other tools such as buybacks and share redemptions
- ✓ Active buyback program connected to the NAV discount
- ✗ Discount to NAV below 20%

Vilnius, the capital of Lithuania. One of 3 Burès' two existing buildings, among the most modern office properties in the Baltics, can be seen to the right. The property was acquired in 2014.



Morning rush hour on the streets of Moscow.



# Strategic refocus

The portfolio strategy is unchanged since 2007, but the way we have put it into practice has changed. When we went public in 2007 we invested primarily in East Capital’s alternative funds and East Capital Explorer gave thus access to markets and holdings previously less accessible to individuals. Since 2013, we have chosen to move towards private equity and real estate, with regional focus on the Baltic countries. At the same time, we have gone from funds to mainly direct investments, and our portfolio concentration has increased.

### From listed to unlisted assets

Since 2012, East Capital Explorer has increasingly focused on Private Equity and Real Estate, in other words, on unlisted assets. At the same time, our strong regional network enables us to find interesting investments

that are not available for all investors. Our goal is also to obtain controlling stakes, which improves our possibilities to carry through a value-added investment approach and ensures that we can drive changes and development in our holdings. By the end of 2012, Private Equity and Real Estate represented only a smaller share of our portfolio. As of 31 December 2015, these segments represented almost two thirds of our portfolio. The transformation of the portfolio will carry on and within a couple of years we expect the portfolio to contain almost solely these types of assets.

### From funds to direct investments

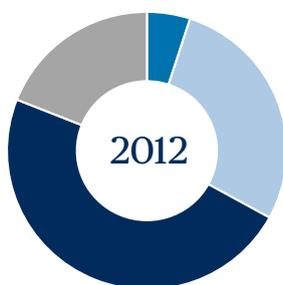
Our preferred way of investing is today through direct investments. By owning the companies directly we have greater possibilities of working closely with the companies, thereby adding value. It also makes it easier for us to evaluate each investment based on what it adds to East Capital Explorer’s portfolio. As a result, the concentration of the portfolio is increasing. This enables an

increased transparency, where our shareholders can more easily get an understanding of the portfolio’s exposure and its value drivers.

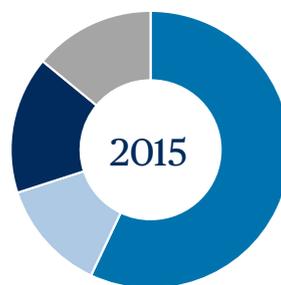
### From Russia to the Baltic countries

To gain access to stable cash flows we have moved increasingly from Russia to the Baltic countries, with the same underlying market trends in terms of growing disposable income, while at the same time providing a more stable environment and market to operate in. At the end of 2012, 48 percent of the portfolio comprised holdings in Russia. Today, the equivalent figure is only 16 percent. During the same period, holdings in the Baltic countries have increased from 5 to 57 percent.

## Geographic shift from Russia to Baltics



● Baltics	5
● Balkans	28
● Russia	48
● Other countries	19

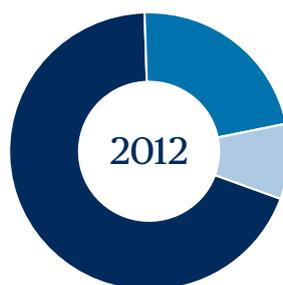


● Baltics	57
● Balkans	13
● Russia	16
● Other countries	14

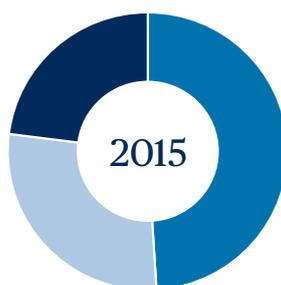
### 2017/18

- Future real estate and private equity investments will primarily be made in the Baltic countries
- If interesting opportunities arise, Russia and other parts of Eastern Europe will also be considered

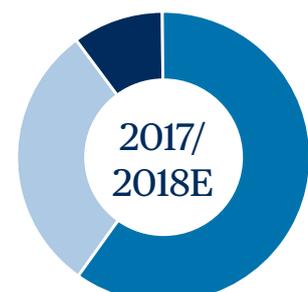
## The transformation: Focus shift towards private equity and real estate



● Private Equity	22
● Real Estate	7
● Public Equity	71



● Private Equity	49
● Real Estate	28
● Public Equity	23



● Private Equity	60
● Real Estate	30
● Public Equity	10

# How we add value to the strategy

East Capital Explorer's strategic focus is on Private Equity and Real Estate, i.e. unlisted holdings, primarily in the Baltic countries. As a strong and active owner, we are well positioned to influence and support the development of the companies and the properties we invest in, thereby ensuring a good return for our shareholders.

## What we seek

### Private equity

- Clear case to act as catalyst for value realization
- Underlying attractive sector growth
- Possibility to transform the company's position over 3-5 years
- Scope for consolidation, restructuring or expansion
- Entrepreneurs seeking capital and competence for the next phase
- Proven business model and an established market position

### Real Estate

- Long-term attractiveness and institutional quality
- Strong levered cash flow in combination with potential for improvements

## How we create value

### Private equity

- Introduce our vision and ideas for how the company can be developed
- Add expertise to Board and management
- Provide knowledge and capital for acquisitions and consolidation
- Improve corporate governance
- Prepare company for listing

### Real Estate

- Tenant mix and rental contract improvements
- Commercial redevelopment
- New development

## How we realize value

### Private equity

- Listing on local or international exchange
- Secondary buyout to financial investor
- Trade sale to local or foreign player

### Real Estate

- Dividends and refinancing proceeds from long-term holdings
- Sales of individual properties or a portfolio of properties

## Case 1: Starman



**First investment:** 2013  
**Invested capital:** EUR 46m  
**Dividends:** -  
**Exit:** 2016  
**Exit proceed:** EUR 81-86m  
**Net IRR\*:** 24-27%

The attractiveness we identified in the Estonian cable operator Starman was an underlying market growth, a platform for regional consolidation and entrepreneurs seeking capital and expertise for the next step. East Capital Explorer has added competence on board and management and supported technology, product development and market consolidation, which has generated strong organic growth and created the first pan-Baltic player through the acquisition of Lithuanian Cgates. After three years, we sold our holding to the private equity firm Providence Equity.

\* Net of management fees to East Capital

## Case 2: 3 Burès



**First investment:** 2014  
**Invested capital:** EUR 22m  
**Dividends:** -  
**Fair value:** EUR 28m  
**Net IRR\*:** 12%

In May 2014 East Capital Explorer acquired the office property Vilnius Business Harbour in Vilnius, now renamed 3 Burès. Since then, we have reduced the vacancy rate from an already low level to almost zero, while the average rent has increased. 24% of leases have been modified or renewed, at around 25% higher levels on average, and parallel to the active management of the existing two office buildings (28,400 sqm), we have granted planning permission for the development of a third building on the adjacent land included in the acquisition.

## Case 3: Melon Fashion Group

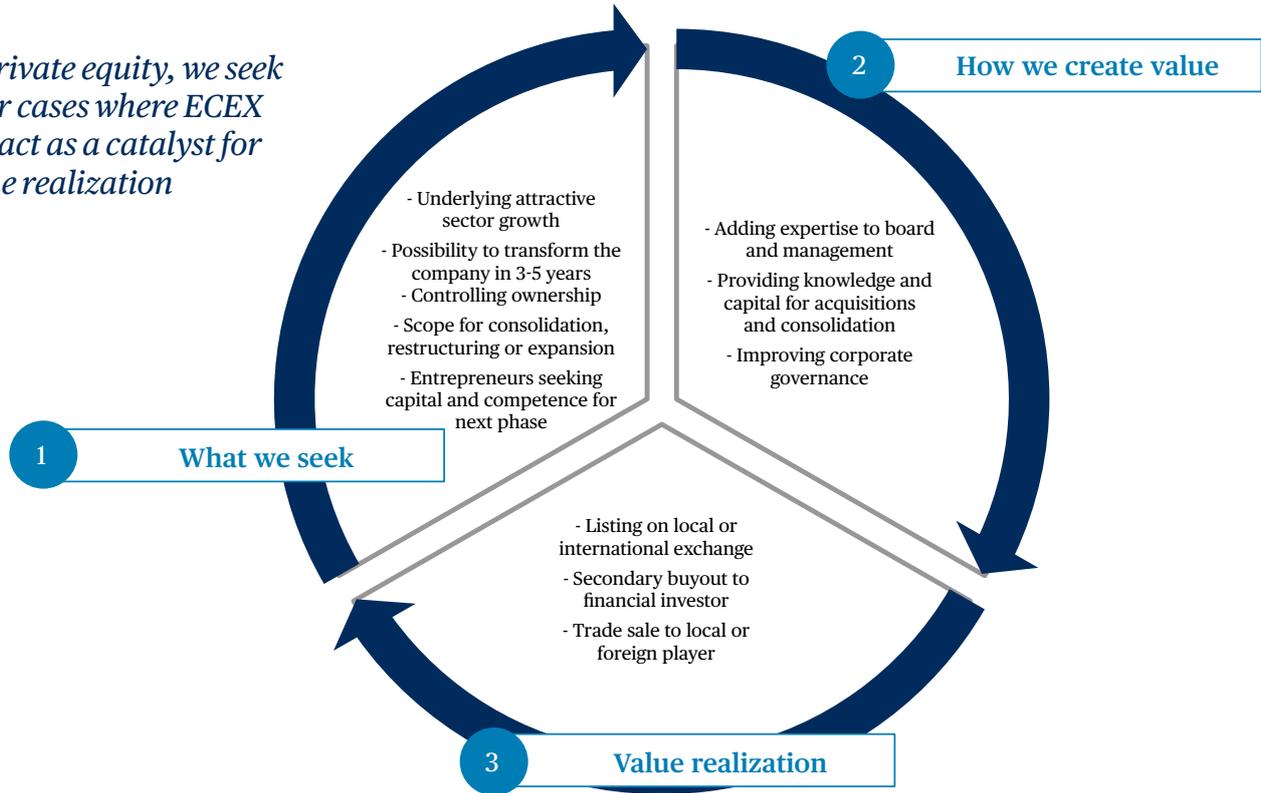


**First investment:** 2008  
**Invested capital:** EUR 29m  
**Dividends:** EUR 4m  
**Fair value:** EUR 27m  
**Net IRR\*:** -2%

MFG is among Russia's largest fashion retailers with three brands; Zarina, befree and Love Republic. Design is in-house while production is mainly in Asia. 2008-2014 were characterized by fast expansion with a 10-fold selling space increase. Today MFG has 642 stores in 140 Russian cities, and in 5 other countries. During the challenging 2015, Kestutis Sasnauskas, now CIO at East Capital Explorer, stepped in as temporary CEO of MFG and implemented significant cost efficiencies resulting in solid operating profit. In 2015 total sales reached RUB 12.6 bln, and EBITDA margin 6.4%.

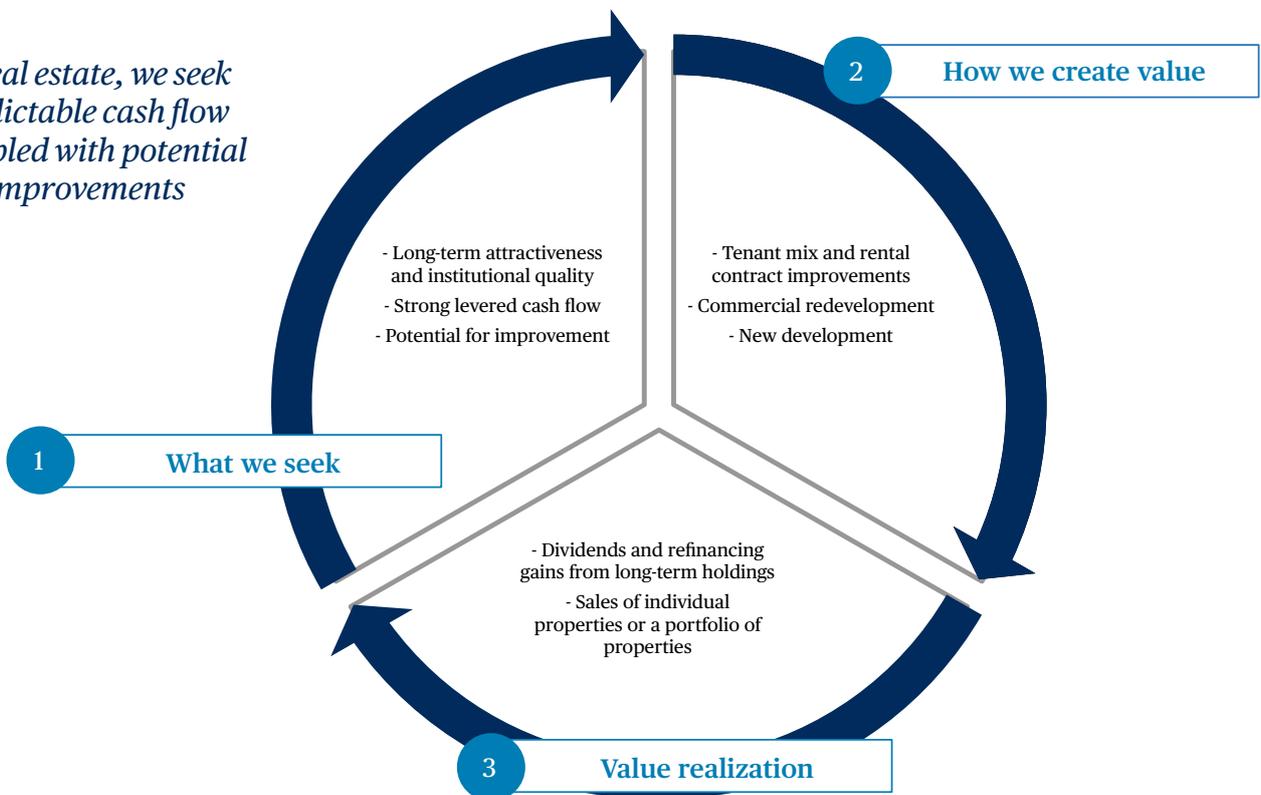
## Private Equity Approach

*In private equity, we seek clear cases where ECEX can act as a catalyst for value realization*



## Real Estate Approach

*In real estate, we seek predictable cash flow coupled with potential for improvements*



# Sustainability and corporate governance

As owner, it is important for East Capital Explorer to identify and understand relevant and material risks and opportunities associated with sustainability in the companies, i.e. in respect of the environment, social issues and corporate governance (often known as ESG - Environment-Social-Governance). This means, as an active owner, trying to understand and assess how these factors can impact the companies' long-term value and position. East Capital Explorer's Principles of Responsible Investment and Code of Business Conduct control how this task is performed.

The markets in East Capital Explorer's investment region are by definition less mature, and thus usually more complex, than developed markets. This is particularly clear when comparing local frameworks, legal systems and standards concerning corporate governance, democracy, human rights and the right to organise, environmental challenges and corruption.

Corporate governance risks exist in all kinds of markets, however, not just in emerging markets. By being aware of the individual market's specific frameworks and rules, investors are better able to assess the expectations of the companies' corporate governance, but also are better able to understand specific risks and opportunities associated with sustainable development.

Awareness and understanding of the global challenges associated with environmental and social conditions continue to develop in our investment region, although this development is not consistent everywhere. Despite increased awareness and understanding, however, it is only when new, more demanding controls come in - in the form of greater regulatory pressure, taxes or other costs - and are combined with political predictability that change work really picks up speed. As a shareholder, we can contribute to this development by using dialogue to highlight relevant and material issues and challenges that we expect to have a major influence on the companies' future position and market, and to ensure that management and the board of directors include these issues in their strategic discussions.

Typical corporate governance issues included in the general assessment of a company's governance are: who are the members of the management team and board? Does the current shareholder structure support minority investors? Is the company transparent enough? Is the reporting and communication clear and reliable?

Active ownership according to East Capital Explorer, is voting at general meetings, conducting a constructive dialogue with the companies on matters that are important for shareholder value, nominating independent board members and cooperating with other investors.

## Activities during 2015

### Private Equity

In private equity investments, East Capital has acted as an active owner on behalf of East Capital Explorer. This includes maintaining a regular dialogue with company management and other shareholders, board representation and submitting proposals for and voting at general meetings. The significant influence that we usually have in the companies allows us to work actively with the companies to set relevant and material ESG objectives, and to deliver on these. The most relevant ESG factors in East Capital Explorer's two largest private equity investments are described in more detail below.

### Starman

The cable TV operator Starman's direct environmental impact is limited as the company leases capacity in existing networks. As regards social factors, content judged to be pornographic makes up an insignificant share of the company's revenues. This share was unchanged in 2015. In 2015 some changes were made to the management and board. Aivo Adamson, with wide-ranging experience from finance, infrastructure and IT, was recruited to the new role of Group CEO, while Tomas Tiivel moved to a new role as Chief Commercial Officer. In the third quarter a new pan-Baltic management team was formed and Kestutis Sasnauskas, Head of Private Equity and Real Estate at East Capital, replaced Gert Tiivas as Chairman of the Board.

### Melon Fashion Group

At the Russian retail chain Melon Fashion Group (MFG), the most relevant ESG objectives are currently developing a responsible sourcing programme (supply chain) and continuing to build up corporate governance based on best practice, including putting together an appropriate board and ensuring procedures for prompt and professional financial reporting. In 2015 MFG continued to develop the programme for responsible sourcing that was initiated in 2013. This includes, among other things, ensuring that more suppliers have signed the code of conduct that all suppliers will be expected to comply with in due course. MFG has also continued with its own factory checks, which cover both technical and social aspects, and with the testing of fabrics that was started in 2013.

MFG's board is well composed, with considerable industry expertise from global retail chains such as IKEA, H&M and Polarn & Pyret. In recent years, MFG's reporting has improved considerably and since 2010 the company publishes financial reports according to IFRS. In October 2015 Kestutis Sasnauskas, who became Acting CEO in December 2014 when the market situation in Russia created a need for an extensive cost-cutting programme, could return to his foremost role as a board member. The CEO

role was resumed by Mikhail Urzhumtsev, with more than 20 years' experience in various positions within the company, among others as CEO. David Kellerman, long-term owner of MFG, will continue as the company's Chairman.

### Indirect investments through funds

#### *Utilizing our shareholder rights*

In 2015 East Capital continued, where possible, to utilise its right to nominate independent candidates for the boards of the listed companies in which the funds invest. Where East Capital is not able to nominate board members itself, it may make a nomination in cooperation with minority investors. Overall, East Capital contributed to the appointment of 18 board members - 12 in Russia, four in the Balkan region, one in the Baltic states and one in Georgia - in companies in which funds in East Capital Explorer's portfolio have holdings. During the 2015 general meeting season East Capital voted at general meetings of 17 companies that, through funds, are included in East Capital Explorer's portfolio.

#### *Engagement and dialogue*

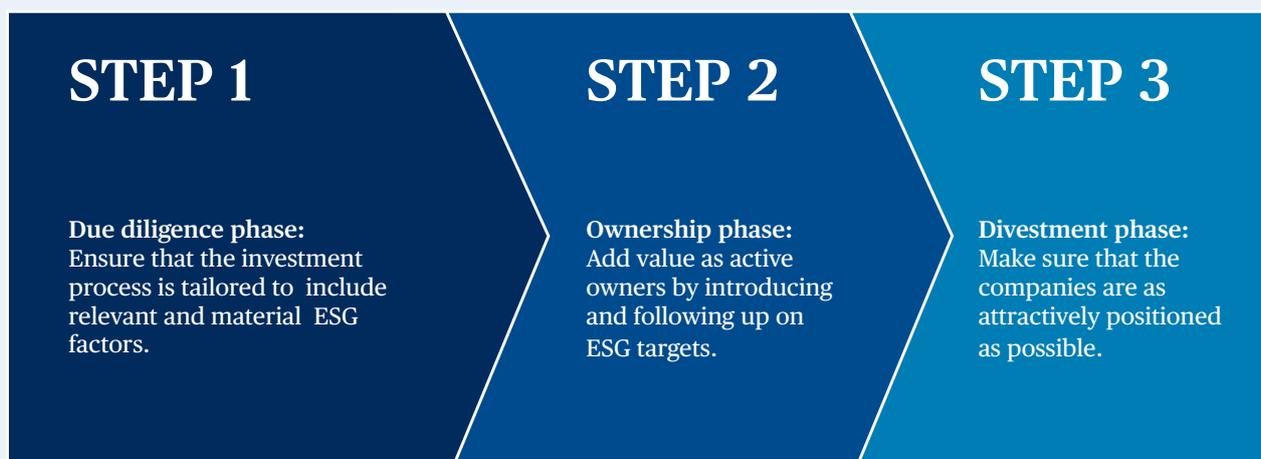
East Capital conducts continuous dialogue with a number of portfolio companies and institutions on specific corporate governance matters that strengthen the rights of minority shareholders in connection with corporate events such as increases in the share capital, effective capital structure solutions, dividends and improved transparency.

In 2015 East Capital successfully concluded the 2014 legal process brought against Integra, one of the companies in the East Capital Deep Value Fund. The aim of the process was to question the value offered to minority shareholders in conjunction with a management buyout of the company from the London stock exchange and thus to secure a higher value for the fund's shares. The court in the Cayman Islands ruled in East Capital's favour, which meant a 24 percent better return for the fund over the original price offered (including interest). This made East Capital the first investor globally to conclude the full court route to establish fair value according to Cayman Islands Companies Law. The case is expected to become indicative for a large number of companies with the same type of legal structure and thus an important international marker for the rights of minority shareholders.

In addition to the many company meetings and dialogues conducted directly by East Capital's investment team, East Capital is also a member of an external forum that includes other investors, with a view to creating a dialogue with the companies that have been warned that they are breaching international conventions and norms in the norm-based screening process that East Capital carries out twice a year. The ultimate aim of this process is always to initiate and support a positive change in the company.

# ESG in East Capital Explorer's direct investments

*Each industry faces different ESG risks in varying degrees. Expectations may differ from market to market, but the knowledge and tools are internationally available. A strong ownership position, gives us a good opportunity to have an impact.*



*The following ESG tools are currently applied to all Public Equity funds, Private Equity funds, Real Estate funds as well as special fund products managed by the East Capital Group:*

- **Exclusion criteria:** East Capital does not invest in any company 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.

**East Capital Explorer's guiding policy documents**

Both guiding policy documents were adopted by the Board in 2008 and are revised annually.

- **The Principles of Responsible Investment:** East Capital Explorer's Principles specify our expectations on East Capital 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:** The Code 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)

*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



Carbon Disclosure Project Since 2014

# The East Capital Explorer share

## Facts

Listing	Nasdaq 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 as at 31 December 2015

	EUR	SEK
Net asset value per share	9.0	82
Closing price per share	5.5	50.75
Change in net asset value per share during 2015	3.2%	-0.3%
Change in share price during 2015 (adj. for share redemption)	26.2%	22.1%

## East Capital Explorer vs indices the last three years, EUR



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



## Net Asset Value and share price development

	2015	2014	2013	2012	2011
Net asset value per share, EUR	9.00	8.73	9.85	9.10	8.69
Net asset value per share, SEK	82	83	87	78	77
Net asset value at 31 December, SEKm	2,392	2,475	2,749	2,582	2,618
Change in net asset value per share during the year, adjusted for dividend, SEK	-0%	-6%	12%	2%	-29%
Share price at 31 December, SEK	50.75	42.50	62.25	49.00	53.75
Lowest, SEK	41.50	41.80	44.60	43.20	48.60
Highest, SEK	62.00	67.25	64.75	57.50	91.50
Market capitalization at 31 December, SEKm	1,429	1,273	1,956	1,618	1,815
Change in share price during the year, adjusted for dividend and share redemption, SEK	22%	-30%	27%	-7%	-36%
Premium/discount to NAV at 31 December	-38%	-49%	-29%	-37%	-30%
Average premium/discount during the year	-39%	-37%	-42%	-35%	-31%
Total turnover, shares, million	8.7	12.8	14.8	10.0	12.4
Average daily turnover, shares	34,490	51,420	59,219	39,985	49,911

## Development of relevant indices

MSCI Emerging Markets Europe Total Return Index, EUR	-7%	-20%	-9%	22%	-21%
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## Share capital and number of shares

Share capital at 31 December, EUR	3,653,897	3,650,155	3,639,711	3,630,535	3,628,059
Number of shares at 31 December *	28,161,563	29,943,260	31,424,309	33,024,595	33,770,121
Average number of shares	29,337,616	31,148,630	32,354,001	35,411,283	36,649,696

## Ownership structure

Number of shareholders at 31 December	5,293	6,352	9,534	9,617	7,123
% shares held outside Sweden	43%	42%	47%	37%	46%

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

10 largest shareholders and custodians <sup>1</sup> on 31 December 2015 <sup>1</sup>		
	Number of shares	Holding, %
East Capital & Partners	6,414,504	22.5
Fidelity Nordic Fund	1,420,992	5.0
SIX SIS AG	1,219,498	4.3
RBC Investor services bank SA	1,156,460	4.1
UBS AG London	1,090,295	3.8
CBNY-Norges Bank	998,901	3.5
Fjärde AP-fonden	752,025	2.6
Danske Capital Sverige AB	746,645	2.6
Rasjö, Staffan	735,358	2.6
Hallonviken Holding AB	604,881	2.1
<b>Total top 10 shareholders and custodians</b>	<b>15,139,559</b>	<b>53.2</b>
<b>Other shareholders and custodians</b>	<b>13,337,233</b>	<b>46.8</b>
<b>Total</b>	<b>28,476,792</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.

### Performance and turnover

In 2015, the share price (SEK) rose by 19 percent in nominal terms and by 22 percent adjusted for the redemption program, versus MSCI Emerging Markets Europe, which declined by 1.7 percent. The highest closing price was on 26 May to SEK 62.00 and the lowest on 13 January to SEK 41.50. Market Cap on 31 December 2015 amounted to SEK 1,429m or equivalently EUR 156m.

### Turnover

A total of 8,656,980 East Capital Explorer shares were bought and sold during the year, with Nasdaq Stockholm accounting for 100 percent of the turnover. The average daily volume amounted to 34,490 shares, corresponding to just over SEK 1.8m.

### Share capital

As of 31 December 2015, the share capital of East Capital Explorer amounted to EUR 3.65m (EUR 3.65m), consisting of 28,476,792 (29,943,260) shares. The difference in the number of shares outstanding compared with the previous year is due to the share redemption programme in 2015.

### Major share holdings

East Capital Explorer has one shareholder, East Capital, that directly or indirectly holds shares representing at least one tenth of the voting rights for all shares in the company. On 31 December 2015 East Capital held 22.5 percent of the shares.

### Voting rights

Each share in East Capital Explorer entitles the holder to one vote. East Capital Explorer's articles of association do not contain any limitations on how many votes each shareholder may cast at a general meeting.

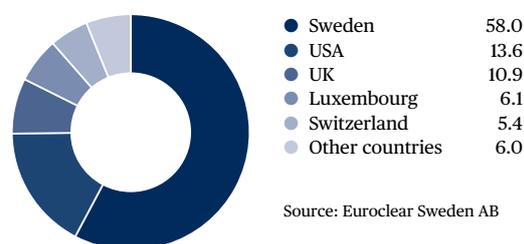
### Redemption programme and share buybacks

In 2012 the Board announced its intention that, over a three-year period (2013-2015), it would annually propose a redemption programme for existing shareholders in case the discount to NAV exceeds 10 percents. During this period, the redemption programme replaced the Company's dividend policy. At the 2015 Annual General Meeting, a voluntary redemption procedure was decided upon, implying that shareholders could redeem 1 of 20 shares at their NAV, where the redemption price per share for 2014 amounted to SEK 83 (corresponding to the NAV per share as at 31 December 2014). 1,466,468 shares were redeemed through the 2015 programme, equivalent to an acceptance level of about 98.5 percent. This entails a payout totaling SEK 122m, or EUR 13.2m to shareholders. The redeemed shares were cancelled after the redemption program was completed.

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	4,296	80.2	531,100	1.9
501 - 1,000	376	7.0	298,206	1.1
1 001 - 5,000	445	8.3	1,184,478	4.2
5 001 - 10,000	83	1.5	612,860	2.2
10 001 - 15,000	42	0.8	509,878	1.8
15,001 - 20,000	19	0.4	336,882	1.2
20,001 -	95	1.8	25,003,388	87.8
<b>Total</b>	<b>5,356</b>	<b>100.0</b>	<b>28,476,792*</b>	<b>100.0</b>

\* Includes the company's repurchased shares

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



Source: Euroclear Sweden AB

### Dividend

On 21 April 2015, a new dividend policy was adopted, according to which at least 50 percent of the dividends received from our holdings should be distributed to shareholders. With a dividend as a base, redemption or repurchase of shares can be used from time to time to enhance shareholder value.

East Capital Explorer will propose to the Annual General Meeting 2016 a dividend for 2015 of SEK 0.80 per share, equivalent to EUR 0.09 per share.

### Net asset value

East Capital Explorer's net asset value per share is calculated as the sum of assets (all investments plus all other assets, such as cash and cash equivalents) minus liabilities divided by the number of shares outstanding, excluding any repurchased shares. Translation of NAV to SEK and of the share price to EUR is for information purposes only, and may therefore vary depending on the date and source. East Capital Explorer applies closing rates from Reuters.



Investor information is continuously updated on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com)

The bridge Vansu tilts spans the river  
Daugava and brings the people of Riga  
together



# 2

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## Our portfolio

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# Portfolio comment

2015 was another challenging year for Eastern Europe as a whole, but a good year for East Capital Explorer. Strong performance by a number of portfolio holdings is reflected in the net asset value per share, which increased by 3.2 percent in EUR in 2015 compared with Eastern European markets as a whole (MSCI Emerging Markets Europe Index), which declined by 7.3 percent in EUR. During the year the cable TV and broadband provider Starman delivered strong organic growth and expanded from Estonia into Lithuania, the office property 3 Burés increased its rents and at the same time the fashion chain Melon Fashion Group manoeuvred its way through a challenging recession in the face of the collapse of the rouble in Russia.

## The market

In 2015 Eastern Europe was characterised by recessions in Russian and Ukraine, which saw their economies shrink by four and ten percent respectively as a result of the oil price, sanctions and armed conflict. The Russian slowdown was reflected in currencies and growth in the region. The Baltic economies, where East Capital Explorer has the greatest exposure, have proved to be resistant and reported around two percent growth and low inflation. Domestic demand is strong in the Baltic region, accompanied by a stable political situation and a favourable investment climate. In the Balkans we saw Romania grow by more than three percent and Croatia came out of a long recession.

## Investment activity

During the year a total of EUR 25.8m was invested, and EUR 38m realised. The largest investment was in Starman, with East Capital Explorer injecting EUR 22.5m in conjunction with the company's acquisition of the Lithuanian cable TV and broadband provider Cgates in February 2015. The acquisition was the first step in the Baltic acquisition strategy that was planned and for which a pipeline has been built up since the acquisition of Starman in Estonia. In October Cgates in turn completed a smaller supplementary acquisition of the regional operator Kava. In 2015 Starman became the first pan-Baltic cable TV and broadband provider and one of the largest Baltic companies in terms of operating profit. Combined EBITDA for 2015 was EUR 25.4m.

In addition to the investment in Starman, EUR 20m was allocated to the East Capital Baltic Property Fund III, which is a continuation of the investment strategy of its predecessor East Capital Baltic Property Fund II. The investments are planned to be made over a four-year period and at the end of 2015 EUR 3m was drawn from East Capital Explorer for the fund's first investment in a retail property in Tallinn.

As part of East Capital Explorer's change of strategy, during the year divestments of fund holdings with a public equity focus will continue. In the final quarter the company

realised its entire holding in the East Capital Russia Domestic Growth Fund, which recovered well in 2015 and rose 28 percent from January to September as compared with an 11 percent increase for the Russian market in the same period. Combined with changes in value, fund divestments and new investments contributed to the share of private equity and real estate in the invested portfolio increasing during the year from 61 percent to 68 percent. In addition to fund divestments, at the end of the year East Capital Explorer received a dividend of EUR 0.8m from its portfolio holding in Trev-2 Group.

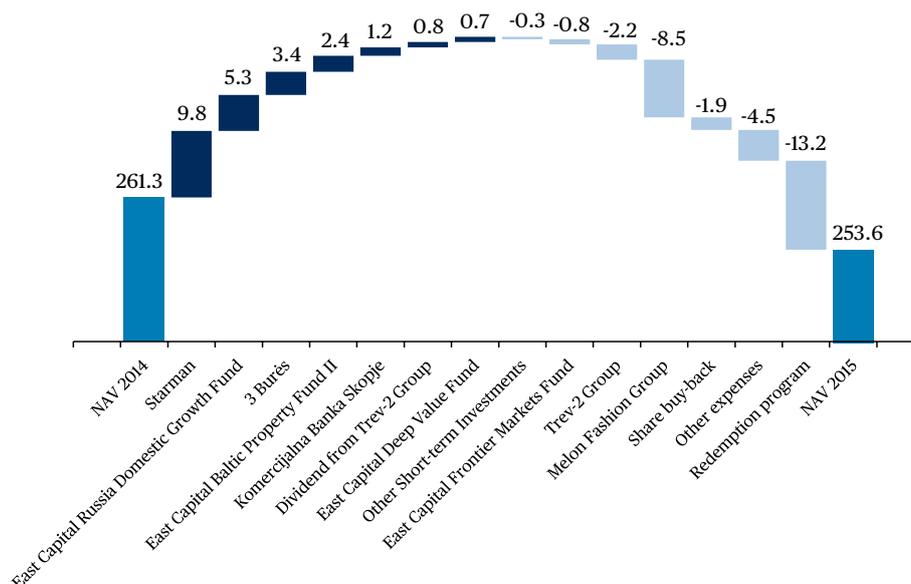
## Portfolio development

East Capital Explorer's portfolio performed well in 2015. Starman, which is the largest holding, delivered 11 percent organic growth in sales during the year and 13 percent organic growth in EBITDA in its Estonian operations, representing 70 percent of the combined operations. Along with cash flow generation, this has been reflected in the value of East Capital Explorer's investment. Following the acquisition of the Lithuanian company Cgates, where growth during the year was a moderate 4 percent, we formed a pan-Baltic management team and recruited Aivo Adamsson as the new CEO of the group, which is focusing on continued consolidation - not least in Lithuania - in order to strengthen its position in this fiercely competitive market. It is worth noting that in March 2016 East Capital



On 15 August 2015 the first befree flagship had a grand opening in the shopping center "MEGA Dybenko" in St. Petersburg. The store, which is designed in accordance with the new concept, has a total area of 503 m<sup>2</sup>. As part of the expansion of the assortment befree launches a limited edition collection, which will be presented only in stores of the new format, as well as the online store.

## Change in NAV 2015, EURm



Explorer announced that the company had signed an agreement in principle to sell its entire holding in Starman to Providence Equity, a new owner who can continue to develop Starman on this path. The approximately three-year investment in Starman has given a strong average gross annual return of over 30 percent.

Melon Fashion Group (MFG) faced significant challenges as 2015 picked up speed. The collapse of the rouble in December 2014 increased costs for companies such as MFG and eroded the purchasing power of Russian consumers, who were forced to spend an increasingly large proportion of their falling incomes on food. The situation was serious and during the year a great deal of energy was put on the company, which is one of East Capital Explorer's largest holdings and a clear stock market candidate once sentiment in Russia turns around. Kestutis Sasnauskas, CIO at East Capital Explorer, stepped in as CEO of the company for nine months with a particular focus on improving leases, terms of supply and efficiency. MFG got through the year with sufficient liquidity and ended the full year with sales growth of 12 percent without having opened more stores and an EBITDA margin of six percent. The value of East Capital Explorer's investment in the company has been corrected on the basis of the depreciation of the rouble, but the crisis in itself has tended to make the company more efficient, as will become apparent when purchasing power returns.

East Capital Baltic Property Fund II, which has five properties that account for around half of East Capital Explorer's real estate exposure, increased in value by 9.8 percent from January to December as a result of cash flows and value increases in the properties. East Capital Explorer made its first investment in the newly launched East Capital Baltic Property Fund III at the end of the year. The first investment was EUR 3.3m, out of a total commitment of EUR

20m. East Capital Explorer's investment in the office property 3 Burès, which makes up the rest of the real estate exposure, increased by a full 14.1 percent owing to decreased vacancies and rent increases that enhanced the cash flows and the value of the property.

The performance of East Capital Explorer's smaller holdings was mixed. Infrastructure construction company Trev-2 Group is finding itself in a tough market situation in Estonia and 2015 was a weak year for the company in terms of profits. In contrast, Komercijalna Banka Skopje in Macedonia increased its profits several times over during the year and has a brighter outlook than in recent years. The share rose 16.1 percent in EUR during the year. The net effect of East Capital Explorer's exposure to public equity through funds is marginal, with an increase in Russian holdings and a decrease in investments in other emerging markets.

### Performance

During the year good performance by Starman and the real estate portfolio outweighed the negative consequences of the depreciation of the rouble. East Capital Explorer's net asset value per share increased by 3.2 percent from January to December, while the Eastern European index MSCI Emerging Europe lost 7.3 percent in EUR.

### Outlook

2016 began with significant falls in the oil price and the rouble, increasing the risk of a prolonged recession in Russia. The Russian economy is likely to shrink further in 2016 but the forecast is highly dependent on oil prices, which affect the currency, inflation and the central bank's ability to lower the interest rate. Things look brighter in the Baltic states and the Balkans, where growth is expected to accelerate from 2015. In the Balkans, a number of economies are on their way out of a long recession and Romania is likely to grow by

four percent. In the Baltic region we believe that growth will accelerate to 3-4 percent in the years ahead thanks to strong exports, increased investments and continued rises in domestic demand. Inflation is expected to be low, with few macroeconomic and political risks.

In addition to the work in existing portfolio holdings, in 2016 new investments within the real estate and private equity segments will be sought, and fund investments realised. On the real estate side, it is mainly commercial properties in the Baltic region that are in our pipeline. Two real estate investments were made during the first quarter 2016; Mustamäe Keskus in East Capital Baltic Property Fund II and Vesse Retail Park in East Capital Baltic Property Fund III. On the private equity side we are assessing investment opportunities throughout the region, with cases varying between regions. In Russia and Ukraine we are currently seeing many distressed companies, often with financing in euros and dollars and which have therefore become insolvent. A number of these are well-managed companies with long-term potential. In the Baltic states, central Eastern Europe and the Balkans the risk is significantly lower, economies are growing and lending facilities of a different magnitude altogether are available. Here privatisation and generational shift are driving many of the transactions. In addition, in recent years Eastern Europe, including East Capital Explorer's most important market - the Baltics, has seen increased interest from global private equity players, which increases exit opportunities for East Capital Explorer alongside strategic buyers and stock markets.

# Portfolio overview

*East Capital Explorers portfolio is actively managed and comprises private equity 41% (32%), Real Estate 23% (19%), Public Equity 19% (28%) and Short-term Investments 17% (22%). The largest geographical exposures are towards the Baltic countries with a weight of 57% (41%), Russia 16% (27%) and the Balkan countries 13% (14%). 92% of the portfolio is invested in the Company's targets sectors: retail, consumer goods, finance and real estate.*

Portfolio per 31 December 2015					
	Fair value 31 Dec 2015, EURm	NAV/Share, EUR	% of NAV	Fair value 31 Dec 2014 EURm	Value change Jan-Dec 2015, % <sup>1</sup>
<b>Private Equity</b>					
Starman	71.8	2.55	28.3	39.5	15.8
Melon Fashion Group	26.5	0.94	10.5	35.1	-24.3
Trev-2 Group	6.2	0.22	2.4	8.5	-16.9
<b>Total Private Equity</b>	<b>104.6</b>	<b>3.98</b>	<b>41.2</b>	<b>83.0</b>	<b>-0.1</b>
<b>Real Estate</b>					
3 Burés (före detta Vilnius Business Harbour)	27.6	0.98	10.9	24.2	14.1
East Capital Baltic Property Fund II	26.8	0.95	10.6	24.4	9.8
East Capital Baltic Property Fund III	3.3	0.12	1.3	-	-0.5
<b>Total Real Estate</b>	<b>57.7</b>	<b>2.05</b>	<b>22.8</b>	<b>48.6</b>	<b>11.1</b>
<b>Public Equity</b>					
East Capital Deep Value Fund	40.3	1.43	15.9	47.0	1.6
Komercijalna Banka Skopje	8.6	0.30	3.4	7.3	16.7
<b>Total Public Equity</b>	<b>48.9</b>	<b>1.74</b>	<b>19.3</b>	<b>54.3</b>	<b>3.6</b>
<b>Short-term Investments</b>					
East Capital Frontier Markets Fund	31.1	1.10	12.3	40.9	-1.9
Other short-term Investments <sup>2</sup>	1.4	0.05	0.5	29.4	14.2
<b>Short-term Investments</b>	<b>32.4</b>	<b>1.15</b>	<b>12.8</b>	<b>70.3</b>	<b>4.6</b>
Cash and cash equivalents	10.5	0.37	4.1	5.6	
<b>Total Short-term Investments</b>	<b>43.0</b>	<b>1.53</b>	<b>16.9</b>	<b>75.9</b>	
<b>Total portfolio</b>	<b>254.2</b>	<b>9.02</b>	<b>100.2</b>	<b>261.9</b>	
Other assets and liabilities, net	-0.6	-0.02	-0.2	-0.6	
<b>Net Asset Value</b>	<b>253.6</b>	<b>9.00</b>	<b>100.0</b>	<b>261.3</b>	<b>3.2<sup>3</sup></b>

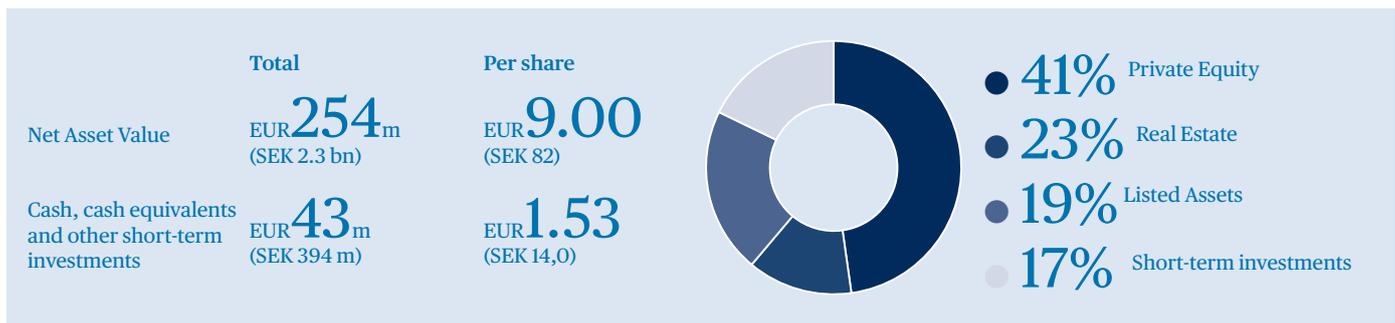
<sup>1</sup> The value change calculation is adjusted for investments, divestments and distributions during the relevant period. i.e. it is the percentage change between: the ending value plus any proceeds from dividends or divestments during the period, divided by the starting value plus any added investment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

<sup>2</sup> Including East Capital Bering Ukraine Fund Class R. Value change during 2015 was affected by divestment of East Capital Russia Domestic Growth Fund.

<sup>3</sup> NAV per share development

<sup>1</sup> EUR = 9.16 SEK on 31 December 2015. Source: Reuters

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



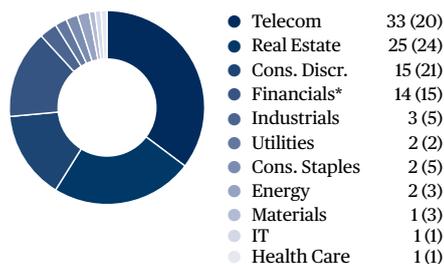
### The ten largest holdings in East Capital Explorer's portfolio on a see-through basis (total of direct and indirect holdings)<sup>1</sup>

On 31 December 2015

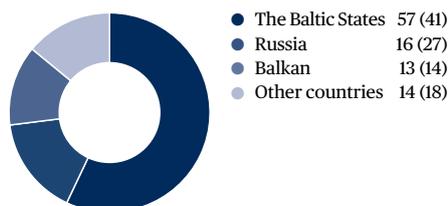
Company	Value in portfolio, EURm	% of NAV	Perf. 2015, %	Country	Sector	East Capital Explorer's investment vehicle
Starman	71.8	28.3	15.8	Estonia	Telecom	Direct Investment
3 Burés	27.6	10.9	14.1	Lithuania	Real Estate	Direct Investment
Melon Fashion Group	26.5	10.5	-24.3	Russia	Consumer Discretionary	Direct Investment
Komercijalna Banka Skopje	10.5	4.2	16.7	Macedonia	Financials	Direct Investment East Capital Deep Value Fund
Tänassilma Logistics	6.8	2.7	26.3	Estonia	Real Estate	East Capital Baltic Property Fund II
Trev-2 Group	6.2	2.4	-16.9	Estonia	Industri	Direct Investment
GO9	6.2	2.4	2.7	Lithuania	Real Estate	East Capital Baltic Property Fund II
Metro Plaza	5.1	2.0	14.1	Estonia	Real Estate	East Capital Baltic Property Fund II
B92	4.8	1.9	-30.0	Serbia	Consumer Discretionary	East Capital Deep Value Fund
Deglava Prisma	3.3	1.3	13.2	Latvia	Real Estate	East Capital Baltic Property Fund II
<b>Summa</b>	<b>169.1</b>	<b>66.7</b>				

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

#### Sector breakdown, %



#### Country breakdown, %



#### Asset class breakdown, %



\*Comparative figures in brackets refer to the corresponding period in 2014

In line with our investment theme, the majority of our holdings are made in sectors favored by domestic growth, such as retail, consumer goods, finance and real estate. The largest change that occurred during the year is the change of the telecommunications from 22 to 33 percent. This change can mainly be attributed to the additional investment of EUR 22.5m made in Starman in connection with the acquisition of Cgates in the beginning of the year, but also an increased value of the underlying main business. At the same time, the proportion of holdings in consumer discretionary decreased, largely due to the impairment of Melon Fashion Group as a result of the ruble's decline against the euro.

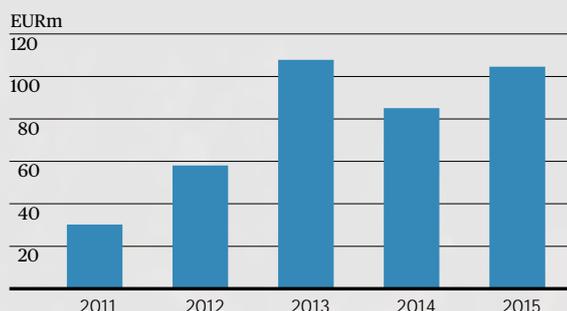
The Baltic countries accounted for our largest geographical exposure with a portfolio weight of 57 percent, compared with 41 percent at the end of 2014. The increasing exposure to this region is mainly a result of the add-on investment in and value increase of Starman, as well as value increases in the Baltic Real Estate investments. Russia's share has however decreased from 27 to 16 percent, partly due to divestments and partly due to the weak development of the Russian holdings. We also have a significant proportion invested in the Balkan region, which is 14 percent of the portfolio.

The portfolio contains Private Equity, Real Estate and Public Equity. At the end of the year Private Equity and Real Estate accounted for 64 percent of the portfolio, compared with 51 percent at the end of 2014. The increase of Private Equity and Real Estate was mainly driven by the additional investment of EUR 22.5m made in Starman early in the year as well as an increase in the value of the property portfolio. At the same time, the proportion of listed assets changed from 28 to 19 percent, largely as a result of the divestment of East Capital Russia Domestic Growth Fund.

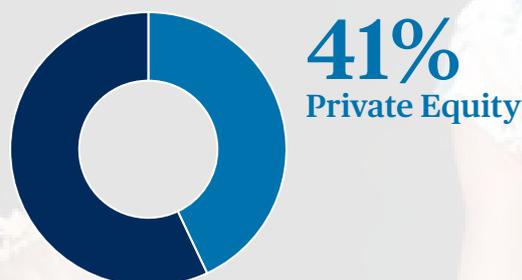
# Private Equity

» Private Equity includes direct investments in unlisted companies. The portfolio primarily targets non-cyclical, consumer-oriented companies with high growth potential. The goal is to exploit attractive investment opportunities where we as owners can add value. By being actively involved in corporate governance and strategic decisions, our teams can add industry expertise to help senior management develop and operate companies in a way that ultimately creates value for East Capital Explorer shareholders, either by stable cash flows or value realisation in connection with listing or sale.

## Value of the Private Equity portfolio



## Portfolio weight



EURm Holding	Segment geography	Date of investment	% of NAV	Invested amount	Divid./divestm	Fair Value	The investment in brief
Starman (DI) <b>starman</b>	Telecom The Baltics	May-13, Feb-15	28.3%	46.1	-	71.8	Starman, one of the leading cable TV and broadband providers in the Baltics, benefits from its loyal customer base that generates strong non-cyclical cash flows. The company, with its leading market position and superior products, is well positioned to benefit from market consolidation and increasing broadband penetration
Melon Fashion Group (DI) <b>MELON</b> <b>befree</b> <b>ZARINA</b> <b>LOVE REPUBLIC</b>	Consumer Russia	Oct-08	10.5%	28.9	3.7	26.5	Melon Fashion Group (MFG) is one of the fastest growing fashion retailers in Russia. The company is well positioned for growth with a broad target group under three strong brands; Zarina, befree and Love Republic. MFG is able to benefit from the consolidation in the fragmented Russian fashion industry and long-term growth in consumption
Trev-2 Group (DI) <b>TREV2</b>	Industrials The Baltics	Aug-11, Dec-13	2.4%	7.2	1.7	6.2	The Estonian construction and engineering company Trev-2 Group is a restructuring case, which under our guidance has been scaled down to focus on its core areas: construction and maintenance of infrastructure objects, structures and civil engineering works. With its strong operational and market expertise, the company benefits from the long-term growing infrastructure needs in Estonia
			<b>41.2%</b>	<b>82.2</b>	<b>5.4</b>	<b>104.6</b>	<b>+34% (total gross return on investments)</b>

# Starman

Held for sale in 2016 - East Capital Explorer's holding in the company: 63%

## The Company

Starman is the only pan-Baltic provider of cable TV services and broadband. The Company is market leader in Estonia and number two in Lithuania. Since being established in 1992 the company has grown organically and through acquisitions, including by integrating 20 local providers into its business. At the end of 2015 Starman had 187,000 subscribers and 303,000 revenue generating units in Estonia. In 2015 the company expanded through the acquisition of the Lithuanian cable TV provider Cgates, becoming the first pan-Baltic player in cable TV and broadband. At the end of 2015 the company had 143,000 subscribers and 227,000 revenue generating units in Lithuania.

In March 2016, East Capital Explorer announced that it had signed an agreement to sell its holding in Starman to Providence Equity in a deal that will generate an average annual net return 24-27 percent. The transaction is expected to close during the second quarter 2016.

## Development 2015

Starman had a strong 2015. Estonia, which accounts for 70 percent of the business, delivered sales growth of 11 percent while also improving profitability. As previously, growth and profitability far exceed the industry average and the growth drivers continued to be increasing broadband penetration, price increases and customer inflow. For the second successive year customer inflow was positive, confirming that the product range and service mix are attractive. In parallel, in 2015 the company took its first step towards consolidating the Baltic market through the acquisition of Cgates, Lithuania's second largest cable TV and internet provider and, like Starman, a result of several acquisitions. In conjunction with the investment, in February 2015 East Capital Explorer provided a shareholder contribution of EUR 22.5m to Starman and increased its holding in the company from 51 percent to 63 percent. In October another acquisition was made in Lithuania, this time of the regional operator Kava, giving the company national coverage by adding three new cities. The Lithuanian business saw moderate organic growth in 2015 and its operating profit was unchanged. During the year the company formed a pan-Baltic management team and created a number of group functions.

## Outlook 2016

The Lithuanian market is fiercely competitive, but has long-term potential. The company is now focusing on improving its operations in the country - such as by upgrading the Cgates product range based on Starman's existing technology and know-how - and on continued consolidation of the market. At the same time, the company is focusing particularly on the Estonian operations, which have recently seen increased competition. During 2016, East Capital Explorer will sell its holding in Starman to Providence Equity with a broad experience from the telecom sector.

## Investment Rationale

- **Exposure to stable and growing cable TV and broadband market**
  - Structural growth: Lower broadband penetration:
  - Strong business model: through its well-known brand and market-leading products Starman clearly outperforms competitors in terms of growth and profitability
- **Strong and non-cyclical cash flow**
  - Loyal customer base with good payment discipline generates a strong non-cyclical cash flow
  - Strong cash conversion and ability to deleverage quickly
- **Possibility to generate synergies through market consolidation**
  - Largest market operator with a household coverage above 53 percent and market leading in pay-tv services
  - Significant synergy potential through its active role in the ongoing market consolidation across the Baltic region, where the acquisition of Cgates in February 2015 is considered to be the first step
  - Can take advantage from economies of scale including capex, SG&A and negotiation with content providers and equipment vendors

## Key figures

EURm	2015	2014	2013	2012
Sales	53.7	33.6	30.2	28.0
EBITDA	25.0	15.9	14.6	13.1
Net profit	4.4	3.1	4.2	4.8
Sales growth (%)	59.8	11.1	7.9	8.9
EBITDA margin (%)	46.6	47.4	48.3	47.0
Revenue generating units ('000)	501	318	293	286
Average revenue per unit (EUR/month)	13.3	14.6	13.4	12.3

**starman** *Read more about the company on [www.starman.ee](http://www.starman.ee)*



# Melon Fashion Group

East Capital Explorer's holding in the company: 36%

## The Company

Melon Fashion Group (MFG) is one of the largest and fastest growing fashion chains in Russia. At the end of 2015, the company operated 642 stores under three brands: Zarina, befree and Love Republic. MFG is a pure retail company where production is outsourced to subcontractors. MFG's strong financial position enabled expansion during the financial crisis. Since 2008 the company has increased its turnover from RUB 2bn to RUB 13bn in 2015.

## Development 2015

As expected 2015 proved to be a challenging year when the resilience of Melon Fashion Group business operations was put to test on a daily basis. The weak economic environment manifested itself in sharp foot-fall drop, declining general consumer confidence, rising price sensitivity, weak rouble and inflated input prices squeezing the margins. As food inflation picked up driven mainly by weakening rouble, the share of disposal income allocated to non-food spend decreased proportionally. A 10 percent decline in real wages contributed to the weaker consumer spending.

Despite headwinds, MFG managed to achieve the targets set for the year and deliver strong execution on all self-help initiatives launched in the end of 2014. To assist in this process, Kestutis Sasnauskas, CIO at East Capital Explorer, stepped in temporarily as a company's CEO. By the end of the year the company achieved over 20 percent decrease in rental expenses. The distribution and administrative expenses were cut by 11 percent and nearly 5 percent was cut in payroll costs. This helped to partially offset the negative impact on profitability from the sharp increase in input prices due to the rouble depreciation. Despite the gross margin squeeze MFG's profitability not only exceeded the previous year's results, but almost matched the pre-crisis results of 2013. At the same time, large efforts were invested in utilizing opportunities in the weak market, such as obtaining new attractive store locations on favourable terms. Better locations were matched by updated look for all three brands. During 2015 the new concept stores of befree and Zarina were opened, while Love Republic continued to refurbish its existing stores in line with the new concept introduced a year ago. The new modern format resonated well with new and old customers and added confidence with regards to the further roll-out.

During the period, the group's comparable sales increased 4% year-on-year, although the results varied significantly among the three brands ranging from double-digit growth by youthful and affordable befree to slightly negative growth by more chic and pricy Love Republic.

## Outlook 2016

There is no certainty in whether the worst headwinds are behind us, particularly as they relate to China, sanctions lift and outlook for the commodity prices, all of which remain highly unpredictable. Given this environment, the company will continue to tightly monitor its cost base in order to defend or improve on achieved targets, work with suppliers towards payment terms gains, and also invest additional resources into developing and enhancing its value proposition to the customer and creating a better product. With the new competence added during 2015, MFG is well positioned to push forward its product development as well as improve on the retail operations performance in 2016. This outlook combined with the successful execution of the cost saving program during 2015 gives confidence that in 2016 the company is able not only to defend its current position but also grow to a new level and secure its competitive position for the future.

## Investment Rationale

### • Exposure to the Russian consumer market

- The expected long-term increase in disposable income is driving consumption
- Rapidly growing but unsaturated retail market

### • Exposure to an attractive, fast-growing retail segment

- Russia is the third largest fashion retail market in Europe and is expected to show growth again in 2017 and to reach over USD 40 bn in 2019-2020
- Consolidation potential remains: the top 10 retailers account for only 8% of the total market, compared with 26% in England
- Russian consumers spend a larger share of their income on clothing compared to other Eastern European markets and fashion-conscious countries like England and Sweden

### • Exposure to one of the largest domestic fashion retailers

- Melon Fashion Group is Russia's largest domestic fashion retailer, measured in number of stores
- The sales area increased by an average of 24% per year between 2008-2015
- The Company has the support of a strong management with broad industry experience

## Key figures

MRUB	2015	2014	2013	2012
Sales	12,563	11,192	8,966	7,061
EBITDA	798	481	898	1,002
Net profit	273	44	519	504
Sales growth (%)	12.3	24.8	27.0	38.3
Gross margin (%)	46.0	53.3	58.8	60.9
EBITDA margin (%)	6.4	4.3	10.0	14.2
No. of stores, end period	642	669	586	450
Like-for-like sales growth (%)	3.9	0.2	6.5	27.0

**MELON**  
FASHION GROUP

Read more about the company on  
[www.melonfashion.ru](http://www.melonfashion.ru)



# Trev-2 Group

East Capital Explorer's holding in the company: 38%

## The Company

The Trev-2 Group's (Trev-2) core business is road construction and maintenance, but the business also includes production of asphalt, aggregate and road safety products. The first investment was made in 2011 based on the company's restructuring potential, with potential for adding value being seen in the discontinuation of unprofitable operations and an increased focus on profitability. Since then Trev-2 has been scaled down from 17 majority-owned subsidiaries to four wholly owned subsidiaries. The biggest change took place in 2013, when Trev-2 exited the general construction segment in order to focus entirely on its present core business.

## Development 2015

2015 was a challenging year for Trev-2. Falling EU grants for infrastructure and increased competition among Estonian construction companies reduced the number of projects that Trev-2 had, as well as its profitability. Sales decreased during the year and profitability was weak. The company, which was restructured and consolidated a number of years ago, continued to consolidate its organisation and adapt both its cost structure and its machinery fleet to present business volumes. In 2015 Trev-2 won a lengthy contract for road maintenance in one of Estonia's regions, which is bringing in predictable revenues. Liquidity has been good and at the end of the year Trev-2 distributed a large dividend for the company, of which EUR 0.8m was paid to East Capital Explorer.

## Outlook 2016

Trev-2's business volumes are expected to be unchanged in 2016, then increasing as financing from the next EU programmes comes onto the market. During this time the company will continue with its efficiency programmes, with the aim of becoming the most profitable company in the industry in the Baltic region.

## Investment Rationale

### • A solid restructuring case

- Strong local presence, market knowledge and professional skills
- Stable track record in its core areas: road construction and maintenance
- Focus on core areas by divestments and streamlining of the organisational structure

### • Targeted efficiency improvements can release value

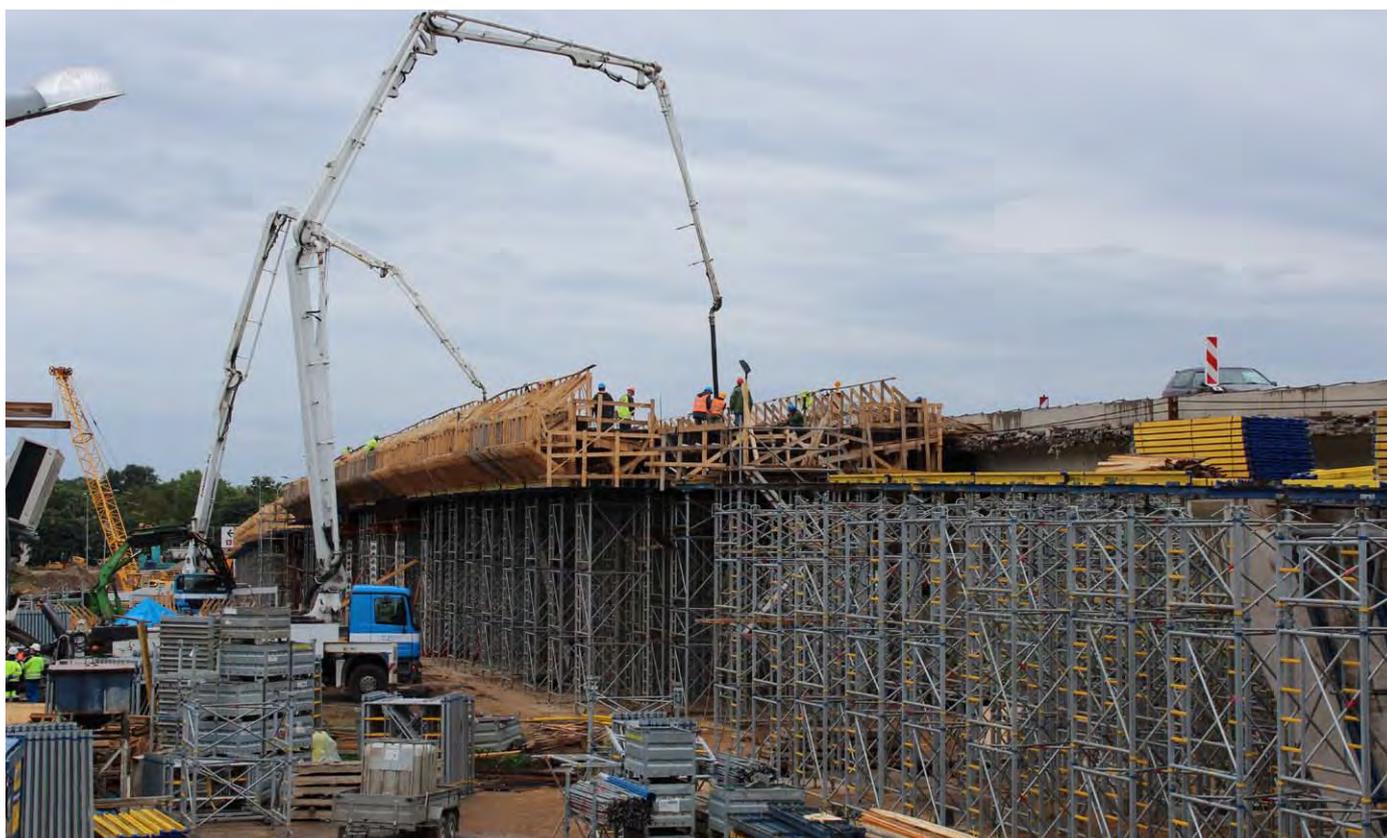
- Continued focus on profitability improvements in core business

## Key figures

EURm	2015	2014	2013	2012
Sales	51.4	66.3	103.1	95.6
EBITDA	1.8	5.5	9.4	4.9
Net Profit	-1.2	1.6	4.0	0.6
Sales growth (%)	-22.6	-35.7	7.9	40.2
EBITDA margin (%)	3.6	8.2	9.1	5.1
Operating margin (%)	-1.9	3.0	4.6	1.5



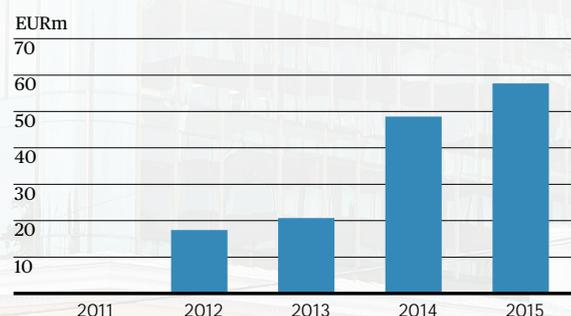
Read more about the company on  
[www.trev2.ee](http://www.trev2.ee)



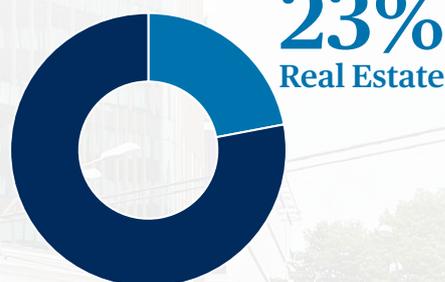
# Real Estate

» East Capital Explorer's Real Estate portfolio is exposed to six A-class commercial properties in the Baltic capitals: one direct investment (3 Burès) and five properties through East Capital Baltic Property Fund II. The recently launched East Capital Baltic Property Fund III owned no properties as per the end of 2015. The portfolio strategy utilises the upside in the Baltic property market, which has stabilised after the financial crisis and now offers investment opportunities in properties with strong cash flow, sustainable rent levels and low vacancies. The yield levels are 7-9 percent, which is 200-300 basis points higher than in the Nordic capitals, while financing terms are attractive. The Baltic economies continue to be stable with among the highest GDP growth within the euro zone, low interest rates and stable financial markets dominated by the Nordic banks.

## Value of the Real Estate investments



## Portfolio weight



EURm Holding	Segment geography	Date of investment	Invested amount	Divid./divestm	Fair Value	The investment in brief
3 Burès (DI) <b>3URÈS</b> VERSLO CENTRAS	Real Estate The Baltics	May-14	22,3	-	27,6	The A-class office building 3 Burès has a prime location in the center of Vilnius. The property, characterized by its low vacancy rate and substantial interest from potential tenants, currently generates a stable cash flow with steadily increasing rents the past years. At the same time the country's stable and growing economy supports a continued low financing costs and the potential for long term value appreciation
Baltic Property Fund II (FI) <b>EAST CAPITAL</b>	Real Estate The Baltics	May-12	20,0	-	26,8	The Fund acquires and manages properties with well-established tenants on sustainable rental terms in the Baltics; primarily shopping centers and retail properties, but also logistics and office properties. The goal is to acquire properties at good locations with a stable income and potential for improvement
Baltic Property Fund III (FI) <b>EAST CAPITAL</b>	Real Estate The Baltics	Dec-15	3,3	-	3,3	The Fund was launched in the second half of 2015 and will invest in and manage commercial properties with well established tenants and sustainable rental terms in Baltic capitals. Focus is primarily on retail, office, logistics and industrial properties in prime locations with stable income and enhancement or value-added potential.
			45,6	-	57,7	+27%

DI = Direct Investment, FI = Fund Investment

# 3 Burès

East Capital Explorer's holding in the property: 100%

## History

East Capital Explorer acquired 3 Burès (formerly Vilnius Business Harbour) in May 2014. 3 Burès is an A-class office property with an undeveloped adjacent land plot centrally located in the business district of the Lithuanian capital Vilnius. The investment included two skyscrapers with a leasable area of 28,400 square metres and stable tenants, and an adjacent land plot with the capacity to develop a third office building of at least 11,000 square metres.

## Development 2015

During the year, 3 Burès generated a strong cash flow. Vacancy in the office complex at the end of 2015 decreased close to 0% after signing rent agreements with new strong tenants.

Tenant relationship has been improved during the year as a result of events organized for tenants each quarter, with the aim to develop business centre 3 Burès into a harmonious and pleasant community. In order to maintain the buildings high quality, the glass facade was renovated and the fire protection system updated.

The management team was continuously working on the development project and marketing of a new building. East Capital Explorer had by year-end not made any decision regarding investing in the project.

## Outlook 2016

The demand among both existing and new tenants is expected to remain high in 2016. As a result of regular tenant turnover, the vacancy rate is expected to be around 2.5 percent in 2016.

The dialogue with tenants and service providers will continue to ensure the quality of provided services. The range of services will be further improved in order to strengthen the buildings premium status. Current plans include renewal of elevators, renovation of cooling towers, roofs renovation in terraces, upgrade of telemetry intelligence system.

In parallel, preparations continue for the development of a third office building. Building permit was received in the first quarter of 2016.

## Investment Rationale

- *Stable economic growth has revitalized the Baltic property market*
  - Declining vacancy rates, particularly in the premium segment
  - High demand in the market offers the potential for increasing rent levels
- *Fits well into East Capital Explorer's property portfolio*
  - Commercial premium property at a superior location in one of the Baltic capitals
  - Rents are 5-10 percent higher than in older buildings
  - Yield of 7 percent gives high return on equity
- *Low vacancy rates and attractive tenant mix gives rise to a strong and stable cash flow*
  - Tenants primarily consist of companies within the professional service with high payment capacity
  - Increasing demand creates a favorable negotiation position
  - Current vacancy rate is 1 percent and is expected to remain low

## Key figures

EURm	2015	2014
	Jan-Dec	May-Dec
Rental income	5.6	3.1
Operating profit	5.5	2.5
Net profit	3.8	1.3
Operating margin (%)	98.3	80.9
Vakancy rate (%)	0.7	4.6
Average rent (EUR/m <sup>2</sup> ), end-period	12.6	12.4

**BURÈS**  
VERSLO CENTRAS

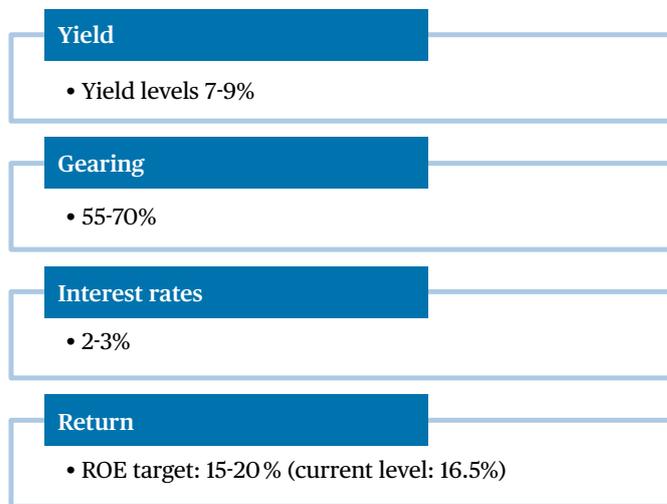
Read more about the property on  
[www.3bures.lt](http://www.3bures.lt)



# East Capital Baltic Property Fund II



East Capital Explorer's holding in the fund: 49%



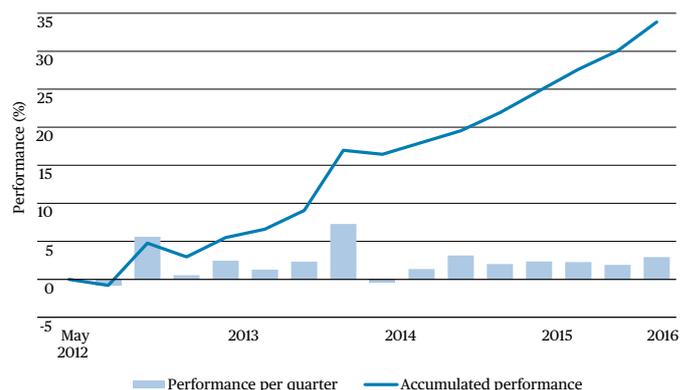
## Fund facts

The Fund aims to invest in commercial Real Estate in the Baltics. Primarily, these are investments in shopping centers and retail properties as well as logistics and office properties. The goal is to acquire properties in prime locations with stable cash flows and potential for further improvements. The Fund's primary focus is on properties with well-established tenants and sustainable rental terms in and around Tallinn, Riga, and Vilnius. Value is added through improvements in tenant mix, renovations, deployments and property development.

## Market Outlook

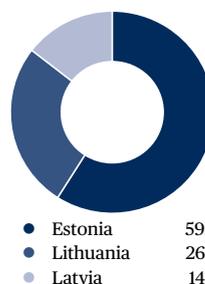
The market for commercial Real Estate in the Baltic capitals is characterized by stable but rising rents, low vacancy rates, low interest rates and high yield. Unlike the Nordic capitals, price and rental levels have not yet recovered from the financial crisis, providing further support for the investment case.

## NAV development since May 2012 +33.8%

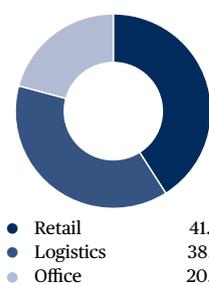


Fund performance (EUR), %	2015	Since May 2012
East Capital Baltic Property Fund II	10%	34%

## Assets by country, %



## Sector weighting, %



<b>Management fee</b>	1.75%
<b>Structure</b>	Closed-end fund structured as a Luxembourg SICAV-SIF SCA
<b>Profit share (performance fee)</b>	Investors 80% and East Capital Baltics AS 20% (at exit) after 8% hurdle
<b>East Capital Explorer's holding 31 Dec 2015</b>	49% of the fund

# The Real Estate portfolio

## GO9 Shopping Centre

GO9 is a well-known high street shopping centre in the heart of Vilnius with an excellent location on the best stretch of Gedimino Avenue. A grand reopening of the redeveloped shopping centre took place in March 2014, with H&M as the anchor tenant.



### Facts about the investment

Acquired	2012
Leasible area (sqm)	12,290
Yield (%)	9.0
Built (rebuilt)	(2014)
Anchor tenants	H&M, Lindex, Rimi
Invested amount (EURm)	26.2

## Deglava Prisma

Deglava Prisma, a newly constructed big box retail property in Riga, is fully let to the Finnish retail chain Prisma (SOK-Group). The property is characterised by its strong cash flow generation mainly owing to its ten-year plus lease agreement with a stable and reliable tenant.



### Facts about the investment

Acquired	2013
Leasible area (sqm)	11,604
Yield (%)	8.2
Built	2012
Anchor tenants	Prisma (SOK Group)
Invested amount (EURm)	14.3

## Rimi Logistics

The Rimi Logistics warehouse and office complex outside Tallinn was purchased in 2014 in a sale-and-leaseback deal. The property is fully let to the leading grocery chain Rimi Eesti Foods, part of ICA Gruppen, on a ten-year unbreakable lease contract.



### Facts about the investment

Acquired	2014
Leasible area (sqm)	18,178
Yield (%)	8.0
Built	2000 (2006)
Anchor tenants	Rimi (ICA Group)
Invested amount (EURm)	13.4

## Metro Plaza

Metro Plaza is an A-class office building with an excellent location and good visibility in Tallinn's corporate district. The property generates solid cash flows from strong, well-known tenants and is fully let. There is revenue enhancement potential from redeveloping and enlarging retail areas on the ground and first floors.



### Facts about the investment

Acquired	2014
Leasible area (sqm)	7,309
Yield (%)	7.0
Built (rebuilt)	2009
Anchor tenants	Trigon Capital, Regus, Mandatum Life Insurance
Invested amount (EURm)	21.8

## Tänassilma Logistics

Tänassilma Logistics is a modern logistics centre outside Tallinn. Stable rent revenues combined with low interest on debt have resulted in earnings of more than 20 percent on invested equity and a strong positive cash flow.



### Facts about the investment

Acquired	2012
Leasible area (sqm)	40,526
Yield (%)	9.0
Built (rebuilt)	2009 (2011)
Anchor tenants	Havi Logistics, DSV Transport, Humana
Invested amount (EURm)	24.0



# East Capital Baltic Property Fund III

East Capital Explorer's holding in the fund: 28%

## Fund facts

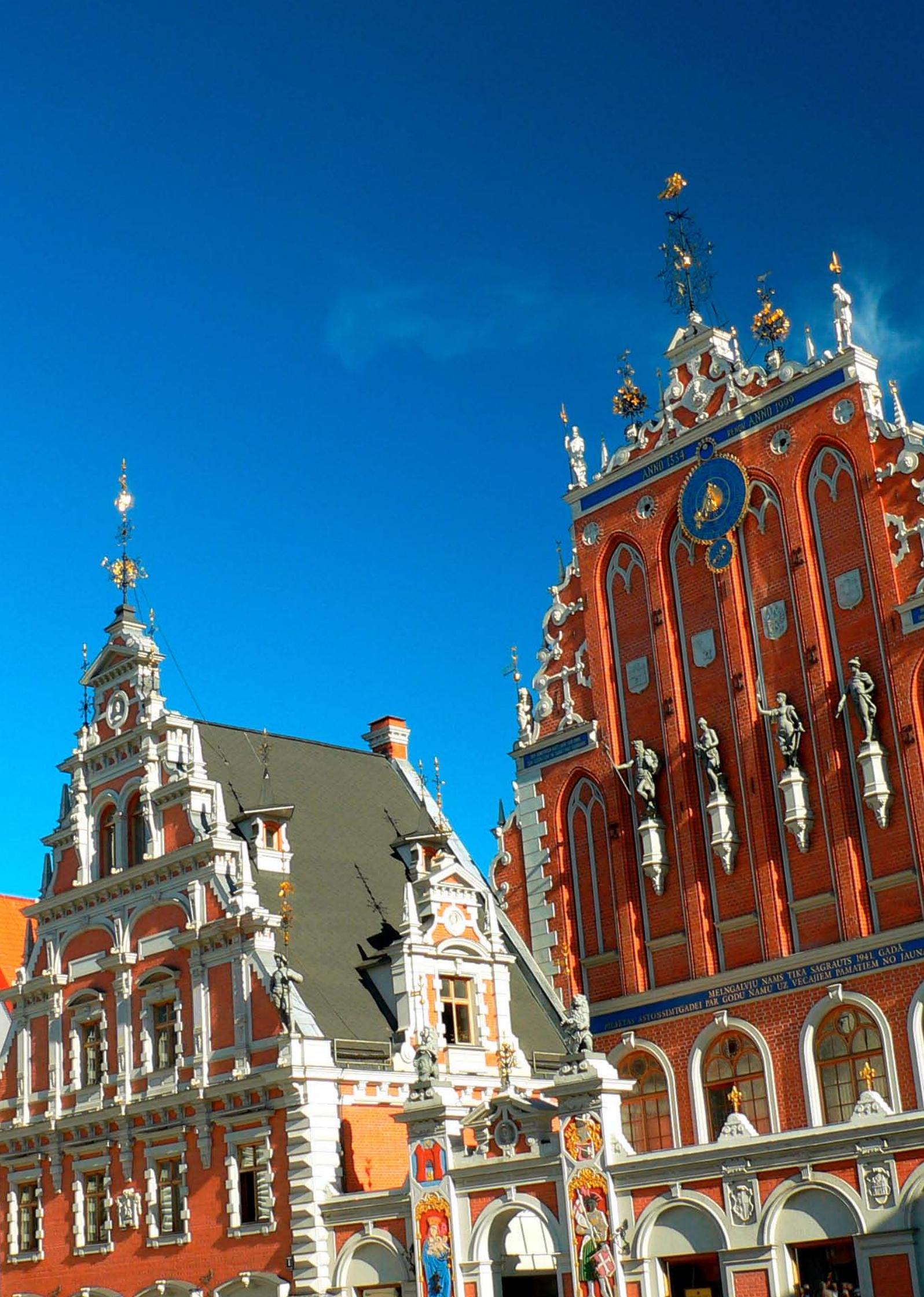
East Capital Baltic Property Fund III, which was launched in 2015, will invest in commercial properties in the Baltic region, primarily in shopping centres and retail properties, as well as logistics and office properties.

The goal is to acquire properties in prime locations with stable income and enhancement potential. The main focus will be properties with well-established tenants and sustainable rental terms in and around Tallinn, Vilnius and Riga. Value will be added through improvements in tenant mix, refurbishment, extension or redevelopment.

The first investment in the fund was closed in January 2016, when the Fund acquired Vesse Retail Park in Tallinn for a total value of EUR 30.9m.

Management fee	1.25%
Structure	Closed-end fund structured as a Luxembourg SICAV-SIF SCA
Profit share (performance fee)	Investors 80% and East Capital Baltics AS 20% (at exit) after 7% hurdle
East Capital Explorer's holding 31 Dec 2015	28% of the fund

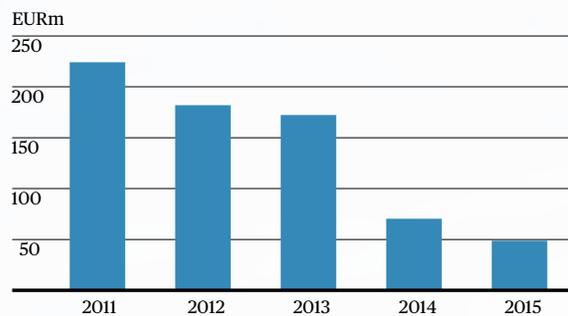




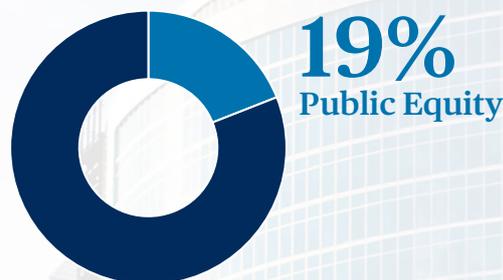
# Public Equity

» Our Public Equity portfolio consists of one listed direct investment, Komercijalna Banka Skopje, and holdings in East Capital's alternative fund East Capital Deep Value Fund with a focus on Eastern Europe. Investments in this group offer exposure to companies with a strong outlook, especially in sectors driven by domestic growth such as retail, consumer goods, financials and real estate. The Public Equity portfolio creates a liquid exposure to assets with high return potential, with the intention of using these as a financing source for further investments in private equity and real estate.

Value of the Public Equity portfolio



Portfolio weight



EURm Holding	Segment geography	Date of investment	% of portfolio	Invested amount	Divid./divestm	Fair Value	The investment in brief
Komercijalna Banka Skopje (DI)	Financials Balkans	Oct-10	34%	12.9	1.7	8.6	Komercijalna Banka Skopje (KBS) is Macedonia's largest commercial bank. The low valuation compared to other banks in the region makes it a potential takeover candidate for strategic investors. KBS's historical return on equity is 15 percent.
East Capital Deep Value Fund (FI)	Russia, CIS, Balkans	Jan-14	15.9%	46.1	7.4	40.3	The fund offers exposure to the conservative market valuations of companies with strong revenue generation and high revaluation potential.
<b>EAST CAPITAL</b>			<b>19.3%</b>	<b>59.0</b>	<b>9.1</b>	<b>48.9</b>	<b>-2% (total gross return on investments)</b>

DI = Direct investment, FI = Fund investment

# Komercijalna Banka Skopje

East Capital Explorer's holding in the company: 10%

## Company

Komercijalna Banka Skopje (KBS), Macedonia's largest bank as measured in assets and capital, is listed on the Macedonian Stock Exchange. KBS has a comprehensive offering of banking services to both individuals and businesses through a nationwide network of branches and offices. The Bank's loan portfolio consists of more than 80 percent of corporate loans, including loans to many of Macedonia's major corporations. As with most other commercial banks in the region, the deposits are mainly from private clients where the KBS market share is about 30 percent.

## Development 2015

KBS showed steady improvement in 2015. Although GDP growth has been good in Macedonia for the past two years, much of that growth comes from a few foreign direct investment projects, and does not trickle down to the broader economy, meaning that banks are still struggling to grow their loan portfolios. Despite the reduced rates, deposits grew by 5% in 2015, underlining the client loyalty KBS enjoys. The bank also worked hard to reduce operating expenses, bringing this number down by 5% year on year. The combination of higher net interest margin and lower operating expenses helped KBS increase their pre-provision, pre-tax profit by over 19% year on year. Unfortunately, continued high cost of risk consumed much of these earnings, but the bank still posted net result of EUR 8.5, which is five times higher compared to 2014. The bank expects to pay a dividend during spring 2016.



Read more about the company on [www.kb.com.mk](http://www.kb.com.mk)

## Outlook 2016

2016 will likely mean further loan restructuring on the corporate credit segment, as well as a continued growth in the loan portfolio in the retail segment. Expectations are that provisions and write-downs on foreclosed assets will continue to burden profitability, but this phase is expected to seize during 2016.

## Investment Rationale

- *The largest commercial bank in Macedonia*
  - Large market shares in both the corporate and consumer segment where almost a third of all Macedonians have an account with the bank
- *Low input valuation despite strong operational potential for building a future appreciation*
  - Attractive acquisition targets for strategic investors in the region

## Asset structure (%)



# East Capital Deep Value Fund

## Fund facts

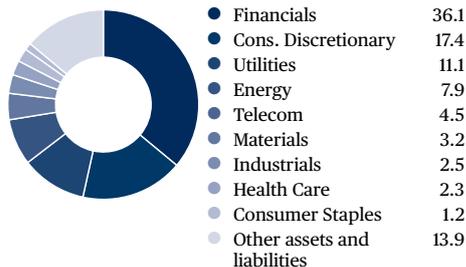
The East Capital Deep Value Fund provides exposure to conservative market valuations, companies with significant revenue generation capacity and high potential for revaluation. This includes public as well as Private Equity holdings, small and medium sized companies with proven business models with attractive valuations and deep value holdings. No particular consideration is made to sector - return potential above market is the main guiding feature.

Performance of holding, %	2015	Since Jan 14
East Capital Deep Value Fund, EUR	2%	4%
Management fee		1.95%
Profit share (performance fee)	20%, in excess of 40% increase from initial investment and 7% hurdle	
Concentration, 10 largest holdings		56%
East Capital Explorer's holding in the fund as at 31 Dec 2015		75%

## Asset allocation by country, %



## Sector weighting, %



## Largest holdings in the Fund on 31 December 2015

Company	Weight, %	Perf. 2015, %	Contr, %*	Country	Sector
B92	12.0	-30.0	-3.8	Serben	Consumer Discr.
Bank Sankt Petersburg	7.9	54.6	1.5	Russia	Financials
Caucasus Energy & Infrastructure	7.3	-4.1	-0.4	Georgia	Utilities
Impact	5.5	-43.6	-3.8	Romania	Financials
Ig Seismic Service	5.1	-46.9	-0.7	Georgia	Utilities
Komercijalna Banka Skopje	4.9	6.1	0.3	Macedonia	Financials
Reinsurance Co Sava	4.5	-22.0	-1.1	Slovenia	Financials
Telekom Srpske	3.8	3.4	0.1	Bosnia	Telecom
Cantik	2.8	-26.0	-0.9	Ukraine	Financials
Integra	2.6	24.2	2.2	Bosnia	Financials

Alla siffror i EUR. \* Bidrag till fondens totala avkastning under 2015

10 largest holdings (% of fund)	Unlisted holdings (% of fund)	Total number of holdings
55	19	95

# Short-term investments

» Short-term investments include assets that are expected to be divested. The largest short-term investment is East Capital Frontier Markets Fund, corresponding to 12.3 percent of NAV. East Capital Bering Ukraine Fund Class R, which decreased by 31.3 percent during the year, corresponds to 0.5 percent of East Capital Explorers NAV and is not specified below.

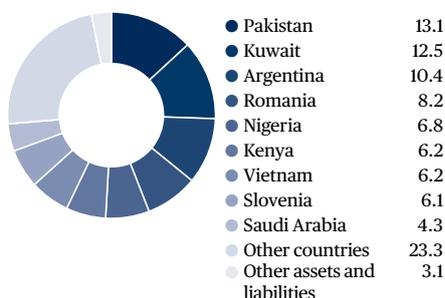
## Portfolio weight



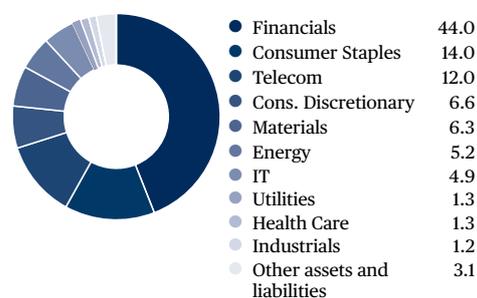
## East Capital Frontier Markets Fund

The East Capital Frontier Markets Fund seeks to provide long-term capital growth through exposure to companies with strong performance, located in global frontier markets and countries not yet included in frontier market indices. The fund has a global focus on young and growing markets in order to gain exposure to an emerging middle class and domestic consumption. To combine high growth with attractive valuations and deliver consistent risk-adjusted returns, the fund seeks to invest in a wide spectrum of countries, sectors and companies.

## Asset allocation by country, %



## Sector weighting, %



Performance of holding	2015	Since Dec 14
East Capital Frontier Markets Fund, EUR	-2%	3%
<b>Management fee</b>	1% (acc. to agreement)	
<b>Profit share (performance fee)</b>	No profit sharing	
East Capital Explorer's holding in the fund as at 31 Dec 2015		57%

## Largest holdings in the Fund on 31 December 2015

Company	Weight, %	Perf. 2015, %	Contr, %*	Country	Sector
National Bank of Kuwait	7.3	4.3	-0.1	Kuwait	Financials
United Bank/Pakistan	3.9	-1.1	-0.1	Pakistan	Financials
Zavarovalnica Triglav	3.7	5.8	0.3	Slovenia	Financials
Banco Macro S.A.	3.7	29.6	0.7	Argentina	Financials
MercadoLibre	3.3	16.8	0.4	Argentina	IT
Lucky Cement	3.1	0.0	0.0	Pakistan	Materials
Banca Transilvania	3.0	7.4	0.1	Romania	Financials
Montenegro Telekom	2.9	4.6	-0.1	Montenegro	Telecom
Ypf Sociedad Anonima	2.9	3.4	0.1	Argentina	Energy
Engro Foods	2.7	33.6	-1.1	Pakistan	Cons. Staples

All figures in EUR

\* Contribution to the portfolio performance

10 largest holdings (% of fund)	Unlisted holdings (% of fund)	Total number of holdings
36	0	60



# Corporate Governance

This section describes corporate governance for the financial year 2015. The corporate structure will change significantly with the implementation of the decision taken at the Extraordinary General Meeting on 9 May 2016 to terminate the Company’s Investment Agreement with East Capital. See page 75 (Note 17) and the Company’s website for more information about the termination of the Agreement and the decision of the Extraordinary General Meeting.

## Governance structure

For East Capital Explorer AB (publ) (“Company”), corporate governance refers to the manner in which we operate and are organized to maintain the interests of all shareholders in the context of achieving our goal of delivering long-term, attractive returns.

### Purpose and nature of the Company

East Capital Explorer is a public limited liability company investing, directly and indirectly, in companies located mainly in the Baltic States, Russia and the Balkans. The Company’s indirect investments are undertaken through a selection of the East Capital group (“East Capital”) current and future funds.

East Capital Explorer is closely associated with East Capital. The co-operation and relationship is governed by an Investment Agreement agreed between the Company and East Capital PCV Management AB, a Company within the East Capital Group. The Investment Agreement sets out the terms of the co-operation as well as the investment policy governing the investment activities of East Capital Explorer Investments S.A. (“ECEX Investments”), in which all investment activities are conducted. Our Company’s Board and Audit Committee continuously monitor the investment activities, to ensure that all activities are performed in line with set out obligations, and in the best interest of our shareholders. These important control functions include evaluating East Capital’s performance and ensuring that investment activities are in line with the Investment Agreement and the Investment Policy. From time to time the Board may also approve

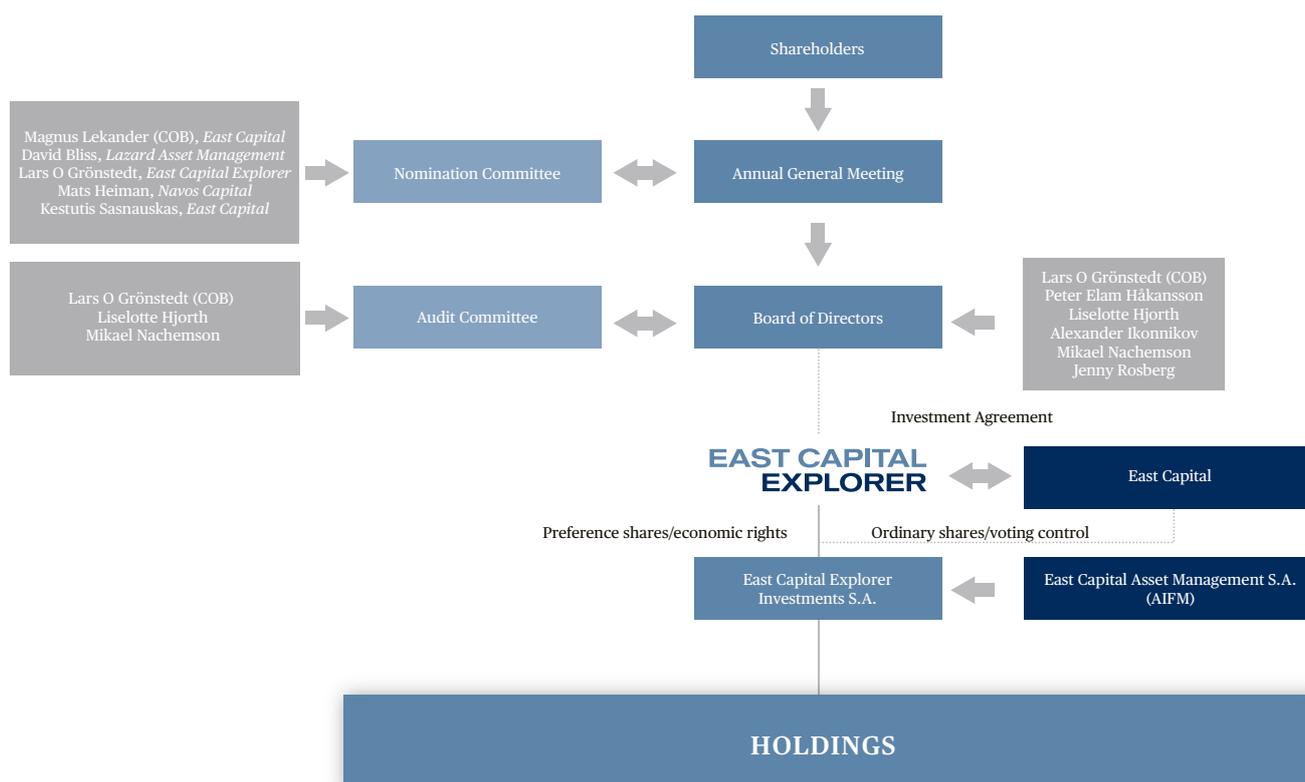
deviations from or additions to the Investment Policy, and monitors regularly whether the Investment Policy is appropriate in the prevailing market conditions.

The structure was established in 2007 and was initially described in East Capital Explorer’s prospectus to list on the Nasdaq Stockholm, Mid Cap from November 2007. In order to meet the requirements set out in the EU Directive (2011/61/EU) on Alternative Investment Fund Managers (“the AIFMD Rules”), the investment structure was adapted to the AIFMD Rules in August 2014.

### Framework for corporate governance

Corporate governance within East Capital Explorer is based on both external regulations and internal rules. The external regulations are the Swedish Companies Act, the Nasdaq Stockholm Rule Book for Issuers, the Swedish Corporate Governance Code (“the Code”) as well as other applicable Swedish and foreign legislation and provisions. The company’s internal frameworks comprise its articles of association, the Investment Agreement with East Capital, rules and guidelines on corporate governance, the rules of procedure for the Board of Directors, the Audit Committee charter, the instructions for the CEO and the policy documents adopted by the company.

## Governance structure



The company complies with the Code. In 2015 the company deviated from rule 2.6 of the Code, which states that the Nomination Committee's proposals are to be presented in the notice of the shareholders' meeting. The Nomination Committee's proposals to the Board were presented in a separate press release five days after the notice was issued, since at the time the notice was issued the company had not received any proposal on Board members from the Nomination Committee. In addition, the company deviated from rule 2.5 of the Code, which states that the company is to provide details of the members of the Nomination Committee on its website no later than six months before the Annual General Meeting. The information was published five months prior to the 2016 Annual General Meeting, since the Nomination Committee had not previously been appointed.

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 and information regarding the 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 "East Capital Explorer share" on page 14-15 and "Board of Directors" on the Administration Report on page 55.

## The investment structure

The investments are carried out by ECEX Investments, which holds the investment portfolio. ECEX Investments qualifies as an alternative investment fund under the Luxembourg laws implementing the AIFMD Rules. The portfolio management operations were transferred from Sweden to the new Luxembourg based subsidiary, ECEX Investments, in August 2014.

In accordance with the AIFMD Rules, ECEX Investments has appointed East Capital Asset Management S.A. ("ECAM SA"), a wholly owned subsidiary within the East Capital Group, and licensed as an Alternative

Investment Fund Manager ("AIFM") under the AIFMD Rules, as the AIFM of ECEX Investments. ECAM SA performs the portfolio management and risk management functions of ECEX Investments, including investment decisions within the Investment Policy, accordance with the terms of the Investment Agreement. The investment decisions are made by an Investment Committee of ECAM SA, although a number of investment decisions needs to be addressed by the Board of the Company for prior approval (see further below). Currently, Peter Elam Håkansson, Partner and Chairman, East Capital, Company's CEO, Mia Jurke and the General Counsel of East Capital, Magnus Lekander have been appointed to the Investment Committee by ECAM SA.

ECEX Investments is owned by the Company and East Capital. The Company holds all financial rights, while East Capital controls the shareholder votes of ECEX Investments.

The current structure creates appropriate conditions for making investments in accordance with what is stated in the Company's Investment Policy and the listing prospectus, while offering that the requirements of the AIFMD Rules can be met in a cost-efficient manner.

## Investment Agreement with East Capital and the Investment Policy

The investment activities are governed by the Investment Policy agreed between the Company and East Capital under the Investment Agreement.

The Investment Agreement prescribes the terms and conditions upon which the investment activities shall be performed in ECEX Investment and stipulates the allocation of the duties and responsibilities between East Capital Explorer and East Capital (including ECAM SA). See more information about the termination of the Investment Agreement at the Extraordinary

General Meeting held on 9 May 2016 on page 75.

The Investment Policy stipulates the key geographical segments and investment themes and the types of investments which may be undertaken in the ECEX Investment's portfolio. It also stipulates certain limitations to ensure an appropriate risk level. The Investment Policy is expected to be revised from time to time, as the investment environment is changing. The Board can also approve deviations from the current Investment Policy. Any change in the Investment Policy will be made in consensus between East Capital Explorer and East Capital. The key elements of the Investment Policy can be summarized in the following points:

### Investment Themes

East Capital Explorer's main investment theme is domestic growth and the Company targets companies in fast growing sectors, such as Retail and Consumer goods, Financials and Real Estate.

### Geographical Markets

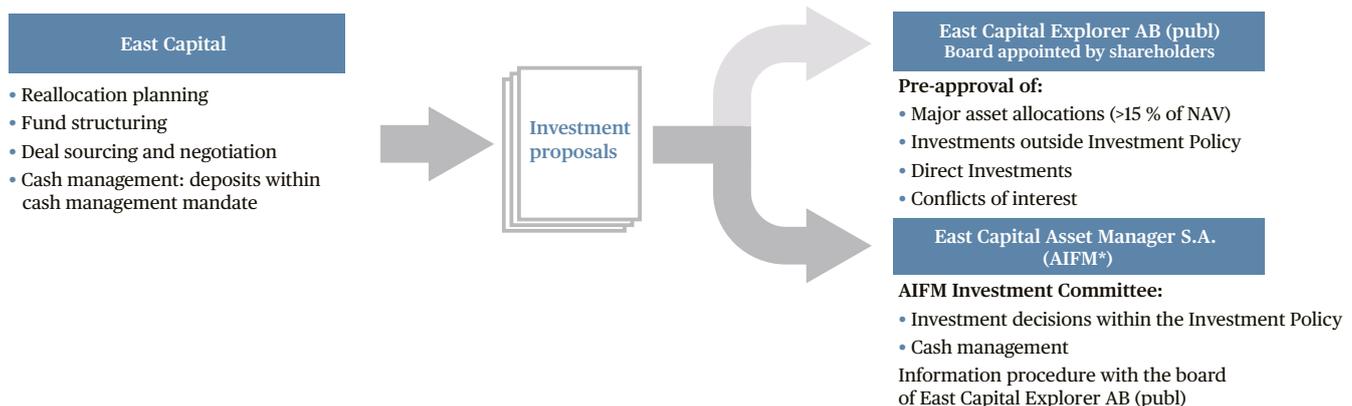
East Capital Explorer's main investment regions are in the Baltic States, Russia and the Balkans.

### Asset types

East Capital Explorer invests primarily in direct investments in selected companies in the region. The Company can also make investments into future East Capital Private Equity Funds and Real Estate Funds as well as in existing and future East Capital Alternative Funds. East Capital Explorer also has the possibility to make limited investments in East Capital's open-ended daily-traded funds.

Investments can be made in several asset types, including shares, fund units, 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, invest-

## Investment decision process



\* Appointed Alternative Investment Fund Manager in accordance with EU Directive (2011/61/EU)

ments can also be made in land, real estate and other property.

#### Functions of the Board of the Company

Although ongoing investment management has been transferred to the ECAM SA under the Investment Agreement and the AIFMD rules, the company's Board must always approve the following decisions in advance:

- Decisions on investments constituting more than 15 percent of NAV at the time of the investment;
- Direct investments (with no co-investment by East Capital);
- Deviations to the Investment Policy; and
- Investments implying a conflict of interest between East Capital Explorer and East Capital, not contemplated by the Investment Policy.

The Board further decides on other matters related to its own capital structure, such as initiating shareholder distributions or increasing the capital available for investments by issuing new shares. It can also incur debt, although within the limitations set out in the Investment Policy.

The Board and executive management of the Company continuously monitor the Investment Policy and evaluate whether it continues to be in the best interest of the shareholders of the Company. The Board would initiate changes in the Investment Policy, should the Board find that an update or revision is needed.

It also monitors investment activities in ECEX Investments and checks that these - which are outsourced to the AIFM - are carried out in accordance with the Investment Policy and the Investment Agreement. The task is mainly handled by the Audit Committee of the company. The Board members also have access to all the relevant material concerning the investment activities in ECEX Investments. The company also has the right to appoint an auditor for ECEX Investments.

#### Duties of the executive management team

The executive management team is responsible for the internal controls necessary to review and to monitor the investment activities by the AIFM. These duties include monitoring the development in the holdings and the potential risks in the portfolio as well as the financial reporting from ECEX Investments and its service providers. The executive management team reports regularly to the Board with respect to these matters. Currently, the CEO of the Company, Mia Jurke is member of the Board of ECEX Investments as well as member of the Investment Committee of ECAM SA designated for ECEX Investments.

Examples of monitoring activities are:

- Active participation in the work of the board of ECEX Investments.

- Continuous discussion and contact with key individuals in East Capital and participation in East Capital's meetings relating to the ECEX Investments portfolio
- Active participation in the work and decision-making of ECAM SA's Investment Committee for ECEX Investments.
- Continuous review of the internal procedures and processes in order to assure the accuracy of the East Capital Explorer's portfolio reporting.

#### Termination of the Investment Agreement

In certain circumstances East Capital Explorer has the right to terminate the Investment Agreement, for example if East Capital does not act in accordance with the Investment Policy or the Investment Agreement. The company also has the right - at its discretion and without any breach of contract having occurred - to give notice to terminate the Investment Agreement if this is approved by a majority representing at least 75 percent of both the votes cast and the shares represented at a general meeting of shareholders of the company.

An Extraordinary General Meeting on 9 May 2016, resolved to approve a termination of the Investment Agreement, please see page 75 (Note 17).

### Board of Directors Composition of the Board

Under the articles of association of the company, the Board is to consist of three to six members without deputies. In addition, East Capital always has the right to appoint one Board member. The Board members are elected by the Annual General Meeting for a term of one year. The 2015 Annual General Meeting re-elected Lars O Grönstedt, Peter Elam Håkansson, Liselotte Hjorth and Alexander Ikonnikov to the Board. Paul Bergqvist and Louise Hedberg had declined re-election. Mikael Nachemson was elected Deputy Chairman and Jenny Rosberg was elected as a new Board member. The meeting elected Lars O Grönstedt as Chairman of the Board, succeeding the outgoing chairman Paul Bergqvist.

#### Independence of the Board

Under applicable regulations, Lars O Grönstedt, Liselotte Hjorth, Alexander Ikonnikov, Mikael Nachemson and Jenny Rosberg are regarded as independent in relation to the Company and its management, as well as to 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 the investment region, as well as their executive positions and board work in various listed companies.

Peter Elam Håkansson is not deemed to be independent in relation to the company and

its management because he is a related party of East Capital, who through the Investment Agreement and other relationships must be regarded as having extensive business ties with the company and its related enterprises. Regarding the Board members' independence in relation to major shareholders, it should be noted that in 2015 East Capital, together with its related parties, was a major shareholder in the company as this term is defined in the Code. Therefore Peter Elam Håkansson is not regarded as independent of the major shareholders of the company. As of 31 December 2015 there were no other major shareholders of the company as defined by the Nasdaq Stockholm Rule Book for Issuers and the Swedish Code of Corporate Governance.

For more information about each Board member please see pages 42-43.

#### 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, Lars O Grönstedt, directs the work conducted by the Board and maintains continuous contact with the CEO and the Company's other management functions to monitor its operations. The Board evaluates how the management performs its duties and decides on remuneration for executive management. 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 Company's CEO, Mia Jurke, CFO & Head of Investor Relations, Lena Krauss also participated in the Board meetings during 2015 to report on their respective areas. Other representatives from East Capital are invited, from time to time, to participate in Board meetings in order to make presentations on particular investment proposals and the development of the investment portfolio or other matters.

The Board holds at least five ordinary Board meetings per year. Additional meetings may be held for example to discuss and decide on investment proposals.

### Board meetings and main discussions

During 2015, a total of 19 Board meetings were held. The main discussions held during the meetings were:

Meeting	Main discussion
1/2015	Telephone meeting to discuss investment proposals
2/2015	Approval of the Year-end Report 2014
3/2015	Approval of the Annual Report 2014
4/2015	<i>Per capsulam</i> meeting to approve the notice and statements to be made in connection with the Annual General Meeting 2015
5/2015	Telephone meeting to discuss buy-back proposal
6/2015	Board meeting to discuss proposal for new Dividend Policy
7/2015	Statutory Board meeting after Annual General Meeting 2015
8/2015	Approval of the Interim Report 1 January - 31 March 2015
9/2015	Telephone meeting to consider an investment proposal
10/2015	Approval of the Interim Report 1 January - 30 June 2014
11/2015	Strategy meeting
12/2015	Telephone meeting regarding investment agreement
13/2015	Telephone meeting regarding investment agreement
14/2015	Board meeting regarding investment agreement
15/2015	Approval of the Interim Report 1 January - 30 September 2015
16/2015	Board meeting regarding investment agreement
17/2015	Telephone meeting regarding investment agreement
18/2015	Telephone meeting regarding divestment proposal
19/2015	Board meeting regarding investment agreement

### Evaluation of the Board

The work of the Board is continuously evaluated and the evaluation is used to develop the work of the Board and as a basis for the Nomination Committee's evaluation of the composition of the Board. In 2015 the work of the Board was evaluated by the independent members of the Nomination Committee in order to gain information for the Nomination Committee's work on preparing proposals for the 2015 Annual General Meeting. The evaluation included individual interviews with Board members and the CEO, and consisted of a number

of questions concerning the work of the Board. The results from the evaluation were presented to the Nomination Committee. In 2014 the Board was evaluated by an external consultant with broad experience of such evaluations.

### Audit Committee

The Audit Committee is appointed to serve the Board in an advisory function with respect to financial reporting, valuation and auditing matters. 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 Lars O Grönstedt (Chairman), Mikael Nachemson and Liselotte Hjorth.

The Audit Committee may invite, as it sees fit, representatives from the Company, ECEX Investments or East Capital as non-member attendees in the meetings and may appoint appropriate legal counsel, audit expertise and independent valuation expertise for consultation in the performance of its duties. The auditor in charge, representing the Company's auditor KPMG, participate in all meetings at which financial reports are approved, in order to present the findings to the Committee.

The Company's CEO, Mia Jurke, CFO & Head of Investor Relations, Lena Krauss and Financial Controller, Farzad Bahador also participated in the Audit Committee meetings during 2015 to report on their respective areas.

### Audit Committee meetings and main discussions

During 2015, a total of five Audit Committee meetings were held. Topics of the main discussions held during the meetings were:

Meeting	Main discussion
1/2015	Discussion regarding Internal Audit report and the Year-end report 2014
2/2015	Discussion regarding the Annual Report 2014
3/2015	Discussion regarding the Interim Report 1 January - 31 March 2015
4/2015	Discussion regarding the Interim Report 1 January - 30 June 2015
5/2015	Discussion regarding the Interim Report 1 January - 30 September 2015

The section Internal Control on page 46-47 further explains the control environment, control activities, and policy documents and the Board's monitoring of financial reporting.

### Directors' fees and executive remuneration

On 21 April 2015 the Annual General Meeting resolved that the fees paid to the Chairman of the Board and Board members should remain unchanged and decided on the fees to be paid to the Deputy Chairman. The Chairman of the Board is to receive an annual fee of SEK 770,000 and the Deputy Chairman an annual fee of SEK 550,000 for the period up to the 2016 AGM. Other Board members each receive an annual fee of SEK 330,000 for the same period. Board member Peter Elam Håkansson waived his director's fee. As proposed by the Nomination Committee, the AGM resolved that by special agreement with the company, directors' fees may be invoiced through a company or business. In this event the fee invoiced is to be adjusted for social security contributions and value added tax in order to achieve cost neutrality for the company.

Compensation for work on the Audit Committee was also left unchanged by the AGM and amounts to SEK 100,000 for the chairman and SEK 50,000 for each of the 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.

### CEO

The CEO is responsible for day-to-day operations in the company in accordance with instructions from the Board as well as other guidelines and policy documents. Along with the Chairman of the Board, the CEO prepares the agenda for Board meetings and is responsible for preparation of the information required for decision-making. In addition, the CEO ensures that the Board continually receives information concerning East Capital Explorer's performance and information on the company's investment markets from East Capital, in order to be able to make decisions on a sound basis.

### The composition of the Board

Name	Position	Citizenship	Independent		Board meeting attendance		Audit Committee	Audit Committee attendance 2015
			Shareholdings as of 25 April 2016	Elected	2015	2015		
Lars O Grönstedt	Chairman	Swedish	Yes	190	2012	19/19	Yes	5/5
Mikael Nachemson	Vice Chairman	Swedish	Yes	125,911	2015	13/13	Yes	3/3
Peter Elam Håkansson	Board member	Swedish	No	4,021,527	2014	13/19*	No	n/a
Liselotte Hjorth	Board member	Swedish	Yes	2,000	2014	19/19	Yes	5/5
Alexander Ikonnikov	Board member	Russian	Yes	20,000	2007	18/19	No**	2/2
Jenny Rosberg	Board member	Swedish	Yes	2,200	2015	12/13	No	n/a

\*Peter Elam Håkansson did not participate at a number of Board meetings due to conflict of interest.

\*\* Alexander Ikonnikov was a member of the Audit Committee until the Annual General Meeting 2015.

The CEO has no significant commitments outside the company. More information on the CEO can be found on page 41.

### Remuneration of Executive Management

Remuneration to the CEO and CFO consists of fixed salary and variable salary as well as pension and insurance benefits. The Board has discretion to decide whether any variable salary is to be paid to executive management. The decision is based on internal key performance indicators (KPIs), with changes in the share price and the discount to NAV being the two criteria weighed most heavily. Targets are set and evaluated by the Board annually. In 2015 the Board granted both the CEO and the CFO variable salary for 2014 amounting to 20 percent of fixed salary. The maximum variable salary is 50 percent of fixed salary.

During 2016, a variable salary for 2015 amounting to 50% of fixed salary was paid to the CEO and present and previous CFO, respectively, out of a maximum variable salary corresponding to 50% of fixed salary.

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

For detailed information on the remuneration to executive management, see Note 4 on page 62.

### 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 registered in the register of shareholders who have given notice of their attendance on time are entitled to participate in the meeting. Shareholders may vote for the total number of shares that they own and may be accompanied by a maximum of two assistants. Shareholders who cannot attend 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 discharge from liability of the members of the Board and CEO. Shareholders are entitled to propose that an issue be addressed by the meeting provided a legitimate request has been submitted to the Company well in advance of 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 Board and Company management attend the AGM and are available to answer questions from the shareholders.

### Annual General Meeting 2015

The 2015 AGM was held on 21 April 2015 at IVAs Conference Center in Stockholm. All documents from the 2015 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 2015 AGM was attended by 79 people, including shareholders representing a total of 45 percent of the shares in the company, all of the Board members, all of the employees and a number of invited guests.

## Nomination Committee

The Nomination Committee is tasked with evaluating the Board and its work prior to the AGM, preparing and presenting proposals to the meeting for the chairman of the meeting, Board members and the Chairman of the Board, and also - where applicable - the appointment of auditors. The Nomination Committee is also to propose directors' fees, any compensation for work on Board committees and the fees to be paid to the company's auditors, and is to propose the procedure 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 during 2015/2016

In accordance with a resolution at the AGM held on 21 April 2015, East Capital Explorer is to have a Nomination Committee comprising a minimum of three and a maximum of five members, up to three of whom are to be appointed by the three largest shareholders (or groups of shareholders) in the company who wish to appoint a representative. The other members are the Chairman of the Board of the company and a representative of East Capital.

The Nomination Committee for the 2016 Annual General Meeting consisted of:

- Magnus Lekander, representative for East Capital (Chairman)
- Kestutis Sasnauskas, shareholder representative for East Capital
- David Bliss, Lazard Asset Management
- Mats Heiman, shareholder grouping represented by Navos Capital
- Lars O Grönstedt, as Chairman of the Board of East Capital Explorer

The composition of the Nomination Committee was published through press releases and on the Company's website on 18 November 2015.

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 2016 AGM are specified in the notice of the AGM and are also available on [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

### Annual General Meeting 2016

The 2016 AGM will be held on 9 June 2016, at 3 p.m. CET at IVA Konferenscenter, in Stockholm. For more information please visit: [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

## Audit

### External auditors

At the AGM held on 21 April 2015, the registered auditing Company KPMG AB was reelected auditor of East Capital Explorer for a four-year term until the close of the 2019 AGM. The Company's auditors in charge is Anders Malmbeby.

### 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 2015 the audit fee amounted to EUR 54t.

### Communication with the company's auditors

The Audit Committee maintains regular contact with the auditors. The auditors also participate in Audit Committee meetings whenever interim reports and full year reports are being discussed. On such occasions the auditors present their observations from the audit and give an account of their assessment of the company's internal control. The Board meets with the auditor once a year, when the auditor reports its observations directly to the Board without CEO and CFO being present.

## Auditor - KPMG AB

### Auditor in charge:

Anders Malmbeby  
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:

Bravida Holding, Concentric, Gamla Livförsäkringsaktiebolaget SEB Trygg Liv, Bankgirocentralen (BGC).



# Staff



**Mia Jurke**  
CEO since 2011.  
Born 1973.

#### Education

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

#### Work experience

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

#### Shareholding in East Capital Explorer AB

2,258 shares as of 25 April 2016.



**Lena Krauss**  
CFO & Head of Investor Relations 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

2,028 shares as of 25 April 2016.



**Farzad Bahador**  
Financial Controller since 2014. Born 1982.

#### Education

MBA från INSEEC, Grande École de Commerce, Paris.

#### Work experience

2013-2014 Senior Financial Controller, SEB Group Finance, Stockholm  
2009-2013 Group Controller, SEB Group Finance, Stockholm  
2007-2009 Revision, Deloitte AB, Stockholm

#### Shareholding in East Capital Explorer AB

0 shares as of 25 April 2016.



**Greta Dorthe**  
Team Assistant since 2015. Born 1990.

#### Education

Linguistics, literature and arts studies, Stockholm University. F&B Management Diploma, Företagsekonomisk Institutet.

#### Work experience

2015 Office Coordinator, East Capital,  
2014-2015 Executive Assistant at CV Financial Executive Search AB.

#### Shareholding in East Capital Explorer AB

0 shares as of 25 April 2016.

# Board of Directors



**Lars O Grönstedt**  
*Chairman since 2015,  
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 Vostok Emerging Finance, Vostok New Ventures and Scypho Group, Vice Chairman of the Swedish National Debt Office, Speaker of the elected body of representatives of Trygg Foundation as well as Board member of Pro4U and the Institute of International Economics at Stockholm University.

**Shareholding in East Capital Explorer AB**  
190 shares as of 25 April 2016.



**Peter Elam Håkansson**  
*Board member since 2014*

Dependent in relation to the Company and its Management. Dependent in relation to the Company's major shareholders. Born 1962.

#### Education

Master of science from the Stockholm School of Economics and has also studied at EDHEC in Lille.

#### Work experience

Peter Elam Håkansson is a founding partner, Chairman and Chief Investment Officer of East Capital. Peter has worked with emerging and frontier markets since the early nineties and with stock markets since the early eighties. Prior to founding East Capital, Peter held a series of senior positions at Enskilda Securities in London, Paris and Stockholm - where his last role was Head of Equities and Global Head of Research.

#### Other board assignments

Chairman of East Capital and a number of the boards within the East Capital group. Member of the board of Bonnier Business Press AB and Atlantic Grupa in Croatia as well as the Advisory Board of Stena Long Term Equity. Chairman of the foundation behind Swedish Music Hall of Fame and board member of the foundation Inter Peace Sweden.

**Shareholding in East Capital Explorer AB**  
4,021,527 shares controlled directly and through associated entities as of 25 April 2016.



**Liselotte Hjorth**  
*Board member since 2014*

Independent of the Company, Company management and the Company's major shareholders. Born 1957.

#### Education

Bachelor of Science in Business Administration and Economics from University of Lund.

#### Work experience

A number of positions within the SEB Group, and most recently as Global Head of Commercial Real Estate and Member of the Management Board of SEB AG in Frankfurt.

#### Other board assignments

Chairman of White Arkitekter/White Intressenter, Board member of Kungsleden AB and Board assignments in Hoist Finance Group.

**Shareholding in East Capital Explorer AB**  
2,000 shares as of 25 April 2016.



**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. Also independent director and member of the personnel and remuneration committee in Sollers Plc, Russia. Non-executive director in Saint-Petersburg International Mercantile Exchange.

**Shareholding in East Capital Explorer AB**  
20,000 shares as of 25 April 2016.



**Mikael Nachemson**  
Vice Chairman since 2015

Independent of the Company, Company management and the Company's major shareholders. Born 1959.

#### Education

Holds a Master of Science in Business and Economics from Stockholm School of Economics.

#### Work experience

President and CEO of investment company Bure AB (publ.) 2005-2008. CEO of AB Custos (later merged with Investment AB Öresund) 2001-2004. Prior to that, various positions, foremost as president and CEO, at E.Öhman J:or AB 1988-2001. Working chairman in Agrokultura AB 2012-2014. Held board positions in several listed and unlisted companies, amongst others Investment AB Öresund, Avanza, Bilia and Acando.

#### Other board assignments

Vice Chairman of Tradedoubler AB and Board member of RAM Rational Asset Management AB.

**Shareholding in East Capital Explorer AB**  
125,911 shares held through an endowment insurance as of 25 April 2016.



**Jenny Rosberg**  
Board member since 2015

Independent of the Company, Company management and the Company's major shareholders. Born 1966.

#### Education

Holds an executive MBA from the Stockholm School of Economics.

#### Work experience

Founder and CEO of ROPA. More than 25-year international and operational experience from Senior Management and Board positions in the Financial Services and Technology sector. From 2005-2012 Senior Vice President Nasdaq Group Inc., Executive Vice President Nasdaq OMX Nordic Ltd. and Board member in Nasdaq OMX Stockholm, Helsinki, Copenhagen and Iceland.

#### Other board assignments

Board member of NetEnt AB (publ) and Nordax Group AB (publ).

**Shareholding in East Capital Explorer AB**  
2,200 shares as of 25 April 2016.

# Managing our risks

The section describes risk management for the financial year 2015. The Company's management of risk will change with the implementation of the decision taken at the Extraordinary General Meeting on 9 May 2016 to terminate the Company's Investment Agreement with East Capital. See page 75 (Note 17) and the Company's website for more information about the termination of the Agreement and the decision of the Extraordinary General Meeting.

East Capital Explorer's business involves a number of different types of risk. In addition to the risks we take in our investments in order to create value for our shareholders, there are also a number of business risks and financial risks which could potentially impact our business. Risk management is based on managing risks and opportunities in order to increase or preserve our value.

Risk management is an important part of being able to achieve the objectives that we have as an investment company. The main risks and how we manage them in our day to day operations are described below. Our financial risks are described in Note 14 on pages 71-73.

## Political risks

Political systems are generally less stable in emerging markets than in developed economies and the legal systems are often less mature. This can mean that investment and ownership have particular risks. Revision of the regulatory framework for financial markets - including changes in how minority interests are protected - could have an adverse impact on the business, for example. Political risks also include how well the political leadership is able to decide on and implement the reforms that are needed in the transitional phase that the entire region is in.

### How we manage these risks:

- Political risks vary between different countries and different sectors. Our access to local presence, experience and know-how allow investment decisions to be based on sound analyses of the political risks.
- Our access to East Capital's network in

the region and their links to other foreign investors that are active in these countries is also valuable when taking joint action to drive through improvements in regulation that are important to us as foreign investors. Examples of such important issues are the promotion of good corporate governance, the independence of regulatory organisations and authorities, and anti-corruption measures - all in order to limit political influence on the domestic business world and ensure its independence.

- East Capital meets regularly with politicians and macroeconomists to discuss the political situation and future trends. East Capital's advisory committees include a number of experienced external advisers, providing an additional source of knowledge.
- By avoiding to affiliate with any political groups and maintaining a neutrality in the investment activities, the risk of being directly affected by political intervention is reduced.

## Country risks

Investing in emerging markets may generally involve a higher level of risk in the business environment than investing in more developed countries. Emerging markets are less mature and thus more volatile and vulnerable in the event of external crises. This is a common feature of all the countries in our investment region and is not just associated with exposure to one specific company or investment fund. Country risks may also include instability in the financial, legal and political systems as well as other country-specific aspects such as the quality of corporate governance, the reliability of settlement and securities clearing systems, a lack of suitable custody services, the level of financial reporting and whether there is generally available and reliable corporate information. Should any of these country-specific aspects not develop as expected in any of the countries in which we invest, there is a risk of our investments being less successful.

### How we manage these risks:

- Our access to East Capital's investment team and advisors, with local presence and experience of living and working in our investment region, allows East Capital Explorer to analyse, integrate and - as far as possible - reduce or even avoid certain country-specific risks.
- In the portfolio, country risks are spread through diversification and through increasing emphasis on the Baltic region, which because of its EU membership and other

factors is assessed to have a lower risk than other regions in East Capital Explorer's investment universe. An overall risk analysis of the portfolio is carried out regularly and also in conjunction with new investments and disposals in order to be able to assess the consequences for overall portfolio risk.

- Both East Capital Explorer and East Capital have a code of conduct which clearly stipulates that corruption will not be tolerated in any form. Through its many years in the region, East Capital has built up a network of contacts and relationships which help it to avoid counterparties, projects and situations where it is known that corruption and other inappropriate practices may occur.

## Currency risk

Currency risk arises when the value of future transactions and reported monetary assets and liabilities in other currencies fluctuates due to changes in exchange rates. East Capital Explorer has prepared its reporting in EUR. The companies in which East Capital Explorer invests, either directly or indirectly, often prepare their reporting in other currencies and their operations may also expose them to other currencies. East Capital Explorer's increased exposure to the countries in the Baltic region, all of which belong to the euro-zone, has reduced the company's overall currency risk. Many currencies within the investment region are also significantly more volatile than the euro. Changes in exchange rates between EUR and SEK, and between EUR and such other currencies, may have a significant negative impact on our financial position or result.

### How we manage these risks:

- Currency risks are usually seen as a part of the exposure in the investment operations, and only in exceptional cases are these risks limited through currency-related derivatives.
- However, portfolio companies with major currency risks may choose to use currency hedging within their own operations.

## Interest rate risk

The company is exposed to interest rate risk both when surplus liquidity is invested on a short-term basis and through the fact that portfolio holdings may be financed through loans. Changes in interest rates may increase financing costs or reduce revenues from short-term investments. Changes in interest rates also affect valuations in the portfolio.

### How we manage these risks:

- Direct interest rate risk in East Capital Explorer is currently limited since as the company is not leveraged and the portfolio is fully invested. However, certain types of investments may be financed by loans and the interest rate risk can then be managed through longer loan terms.
- To illustrate the indirect interest rate risk arising from valuations and interest rate risks in the portfolio companies, an annual external valuation is conducted of the direct investments and real estate, current interest rates being reflected in the valuations. The company also carries out a sensitivity analysis of all direct investments, in which the discount rate is a variable.

### Investment strategy risk

Our business plan and our objectives are dependent on the availability of interesting investments. This includes assessing the market in order to enter and exit at the most beneficial moment. There is a risk that we may not be sufficiently effective when choosing and developing our investments, nor sufficiently successful in timing the market conditions so as to act at the most advantageous moment.

#### How we manage these risks:

- Our access to East Capital's investment team provides us with a structure for making sound investment decisions and effectively following up the companies to which we have exposure.
- Our Investment Policy ensures that the focus is on the agreed geographical regions and sectors and that the model for creating exposure is in agreement with our view on the balance between risk and return.
- The members of our Board have been selected on the basis of their respective experience of doing business in our investment region and their track record, as relevant to the composition of the Board as a whole. This provides the Board with the right background to evaluate the investment activities and also contributes to ongoing discussions 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 needed as the investment environment changes. Any changes will be addressed by the Board together with East Capital to ensure that our investment strategy is the most appropriate in the long term.
- The Board is continuously updated on developments in the investment region and follows up on the investments as a standing item at all Board meetings. This provides the Board with up-to-date information on which to base its evaluation of the investment activities and the appropriateness of the Investment Policy.

### Company-specific risk

Our success depends on our ability to generate value for shareholders, in particular by offering the shareholders a portfolio of interesting and profitable investments. This also includes being able to manage our investments effectively as owner and achieve progress on value-adding matters such as corporate governance. There is a risk that from time to time certain companies may be adversely affected by internal and external factors, and that this will have a negative impact on the value of our investments.

#### How we manage these risks:

- Diversification is an important part of managing company-specific risk. Since we now focus mainly on direct investments within private equity and in the real estate sector, however, the level of diversification has reduced in recent years and is expected to reduce further in the future. At the same time, we are now mainly seeking controlling ownership in the companies in which we invest, which reduces the risk associated with minority ownership. This also allows a clearer influence over the company in order to promote other risk-reducing measures and add expertise to the companies' boards and management. The portfolio is also diversified between various sectors and between different types of investments, such as cash flow generating investments and investments with a high growth potential.
- Our access to the investment team at East Capital provides us with a structure for making sound investment decisions and effectively following up the companies to which we have exposure. Investments in real estate are managed by East Capital's own real estate team, which consists of 15 individuals with a high level of expertise and experience within real estate management.
- Due diligence is carried out before any direct investment is made, to the extent deemed reasonable. In the same way, a review is also conducted on each investment made by East Capital's funds. However, since the review process is based on available information, which may be limited, it is possible that not all of the relevant risks will be identified.
- When working with the unlisted portfolio companies to which we are exposed through our private equity investments, our Investment Manager ensures that our views are aligned with those of the local management and other major shareholders as regards a common action plan for the investment period, including the preferred exit strategy.
- One important aspect when working with investments is introducing and following up on improvements in corporate governance; in our capacity as investors, we firmly believe that these help strengthen the operations of a company.

### Operational risk

Well-organised and relevant internal administrative processes and systems are important in any corporate structure in order to minimise the operational risks associated with running a business. Failures in internal control, inadequate administrative systems and processes, infrastructure or technology problems, the risk of theft or fraud and the risk of damage to East Capital Explorer's reputation in the marketplace could result in unexpected financial losses or loss of confidence in the company. As many operational functions are outsourced to East Capital, East Capital Explorer is highly dependent on the success of East Capital's operations.

#### How we manage these risks:

- Operational risks are managed through our structure for internal control, which includes effective routines and instructions, clearly defined division of responsibility, IT-based support and reporting systems with relevant authorisation procedures, our internal structure for communication and reporting, as well as information security and physical security. Our operational risks are also reviewed regularly in order to identify our risks and the measures that can be taken to reduce these.
- Through East Capital, we have access to risk management functions that are adapted to the particular investment activities, which should also reduce the overall operational risk associated with our business.
- As a part of our ongoing monitoring of East Capital, where necessary we also engage external advisers to audit certain of East Capital's functions or processes in order to identify and address any risks associated with the operational functions administered by East Capital.

### Related party risk

As the investment operations are executed by East Capital, we have secured our shareholders access to one of the most experienced investment teams active in the region.

#### How we manage these risks:

- Since we have a close relationship with East Capital, we have placed particular importance on having a structure that ensures the best interests of the shareholders. This includes a detailed Investment Agreement between East Capital and East Capital Explorer that stipulates how the investment activities are to be managed and that ensures that conflicts of interest between ourselves and East Capital are handled appropriately. Please see page 75 for further information regarding the decision by an EGM on 9 May 2016 to terminate the Investment Agreement.

- To avoid any doubt related to the merits of a direct investment that is presented by East Capital in which no other East Capital fund or other co-investors are participating, such investment proposals are to be approved by East Capital Explorer's Board. This allows the investment to be evaluated on its own merits by the members of the Board who are independent of East Capital.
- Similarly, no investments may be made in new East Capital funds that have terms which adversely deviate to a material extent from the terms of any existing fund that is managed by East Capital except with the consent of East Capital Explorer's Board. This prevents East Capital from introducing new terms which could be unfavourable to us.
- Furthermore, all investment proposals that involve departure from the Investment Policy in place or proposals that could involve a conflict of interest that has not been foreseen in the Investment Agreement must be decided on by our Board.
- Managing related party risk also means avoiding investment situations in which the reasonableness or suitability of a transaction, or its valuation, could be questioned. For this reason our Investment Policy clearly stipulates that, in contrast to investments in East Capital's other funds, we will only invest in future East Capital private equity funds and real estate funds in order to avoid valuation issues or discussions concerning the terms or timing of investment.
- East Capital Explorer's Audit Committee, which is made up of three independent Board members, is responsible for initiating a review of our Investment Policy and monitors East Capital's compliance with the Investment Policy and with our Investment Agreement. In practice, this means reviewing all investment proposals and decisions made on East Capital Explorer's behalf.
- In this regard our independent Board members perform an important function for safeguarding the interests of our shareholders, since they resolve conflicts of interest (where these are not already covered by the Investment Agreement) - for example, in respect of direct investments where no other East Capital company is investing at the same time on the same terms, or when assets are acquired from another East Capital fund.
- To ensure full transparency in the day-to-day investment activities and to enable the Audit Committee to fulfil its responsibilities, all Board members have access to all the relevant material concerning the investment activities in ECEX Investments.

## Internal Control

**This section describes how internal control over financial reporting and the management of the company's investments are organised.**

Internal control within East Capital Explorer is designed to manage risks relating to financial reporting and management. This includes, for example, ensuring that the buying and selling of securities is reported reliably, that securities holdings are valued accurately and that information is efficiently and correctly communicated to the market.

Since investment management is taken care of by East Capital, a structure has been created to ensure that shareholders' interests are safeguarded in the best way possible. The Board is responsible for monitoring the investment activities and is ensured access to all relevant information through the Investment Agreement and relevant policies. Internal control is usually described according to the framework developed by the Committee of Sponsoring Organizations of the Treadway

Commission (COSO), in which internal control comprises the following components: control environment, risk assessment, control activities, information and communication, and monitoring. East Capital Explorer's internal governance and control is described below with reference to the five COSO components.

### Control environment

The control environment means the overall structures within the company that ensure sound internal control over investment activities and financial reporting. A good control environment is characterised by, among other things, clearly defined responsibilities and powers, and the establishment of relevant policies for effective control of the business.

East Capital Explorer has drawn up policies for all significant areas of the company, in respect of both business operations and financial reporting. The policies provide various executives with the necessary guidance for their work. The company has an annual process in which the management reviews all the policies and updates them as required.

All the policies are approved annually by the Board.

In view of the specific nature of the company's activities, one of the Board's most important functions is monitoring the investment activities of ECEX Investments, which holds the investment portfolio (see detailed description of the investment structure under "Corporate governance" on page XX). The Investment Agreement regulates the activities carried out by East Capital as well as the company's rights and obligations with regard to the management organisation. The Investment Agreement also includes the Investment Policy, which sets out limits relating to management of the portfolio. The Investment Policy is updated on an ongoing basis by East Capital Explorer together with East Capital as and when changes occur in the company's structure or operations, and to ensure that the Agreement and the Investment Policy reflect the mandate and the framework for management. Changes to the Investment Agreement are approved by the Board.

The company's Accounting and Reporting Policy and its Information Policy describe

how financial and other information relating to East Capital Explorer is to be managed, specifying among other things that the company must fulfil its obligations under applicable laws, regulations and stock exchange rules. East Capital Explorer acts in accordance with good stock market practice and regularly monitors the company's compliance with the listing agreement.

#### Risk assessment

Company management is responsible for the internal control required in order to manage material risks in operating activities. Each year company employees carry out an operational risk analysis. The risk analysis covers all categories of risk - both external and internal - relating to areas such as portfolio reporting, financial reporting and compliance with regulations. The risk of irregularities is also taken into consideration and is a specific focus area.

The risk analysis is documented and followed up regularly during the year. It also serves as a basis for assessing significant areas of internal control in which company management is responsible for establishing a control system for identifying and preventing these risks. All risks deemed to be material are reported to the company's Board. The Board is also given regular updates during the year in the event of significant changes in the company's risk profile.

#### Control activities

East Capital Explorer has designed controls for significant parts of the business. These controls comprise both overall controls and more detailed control activities for preventing, identifying and correcting any errors and non-conformances.

Within financial reporting there are documented routines for how the work is to be undertaken and descriptions of the work that set out clearly who is responsible for financial reporting.

As the company's core business is outsourced, an important part of the control structure is associated with monitoring and checking that the investment activities are being conducted in accordance with the Investment Policy and with the Investment Agreement concluded with East Capital. The company's Board has access to all relevant material concerning the investment activities in ECEX Investments. In addition, the company regularly asks representatives of East Capital to give presentations to the company's Board concerning the investment portfolio, to allow the Board to monitor compliance with the Investment Agreement more effectively. At present, the company's CEO Mia Jurke is a member of the board of ECEX Investments and a member of the Investment Committee that ECAM SA has appointed for ECEX Investments. Most of the monitoring work is performed by the company's Board and executive management.

East Capital Explorer works continuously to eliminate and reduce material risks that impact internal control over investment management and financial reporting. Examples of control activities that have been introduced to manage these risks include:

- Participation in the work of the Board of ECEX Investments
- Participation in ECAM SA's Investment Committee appointed for ECEX Investments
- Ongoing review of documentation for decisions and formalities associated with investment activities
- Company management is entitled to participate in East Capital's valuation committee meetings, to ensure control of the valuation process
- Documented processes and routines for financial reporting and descriptions of work routines for employees
- Outsourcing agreements with third parties which are followed up through established questionnaires in which third parties (e.g. for IT, HR and Finance) confirm compliance with the agreements
- Ongoing discussions and contacts with key individuals within East Capital, including members of the investment management team and the risk and compliance function.

#### Information and communication

East Capital Explorer has produced policies that aim to ensure the quality of its financial reporting. All the policies are available in electronic form in a shared database. The function for compliance also goes through the relevant policies and the consequences of failure to comply with these when new employees are appointed or a new member joins the company's Board, in order to ensure that the company's rules and procedures are well known and understood.

The Information Policy describes the way in which East Capital Explorer is to communicate financial and other information to the market in accordance with stock exchange rules. There are also policies and instructions for investments and ownership matters, among other things, and regarding insider issues.

All material outsourcing agreements regulate that the outsourcing partner is obliged to comply with the relevant policies, rules and regulations that are applicable to the company. Employees and outsourcing partners are also informed regularly about changes in the relevant policies.

#### Monitoring

The Board of Directors, Audit Committee and company management follow up internal control relating to investment management and financial reporting. The Board monitors internal control, particularly as regards the financial activities of the company. The Audit

Committee meets regularly to deal with and discuss matters such as accounting, valuation, financial reporting, internal audit and the appropriateness of the company's policies. Company management continually monitors compliance with policies, instructions and administrative agreements.

To evaluate and improve internal control, in 2008 East Capital Explorer established an internal audit function which carries out audits on an ongoing basis, reporting to the Board and management with recommendations for improving internal governance and control.

Internal Audit is the Board's independent review function that is tasked with ongoing review of operations within the company. Specific areas for review are decided in a three-year internal audit plan which is approved by the Board. The work of the Internal Audit function is based on a risk analysis carried out by the management of East Capital Explorer and representatives of Ernst & Young AB, to which the internal audit function is outsourced. Internal audit work focuses on outsourced parts of the operations, including investment management, and on significant internal procedures and compliance with policies. The results of reviews performed are reported back to the Audit Committee and the Board of Directors.

Stockholm, May 2016  
The Board of Directors of  
East Capital Explorer AB (publ)

# Fees

East Capital Explorer's investment structure has been designed to avoid fee duplication, so that fees for fund investments are paid only on the underlying fund level. In 2015 East Capital Explorer paid a total of EUR 4.8m in management fees, i.e. including both management fees at fund level and for direct investments. No performance fees were paid.

## Fee structure for direct investments

Fees for the management of direct investments are charged in the form of management fees and performance fees. The actual terms are:

### Management fees

- Management fees of 2 percent apply, based on the year's opening fair value of the investment. For real estate investments, the management fee is 1.75 percent.
- For portfolio values (calculated as East Capital Explorer's entire portfolio) in excess of EUR 400m, the management fee is reduced to 1 percent.

### Performance fees

- Performance fees of 20 percent of profits are applied (after deduction of management fees), on the premise that a threshold value of 8 percent per year has been achieved.
- Performance fees apply only when the asset has been divested.

- Payment of performance fees takes place earliest when all of the direct investments, together, with a 7 year history, shows a positive result and the Net Asset Value per share is in excess of SEK 100 (adjusted to distribution for shareholders).

Fees related to direct investments are calculated per investment. However, the conditions for payment (see last point above) are impacted by the development of the collective investments.

## Fees related to fund investments

Fees for the management of fund investments are paid only in the fund concerned and in accordance with the terms of the fund. No further fees are paid - for example, as compensation for allocation of East Capital Explorer's portfolio. Neither does East Capital Explorer pay any subscription fees, although these may be

taken out of the fund concerned. East Capital Explorer has also been given a number of other special terms.

These are:

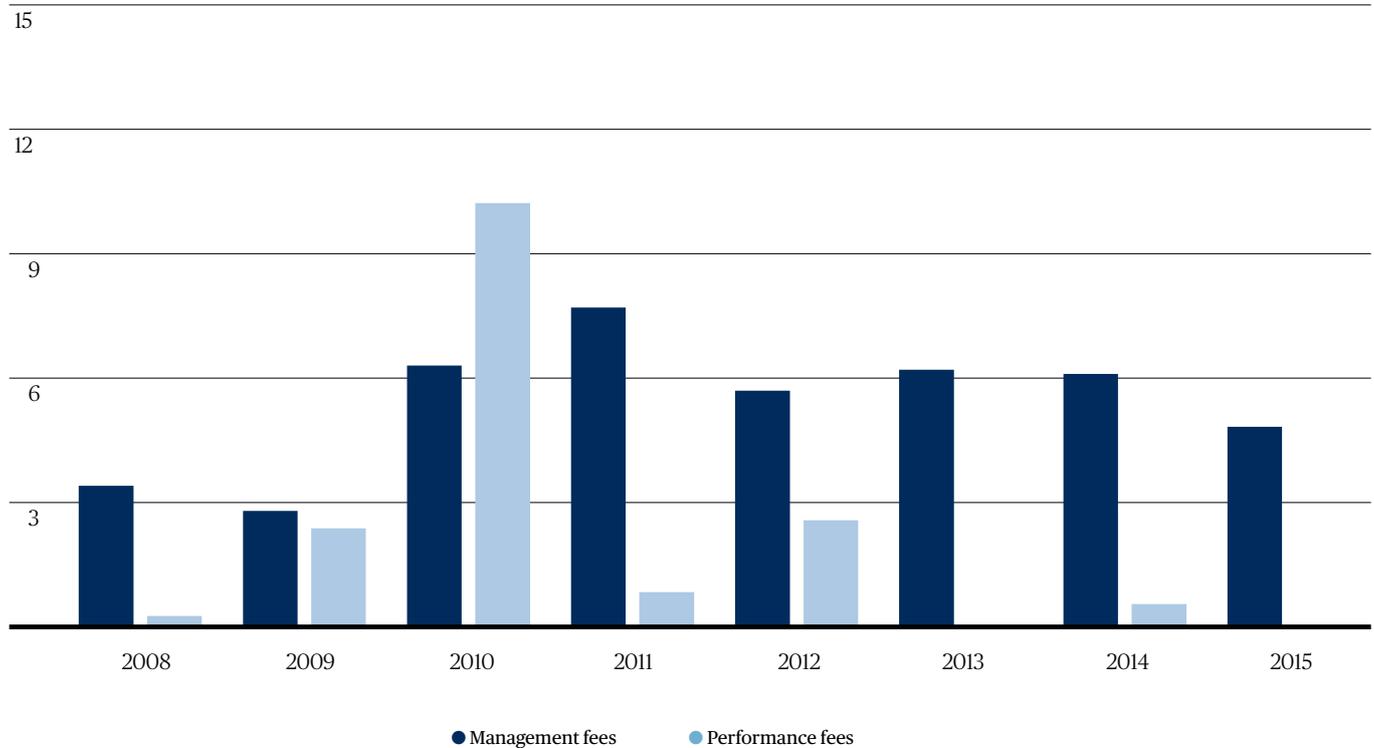
- A 50 percent discount on management fees for what are known as UCITS funds (regulated funds traded daily that are open for deposits and withdrawals), calculated on the management fee for the retail class.
- No performance fees are to be paid until East Capital Explorer's net asset value per share amounts to SEK 100 (adjusted for distributions to shareholders).
- On portfolio values (calculated on the whole of East Capital Explorer's portfolio) over EUR 400m the management fee is reduced to 1 percent.

A list of the respective fee structures for the funds in which East Capital Explorer had holdings as of 31 December 2015 can be found on page 49.

## Fees to East Capital in 2015

Fee for managing East Capital Explorer's investment portfolio (EUR thousands)	Management fees 2015	Performance fees <sup>1</sup> 2015	Total fees 2015
Direct investments	-2,629	0	-2,629
Other investments	-2,197	0	-2,197
<b>Total</b>	<b>-4,825</b>	<b>0</b>	<b>-4,825</b>

## Paid management and performance fees, EURm



The paid fees are in applicable cases related to a positive development during previous periods. Positive development in current holdings can imply that performance fees will be paid when the conditions for payment has been fulfilled (see further page 48).

## Fee structure for East Capital Explorer's fund investments

Fee for managing East Capital Explorer's investment portfolio as at 31 December 2015	Annual mgmt. fee <sup>1</sup>	Base amount	Performance fee <sup>2</sup>	Hurdle rate <sup>3</sup>
<b>Fond</b>				
East Capital Baltic Property Fund II	1.75% <sup>4</sup> Drawn Down Capital <sup>5</sup>		20%	8%
East Capital Baltic Property Fund III	1.25% <sup>4</sup> Drawn Down Capital <sup>5</sup>		20%	7%
East Capital Deep Value Fund	1.95%	NAV	20% +40% from the initial investment and 7% annually	
East Capital Frontier Markets Fund	1.0%	NAV	No performance fee	N/A

<sup>1</sup> Additional administrative costs and fees apply, including a AIFMD-fee of 0.1% as well as custodian fees (for East Capital Frontier Markets Fund the AIFMD-fee amounts to 0.65%)

<sup>2</sup> No performance fees are paid until the Net Asset Value per share is in excess of SEK 100

<sup>3</sup> The hurdle rate is the return that must first be achieved, in order for performance fee to apply

<sup>4</sup> The management fee is reduced, pursuant to a separate agreement with East Capital

<sup>5</sup> Drawdown capital refers to the amount that the investor has invested in the Fund (regardless of the size of the committed capital)

Redemption fees are not applicable to any of East Capital Explorer's fund investments.



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## Financial Statements

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# 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 annual report for the financial year 1 January - 31 December 2015.

## The Group

East Capital Explorer is a Swedish investment company listed on NASDAQ OMX Stockholm. East Capital Explorer's business concept is to maximise risk-adjusted shareholder return by offering shareholders a liquid exposure to a unique investment portfolio of unlisted and listed companies in Eastern Europe.

The investment activities of East Capital Explorer AB are managed in the operating subsidiary East Capital Explorer Investments SA which manages the investment portfolio, in accordance with the Investment Policy. Transactions in the operating subsidiaries East Capital Explorer Investments SA, East Capital Explorer Investments AB and Humarito Ltd are referred to as the investment activities in this report.

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

## Result

The net result for the year was EUR 7.3m (EUR -33.8m), including value changes of shares in subsidiaries of EUR 9.0m (EUR -32.8m), corresponding to earnings per share of EUR 0.25 (EUR -1.06).

The value of the holding in Starman was appreciated by EUR 9.8m while Melon Fashion group (MFG) was impaired by EUR -8.5m and Trev-2 Group was impaired by EUR -2.2m. Together with the fair value adjustments in 3 Burès of EUR 3.4m, East Capital Baltic Property Fund II of EUR 2.4m, Komercijalna Banka Skopje of EUR 1.2m, East Capital Deep Value Fund of EUR 0.7m, East Capital Russia Domestic Growth Fund of EUR 5.3m and East Capital Frontier Markets Fund of EUR -0.5m, these were the main contributors to the change in value of shares in subsidiaries in the Income statement for the period.

The result of the year includes other expenses of EUR -1.9m (EUR -2.0m), all of which refer to the Parent company.

## Key events during the year

During the period year, the Company received repayment of shareholder's contributions of EUR 17.5m (EUR 15.6m) from East Capital Explorer Investments SA (East Capital Explorer Investments AB in 2014). In connection with the redemption

program that ended in July 2015 (June 2014), EUR 13.2m (EUR 13.6m) was paid out to the shareholders. During the period 25 March-13 April 2015 and 21 August-17 September 2015, East Capital Explorer repurchased a total of 315,229 shares, for an amount equivalent to EUR 1.9m.

## Private Equity

In the investment activities, Starman's acquisition of Cgates was finalized on 12 February 2015. In conjunction with the transaction, East Capital Explorer made an additional investment of EUR 22.5m through a share issue in Starman, thereby increasing the ownership in Starman from 51 to 63 percent. In December, a dividend of EUR 0.8m was received from Trev-2.

## Real Estate

On 10 July 2015, East Capital Explorer announced a commitment to invest EUR 20m in total in the new fund East Capital Baltic Property Fund III. In Dec 2015, the first draw down was made for an amount equivalent to EUR 3.3m.

## Public Equity

During the year, the Company sold shares in East Capital Deep Value Fund for an amount equivalent to EUR 7.4m.

## Short-term investments

During the year, the Company sold shares in East Capital Frontier Markets Fund for an amount equivalent to EUR 9.1m and in East Capital Russia Domestic Growth Fund for an amount equivalent to EUR 21.5m. The holding in East Capital Russia Domestic Growth Fund is thereby completely sold.

## Fees

To calculate all management and performance fees related to East Capital Explorer, fees originated in funds are added to the fees in the investment activities. Total fees to East Capital, generated by the investments held by East Capital Explorer AB, amounted to EUR -4.8m (EUR +5.3m). Of this, EUR -4.8m (EUR -6.1m) was management fees and EUR 0.0m (EUR +1.3m) was performance fees. The fees for 2014 were positive due to reversed performance fees relating to previous years.

For direct investments, an annual management fee of 2% is charged by the Investment Manager, besides for Real Estate investments, where the management fee is 1.75%. Further, the Investment Manager is entitled to performance fee of 20% of realized profits from the sale of direct investments, provided that a threshold value of 8% annually has been achieved. For fund investments, the fee terms of the

respective fund applies, which normally corresponds to an annual management fee of 1.95% (plus additional administrative expenses and charges, among others an AIFMD related charge of 0.1% and custody fees) and 20% performance fee. For East Capital Baltic Property Fund II the management fee is 1.75% and for East Capital Baltic Property Fund III, the rebated management fee is 1.25%. For East Capital Frontier Markets Fund, which is a UCITS fund, East Capital Explorer is charged a rebated management fee of 1% (plus an additional "all-in" fee for fund administration, depository and other expenses of 0.65% NAV). The fund does not charge any performance fee.

No performance fees are to be paid out until the adjusted net asset value per ordinary share exceeds SEK 100. For direct investments, an additional condition for payment is that all direct investments, in total, show a positive result. Additionally, all management fees on portfolio values exceeding EUR 400m is reduced to 1.0%. Catch-up clauses in the range of 0/100 - 50/50, related to profit distribution after the hurdle is reached, are applicable for direct investments as well as real estate investments.

## Share information

East Capital Explorer AB's share capital amounted to approximately EUR 3.7m. The total number of shares in East Capital Explorer AB as of 31 December 2015 amounted to 28,476,792. Adjusted for the repurchased shares during 2015, the number of shares amounted to 28,161,563. The weighted average number of shares outstanding for the reporting period was 29,337,616, adjusted for the redemption program and the repurchased share.

The closing price per share on 31 December 2015, the last trading day of the year, was SEK 50.75, equivalent to EUR 4.49 (SEK 42.50 equivalent to EUR 5.54). East Capital Explorer AB's share price, consequently and adjusted for redemption program, increased by 26.2% (-33.8%) i EUR during the year. By comparison, the MSCI EM Europe Index decreased by -7% (-20.2%) in EUR. In SEK and adjusted for redemption program, East Capital Explorer AB's share price increased by 22.1% (-29.6%) during 2015.

## Redemption program and repurchase of shares

On 24 March 2015, The Board of East Capital Explorer AB resolved to initiate a share repurchase program in order to increase shareholder value. The Company

repurchased a total of 166,100 shares during the period 25 March through 13 April 2015, corresponding to 0.55% of the Company's outstanding shares, at an average price of SEK 57.07 per share. The Company also repurchased a total of 149,129 shares during the period 21 August through 17 September 2015, corresponding to 0.52% of the Company's outstanding shares, at an average price of SEK 52.58 per share. In total, 315,229 shares have been repurchased during 2015, corresponding to 1.11% of the Company's outstanding shares. The Board intends to propose to the 2016 Annual General Meeting (AGM), or sooner, that the share capital in the company be reduced by cancelling the repurchased shares.

At the AGM in April 2015, it was resolved that East Capital Explorer would offer its shareholders to redeem 5 percent of the Company's outstanding shares at a price of SEK 83 (corresponding to EUR 8.99) for each redeemed share. The redemption price was equivalent to the Company's Net Asset Value per share on 31 December 2014. A total of 1,466,468 ordinary shares were tendered for redemption during the period 26 May to 22 June 2015, corresponding to an acceptance level of approximately 98.5%. Consequently, a total of SEK 121,716,844, EUR 13.2m, was paid out on 15 July 2015 to the shareholders participating in the redemption program.

#### Dividend

A new dividend policy was adopted as of 21 April 2015. The new policy implies that at least 50% of the dividends received from portfolio holdings will be distributed to shareholders. With an ordinary dividend as a base, share redemptions and repurchases can also be used from time to time to enhance shareholder value.

East Capital Explorer will propose to the Annual General Meeting 2016 to pay an ordinary dividend for 2015 of SEK 0.80 per share, corresponding to EUR 0.09 per share.

#### Key events after the end of the financial year

On 14 March 2016, East Capital Explorer AB (ECEX) reached an agreement in principle to pursue a sale of its entire 63 percent stake in Starman Group to Providence Equity. The transaction, which will result in an exit gain for ECEX of at least EUR 35m, corresponding to an annualized return (IRR), net of fees, of between 24 and 27 percent, will consist of an upfront cash consideration of approximately EUR 81m with the potential for an additional earn-out of up to EUR 5m payable in 2017. The transaction will represent an implied total enterprise value of approximately EUR

210m. The exit gain will result in a carried interest of approximately EUR 6.5m, equal to 20 percent of the net exit gain after management fees, based on the upfront consideration, according to the investment agreement between East Capital and ECEX. The transaction is expected to close during the second quarter of 2016.

At an Extraordinary General Meeting on 9 May 2016, the shareholders approved the Board's proposal regarding a joint termination of the Investment Agreement between East Capital Explorer and East Capital. It is the Company's estimate that terminating the Agreement and building an in-house investment organization will more than halve its operating and management costs, while removing organizational complexity.

Following the EGM decision, all management fee payments to East Capital have been halted. This applies to all direct and fund investments, with the exception of the real estate funds East Capital Baltic Property Fund II and East Capital Baltic Property Fund III since real estate is part of the company's strategic focus.

East Capital Explorer and East Capital have signed a Transition and Termination Agreement regarding services and other undertakings until 31 December 2017. The compensation for these services and undertakings will amount to EUR 9.65m plus settlement of accrued carried interest related to 3 Burès and Starman of approximately EUR 7.4m, up to approximately EUR 8.4m (depending on a potential earn-out in the sale of Starman). The compensations will be paid in installments during 2016 and 2017. The carried interest liability in Starman will be paid upon receipt of the exit proceeds and, if any, the earn-out.

Kestutis Sasnauskas, previously Head of Private Equity and Real Estate within East Capital, joined ECEX as Chief Investment Officer following the EGM, and will have the key responsibility for building ECEX's in-house investment management organization.

For further information about joint the termination of the Investment Agreement, please see the press release on the Company's web site: [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

Upon the aforesaid approval of the joint termination of the Investment Agreement on 9 May 2016, ECEX will launch a buyback program on 20 May. The buybacks will be carried out for as long as the Company's

shares trade at a discount of more than 20 percent to its most recently published NAV.

#### 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 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 Company'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 manage the risks that are not associated with opportunities as effectively and efficiently as possible (for example, by further developing the 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 Company's business activities. The Company's policy is to manage price risk through diversification and selection of investments within specified limits set by the Board. The Company'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 14, "Financial risks and Risk management".

### Personnel and remuneration guidelines

On 31 December 2015, East Capital Explorer AB had four employees, of which three women and one man. In accordance with current guidelines, the Board proposes the Annual General Meeting 2015 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 internal evaluation criteria include criteria linked to the share price and NAV discount. The CEO and CFO may 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 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.

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 4 .

### Corporate Governance and the Board of Directors

The Board shall be comprised of three to six 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 Agreement to which the Company is a party, (described in §13 of the Articles of Association), is in place 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 36-49. See pages 44-47 regarding internal control and risk management.

### Proposed Disposition of Earnings

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	318,919,855
Retained earnings	-76,280,943
Profit for the year	7,267,913
<b>Total EUR</b>	<b>249,906,826</b>
To be allocated as follows:	
Dividend to shareholders SEK 0.80 per share <sup>1</sup>	2,438,759
Funds to be carried forward (Of which share premium reserve 318,919,855)	247,468,367
<b>Total EUR</b>	<b>249,906,826</b>

<sup>1</sup> No dividend is paid for the Company's holding of own shares, whose exact number is determined on the record date for cash payment of the dividend. 1 EUR =9,24 SEK on 31 March 2016 (Source: Reuters)

## Income Statement

EUR thousands	Note	2015 1 Jan - 31 Dec	2014 1 Jan - 31 Dec
Changes in fair value of subsidiaries	2	8,996	-32,750
Staff expenses	4	-998	-902
Other operating expenses	3, 5	-919	-1,147
<b>Operating profit/loss</b>		<b>7,079</b>	<b>-34,799</b>
Financial income	6	189	961
Financial expenses	6	0	-8
<b>Profit/loss before tax</b>		<b>7,268</b>	<b>-33,846</b>
Income tax	7	-	-
<b>NET PROFIT/LOSS FOR THE YEAR<sup>1</sup></b>	<b>2</b>	<b>7,268</b>	<b>-33,846</b>

Earnings per share, EUR

- Attributable to shareholders of the Parent Company 8 0.25 -1.06

No dilutive effects during the periods

<sup>1</sup> Net Profit/Loss for the year corresponds to Total Comprehensive income for the year.

## Balance Sheet

EUR thousands	Note	2015 31 Dec	2014 31 Dec
<b>Assets</b>			
Shares in subsidiaries	12, 13, 14	252,140	260,644
<b>Total non-current assets</b>		<b>252,140</b>	<b>260,644</b>
Other short-term receivables	13	-	1
Accrued income and prepaid expenses	13	14	16
Cash and cash equivalent	13	1,918	1,057
<b>Total current assets</b>		<b>1,932</b>	<b>1,074</b>
<b>Total assets</b>		<b>254,071</b>	<b>261,718</b>
<b>Equity</b>			
Share capital <sup>1</sup>	9	3,654	3,650
Other contributed capital/Share premium reserve <sup>2</sup>		318,920	333,945
Retained earnings including other reserve <sup>2</sup>		-76,282	-42,436
Net profit/loss for the period <sup>2</sup>		7,268	-33,846
<b>Total equity</b>		<b>253,561</b>	<b>261,314</b>
<b>Current liabilities</b>			
Other liabilities	10, 13	256	129
Accrued expenses and prepaid income	11, 13	254	275
<b>Total current liabilities</b>		<b>510</b>	<b>404</b>
<b>Total equity and liabilities</b>		<b>254,071</b>	<b>261,718</b>
<b>PLEGDED ASSETS AND CONTINGENT LIABILITIES</b>			
Pledged assets		None	None
Contingent liabilities		None	None

<sup>1</sup> Restricted capital

<sup>2</sup> Unrestricted capital

## Statement of Changes in Equity

EUR thousands 2015	Share capital	Other contributed capital/Share premium reserve	Retained earnings incl. Profit/loss for the year	Total equity share- holders in the Parent company
Opening equity 1 January 2015	3,650	333,945	-76,282	261,314
Net profit/loss for the period	-	-	7,268	7,268
<b>Total comprehensive income</b>	-	-	<b>7,268</b>	<b>7,268</b>
Bonus issue	4	-4	-	-
Redemption program	-	-13,170	-	-13,170
Share buy-back	-	-1,851	-	-1,851
<b>Closing equity 31 December 2015</b>	<b>3,654</b>	<b>318,920</b>	<b>-69,014</b>	<b>253,561</b>

EUR thousands 2014	Share capital	Other contributed capital/Share premium reserve	Retained earnings incl. Profit/loss for the year	Total equity share- holders in the Parent company
Opening equity 1 January 2014	3,640	348,183	-42,436	309,387
Net profit/loss for the period	-	-	-33,846	-33,846
<b>Total comprehensive income</b>	-	-	<b>-33,846</b>	<b>-33,846</b>
Bonus issue	10	-10	-	-
Redemption program	-	-13,753	-	-13,753
Equity transaction costs	-	-475	-	-475
<b>Closing equity 31 December 2014</b>	<b>3,650</b>	<b>333,945</b>	<b>-76,282</b>	<b>261,314</b>

## Statement of Cash Flow

EUR thousands	2015 1 Jan - 31 Dec	2014 1 Jan - 31 Dec
<b>Operating activities</b>		
Operating profit/loss	7,079	-34,799
Changes in fair value of subsidiaries	-8,996	32,750
Interest received	-	961
<b>Cash flow from current operations before changes in working capital</b>	<b>-1,917</b>	<b>-1,088</b>
<b>Cash flow from changes in working capital</b>		
Increase (-)/decrease(+) in other current receivables	3	6
Increase (+)/decrease(-) in other current payables	106	-475
<b>Cash flow from operating activities</b>	<b>-1,808</b>	<b>-1,557</b>
<b>Investing activities</b>		
Repayment of shareholder contributions	17,500	15,600
<b>Cash flow from investing activities</b>	<b>17,500</b>	<b>15,600</b>
<b>Financing activities</b>		
Redemption program	-13,170	-13,753
Share buy-back	-1,851	-
<b>Cash flow from financing activities</b>	<b>-15,021</b>	<b>-13,753</b>
<b>Cash flow for the period</b>	<b>671</b>	<b>290</b>
Cash and cash equivalent at the beginning of the period	1,057	776
Exchange rate differences in cash and cash equivalents	189	-8
<b>Cash and cash equivalent at the end of the period</b>	<b>1,917</b>	<b>1,057</b>

# Notes to the financial statements

## Note 1 Accounting Principles

### Statement of compliance

The financial statements 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 financial statements, unless otherwise stated.

The annual report was approved for issue by the Board on 13 May 2016. The financial statements will be submitted to the shareholders' meeting for adoption on 9 June 2016.

### Accounting principles of the Parent Company

As East Capital Explorer AB, in accordance with IFRS, is classified as an investment entity, consolidated accounts are no longer produced, but instead separate financial statements in accordance with IFRS are presented below. Furthermore, as before, the separate financial statements of the Parent company are produced in accordance with RFR 2. There are for East Capital Explorer currently no differences between the requirements in accordance with RFR 2 and the reports according to IFRS.

### New IFRS

No new or amended IFRS, effective from 2015, have changed the Company's financial statements.

A number of new or revised IFRS effective for reporting periods beginning 1 January 2016 or later have been published by the IASB. The Company does not plan early adoption of these standards and they are not assessed to have any material impact on the financial statements.

### Basis for measurement for preparing Financial Statements

Shares and participations in investing activities and short-term investments are recognised at fair value through Profit or Loss. Other financials and non-financials assets and liabilities are recognised at cost or amortised cost.

### Functional and presentation currency

The Company's functional currency is euro (EUR). 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 financial statements, management has made judgments, estimates and assumptions that affect the application of the Company'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 Company'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 accounting policies

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

#### Performance fees

Any future performance fees to the Investment Manager East Capital pertaining to direct investments will not be accounted for as a provision on the balance sheet nor as a contingent liability until a direct investment has been realised. As all decisions to realise direct investments needs to be approved by East Capital Explorer's Board of Directors, and the payment of any accrued performance fees therefore are within the Company's control, it is the Company's interpretation of IAS 32 and IAS 37 that no obligation arises until the Board has approved such realisation and a binding sales agreement is signed.

#### Investment Entities

As of 1 January 2014, East Capital Explorer applies the investment entity consolidation exception in IFRS 10, which implies that all holdings are recognised at fair value through profit or loss. In assessing East Capital Explorer AB, it has been concluded that the Company, even though it has only one investment (East Capital Explorer Investments SA), falls within the classification of an investment entity, as the subsidiary is set up to facilitate the portfolio in the investment activities of the Company, where investments in several holdings take place through subsidiaries below East Capital Explorer Investments SA (Private Equity, Real Estate, Public Equity and short-term investments in the East Capital Explorer portfolio).

East Capital Explorer AB has according to its listing agreement and under investment management agreements undertaken to provide East Capital Explorer Investments SA with financing for its investments, from bringing several investors (the shareholders) together for the single purpose of making investments through East Capital Explorer Investments SA. East Capital Explorer AB's investment strategy is to acquire attractive assets and sell them in the foreseeable future at a profit. The management agreement between East Capital Explorer AB and East Capital includes an agreement on the payment of performance fees. This applies both in the context of fund investments and direct investments.

The incentive is designed so that East Capital essentially gets paid only if the profits are realised, which strengthens the manager's focus on the realisation of assets, i.e. to plan for and execute an exit. Also, East Capital Explorer AB's strategy in optimising the long-term return for the shareholders is to actively manage the portfolio of investments. The capital invested in the portfolio is of a long-term nature and enables making investments over a full economic cycle. However, implicit in the active management is the strategy to exit direct investments through trade sales or IPOs and to exit fund investments either through the closure of the funds or through sales.

### 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 Company applies its models consistently between the periods, but the calculation of fair value is characterised by uncertainty. Based on controls and reliability procedures, the Company considers the fair values recognised in the Balance Sheet to be carefully calculated and balanced and to reflect the underlying economic values. For more information, please see Sensitivity analysis in note 13.

### 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 Balance Sheet date. Cur-

rent assets and current liabilities consist predominantly of amounts expected to be utilised or paid within 12 months of the date of the Balance Sheet.

### Segment reporting

East Capital Explorer AB classifies the Company's various segments based on the nature of the investments. Segment results and assets include items directly attributable to the segment, which can be allocated in a reasonable and dependable manner. Management monitors the holdings on the basis of fair value, and all holdings are reported at fair value through profit or loss in accordance with IAS 39. As the value of the holding in East Capital Explorer Investments SA, where the investment activities are managed, is directly dependable of the investment portfolio, the value change of holdings held by the subsidiary has been allocated to value changes, dividends received and other operating expenses that are directly attributable to the underlying investments in Private Equity, Real Estate, Public Equity and Short-term Investment. All other revenues and expenses are classified as unallocated.

### Income

Income consists primarily of value changes in portfolio and of dividends.

For Balance Sheet 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 Balance Sheet items realised during the period, changes in value comprise the difference between the payment received and the value at the beginning of the period. For Balance Sheet items acquired during the period, changes in value comprise the difference between the value at the end of the period and the acquisition cost.

### Expenses

Operating expenses refers to costs of an administrative nature, such as staff costs, management fees, notary fees and bank fees. The cost for variable remuneration is estimated and accrued at the end of the year. Obligations related to contributions to defined contribution plans are expensed in the Income Statement when the related services are provided.

### Taxes

Income tax comprises current and deferred tax. Income tax is reported in the Income Statement 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.

### Financial instruments

Financial instruments recognised in the Balance Sheet on the asset 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 and other current liabilities.

### Recognition and derecognition

A financial asset or liability is recognised in the Balance Sheet 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 Balance Sheet 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 Balance Sheet when the rights in the agreement are realised 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 Balance Sheet when the obligation specified in the agreement is discharged or in any other manner extinguished.

### 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

Fair value is determined as follows:

#### *Listed holdings on active markets*

Financial instruments measured at fair value in the Balance Sheet are measured primarily, at fair value based on the official closing price on active markets.

For markets that are closed at the Relevant Valuation Time, the official closing price shall be used. If an official closing price is not available at the Relevant Valuation Time, then the last traded price shall be used. If the official closing price or the last traded price is not available, or if older than 5 days, then the mid-price shall be used as of the Relevant Valuation Time.

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 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

#### *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.

#### *Real Estate*

At initial recognition, any acquired non-current investment property is carried at acquisition cost. In the financial statements, investment property is subsequently measured at fair value. The fair value of investment property is adjusted at each time when drawing up financial statements where its change is recognized as profit or loss in the income statement. On a yearly basis, the value of the investment property is established by independent asset valuers applying a fair value method. Repair expenses in relation to the investment property carried in the financial statements at fair value are recognized as costs in the period in which they were incurred.

#### *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 Balance Sheet consist of immediately available balances at banks and equivalent institutions, as well as other accounts receivable. Loans and receivables are recognized at amortised cost. Note that loans to companies within the investment portfolio are held as short-term investments recognized at fair value through profit or Loss.

#### **Impairment of financial assets**

The carrying values of the Company's financial assets, excluding financial assets reported at fair value with changes in value reported in profit or loss, 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 recognized 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 recognized 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.

#### **Equity**

##### **Repurchase of share capital**

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity.

##### **Earnings per share**

Earnings per share are calculated by dividing the profit or loss by the weighted average number of ordinary shares outstanding 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**

Holder 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 recognized 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 recognized as a liability or provision as it is not probable that an outflow of resources will be required.

## Note 2 Segment Reporting

East Capital Explorer AB classifies the Company's various segments based on the nature of the investments. Management monitors the holdings on the basis of fair value, and all holdings are reported at fair value through profit or loss. As the value of the holding in East Capital Explorer Investments SA, where the investment activities are managed, is directly dependable of the investment portfolio, the value change of holdings held by the subsidiary has been allocated to value changes, dividends received and other operating expenses that are directly attributable to the underlying investments in private equity, real estate, public equity and short-term investments. All other revenues and expenses are classified as unallocated in the table below. As of Q1 2015, East Capital Explorer changed its segment reporting to reflect the ongoing strategic shift (previously, the segment reporting was classified as Direct Investments, Fund Investments and Short-term investments). Comparable numbers for 2014 are restated according to the new segment reporting.

EUR thousands 1 Jan - 31 Dec 2015	Private Equity	Real Estate	Public Equity	Short-term Investments	Unallocated	Total
Changes in value of portfolio	-961	5,773	1,959	4,215	-	10,986
Received dividends	817	-	-	-	-	817
Other operating expenses	-2,058	-424	-147	-	-179	-2,807
<b>Changes in value of subsidiaries</b>	<b>-2,202</b>	<b>5,349</b>	<b>1,813</b>	<b>4,215</b>	<b>-179</b>	<b>8,995</b>
Staff expenses	-	-	-	-	-998	-998
Other operating expenses	-	-	-	-	-919	-919
<b>Operating profit/loss</b>	<b>-2,202</b>	<b>5,349</b>	<b>1,813</b>	<b>4,215</b>	<b>-2,096</b>	<b>7,078</b>
Financial income	-	-	-	-	189	189
Financial expenses	-	-	-	-	-0	-0
<b>Profit/loss before tax</b>	<b>-2,202</b>	<b>5,349</b>	<b>1,813</b>	<b>4,215</b>	<b>-1,907</b>	<b>7,267</b>
<b>Assets</b>	<b>104,584</b>	<b>57,718</b>	<b>48,894</b>	<b>42,960</b>	<b>-84</b>	<b>254,071</b>

EUR thousands 1 Jan - 31 Dec 2014	Private Equity	Real Estate	Public Equity	Short-term Investments	Unallocated	Total
Changes in value of portfolio	-20,715	3,306	-25,870	3,471	-	-39,807
Received dividends	214	-	-	-	-	214
Other operating expenses	8,631	-601	-153	-	-1,031	6,844
<b>Changes in value of subsidiaries</b>	<b>-11,870</b>	<b>2,705</b>	<b>-26,023</b>	<b>3,471</b>	<b>-1,031</b>	<b>-32,750</b>
Staff expenses	-	-	-	-	-902	-902
Other operating expenses	-	-	-	-	-1,147	-1,147
<b>Operating profit/loss</b>	<b>-11,870</b>	<b>2,705</b>	<b>-26,023</b>	<b>3,471</b>	<b>-3,080</b>	<b>-34,799</b>
Financial income	-	-	-	-	961	961
Financial expenses	-	-	-	-	-8	-8
<b>Profit/loss before tax</b>	<b>-11,870</b>	<b>2,705</b>	<b>-26,023</b>	<b>3,471</b>	<b>-2,127</b>	<b>-33,846</b>
<b>Assets</b>	<b>85,028</b>	<b>48,620</b>	<b>70,442</b>	<b>57,802</b>	<b>-174</b>	<b>261,718</b>

## Note 3 Other operating expenses

EUR thousands	2015	2014
Marketing and PR	155	63
Legal services	107	369
Services from related parties <sup>1</sup>	63	98
Rent <sup>2</sup>	56	42
Audit assignments <sup>3</sup>	54	50
Other external costs	484	524
<b>Total</b>	<b>919</b>	<b>1,147</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 15.

<sup>2</sup> Rent is included in the service agreement with East Capital International AB. See note 15.

<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 5.

## Note 4 Employees, staff expenses and executive management compensation

EUR thousands		
<b>Salaries, other remunerations and social charges</b>	<b>2015</b>	<b>2014</b>
Board of directors and CEO	483	421
<i>of which variable</i>	77	20
Other employees	266	250
<b>Total</b>	<b>749</b>	<b>671</b>
Social charges	241	224
<i>of which pensions</i>	64	75
<b>Total</b>	<b>990</b>	<b>895</b>

### Executive management compensation

#### Remuneration to the Board

On 21 April 2015, 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 shareholders' meeting. The Vice Chairman will receive SEK 550,000 and 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 internal evaluation criteria include criteria linked to the share price and NAV discount. 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 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 terminates her employment, she is required to observe a six-month notice period.

Remuneration and other benefits	2015					2014				
	Fixed salary	Variabel salary <sup>4</sup>	Board fee	Pension expenses	Total	Fixed salary	Variabel salary	Board fee	Pension expenses	Total
<b>EUR thousands</b>										
Lars O Grönstedt, Board member until 21 April 2015, Chairman from 21 April 2015 <sup>5</sup>	-	-	79	-	79	-	-	43	-	43
Peter Elam Håkansson, Board member from 22 April 2014 <sup>1</sup>	-	-	-	-	-	-	-	-	-	-
Liselotte Hjorth, Board member from 19 August 2014 <sup>5</sup>	-	-	43	-	43	-	-	29	-	29
Alexander V. Ikonnikov, Board member	-	-	37	-	37	-	-	42	-	42
Mikael Nachemson, Vice Chairman from 21 April 2015 <sup>5</sup>	-	-	45	-	45	-	-	-	-	-
Jenny Rosberg, Board member from 21 April 2015	-	-	24	-	24	-	-	-	-	-
Paul Bergqvist, Chairman until 21 April 2015	-	-	29	-	29	-	-	96	-	96
Louise Hedberg, Board member until 21 April 2015 <sup>1</sup>	-	-	-	-	-	-	-	-	-	-
Karine Hirn, Board member until 22 April 2014 <sup>1</sup>	-	-	-	-	-	-	-	-	-	-
Mia Jurke, CEO Maternity leave from 13 May 2013 until 26 May 2014 <sup>2</sup>	149	77	-	25	251	100	20	-	26	145
Catharina Hagberg, Acting CEO from May 2013 until 26 May 2014 <sup>2</sup>	-	-	-	-	-	91	-	-	14	105
Lena Krauss, Employed from 1 January 2014, CFO from 23 May 2014	130	64	-	19	214	110	22	-	16	149
Mathias Pedersen, CFO until 23 May 2014 <sup>3</sup>	-	-	-	-	-	26	5	-	5	36
<b>Total</b>	<b>279</b>	<b>142</b>	<b>256</b>	<b>44</b>	<b>721</b>	<b>327</b>	<b>47</b>	<b>210</b>	<b>61</b>	<b>645</b>

<sup>1</sup> Board members Louise Hedberg, Karine Hirn and Peter Elam Håkansson have 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 2014

<sup>4</sup> During 2016 the board resolved to pay out EUR 142 thousands for executive management for 2015

<sup>5</sup> Lars O Grönstedt, Mikael Nachemson and Liselotte Hjorth invoice their Board fees. Lars O Grönstedt's, Mikael Nachemson's and Liselotte Hjorth's Board fee neutral in relation to the other Board members, the fee invoiced has been adjusted for social security contributions and VAT

## Note 5 Fees and expenses for auditors

EUR thousands	2015	2014
<b>KPMG</b>		
Audit assignments	54	50
Audit assignments except audit fees	47	24
Other assignments	7	56
<b>Total</b>	<b>109</b>	<b>130</b>

## Note 6 Financial income and expenses

EUR thousands	2015	2014
Interest income from Group companies	-	961
Net exchange rate gain <sup>1</sup>	189	-
<b>Total financial income</b>	<b>189</b>	<b>961</b>
Net foreign exchange loss <sup>1</sup>	-	-8
<b>Total financial expenses</b>	<b>-</b>	<b>-8</b>

<sup>1</sup> Exchange rate gain/loss on cash and cash equivalents.

## Note 7 Taxes

Reconciliation of effective tax				
EUR thousands	2015 (%)	2015	2014 (%)	2014
Profit/loss before tax		7,268		-33,846
Tax as per applicable tax rate for the Parent Company	22.0,	-1,599	22.0,	7,446
Tax effect on non-taxable/non tax-deductible change in value of the portfolio	-27.2	1,979	-21.3	-7,205
Tax effect on non tax-deductible expenses	0.0	-3	0.0	-2
Not recognised tax on tax losses carried forward for the year	-5.2	-377	-0.7	-239
<b>Recognised effective tax</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>

The average applicable tax rate was 0.0% (0.0%) due to non-taxable fair value adjustments.

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 forward amount to EUR 1.0m, which has not been recognised in the balance sheet as future profits will mainly be attributable to direct investments which are not taxable according to Swedish tax law.

## Note 8 Earnings per share

Earnings per share EUR	2015	2014
Earnings per share, basic and diluted	0.25	-1.06

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	2015	2014
Profit/loss attributable to the holders of ordinary shares in the Parent company	7,268	-33,846

Weighted average number of outstanding ordinary shares in the Parent company In thousand of shares	2015	2014
Weighted average number of ordinary shares, basic and diluted, adjusted for the effects of the redemption program	29,338	31,839

## Note 9 Shareholders equity

Outstanding shares, thousands	2015	2014
Issued at 1 January	29,943	31,424
Redeemed shares	-1,466	-1,481
Issued at 31 December	28,476	29,943

### Shareholders' equity

#### Other contributed capital

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

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

Include profit or losses attributable to shareholders in the Parent Company.

### Non-restricted equity

#### 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, and it amounted to EUR 254m (EUR 261m) per 31 December 2015. EUR 244m (EUR 256m) was invested in private equity, real estate, public equity 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 invest.

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. However, the Board can deviate from this restriction.

## Note 10 Other liabilities

EUR thousands	2015	2014
Account payables	191	25
Other liabilities	65	104
<b>Total</b>	<b>256</b>	<b>129</b>

## Note 11 Accrued expenses and prepaid income

EUR thousands	2015	2014
Vacation pay	35	34
Other accrued expenses	220	241
<b>Total</b>	<b>254</b>	<b>275</b>

## Note 12 Shares and participations in the portfolio

All shares and participations are recognised at fair value through profit or loss.

Entities in which the ownership interest is over 50%			Book value,	Ownership
Non consolidated entities 2015	Place of business	Number of shares	EUR thousands	capital
East Capital Explorer Investments SA	Bertrange, Luxembourg	4,000	252,140	100%
East Capital Explorer Investments AB	Stockholm, Sweden	11,000	8,850	100%
Humarito Limited	Nicosia, Cyprus	2,000	220,568	100%
Baltic Cable Holding OÜ	Tallinn, Estonia	2,502	-	100%
Starman AS	Tallinn, Estonia	10,758	71,839	63%
UAB Portarera <sup>1</sup>	Vilnius, Lithuania	300	27,641	100%
UAB Solverta <sup>1</sup>	Vilnius, Lithuania	100	-	100%
UAB Verslina <sup>1</sup>	Vilnius, Lithuania	100	-	100%
East Capital Deep Value Fund	Bertrange, Luxembourg	54,309	40,337	75%
East Capital Frontier Markets Fund	Bertrange, Luxembourg	384,752	31,077	57%

<sup>1</sup>The operations in UAB Portarera, UAB Solverta and UAB Verslina, acquired in 2014, have been aggregated as they are consolidated as 3 Burès.

Shares and participations in the portfolio 2015	Place of business	IFRS Classification	Classification	Carrying amount	Holdings <sup>1</sup>
Starman	Estonia	Subsidiary <sup>2</sup>	Private Equity	71,839	63%
Melon Fashion Group	Russia	Associated company <sup>3</sup>	Private Equity	26,537	36%
Trev-2 Group	Estonia	Associated company <sup>3</sup>	Private Equity	6,207	38%
3 Burès	Lithuania	Subsidiary <sup>2</sup>	Real Estate	27,641	100%
East Capital Baltic Property Fund II	Luxembourg	Associated company <sup>3</sup>	Real Estate	26,769	49%
East Capital Baltic Property Fund III	Luxembourg	Associated company <sup>3</sup>	Real Estate	3,308	28%
East Capital Deep Value Fund	Luxembourg	Associated company <sup>3</sup>	Public Equity	40,337	75%
Komercijalna Banka Skopje	Macedonia	Investment <sup>4</sup>	Public Equity	8,556	10%
East Capital Frontier Markets Fund	Luxembourg	Associated company <sup>3</sup>	Short-term investment	31,077	57%
East Capital Bering Ukraine Fund Class R	Cayman Islands	Investment <sup>4</sup>	Short-term investment	1,372	11%

Shares and participations in the portfolio 2014	Place of business	IFRS Classification	Classification	Carrying amount	Holdings <sup>1</sup>
Starman	Estonia	Subsidiary <sup>2</sup>	Private Equity	39,516	51%
Melon Fashion Group	Russia	Associated company <sup>3</sup>	Private Equity	35,062	36%
Trev-2 Group	Estonia	Associated company <sup>3</sup>	Private Equity	8,454	38%
East Capital Baltic Property Fund II	Luxembourg	Associated company <sup>3</sup>	Real Estate	24,386	59%
3 Burès	Lithuania	Subsidiary <sup>2</sup>	Real Estate	24,234	100%
East Capital Deep Value Fund	Luxembourg	Associated company <sup>3</sup>	Public Equity	46,999	76%
Komercijalna Banka Skopje	Macedonia	Investment <sup>4</sup>	Public Equity	7,332	10%
East Capital Russia Domestic Growth Fund	Luxembourg	Associated company <sup>3</sup>	Public Equity	16,110	95%
East Capital Bering Ukraine Fund Class R	Cayman Islands	Investment <sup>4</sup>	Public Equity	1,997	12%
East Capital Frontier Markets Fund	Luxembourg	Associated company <sup>3</sup>	Short-term investment	40,913	64%
East Capital Frontier Markets Fund - Avyttrad	Luxembourg	Investment <sup>4</sup>	Short-term investment	5,124	
Other short-term investments		Investment <sup>4</sup>	Short-term investment	6,151	

#### <sup>1</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>2</sup>Subsidiaries

East Capital Explorer Investments SA holds direct investments Starman and 3 Burès.

Starman is the leading cable TV, broadband internet and voice cable services provider in Estonia. Risks associated with the Telecom industry are mainly market and operational risk. 3 Burès is one of Vilnius' most modern and well located A Class office buildings. Risks associated with Real Estate industry are mainly market and tenant risk. For information regarding strategy of our investments please see note 1 Accounting principles (section Investment entities). There are no outstanding commitments in relations to the subsidiaries

*Restrictions on the ability of the unconsolidated entities Starman and 3 Burès to transfer funds to Humarito Ltd in the form of cash dividend exist from borrowing arrangements in the holdings:*

The loans from the financial institutions in Starman AS consolidation group as well as in Starman AS parent are agreed to include financial covenants to be met. The ratio Debt/Ebitda must be less than 4.5 until June 2015, less than 3.5 between July 2015 - March 2017 and less than 3.0 from April 2017 to termination of the loan. The ratio between Ebitda/interest and principal payable must exceed 1.4 from February 2015 to termination of the loan. For Starman subsidiary, Cgates UAB, the ratio Debt/Ebitda must be less than 3.5 until December 2015 and less than 3.0 from January 2016 to termination of the loan; and the ratio between Ebitda/interest and principal payable must exceed 1.6 from February 2015 to termination of the loan.

The loans from the financial institutions in 3 Burès are subordinated and cash transfers can only be made after 1 July 2016 and once the credit amount is below EUR 36.0m.

#### <sup>3</sup>Associated companies

East Capital Explorer Investments SA holds direct investments in two associated companies, Melon Fashion Group (MFG) and Trev-2 Group.

Melon Fashion Group is one of the fastest growing Russian fashion retail companies. Risks associated with the retail industry are mainly market and political risks. Trev-2 Group is one of the largest infrastructure construction and maintenance companies in Estonia. Risks associated with the construction industry are mainly regulatory and political risk. For information regarding strategy of our investments please see note 1 Accounting principles (section Investment entities).

All of the unconsolidated Funds managed by East Capital, which capital is distributed by different investors. East Capital, is a specialist in 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 note 1, Accounting Principles. For risks, please refer to note 14. The holdings in associated companies are valued at fair value through profit or loss. East Capital Explorer have committed to invest EUR 20m in total in the new fund East Capital Baltic Property Fund III. In Dec 2015, the first draw down was made for an amount of EUR 3.3m.

#### <sup>4</sup>Investment

Holdings in funds and other financial assets that does not fall into the classification of subsidiaries, associated companies or joint ventures. The holdings are valued at fair value through profit or loss. There are no outstanding commitments in relations to investments.

## Note 13 Financial instruments - categories, classes and fair values

For a better understanding of the business, the information regarding financial instruments below have been presented on a see-through basis as the fair value of the holding in the subsidiary East Capital Explorer Investments SA is a result of the fair value of the holdings in the investment activities within East Capital Explorer Investments AB and Humarito Ltd. Shares and participations in the investment activities as well as the Parent company's holdings in subsidiaries are all valued at fair value and the tables below are presented on the same basis as the segment reporting, divided in: fund investments, direct investments, short-term investments (including cash and bank) and unallocated assets.

### Calculation of fair value

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

#### Financial instruments measured at fair value in the income statement

For a description of the method applied to measure financial instruments recognised at fair value through profit or loss, see Note 1 Accounting Principles.

#### Financial instruments not measured at fair value in the income statement

For accounts receivable and accounts payable, the carrying amount is assessed to reflect fair value since the remaining maturity is generally short. This is also the case for cash and bank.

### Fair value estimation

The Company applies IFRS 13 for fair value measurement and IFRS 7 for disclosures. This requires the Company 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 categorised in its entirety 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 or liability. For fair value estimation, see Note 1 Accounting Principles.

The determination of what constitutes 'observable' requires significant judgment by the Company. The Company 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.

31 December 2015				
Financial assets and liabilities				
EUR thousands	Financial assets at fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount
Shares in subsidiaries	252,140	-	-	252,140
Cash and cash equivalent	-	1,918	-	1,918
<b>Total</b>	<b>252,140</b>	<b>1,918</b>	-	<b>254,057</b>
Other financial liabilities	-	-	256	256
<b>Total</b>	-	-	<b>256</b>	<b>256</b>

31 december 2014				
Financial assets and liabilities				
EUR thousands	Financial assets at fair value through profit or loss	Loans and receivables	Other financial liabilities	Total carrying amount
Shares in subsidiaries	260,644	-	-	260,644
Other current receivables	-	1	-	1
Cash and cash equivalent	-	1,057	-	1,057
<b>Total</b>	<b>260,644</b>	<b>1,058</b>	-	<b>261,702</b>
Other financial liabilities	-	-	129	129
<b>Total</b>	-	-	<b>129</b>	<b>129</b>

**Shares and participations and short-term investments in the investment activities**

In the Parent company, financial instruments consist of shares in subsidiaries of EUR 252.1m and cash and cash equivalent of EUR 1.9m. The carrying amount of these assets corresponds to the fair value on the balance sheet date.

Shares in subsidiaries	Domicile, Country	Book value EURt 31 Dec 2015	31 Dec 2014	Share of capital% 31 Dec 2015	31 Dec 2014
East Capital Explorer Investments SA	Bertrange, Luxembourg	252,140	260,644	100	100

East Capital Explorer AB owns 100% of the Class A shares, and 4.0% (4.0%) of the votes, in East Capital Explorer Investments SA and is entitled to all profits, assets and liabilities attributable to that company. East Capital Explorer Investments SA is in turn classified as an investment entity whose total holdings, including its subsidiaries, are measured at fair value through profit and loss.

As the holdings in East Capital Explorer Investments SA and in its investing subsidiary Humarito Ltd are presented on a see through basis, the tables below reflect the fair values in the investment activities, based on the same classification as the segment reporting. The fair values of the shares are directly and indirectly made up by the following assets:

EUR thousands 31 December 2015 Breakdown of values in subsidiaries	Private Equity	Real Estate	Public Equity	Short-term investments	Cash and bank	Other assets and liabilities, net	Total
Opening balance 1 January 2015	85,028	48,620	70,442	52,188	4,557	-191	260,644
Reclassifications	-1,997	-	-16,110	18,107	-	-	-
Purchase/additions	22,514	3,325	-	-	-25,839	-	-
Divestments/Reductions	-	-	-7,397	-42,060	49,458	-	-
Other	-	-	-	-	-2,900	93	-2,807
Repaid shareholders contributions	-	-	-	-	-17,500	-	-17,500
Dividend received	-	-	-	-	817	-	817
Changes in fair value recognised net in profit/loss	-961	5,773	1,959	4,215	-	-	10,986
Closing balance 31 December 2015	104,584	57,718	48,894	32,450	8,593	-98	252,140

EUR thousands 31 December 2014 Breakdown of values in subsidiaries	Private Equity	Real Estate	Public Equity	Short-term investments	Cash and bank	Other assets and liabilities, net	Total
Opening balance 1 January 2014	106,435	20,670	172,321	112	19,471	-10,016	308,993
Reclassifications	-	-	-17,820	17,820	-	-	-
Purchase/additions	-	24,643	-	50,236	-74,880	-	-
Divestments/Reductions	-691	-	-58,190	-19,452	78,332	-	-
Other	-	-	-	-	-2,980	9,825	6,845
Repaid shareholders contributions	-	-	-	-	-15,600	-	-15,600
Dividend received	-	-	-	-	214	-	214
Changes in fair value recognised net in profit/loss	-20,715	3,306	-25,870	3,471	-	-	-39,808
Closing balance 31 December 2014	85,028	48,620	70,442	52,188	4,557	-191	260,644

Private Equity consists of the holdings in Melon Fashion Group (MFG), Starman and Trev-2 Group. Real Estate consists of holdings in 3 Burès, East Capital Baltic Property Fund II and East Capital Baltic Property Fund III. All of these holdings are valued by external appraisers at least once a year, normally at year-end. The fair value of the holdings is assessed on a quarterly basis.

Public Equity consists of funds with a majority of public holdings managed by East Capital, a specialist in emerging and frontier markets, basing its investment strategy on thorough knowledge of the markets, fundamental analyses and frequent company visits by its investment teams. The holding in Komercijalna Banka Skopje, which is publicly traded, is also included in Public Equity. Holdings in Public Equity are valued at fair value according to the valuation principles described below.

Short-term investments consist of holdings which are expected to be divested within a year. The holding in East Capital Frontier Markets Fund, and East Capital Bering Ukraine Fund R are classified as short-term investments.

Holding	Class	Valuation method	Valuation assumptions
Starman	Private Equity	DCF	Long-term growth 2%, long term operating margin 19%, WACC 6-9%
Melon Fashion Group	Private Equity	DCF	Long-term growth 4%, Long term operating margin 8%, WACC 19%
Trev-2 Group	Private Equity	DCF	Long-term growth 2%, Long term operating margin 7%, WACC 7-11%
3 Burès	Real Estate	DCF	WACC 8-11%, Exit yield 7-8%
East Capital Baltic Property Fund II	Real Estate	DCF	WACC 8-9%, Exit yield 7-9%
East Capital Baltic Property Fund III	Real Estate	Acquisition value <sup>1</sup>	

Discounted Cash Flow model (DCF), weighted average cost of capital (WACC)

<sup>1</sup> First investment made in December 2015

For the fair values of Private Equity investments and Real Estate (3 Burès and East Capital Baltic Property Fund II) - reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

#### Sensitivity analysis

Effects in EUR thousands	Private Equity Profit or loss	
	Increase	Decrease
<b>31 December 2015</b>		
Long term growth rate (0.5% movement)	8,132	-7,047
Weighted average cost of capital (WACC) (0.5% movement)	-8,841	10,184
Long term operating margin (0.5% movement)	2,112	-2,112

Effects in EUR thousands	Real Estate Profit or loss	
	Increase	Decrease
<b>31 December 2015</b>		
Weighted average cost of capital (WACC) (0.5% movement)	-1,004	1,026
Exit yield (0.5% movement)	-2,447	2,809

## Fair value hierarchy of shares and participations and short-term investments in the investment activities

The following table analyses, within the fair value hierarchy, the Company's financial assets measured at fair value:

EUR thousands 31 December 2015			
Shares and participations in investment activities designated at fair value through Profit or Loss <sup>1</sup>	Level 1	Level 3	Total
Private Equity	-	104,584	104,584
Real Estate	-	57,718	57,718
Public Equity	48,894	-	48,894
Short-term investments	31,077	1,373	32,450
<b>Total</b>	<b>79,970</b>	<b>163,675</b>	<b>243,645</b>

EUR thousands 31 December 2014			
Shares and participations in investment activities designated at fair value through Profit or Loss <sup>1</sup>	Level 1	Level 3	Total
Private Equity	-	85,028	85,028
Real Estate	-	48,620	48,620
Public Equity	70,442	-	70,442
Short-term investments	52,187	1	52,188
<b>Total</b>	<b>122,628</b>	<b>133,650</b>	<b>256,278</b>

<sup>1</sup> The following investments in the investment activities are classified in Level 1: East Capital Frontier Markets Fund, East Capital Deep Value Fund and Komercijalna Banka Skopje. The following investments are classified in Level 3: East Capital Baltic Property Fund II, East Capital Baltic Property Fund III, East Capital Bering Ukraine Fund Class R, Melon Fashion Group, Starman, Trev-2 Group and 3 Burès

EUR thousands 31 December 2015				
Changes in financial assets and liabilities in Level 3	Private Equity	Real Estate	Short-term investments	Total
Opening balance 2015	85,028	48,620	1	133,649
Reclassifications	-1,997	-	1,997	-
Purchase/additions	22,514	3,325	-	25,839
Changes in fair value recognised net in profit or loss	-961	5,773	-625	4,187
<b>Closing balance 31 December 2015</b>	<b>104,584</b>	<b>57,718</b>	<b>1,373</b>	<b>163,675</b>

EUR thousands 31 December 2014				
Changes in financial assets and liabilities in Level 3	Private Equity	Real Estate	Short-term investments	Total
Opening balance 2014	106,434	20,670	112	127,217
Purchase/additions	-	24,643	-	24,643
Divestments/Reductions	-454	-	-58	-511
Changes in fair value recognised net in profit or loss	-20,952	3,306	-53	-17,699
<b>Closing balance 31 December 2014</b>	<b>85,028</b>	<b>48,620</b>	<b>1</b>	<b>133,649</b>

EUR 4,187 thousands (EUR -17,646 thousands) of changes in fair value recognised net in profit or loss relate to investments still held at the end of the period.

## Note 14 Financial risks and risk management

The Company is exposed to a variety of risks. The main identified risks are financial risks, operating risks and commercial risks.

Risk management is carried out by management under policies approved by the Board of Directors. Governing policies include the Company's financial policy as well as the Investment Policy on which the Investment Manager East Capital bases the investment activities. The Board ensures that the Investment Policy is appropriate for the Company's objectives and that the investment activities are carried out in accordance with the Investment Policy. The Board may decide to amend or deviate from the Investment Policy.

### Financial risks

The Company 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 responsibility for and handling of financial risks and treasury management activities within the Company is centralized to the CEO together with the Company's finance and accounting department.

#### (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 Company's income or the value of its holdings in financial instruments.

The Company limits its risks by following the Investment Policy that provides guidelines based on the following factors:

- Diversification
- 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 Company's profit or loss and equity.

#### (i) Equity price risk

Equity price risk is the risk that arises from security price volatility, i.e. the risk of a

decline in the value of an investment. Equity price risk is the most significant risk in East Capital Explorer AB's business activities. The Company's policy is to manage equity 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 Company's specified investment limits.

The principal factors that affect the equity price risk are the markets and sectors in which the Company invests. The largest exposures are towards the Baltic countries, Russia and the Balkans, and the largest sector exposures are towards [telecom], real estate and consumer goods.

The Company's Investment Policy requires that the overall market position be monitored on a daily basis by East Capital and that it will be reviewed on a quarterly basis by the Board.

On 31 December 2015, the total fair value of East Capital Explorer AB's public equity investments exposed to equity price risk amounted to EUR 67m (EUR 97m) as specified in the table below.

#### (ii) Currency risk

Currency risk is the risk that arises from volatility in currency exchange rates, as the value of recognized monetary assets and liabilities denominated in other currencies fluctuates due to changes in foreign exchange rates. The Company operates and invests internationally and holds both monetary (cash and cash equivalents) and non-monetary (investments in shares and participations) financial assets denominated in currencies other than the functional currency EUR. The main currency exposures in the Company's investment activities are towards the rouble (RUB) and the US dollar (USD).

The Company is exposed to currency risk primarily through its non-monetary assets, i.e. through direct and indirect investments in companies that are domiciled and operate in countries outside the Eurozone, or whose shares are denominated in other currencies than EUR. Some equity funds use USD as reporting currency. However, the underlying investments remain exposed to various local currencies. This exposure relating to non-

monetary assets is considered a component of equity price risk, not currency risk, and the Company's general policy is not to hedge this exposure, although it might decide to deviate from this.

To avoid currency risk, cash and cash equivalents are mainly held in EUR.

The Parent Company's operating expenses are mainly denominated in Swedish kronor (SEK) and it pays shareholder distributions in SEK. The Parent Company 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" presents the Company's monetary and non-monetary assets, which are denominated in currencies other than EUR.

The Sensitivity analysis for market risks summarizes the sensitivity of the Company's monetary and non-monetary assets and liabilities to changes in foreign exchange movements as at 31 December 2015. 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, with regard to historical volatility of those rates.

#### (iii) Interest rate risk

Interest rate risk is the risk of increased volatility due to a change of interest rates. The Parent Company is exposed to interest rate risk in its cash and short-term investments, and in any debt or debt-related instruments although the company is debt-free as per 31 December 2015. Changes in the level of interest rates can also affect portfolio holdings through, among other things: (i) the cost and availability of debt financing and hence the Company's ability to achieve attractive rates of return on its investments, and (ii) the debt refinancing capabilities of portfolio companies with a significant degree of leverage, and in which the Company has invested either through funds or directly.

### Fair value of investments exposed to price risk:

EUR thousands	31 December 2015	31 December 2014
Listed shares and participations in investment activities designated at fair value through Profit or Loss at inception	66,901	96,974

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 Company's financial policy.

#### (b) Liquidity and financing risk

Liquidity risk is the risk that financial investments cannot be divested without considerable extra costs, and the risk that liquidity will not be available to meet payment obligations. The Company's activities should primarily be financed by available liquid assets. Liquidity risk is always considered with respect to investments. The Company's investments in illiquid markets mean that liquidity risk is present in terms of the capacity to quickly divest holdings. Due to the Company's high equity ratio, the risk of suspension of payments is deemed low. In accordance with the Company's policy, the Investment Manager monitors the Company's liquidity position regularly. The Board reviews it on a quarterly basis.

The Company's financial liabilities from the investment operations are mainly accrued management and performance fees.

Financing risk is the risk that the costs associated with raising new debt increases and the ability to raise debt is limited. Normally, the Company shall not take on financial debt or provide collateral.

The Company believes that current liquidity needs are well met.

#### (c) Credit risk

Credit risk 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 Company is exposed to credit risk mainly through the investment of excess liquidity in interest-bearing securities, 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. 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 duration of up to 12 month. Deposits in one single bank may not exceed 15 percent of the Company's total net asset value.

In accordance with the Company's policy, East Capital monitors the Company's credit position regularly. The Board reviews it on a quarterly basis.

On 31 December 2015, the Company has EUR 1.9m (EUR 1.1m) in cash and no exposure in interest-bearing securities.

#### (d) Concentration of risk

Concentration of risk refers to single holdings or investment areas that represent a significant part of the total investment portfolio. In the event that the portfolio is concentrated to relatively few investments, adverse performance by even just one of these investments could have a material adverse effect on the Company.

The Company's investment policy stipulates that no investment in any single East Capital Fund may represent more than 40 percent

of the Company's net asset value at the time of the investment. Other than that, the Company's Investment Policy only contains limited diversification requirements for the portfolio.

At the end of 2015, the largest exposure to a single company had a value of EUR 71.8m (EUR 47.0m) or 28.3 percent (18.0 percent) of the net asset value. The top 10 holdings (when combining holdings in underlying funds) had a value of EUR 169.1 (EUR 142.5m) corresponding to 66.7 percent (54.5 percent) of the net asset value at year end 2015. At year-end 2015, 57 percent (41 percent) of the invested portfolio has its geographic exposure to the Baltics, 16 (27) to Russia and 13 (14) to the Balkan region. By industry sectors 33 percent (20 percent) of the invested portfolio was held in Telecom Services, 25 (24) in Real Estate and 15 (21) in Consumer Discretionary.

#### 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 in 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.

It is the Company's assessment that its increased exposure to the Baltic region and decreased exposure to Russia and Central Asia has led to a lower overall political risk in the investment activities of East Capital Explorer.

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

31 December	EUR	SEK	Total
Monetary assets, 31 December 2015	10,457	53	10,510
Monetary assets, 31 December 2014	5,565	49	5,614

31 December	EUR	USD	RUB	LTL	MKD	Total
Non-monetary assets, 31 December 2015	135,765	72,786	26,537	-	8,556	243,644
Non-monetary assets, 31 December 2014	94,617	95,033	35,062	24,234	7,332	256,278

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

Risk factors	31 Dec 2015		31 Dec 2014	
	Change	Effect on profit or loss and equity	Change	Effect on profit or loss and equity
Currency rate EUR/LTL	+/- 10%	-	+/- 10%	2,423
Currency rate EUR/RUB	+/- 10%	2,654	+/- 10%	3,506
Currency rate EUR/USD	+/- 5%	3,639	+/- 5%	4,752
Equity price	+/- 10%	24,364	+/- 10%	25,628
Value of level 3 holdings	+/- 10%	16,367	+/- 10%	13,365

**(b) Country risks**

Country risk is a collection of risks associated with investing in a foreign country, including political risk, exchange rate risk, economic risk, sovereign risk and transfer risk. Eastern Europe, Russia in particular, is generally attached with a higher perceived level of risk as the markets are often less mature and, thereby, often more volatile and vulnerable to external shocks. The Baltic countries are attached with lower risk.

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 country specific aspects should not develop as anticipated in any of the countries in the Company's investment region, the Company's investments may be adversely affected.

**(c) Investment strategy risk**

The business plan and objectives of the Company are dependent on the availability of interesting investments. This includes timing investments and exits 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 or exit at the most profitable moment.

**(d) Company specific risk** The success of the Company depends on the ability to provide shareholders with a portfolio of interesting and profitable investments. This also includes being able to manage the investments effectively and to create progress on investor 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 Company. As a large part of the 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 ongoing operations of East Capital.

**(f) Related party risk**

With East Capital as the Company's Investment Manager, the Company relies on East Capital's capacity to manage the investment activities as opposed to 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 15 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

East Capital Explorer AB, East Capital Explorer Investments SA 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".

### Investment agreement

The parent company East Capital Explorer AB and its subsidiary East Capital Explorer Investments SA has entered into an Investment Agreement with East Capital PCV Management AB ("East Capital"), a subsidiary of East Capital Holding AB, the parent company of the East Capital group. In order to meet the requirements set out in the EU Directive (2011/61/EU) on Alternative Investment Fund Managers, the investment holding structure was reorganised in August 2014, where the Investment Agreement and the investment portfolio were transferred from East Capital Explorer Investments AB to East Capital Explorer Investments SA on identical terms, and East Capital Asset Management SA ("ECAM SA") was appointed as alternative investment fund manager (AIFM) of East Capital Explorer Investments SA. The AIFM implements investments according to the investment policy and provides investment management services pursuant to the Investment Agreement.

ECAM SA is a subsidiary of the East Capital group and is licensed by the Commission de Surveillance du Secteur Financier (CSSF), in Luxembourg as an AIFM. During 2015 the fees from East Capital Explorer Investments SA to ECAM SA were EUR -4.8m (EUR+5.3m). The fees for 2014 were positive due to reversed performance fees relating to earlier years.

For more details about fees, see below and on page 48.

At an Extraordinary General Meeting on 9 May 2016, the shareholders approved the Board's proposal regarding a joint termination of the Investment Agreement between East Capital Explorer and East Capital. It is the Company's estimate that terminating the Agreement and building an in-house investment organization will more than halve its operating and management costs, while removing organizational complexity. For further information please see Note 17.

### Other transactions with related parties

There were no other transactions with related parties in 2015.

### Service agreement

The Company has a service agreement with East Capital International AB, a service company within East Capital, pursuant to which the Company buys certain administrative and other services. The Company has a sub rent premises agreement with East Capital International AB. During the year the Company purchased services for EUR 0.1m (EUR 0.1m), all of it through the Parent Company, see Note 3.

### Employees

The CEO of East Capital Explorer AB is a Board member of East Capital Explorer Investments SA and a member of the Investment Committee of East Capital Explorer Investments SA (the AIFM).

### Transactions with key management personnel and related companies

East Capital Explorer AB's management, Board members and their close relatives and related companies control 23 percent (22 percent) of voting rights in the Company. For information about remuneration of senior executives please refer to Note 4.

### Potential conflicts of interest

The Investment Agreement entered into between the Company and East Capital 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, and where conflict of interest may exist, 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 Agreement further provides that direct investments offered by the East Capital 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 East Capital to actively identify monitor and address any conflicts of interest that may arise in connection with the allocation of investment opportunities.

### Fees to East Capital

TEUR	Management fees	Performance fees	Total fees	Management fees	Performance fees <sup>1</sup>	Total fees
Fee for managing East Capital Explorer's investment portfolio	2015	2015	2015	2014	2014	2014
Direct investments	-2,629	-	-2,629	-2,849	11,074	8,225
Other investments	-2,197	-	-2,197	-3,215	262	-2,953
<b>Total</b>	<b>-4,825</b>	<b>-</b>	<b>-4,825</b>	<b>-6,064</b>	<b>11,336</b>	<b>5,272</b>

<sup>1</sup> Positive performance fee due to reversal of earlier provisions for non-realised performance fees.

## Note 16 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

## Not 17 Events after the end of the financial year

On 14 March 2016, East Capital Explorer AB (ECEX) reached an agreement in principle to pursue a sale of its entire 63 percent stake in Starman Group to Providence Equity. The transaction, which will result in an exit gain for ECEX of at least EUR 35m, corresponding to an annualized return (IRR), net of fees, of between 24 and 27 percent, will consist of an upfront cash consideration of approximately EUR 81m with the potential for an additional earn-out of up to EUR 5m payable in 2017. The transaction will represent an implied total enterprise value of approximately EUR 210m. The exit gain will result in a carried interest of approximately EUR 6.5m, equal to 20 percent of the net exit gain after management fees, based on the upfront consideration, according to the investment agreement between East Capital and ECEX. The transaction is expected to close during the second quarter of 2016.

At an Extraordinary General Meeting on 9 May 2016, the shareholders approved the Board's proposal regarding a joint termination of the Investment Agreement between East Capital Explorer and East Capital. It is the Company's estimate that terminating the Agreement and building an in-house investment organization will more than halve its operating and management costs, while removing organizational complexity.

Following the EGM decision, all management fee payments to East Capital have been halted. This applies to all direct and fund investments, with the exception of the real estate funds East Capital Baltic Property Fund II and East Capital Baltic Property Fund III since real estate is part of the company's strategic focus.

East Capital Explorer and East Capital have signed a Transition and Termination Agreement regarding services and other undertakings until 31 December 2017. The compensation for these services and undertakings will amount to EUR 9.65m plus settlement of accrued carried interest related to 3 Burés and Starman of approximately EUR 7.4m, up to approximately EUR 8.4m (depending on a potential earn-out in the sale of Starman). The compensations will be paid in installments during 2016 and 2017. The carried interest liability in Starman will be paid upon receipt of the exit proceeds and, if any, the earn-out.

Kestutis Sasnauskas, previously Head of Private Equity and Real Estate within East Capital, joined ECEX as Chief Investment Officer following the EGM, and will have the key responsibility for building ECEX's in-house investment management organization.

For further information about joint the termination of the Investment Agreement, please see the press release on the Company's web site: [www.eastcapitalexplorer.com](http://www.eastcapitalexplorer.com).

Upon the aforesaid approval of the joint termination of the Investment Agreement on 9 May 2016, ECEX will launch a buyback program on 20 May. The buybacks will be carried out for as long as the Company's shares trade at a discount of more than 20 percent to its most recently published NAV.

## Five-Year Summary

Consolidated key figures	2015	2014	2013	2012	2011
Net asset value, EUR thousands <sup>1</sup>	253,561	261,314	309,387	300,513	293,551
Share redemptions, EUR thousands	13,170	13,609	14,269	-	-
Equity ratio, % <sup>1</sup>	99.8	99.8	99.9	99.8	97.3
Market capitalisation, SEKm	1,429	1,273	1,956	1,618	1,815
Market capitalisation, EUR thousands	156,057	134,345	225,149	188,374	208,807
Number of outstanding shares, m	28.2	29.9	31.4	33.0	33.7
Number of outstanding shares including repurchased shares, m	28.5	29.9	31.4	33.0	33.7
Weighted average number of shares, m	29.3	31.8	33.1	36.2	37.5
Number of employees	4	4	4	5	4

Key figures/share	2015	2014	2013	2012	2011
Earnings per share, EUR <sup>1,2</sup>	0.25	-1.06	0.70	0.40	-3.41
Dividend per share, EUR <sup>3</sup>	0.09	-	-	-	0.09
NAV, SEK <sup>1</sup>	82	83	87	78	77
NAV, EUR <sup>1</sup>	9.00	8.73	9.85	9.10	8.69
Share price, SEK	50.75	42.50	62.25	49.00	53.75
Share price, EUR	5.54	4.49	7.00	5.70	6.03
SEK/EUR	9.16	9.47	8.89	8.59	8.92

<sup>1</sup> 2013 is recalculated due to amendments to IFRS 10 and IAS 27 regarding accounting by Investment entities

<sup>2</sup> Following the company's redemption program all historical earnings per share calculations have been adjusted accordingly

<sup>3</sup> Proposed dividend for 2015, 0.80 SEK per share corresponding to 0.09 EUR per share

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 give a true and fair view of the financial position and results of the Company. The statutory Administration Report of the Company provides a fair review of the development of the Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Company.

Stockholm, 13 May 2016

**Lars O Grönstedt**  
Chairman of the Board

**Mia Jurke**  
Chief Executive Officer

**Peter Elam Håkansson**  
Board member

**Liselotte Hjorth**  
Board member

**Alexander Ikonnikov**  
Board member

**Mikael Nachemson**  
Vice Chairman of the Board

**Jenny Rosberg**  
Board member

Our Auditors' Report was submitted on 13 May 2016

KPMG AB

**Anders Malmeby**  
Authorised Public Accountant

The annual report, as indicated above, have been approved by the Board for publication on 13 May 2016. The statement of income statement and balance sheet of the Company will be submitted to the shareholders' meeting for adoption on 9 June 2016.

# 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

We have audited the annual accounts of East Capital Explorer AB (publ) for the year 2015, except for the corporate governance statement on pages 36 - 49. The annual accounts of the company are included in the printed version of this document on pages 53 - 76.

### *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 that are free from material misstatement, whether due to fraud or error.

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 2015 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 2015 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 36 - 49. 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 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 2015. 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 36 - 49 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 account.

Stockholm den 13 May 2016

KPMG AB

Anders Malmeby  
Authorized Public Accountant

## Definitions

### Average number of shares

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

### Catch-up

Allocation of the net proceeds of the fund, once hurdle has been reached. May be set to 50/50 meaning that 50% of the net proceeds are paid to investors and 50% to East Capital up to a given allocation target of the total net proceeds of the fund. Purpose is to incentivize the manager to create good returns (above hurdle).

### 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

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

### Equity ratio

Total equity as a percentage of total assets.

### Enterprise value

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

### Hurdle Rate

The annual return that needs to be achieved in order for any performance fees to be charged.

### IRR (Internal Rate of Return)

Annual average return.

### 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.

### Net Asset Value (NAV)

Corresponds to the value of East Capital Explorer's net assets, i.e. total assets less net debt.

### Net asset value per share

Net asset value per share in relation to the total number of registered shares on the Balance Sheet date (excluding any repurchased shares).

### 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.

### Performance fee

Fee paid to encourage East Capital to create better returns. The performance fee is typically 20%, meaning that 80% of the profit is allocated to East Capital Explorer's investors and 20% is paid to East Capital, conditional upon the achievement of the hurdle rate, if applicable.

### Profit/loss for the year

Profit/loss after tax.

### 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.

### 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.

### Subscription fee

Fee paid upon investment in a fund, amounting to a certain percent of invested capital. East Capital Explorer does not pay any subscription fees.

### 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.



# Financial information and calendar

- **9 June 2016**  
Annual General Meeting 2016
- **19 May 2016**  
Interim Report  
1 January - 31 March 2016
- **26 August 2016**  
Interim Report  
1 January - 30 June 2016
- **17 November 2016**  
Interim Report  
1 January - 30 September 2016

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.

# Annual General Meeting 2016

The Annual General Meeting of East Capital Explorer AB (publ) will be held at 3.00 p.m. CET on 09 June 2016 at IVA Konferenscenter, Grev Turegatan 16 in Stockholm.

## 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 Thursday 02 June 2016 and have notified the company of their attendance no later than Thursday 02 June 2016.

## 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 Thursday 02 June 2016. Shareholders are requested to inform their nominees well in advance of this date.

# Contact us

**Investor and media contact:**

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lena.krauss@eastcapitalexplorer.com

**We welcome your opinion**

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

**Visiting address:**

Kungsgatan 33, Stockholm  
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, email: [info@euroclear.eu](mailto:info@euroclear.eu)

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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