

**PALMER CAPITAL EMERGING EUROPE EQUITY FUND N.V.**



**ANNUAL REPORT 2013**



# **1 PALMER CAPITAL EMERGING EUROPE EQUITY FUND N.V.**

## **Incorporation**

Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) is an investment company with variable capital within the meaning of article 76a of Book 2 of the Dutch Civil Code. PCEEEF was incorporated on 4 April 2005 by a notarial deed executed before Prof. Mr. D.F.M.M. Zaman, civil-law notary in Rotterdam. A ministerial declaration of no objection was granted on 18 March 2005 under number N.V. 1315647.

## **Registered office and entry in Trade Register**

PCEEEF is registered in Amsterdam and is entered in the Trade Register of the Chamber of Commerce “Oost Nederland” under number 08134215.

## **Office address**

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7411 SH Deventer  
the Netherlands  
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E-mail: [info@palmercapital.eu](mailto:info@palmercapital.eu)  
Website: [www.palmercapital.nl](http://www.palmercapital.nl)

## **Mailing address**

P.o. box 211  
7400 AE Deventer  
the Netherlands

## **Supervisory Board**

The Supervisory Board of PCEEEF consists of:

B. Vos M.Sc. (chairman)

C.J.M. Borst

Dr. A.D. Plaggemars

B. Vos M.Sc. is currently also Chairman of the Supervisory Board of Palmer Capital Fondsenbeheer B.V., Palmer Capital Emerging Europe Equity Fund N.V., Palmer Capital Russian Midcap Fund N.V., Middle Europe Opportunity Fund II N.V., Middle Europe Opportunity Fund III N.V., member of the Supervisory Board of Palmer Capital Emerging Europe Property Fund N.V. and Vice Chairman of the Supervisory Board of Koninklijke Reesink N.V. (since 2004).

C.J.M. Borst is currently also member of the Supervisory Board of Palmer Capital Fondsenbeheer B.V., MEI-Tsjechië en Slowakije Fonds N.V. and Palmer Capital Russian Midcap Fund N.V.

Dr. A.D. Plaggemars is currently also member of the Supervisory Board of Palmer Capital Fondsenbeheer B.V., MEI-Tsjechië en Slowakije Fonds N.V., Palmer Capital Russian Midcap Fund N.V., CNR [Centrum Notarieel Recht] Law Faculty University Nijmegen, member of the Board of Internationaal Juridisch Instituut, and of Stak Koninklijke Reesink N.V.

Giving attention to Book 2, Title 4, Article 166, of the Dutch Civil Code, which refers to an equality among male and female members within the Supervisory Board, the following could be stated: The current composition of the Supervisory Board of the fund was established several years ago and remains intact unless one of its members step down. However as soon as a position is or becomes vacant the

management of the fund strives to create an equality of male and female members within the Supervisory Board in order to comply to this legislation.

### **Managing Board**

EEEF is managed by Palmer Capital Fondsenbeheer B.V. Palmer Capital Fondsenbeheer B.V. ("Managing Board") was incorporated under the name Midden-Europa Fondsenbeheer B.V. (subsequently changed into MEI-Fondsenbeheer B.V.) on 10 June 2002 by a notarial deed executed before Mr. C.E.M. van Steenderen, public notary in Rijswijk. By a notarial deed executed before Mr. J.G.R.C. Prinsen, public notary in Deventer on 8 June 2012 the name of the Managing Board has been changed into Palmer Capital Fondsenbeheer B.V.

Palmer Capital Fondsenbeheer B.V. is registered in Deventer and is entered in the Trade Register of the Chamber of Commerce "Oost Nederland" under number 08107686.

The Managing Board of EEEF holds a licence from the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markten, the "AFM") under the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the "Wft").

Palmer Capital Fondsenbeheer B.V. currently has the following directors:

G.St.J. Barker LLB FRICS

P.H.J. Mars M.Sc.

P.H. van Kleef M.Sc. RC MRE

The Managing Board has chosen domicile at the office of EEEF. More information can be found on the website: [www.palmercapital.nl](http://www.palmercapital.nl).

### **Stichting Prioriteit RBF**

Stichting Prioriteit RBF (the "Foundation") is managed by a Foundation Board consisting of the following members:

G.St.J. Barker LLB FRICS

H.H. Visscher

### **Auditor**

KPMG Accountants N.V.

Laan van Langerhuize 1

1186 DS Amstelveen

the Netherlands

### **Legal advisor**

Loyens & Loeff N.V.

Blaak 31

3011 GA Rotterdam

the Netherlands

### **Listing, Paying and Fund Agent**

SNS Securities N.V.

Nieuwezijds Voorburgwal 162

1012 SJ Amsterdam

the Netherlands

**Administrator**

KroeseWevers Accountants B.V.  
Pantheon 2  
7521 PR Enschede  
the Netherlands

**Custodian**

ING Bank Romania (till 21 November 2013)  
48 Iancu de Hunedoara Blvd  
011745 Bucharest  
Romania

ING Bank Bulgaria (till 17 December 2013)  
49B Bulgaria Blvd  
Sofia 1404  
Bulgaria

Raiffeisen Bank International AG (as of 10 January 2014)  
Am Stadtpark 9  
A-1030 Vienna  
Austria

For the intervening period (21 November 2013 till 10 January 2014) the equity investments were temporarily transferred to Central Depository and Bancpost S.A.

**Identification codes**

ISIN code: NL0000287282  
REUTERS code: MERB.AS  
BLOOMBERG code: RBF:NA

The Managing Board of Palmer Capital Emerging Europe Equity Fund N.V. (Palmer Capital Fondsenbeheer B.V.) holds a licence from the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markten, the “AFM”) under the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the “Wft”). This investment involves risks. The price of shares may go down as well as up. Past performance is not a guarantee for future performance. Consult your broker or financial advisor prior to make any investment decisions.

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## 2 PRE-ADVICE SUPERVISORY BOARD

Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) is an investment company with variable capital incorporated under Dutch law and registered in Amsterdam. The shares are listed on NYSE Euronext Amsterdam.

### Objective

The objective of PCEEEF is to provide institutional and private investors a vehicle for collective investment in a diversified and carefully selected portfolio of shares and other securities issued by enterprises or institutions (irrespective of the nationality) in Romania and / or Bulgaria which are listed or traded on the Romanian and / or the Bulgarian stock exchanges or other regulated, regular and acknowledged open markets in Romania and / or Bulgaria.

The core vision of the strategy will be:

1. Shift in scope required to better correlate PCEEEF to the on-going economic improvements in key Central Eastern Europe countries and to track the process of convergence in Central and Eastern Europe;
2. Focus on companies which generate returns in the region, irrespective of origin;
3. Focus on sectors that are necessary for development in the region and are highly correlated with economic growth;
4. Focus on liquidity through countries being targeted and investments being made will also be required to ensure flexibility in an uncertain economic climate;
5. Focus on companies traded which are defensive in nature and cash flow focused.

PCEEEF is advised by its own investment specialists who are working in Deventer (the Netherlands), Cluj-Napoca (Romania), Sofia (Bulgaria), Moscow (Russia) and Prague (Czech Republic).

### Type of investment

A diversified investment portfolio of approximately 25 medium and small sized companies and “blue chips” from various sectors which are (mainly) listed on the stock exchanges in Romania and Bulgaria.

### Fund structure

PCEEEF operates as an open-end investment institution. Barring unforeseen circumstances, PCEEEF will issue or redeem its own ordinary shares on any trading day of NYSE Euronext Amsterdam. With regard to the redemption of ordinary shares, PCEEEF will ensure that, barring exceptional circumstances, the obligation to redeem is fulfilled. The Managing Board may, however, temporarily suspend the redemption of ordinary shares and the repayment of the value of the ordinary shares in the interest of PCEEEF.

Palmer Capital Fondsenbeheer B.V. is the Management company for PCEEEF, which obtained on 24 January 2006 a licence from the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markten, the “AFM”) under the Dutch Act on the Supervision of Investment Institutions (Wet toezicht Beleggingsinstellingen, the “Wtb”), which was superseded by the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the “Wft”) as per 1 January 2007.

## **Taxation**

PCEEEF has the status of “fiscale beleggingsinstelling”, or “FBI”, within the meaning of article 28 of the Dutch Corporation Income Tax Act 1969 (hereinafter to be referred to as CITA), which implies that a corporate tax rate of 0% is applicable provided that a number of conditions is met. One of these conditions is that profits must be distributed to the shareholders within eight months of the end of the financial year.

## **Trading**

PCEEEF is listed on NYSE Euronext Amsterdam. Shares of PCEEEF are traded by means of a single forward pricing mechanism, which ensures orders will be executed at Net Asset Value, plus or less 0.5% (NAV +/-). A single forward execution moment has been set, at which all orders are executed simultaneously at the single price (NAV +/-). A fixed cut-off time (16:00 CET) separates one trading day from the next, as well as a fixed execution time (10:00 CET) to process the executions at NAV +/- . Orders to buy or sell shares in PCEEEF which are sent before the cut-off time (T-1) will be executed the next day (T). Orders that are entered after the cut-off time, will be executed a day later (T+1).

## **Investment policy**

The principal aim of the investment policy is to earn capital gains. PCEEEF will mainly invest in shares issued by companies that it considers being undervalued and / or which are expected to benefit from the development of the Eastern Europe economies. Dividends received from the companies in which PCEEEF invests will be for the benefit of PCEEEF.

PCEEEF has established a diversified portfolio of equity investments, with the risks spread over companies as well as sectors. Positions are reviewed on a regular basis and adjusted if necessary.

In case the Managing Board is of the opinion that it will be beneficial for the shareholders of PCEEEF to participate actively during Annual Meetings of the companies in which PCEEEF invests, employees from the local offices from Palmer Capital (“PC”) in Eastern Europe will attend the Annual Meetings to represent the shareholders of PCEEEF.

PCEEEF’s voting policy is aimed at value creation by means of transparent, consistent and sustainable voting. In general, PCEEEF supports the decisions of the managing boards of the companies, as long as the board acts in the interests of shareholders and respects the generally accepted principles of corporate governance. See also paragraph 9.9.5.

### **Investment criteria**

The Managing Board will pursue an investment policy that takes the following investment criteria into consideration:

- PCEEEF invests in equity investments traded on a Eastern Europe stock exchanges or other regulated and acknowledged open markets in Eastern Europe;
- PCEEEF does not invest more than 15% of its assets as at the time of purchase in equity investments issued by any one company or institution;
- The portfolio of equity investments of PCEEEF will consist of shares issued by companies which are active in the following sectors:
  - Energy and Utility;
  - Construction;
  - Indirect Real Estate;
  - Oil;
  - Financial Services;
  - Machinery & Engineering;
  - Telecommunication;
- PCEEEF may also invest in other sectors if attractive opportunities for investment arise;
- PCEEEF may temporarily hold part of the assets in cash;
- PCEEEF may use financial instruments to hedge the currency risk;
- PCEEEF will not attract repayable funds.

### **Corporate governance**

Clarity and transparency in supervision and accounting is considered by PCEEEF to be the cornerstone of good management and entrepreneurship. It acknowledges a sound system of good corporate governance. Such as is demonstrated in this annual report, the objectives are clearly defined and PCEEEF has a clear strategy.

### **Fund governance**

Palmer Capital Fondsenbeheer B.V. endorses the DUFAS Principles of fund governance, as formulated by the Dutch Fund and Asset Management Association (DUFAS). Following these principles, Palmer Capital Fondsenbeheer B.V. will act in the interests of investors of the funds Palmer Capital Fondsenbeheer B.V. manages. In case of a possible conflict of interest, transactions will be submitted for approval to the Supervisory Board.

DUFAS principles of fund governance are presented on the website of DUFAS: [www.dufas.nl](http://www.dufas.nl).



### **3 PRE-ADVICE SUPERVISORY BOARD**

Hereby we present the annual report of Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) that has been prepared by the Managing Board. This report contains the financial statements for the period from 1 January until 31 December 2013.

The financial statements are audited by KPMG Accountants N.V. and were approved. The auditor's report is presented on page 41. The Supervisory Board has received notice of this approval.

The Supervisory Board recommends the financial statements for the year 2013 to the Regular General Meeting for adoption. The proposal of the Managing Board to pay no dividend over the year 2013 has been adopted by the Supervisory Board.

During 2013, the Supervisory Board had four meetings. During these meetings, the Supervisory Board discussed the intention of the Management Board to implement a new strategy and to shift in scope in order to better correlate the fund to the on-going economic improvements in key CEE countries and to track the process of convergence in Central and Eastern Europe. The Supervisory Board will continue to monitor developments closely to protect the continuity of PCEEEF and the interests of its investors.

During these meetings, the Supervisory Board also discussed the (administrative) organization, commercial strategy and financial reporting. The Managing Board attended these meetings.

Deventer, 18 April 2014

Supervisory Board  
B. Vos M.Sc. (chairman)  
C.J.M. Borst  
Dr. A.D. Plaggemars

## 4 REPORT OF THE MANAGING BOARD

### 4.1 MARKETS AND ECONOMY

The year 2013 was a challenging year. Most of which was attributable to the aftermath of the European debt crisis. In the first six months of 2013 (H1-2013) the net asset value (NAV) of the fund decreased by 2.8%. The decrease of the fund size was caused by a decrease in value of the underlying assets included in the portfolio. In the second half of 2013, the fund gained 1.7%. Overall, the fund registered a net loss over 2013 of 1.1%. Although the interest in the region increased, the interest for smaller less liquid companies remained low. The fund has still a large portion of its funds invested in the smaller companies.

**Table 4.1. Main figures Palmer Capital Emerging Europe Equity Fund N.V.**

As at end of period	2011	H1-2012	2012	H1-2013	2013
Share Price (EUR)	5.26	4.41	4.82	4.69	4.75
Net Asset Value (EUR)	5.28	4.49	4.83	4.70	4.78
Number of shares outstanding	1,996,672	1,996,672	1,570,342	1,295,770	1,085,032

*Source: Palmer Capital Emerging Europe Equity Fund N.V.*

In the second half of 2013 it became clear that the Romanian economy elaborated on the effects it set in the first half. The Romanian economy is prosperously recovering – e.g., GDP growth figures were 5.1% Year over Year (YoY) in Q4 as compared to 4.4% YoY in Q3, which means that 2013 GDP growth is 3.5% (exceeding all estimations). The Romanian export grew by a significant 19.1% YoY, which was mainly supported by strong economic countries in Europe, such as Germany and the United Kingdom.

#### 4.1.1 Romania make Progress

The performance of the Romanian equity market in general was influenced by governmental factors caused by the political noise of the Romanian government last year. However, during the first half of 2013, the Romanian government actively looked for improvement of the economy by means of developing investment plans and the restructuring of the financial position and balances of the country. In the second half of 2013, the Romanian economy started to show an increasing demand for products beyond the country's borders. Various industries benefited from this increasing demand. The industrial sector as well as the agricultural sector both contributed positively towards the Romanian economy as a whole.

The Bulgarian economy leaves a rough year behind with moderate GDP growth. The political turmoil and social unrest influenced the economy negatively in the first half of 2013. The second half of 2013 was characterized as a turning point. This was, in the same manner as Romania, almost entirely assignable towards the strong export figures.

The economy of Romania grows prosperously and is still not operating at full capacity. Therefore, the main focus of the fund remains at Romania since the fund management considers Romania the most undervalued and interesting growing equity market in Central and Eastern Europe (CEE). Since Romania shows solid fundamentals of economic growth, it is likely that this country provides the most economic potential in the CEE. A growing equity market will attract more attention. This should influence the pricing of less liquid companies.

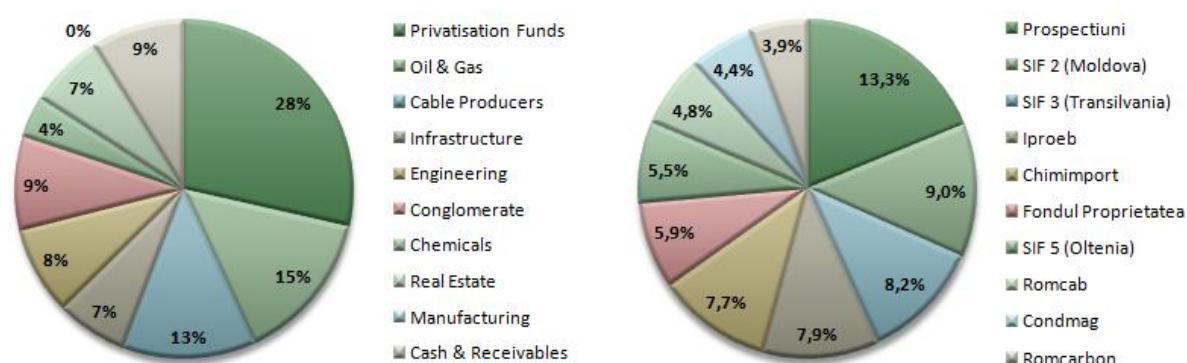
As an example; Romania has over 10 million hectares of agricultural land, it has divers energy resources like coal, oil, natural gas, hydro, nuclear and wind. It also has a substantial manufacturing base, a very well educated labour force and enough opportunities for expanding its tourism sector (mountains, Danube delta and Black Sea beaches). Besides that, the equity market is likely to show more liquidity

since some state-owned companies have been taken public on the Bucharest Stock Exchange and more are likely to follow.

## 4.2 PORTFOLIO MANAGEMENT

As a result of the strategy, PCEEF continued to reduce the positions in illiquid shares. Because of the illiquid character and undervaluation of certain stakes at the moment, the fund management will continue to execute the strategy, which was set in 2012, in a controlled manner. Another reason to act in this way is the fact that the Romanian equity market is considered to be more attractively priced than other similar markets in the region. Especially some smaller companies are undervalued because of the current lack of interest in these kind of companies. Find below the sector distribution graph and the top 10 holdings as at 31 December 2013.

**Graph 4.1 Sector distribution (left) and top 10 holdings as at 31 December 2013**



The portfolio consist for 74.8% out of Romanian companies and for 16.5% out of Bulgarian companies. The other 8.7% is held as cash. On the 31<sup>st</sup> of December 2013, the biggest stakes in the portfolio are listings in Romanian companies. The top ten holdings are dominated by Romanian stocks. The biggest stake in the portfolio is Prospectiuni with 13.3 percent. The company is the Romanian monopolist, when its comes to geoseismic and geological services.

The fund management will reduce the exposure in Romania only gradually as the fund management sees the Romanian capital market as the markets that offers the most potential. This also because of the fact that the Romanian government owns numerous companies that are likely to be taken public in the upcoming years.

The biggest stake in the portfolio derived from Bulgaria is Chimimport with 7.7 percent. Chimimport is the biggest Bulgarian listed conglomerate. Based on the YTD return, the liquid stocks that were most successful in 2013 were the investment funds, such as Chimimport (85.9%), Fondul Proprietatea (50.6%), and SIF Transilvania (40.4%).

## 4.3 OUTLOOK

Romania and Bulgaria have, just as other countries, experienced the negative consequences arising from the European debt crisis and the aftermath of the credit crisis. However, in comparison with other Emerging Markets, Romania experienced a considerably positive year from an economical point of view. Better expected economic growth rates, the process of fiscal consolidation, low current account deficits (2% of GDP) as well as a strong export and an increase in industrial and agricultural productions are all signs of an economic (business) cycle that is changing. Due to this positive signs, the fund management of Palmer Capital, expects that various credit rating agencies will reward the efforts of the Romanian

government by a better credit rating. As a consequence, it is likely that the money- and capital market will benefit from this increase in credit rating.

The Romanian stock market also benefited from the fact that the Romanian government introduced state-owned companies to the stock exchange. Companies, such as Nuclearelectrica and Romgaz, were already listed on the stock exchange in 2013. Other companies, such as CE Oltenia (a 15% will be listed), Hidroelectrica (15%), and Electrica (51%) are likely to follow in 2014. The fund management of Palmer Capital expects that these IPOs will increase the interest for Romanian stocks, the stock market and the economy in general since also the liquidity of current illiquid stocks is likely to increase.

The successful 15% SPO in Transgaz (Romanian gas transporting company) of EUR 72m, the appointment of the former CEO of Warsaw Stock Exchange as BSE General Manager at 1st July and the up-coming IPOs and SPOs in 2014 will increase liquidity and transform BSE to a regional player.

Palmer Capital expects that especially companies in the energy sector and companies active as investment vehicles will be among the top performers in 2014. The Romanian energy sector is in full swing. International players entered the market in recent years. It is likely that the investments in these sectors will increase. Increases in pipelines by gas transporters, such as Transgaz, are likely just to be able to transport the increased quantities. These will directly influence the investments of pipeline builders, such as Conmag. As mentioned in paragraph 4.1, the fund has widened its focus and can now also invest in countries like the Czech Republic and Poland. To give an idea about the growth expectations, please find below a table (4.2) with some indicators.

**Table 4.2 Indicators for some CEE countries**

	Romania		Poland		Bulgaria		Czech Republic	
	2014e	2015e	2014e	2015e	2014e	2015e	2014e	2015e
<b>GDP Growth (% YoY)</b>	2,1	2,4	2,5	2,9	1,5	1,8	1,8	2,2
<b>Inflation (% YoY)</b>	2,5	3,4	2,0	2,2	1,4	2,1	0,5	1,6
<b>Unemployment (%)</b>	7,1	7,0	10,8	10,5	12,4	11,7	7,0	6,7
<b>Gross debt (% of GDP)</b>	39,1	39,5	51,0	52,5	22,6	24,1	50,6	52,3
<b>C/A balance (% of GDP)</b>	-1,5	-1,7	-1,3	-1,4	0,0	-0,6	-1,1	-1,0

**Source:** European Commission (European Forecast Winter 2013, publ.: 5<sup>th</sup> of November 2013)

#### 4.4 STATEMENT REGARDING ADMINISTRATIVE ORGANISATION AND INTERNAL CONTROL

Management has reviewed all elements of the administrative organization during the reporting period. We consider that the administrative organization and internal control as prescribed by Article 121 of the Bgfo ("Besluit gedragstoezicht financiële ondernemingen"), meets the requirements prescribed by the Financial Supervision Act (Wet op het financieel toezicht, the "Wft") and related regulations. Pursuant to this, we declare as the Managing Board of the Palmer Capital Emerging Europe Equity Fund N.V. that the Company possesses a description as prescribed by Article 121 of the Bgfo, which meets the requirements as prescribed by the Bgfo. In addition, the Managing Board declares with a reasonable degree of certainty that the administrative organization and internal control functions effectively and in accordance with this description.

*Deventer, 18 April 2014*

*The Management, Palmer Capital Fondsenbeheer B.V.*

*G.St.J. Barker LLB FRICS, Managing director*

*P.H.J. Mars, M.Sc, Managing director*

*P.H. van Kleef, M.Sc., RC MRE, Managing director*

## **FINANCIAL STATEMENTS 2013**



## 5 BALANCE SHEET AS AT 31 DECEMBER 2013

(before proposal distribution of results)

	Notes	31-12-2013 EUR 1,000	31-12-2012 EUR 1,000
<b>Investments</b>			
Equity investments	9.9	4,737	6,198
<b>Receivables</b>			
Balances due from brokers		21	38
Other receivables	9.10	1	141
		22	179
<b>Other assets</b>			
Cash	9.11	521	1,334
<b>Short-term liabilities</b>			
Accounts payable and accrued expenses	9.12	91	123
<b>Result of receivables and other assets less short-term liabilities</b>		452	1,390
<b>Assets minus short-term liabilities</b>		<b>5,189</b>	<b>7,588</b>
<b>Shareholders' equity</b>			
Share capital	9.13	5,429	7,852
Share premium reserve	9.14	46,706	46,637
Other reserves	9.16	-/- 46,901	-/- 45,934
Net result for the period	6	-/- 45	-/- 967
		<b>5,189</b>	<b>7,588</b>

## 6 PROFIT AND LOSS STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013

	Notes	2013 EUR 1,000	2012 EUR 1,000
<b>Investment income</b>			
Dividend income	9.19	337	492
<b>Gains / losses on investments</b>			
Realized gains / losses on investments	9.20	-/- 4,041	-/- 7,201
Unrealized gains / losses on investments	9.21	3,952	6,117
		-/- 89	-/- 1,084
<b>Other income</b>	9.22	-/- 8	4
Total income		240	-/- 588
<b>Expenses</b>			
Investment management fees	9.23	159	231
Administrative expenses	9.24	125	147
Other operating expenses	9.25	1	1
Total expenses		285	379
<b>Net result for the period</b>		<b>-/- 45</b>	<b>-/- 967</b>
Basic earnings per ordinary share (EUR)	9.29.1	-/- 0.03	-/- 0.51
Diluted earnings per ordinary share (EUR)	9.29.3	-/- 0.03	-/- 0.51

## 7 CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2013

	2013	2012
	EUR 1,000	EUR 1,000
<b>Cash flow from operating activities</b>		
Net result excluded unrealized gains / losses on investments	-/- 3,997	-/- 7,084
Unrealized gains / losses on investments	3,952	6,117
Net result according to profit and loss statement	-/- 45	-/- 967
Reversal of gains / losses on investments <sup>1</sup>	82	1,068
Purchase of investments	-/- 539	-/- 287
Disposal of investments	2,057	2,999
Change in receivables	19	31
Change in short-term liabilities	-/- 62	-/- 10
Net cash from / used in (-/-) operating activities	1,512	2,834
<b>Cash flow from financing activities</b>		
Received on issued ordinary shares	129	51
Paid on redeemed ordinary shares	-/- 2,454	-/- 2,036
Net cash from / used in (-/-) financing activities	-/- 2,325	-/- 1,985
<b>Net increase / decrease (-/-) in cash</b>	<b>-/- 813</b>	<b>849</b>
Cash as at 1 January	1,334	485
Cash as at 31 December	521	1,334
<b>Net increase / decrease (-/-) in cash</b>	<b>-/- 813</b>	<b>849</b>

<sup>1</sup> Excluded are transaction costs related to disposal of investments

## 8 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' EQUITY

	2013	2012
	EUR 1,000	EUR 1,000
<b>Shareholders' equity as at 1 January</b>	7,588	10,546
Net result for the period	-/- 45	-/- 967
<b>Issue and redemption of ordinary shares</b>		
Issue of ordinary shares	130	51
Redemption of ordinary shares	-/- 2,484	-/- 2,042
Net addition to / reduction on (-/-) shareholders' equity	-/- 2,354	-/- 1,991
<b>Shareholders' equity as at 31 December</b>	<b>5,189</b>	<b>7,588</b>

## 9 NOTES TO THE FINANCIAL STATEMENTS

### 9.1 INTRODUCTION

The financial statements have been prepared in accordance with legal regulations, under which Book 2, Title 9 of the Dutch Civil Code (Boek 2, Titel 9 Burgerlijk Wetboek) and the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the “Wft”) and the Dutch accounting standard as issued by the Council for annual reporting (Raad voor de Jaarverslaggeving, the “RJ”).

A fund manager can use a transition period of one year if the fund manager is entitled on the 21<sup>st</sup> of July 2013 to manage alternative investment funds in the Netherlands. This transition period implies an automatic legal transition on the 22<sup>nd</sup> of July 2014 from a Wft license (Wft-vergunning) into an AIFMD license (AIFMD-vergunning) since Palmer Capital Fondsenbeheer already possessed a Wft licence on the 21<sup>st</sup> of July 2013. For this annual report, the terms of the old Wft applies.

The financial statements are presented in Euros, rounded to the nearest thousand.

### 9.2 FOREIGN CURRENCY

#### 9.2.1 General

The functional currency of the Fund is the Euro (EUR) reflecting the fact that the ordinary shares of the Fund are dominated in EUR.

Assets and liabilities denominated in foreign currencies are converted at the exchange rate applicable on the balance sheet date. Exchange rate differences arising from translation are recognized in the profit and loss statement. Profit and losses in foreign currencies are converted at the exchange rate applicable on the transaction date. Transactions in foreign currencies are converted at the exchange rate applicable on the transaction date.

#### 9.2.2 Exchange rates

	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009
New Romanian Lei (EUR / RON)	4.4710	4.4445	4.3233	4.2620	4.2363
Bulgarian Lev (EUR / BGN)	1.9558	1.9558	1.9558	1.9558	1.9558
Czech Koruna (EUR / CZK)	27.4270	25.1510	25.7870	25.0610	26.4730

Source: European Central Bank (ECB)

### 9.3 OVERVIEW

	31-12-2013	31-12-2012	31-12-2011	31-12-2010	31-12-2009
Shareholders' equity (EUR 1,000)	5,189	7,588	10,546	15,114	22,038
No. of ordinary shares outstanding	1,085,032	1,570,342	1,996,672	1,996,672	2,692,194
Net Asset Value (EUR)	4.78	4.83	5.28	7.57	8.19



## **9.4 RELATED PARTIES**

### **9.4.1 Identity of related parties**

With regard to Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) the following categories of related parties were distinguished during the financial period:

- A. Managers in key positions;
- B. Major investors;
- C. All organisational entities within the group designated as “Palmer Capital” (“PC”);
- D. Investment trusts, investment funds and other investment companies, which are managed by an entity belonging to Palmer Capital;
- E. Investments undertaken by Palmer Capital, in which Palmer Capital has significant influence (more than 20% of voting rights).

### **9.4.2 Transactions with and / or interests of managers in key positions (A)**

During the financial period, no transactions occurred with members of the Managing Board and / or members of the Supervisory Board.

Personal interests of members of the Managing Board and Supervisory Board are defined under paragraph 10.4 “Personal interests”.

The remuneration for the Managing Board is defined under paragraph 9.23.2 “Agreement with Palmer Capital Fondsenbeheer B.V.”. The remuneration for the Supervisory Board is defined under paragraph 9.24.3 “Analysis of Supervisory Board fees”.

### **9.4.3 Transactions with and / or interests of major investors (B)**

Pursuant to the decree on Dutch Act on Financial Supervision (Wet op het financieel toezicht, the “Wft”) PCEEEF reports one major investor, namely Stichting Prioriteit RBF (the “Foundation”), which holds all priority shares in PCEEEF’s capital. No transactions occurred between the Foundation and PCEEEF during the financial period.

### **9.4.4 Transactions with other related parties (C-D-E)**

During the financial period PCEEEF has not entered into transactions with other related parties.

Palmer Capital is through its local subsidiaries and / or employees a non-executive member of the Managing Boards of Condmag, Contor, Prebet and Prospectiuni. Palmer Capital RO s.r.l. and Palmer Capital Bulgaria EOOD will represent the interests of the investment funds of Palmer Capital and as such the interests of PCEEEF.

#### 9.4.5 Investments in other related parties (C-D-E)

Investment trusts, investment funds and other investment companies, which are managed by an entity belonging to Palmer Capital do hold investments in companies in which PCEEEF also holds investments.

Middle Europe Opportunity Fund II N.V. (MEOF II), Middle Europe Opportunity Fund III N.V. (MEOF III) and Prospects Romania C.V. (in)directly holds investments in companies in which PCEEEF also holds investments. The following table shows the percentages of outstanding shares the Palmer Capital-companies hold in the companies:

Company	MEOF II	MEOF III	Prospects Romania	PCEEEF	Total
Condmag	1.74%	-	-	3.49%	5.23%
Contor	-	7.55%	-	8.75%	16.30%
Imotrust	1.39%	-	-	2.97%	4.36%
Iproeb	-	0.57%	-	8.40%	8.97%
Prospectiuni	-	0.85%	0.70%	3.01%	4.56%
Chimimport	0.06%	-	-	0.33%	0.39%
Enemona	0.04%	0.16%	-	0.18%	0.38%
SAF Magellan	1.31%	6.58%	-	2.07%	9.96%

#### 9.4.6 Agreements with related parties

PCEEEF has not entered into any agreements with parties affiliated with the Managing Board or PCEEEF, other than as defined under paragraph 9.23.2 "Agreement with Palmer Capital Fondsenbeheer B.V."

### 9.5 FUTURE RELATED ASSUMPTIONS

As at 31 December 2013, shareholders' equity of Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) is positive. The current cash position is sufficient to cover budgeted costs. In addition, PCEEEF holds a significant position in liquid shares which can be sold within a reasonable period. The Managing Board monitors PCEEEF's cash position and liquidity of shares in its portfolio in relation to its cash flow. Based on these assumptions, the Managing Board is of the opinion that PCEEEF is able to continue as a going concern. Therefore the annual accounts are based on assumptions of going concern.

## **9.6 PRINCIPLES OF VALUATION**

### **9.6.1 General**

All assets, except equity investments, and liabilities are valued at face value.

### **9.6.2 Equity investments**

The equity investments of PCEEEF, include only investments in shares, are valued as follows:

- Shares included in the main indices of the countries PCEEEF invests in are valued at the stock exchange price on the balance sheet date or, if this price is not available, at the last traded price.
- Shares not included in the main indices of the countries PCEEEF invests in and in which PCEEEF possesses less than 0.5% of the equity investments, are also valued at the stock exchange price on the balance sheet date or, if this price is not available, at the last traded price.
- Shares not included in the main indices of the countries PCEEEF invests in, in which PCEEEF possesses a material interest (more than 0.5% of the equity investments) but for which the Managing Board considers the stock exchange price on the balance sheet date not to represent the fair value of the equity investment, can be valued at a prudently estimated, approximate fair value to take the illiquidity and recent market developments into consideration. The Managing Board is of the opinion that for these shares the stock exchange price, usually determined by a trade of small parcels of shares, does not indicate the shares' fair value. The guideline for this estimated fair value is a peer analysis. If applicable, recent over-the-counter (OTC)-transaction prices of these shares will be used as guidelines for the valuation. In addition, once a year an external independent party will be used to value these equity investments.
- The Managing Board has the option to limit the daily increase / decrease of a share of a company PCEEEF invests in, to 10%. Then, the additional difference between the total increase / decrease and the limit price will be corrected the following trading day, again with a limit to max 10%. As at 30 June and 31 December of each year the stock exchange price of each company in the portfolio, for the non-alternatively valued companies, is used for the calculation of the Net Asset Value (NAV).
- Transaction costs, purchase and sales fees are not capitalized.

### **9.6.3 Alternative valuation of equity investments**

#### **9.6.3.1 Estimated fair value by peer analysis**

In accordance with the above principles, the Managing Board composed peer analyses for certain equity investments. These equity investments represent 0.22% of the value of PCEEEF's shareholders' equity as at 31 December 2013 (31 December 2012: 0.14%). The following equity investment has been valued at a prudently estimated, approximate fair value:

- Druzhba. The stake of PCEEEF in this company on the balance sheet date represents 0.22% of PCEEEF's shareholders' equity. Due to the absence of trades during 2012 and 2013 the Managing Board considers the stock exchange price on the balance sheet date not to represent the fair value of the company. Therefore the Managing Board decided to estimate the fair value by making a peer analysis. The estimated fair value represents BGN 2.174 against the stock exchange price on the balance sheet date of BGN 14.00.

### 9.6.3.2 Fair value based on last traded price

Due to absence of recent trades in certain equity investments no recent stock exchange prices as at 31 December 2013 for certain shares were available. Those equity investments represent 3.51% of shareholders' equity as at 31 December 2013 (31 December 2012: 0.87%). The Managing Board had to apply alternative methods to approximate the market value of those equity investments as at 31 December 2013. As described above the Managing Board has reviewed the last traded prices in these equity investments. Those trades took place more than two months before balance sheet date. Based on these data the Managing Board considers the last traded price the best estimate of the fair value as at balance sheet date. The following equity investments have been valued at the last traded price:

Company	Date of last traded price	Percentage of PCEEF's shareholders' equity
SAF Magellan	20-08-2013	0.23%
Vipom	21-08-2013	3.28%
		<b>3.51%</b>

Due to a low level of market activity, the Managing Board recognizes uncertainty in current and future market conditions, as well as uncertainty in the comparable information available. As a consequence of the absence of a traded price at or near balance sheet date the valuation of these equity investments are less accurate and more uncertain than equity investments that are traded on a daily basis.

### 9.6.3.3 Estimated fair value based on closing price at suspension date

Due to the insolvency procedure the trades of Vulcan are suspended as of 22 May 2013. The Managing Board is of the opinion that the closing price of RON 0.20 as at 22 May 2013 represents the fair value of the company. As at 31 December 2013, these equity investment represent 0.27% of PCEEF's shareholders' equity (31 December 2012: 0.47%).

### 9.6.4 Revaluation reserve

A revaluation reserve has been recorded for gains on equity investments that are not frequently traded and are presented at balance sheet date. Frequently traded shares can be sold immediately against a listed price on a liquid market. In a liquid market shares are identical, every random moment a willing buyer and a willing seller can be found and the transaction prices are publicly known. These gains are firstly recognized in the profit and loss statement under "Unrealized gains / losses on investments". At balance sheet date a revaluation reserve is recognized against the "Other reserves". Aforementioned does not affect the size of shareholders' equity nor the total result from investments.

### 9.6.5 Other assets and liabilities

Other assets and liabilities are valued at face value. If necessary, provisions covering the credit risk are made.

## **9.7 DETERMINATION OF RESULTS**

### **9.7.1 General**

The result is determined by allocating the income and expenses to the period to which they relate.

### **9.7.2 Investment income**

Dividend income relating to exchange-traded equity investments is recognized in the profit and loss statement on the ex-dividend date. In some cases, Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases PCEEEF recognizes the dividend income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

### **9.7.3 Gains / losses on investments**

Gains or losses generated by a change in the market value of the investments are stated in the profit and loss statement, as are the results upon sale. A revaluation reserve has been recognized for gains on equity investments that are not frequently traded and are presented at balance sheet date. These gains are in the first instance absorbed in the profit and loss statement under “Unrealized gains / losses on investments”. As at balance sheet date a revaluation reserve is recognized against the “Other reserves”.

## **9.8 BASIS OF PREPARATION OF CASH FLOW STATEMENT**

PCEEEF has used the indirect method for the Cash Flow Statement. Cash as mentioned in the Cash Flow Statement includes the balance sheet item “Cash”. Cash flows in foreign currencies are converted at the exchange rate applicable on the settlement date. Transactions without settlement in cash are not recognized in the Cash Flow Statement. All items mentioned in the Cash Flow Statement are adjusted for amounts still receivable or still payable at balance sheet date.



## 9.9 EQUITY INVESTMENTS

### 9.9.1 Statement of changes in equity investments

	<b>Romania</b>	<b>Bulgaria</b>	<b>Italy</b>	<b>Czech Republic</b>	<b>Total</b>
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Balance as at 1 January 2013	4,777	1,320	101	-	6,198
Purchases	220	86	-	233	539
Sales	-/- 742	-/- 825	-/- 140	-/- 211	-/- 1,918
Exchange rate result	-/- 16	-	-	-/- 3	-/- 19
Price result	-/- 360	277	39	-/- 19	-/- 63
Balance as at 31 December 2013	<b>3,879</b>	<b>858</b>	-	-	<b>4,737</b>
Purchase price	17,458	3,140	-	-	20,598

	<b>Romania</b>	<b>Bulgaria</b>	<b>Italy</b>	<b>Czech Republic</b>	<b>Total</b>
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Balance as at 1 January 2012	7,736	2,381	-	-	10,117
Purchases	115	83	89	-	287
Sales	-/- 2,455	-/- 683	-	-	-/- 3,138
Exchange rate result	-/- 246	-	-	-	-/- 246
Price result	-/- 373	-/- 461	12	-	-/- 822
Balance as at 31 December 2012	<b>4,777</b>	<b>1,320</b>	<b>101</b>	-	<b>6,198</b>
Purchase price	19,875	6,047	89	-	26,011

All equity investments in Romania are made in New Romanian Lei. All equity investments in Bulgaria are made in Bulgarian Lev. The Bulgarian Lev is pegged to the Euro.

All equity investments are listed on official stock exchanges. As at balance sheet date, these equity investments were traded on the Bucharest Stock Exchange (BVB) and the Bulgarian Stock Exchange (BSE-Sofia).

A detailed overview of the investments as at balance sheet date is presented under paragraph 9.9.2. PCEEEF does not invest in any other financial instruments except for equity investments listed on official stock exchanges.

An overview of the distribution of equity investments in sectors as at balance sheet date is defined in chapter 4 "Report of the Managing Board".

### 9.9.2 Analysis of equity investments as at 31 December 2013

	Value	Percentage of PCEEEF's shareholders' equity
	EUR 1,000	
<b>Romania</b>		
Condmag	227	4.37%
Contor	103	1.98%
Fondul Proprietatea	306	5.90%
IAR	112	2.16%
Imotrust	73	1.41%
Iproeb	409	7.88%
Mecanica Rotes	32	0.62%
Prebet	94	1.81%
Prospectiuni	689	13.28%
Romcab	250	4.82%
Romcarbon	204	3.93%
SIF Moldova	466	8.98%
SIF Oltenia	286	5.51%
SIF Transilvania	423	8.15%
Transgaz	66	1.27%
Tratament Balnear	125	2.41%
Vulcan	14	0.27%
	3,879	74.75%
<b>Bulgaria</b>		
Advance Terrafund	169	3.26%
Chimimport	400	7.71%
Chimimport Preferred	66	1.27%
Druzhba	11	0.21%
Enemona	30	0.58%
SAF Magellan	12	0.23%
Vipom	170	3.28%
	858	16.54%
<b>Total equity investments</b>	<b>4,737</b>	<b>91.29%</b>

### 9.9.3 Equity investment transactions with related parties

During the financial period no equity investment transactions between Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) and related parties have occurred.

During the financial period no transactions (2012: no transactions) were accomplished with parties that are affiliated with the Managing Board, PCEEEF or the custodian of PCEEEF.

### 9.9.4 Investments in related parties

PCEEEF has no investments in its Management company, in its or with its custodian related parties which represent more than 10% of the assets of the related party or PCEEEF's assets under Management.

### 9.9.5 Equity investments' General Meetings of Shareholders

PCEEEF is a minority shareholder of the companies it invests in. In case the Managing Board is of the opinion that it will be beneficial for the shareholders of PCEEEF to participate actively during General Meetings of Shareholders to represent the shareholders of PCEEEF, it will act accordingly. PCEEEF did attend more than 10 Meetings of Shareholders during the financial period.

### 9.9.6 Portfolio Turnover Rate

The Portfolio Turnover Rate represents the turnover rate of the investments and is calculated as follows: total amount of investment transactions (purchases and disposals of equity investments) by PCEEEF minus the total amount of equity transactions (issuance and purchase of own ordinary shares) of PCEEEF divided by the shareholders' equity of PCEEEF. The calculation of the average shareholders' equity corresponds with the calculation of the Ongoing Charges Figure as defined under paragraph 9.28.

*In percent*

	2013	2012	2011
Portfolio Turnover Rate	-/- 2.42%	14.31%	5.64%

The Portfolio Turnover Rate is negative due to the fact that the total amount of the issued and redeemed own ordinary shares is higher than the total amount of the purchased and sold equity investments.

## 9.10 OTHER RECEIVABLES

	31-12-2013	31-12-2012
	EUR 1,000	EUR 1,000
Receivables due to sales of equity investments	-	139
Receivables from issued ordinary shares	1	-
Interest receivable from cash held	-	2
	<b>1</b>	<b>141</b>

All receivables have a maturity of less than one year.

## 9.11 CASH

These include all accounts with banks that are available on demand. About 34% (2012: 53%) of the cash is held in New Romanian Lei (RON).

## 9.12 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31-12-2013	31-12-2012
	EUR 1,000	EUR 1,000
Administrative expenses	44	101
Investment management fees	11	16
Liabilities due to redemption of ordinary shares	36	6
	<b>91</b>	<b>123</b>

All accounts payables and accrued expenses have a maturity of less than one year.

## 9.13 SHARE CAPITAL

### 9.13.1 Analysis issued share capital

	Number	EUR 1,000
Ordinary shares	1,085,832	5,429
Priority shares	1	-
Issued share capital as at 31 December 2013	<b>1,085,833</b>	<b>5,429</b>

### 9.13.2 Statement of changes ordinary shares

	Number	EUR 1,000
Balance as at 1 January 2013	1,570,342	7,852
Issue of ordinary shares during the financial period	26,342	132
Redemption of ordinary shares during the financial period	-/- 510,852	-/- 2,555
Balance as at 31 December 2013	<b>1,085,832</b>	<b>5,429</b>

### 9.13.3 Analysis authorized share capital

	Number	EUR 1,000
Ordinary shares (at EUR 5.00 each)	7,999,999	40,000
Priority shares (at EUR 5.00 each)	1	-
Authorized share capital as at 31 December 2013	<b>8,000,000</b>	<b>40,000</b>

#### 9.14 SHARE PREMIUM RESERVE

	<b>2013</b>	<b>2012</b>
	EUR 1,000	EUR 1,000
Balance as at 1 January	46,637	46,497
Received on issued ordinary shares	-/- 2	-/- 3
Paid on redeemed ordinary shares	71	143
Balance as at 31 December	<b>46,706</b>	<b>46,637</b>

The increase of the share premium reserve relates to the fact that there are more redeemed own ordinary shares than issued own ordinary shares below nominal value (EUR 5.00 per ordinary share).

#### 9.15 REVALUATION RESERVE

As at balance sheet date there were no gains on equity investments that are not frequently traded and are presented at balance sheet date.

#### 9.16 OTHER RESERVES

	<b>2013</b>	<b>2012</b>
	EUR 1,000	EUR 1,000
Balance as at 1 January	-/- 45,934	-/- 41,366
Net result of previous year	-/- 967	-/- 4,568
Balance as at 31 December	<b>-/- 46,901</b>	<b>-/- 45,934</b>



### 9.17 “OPEN-END” STRUCTURE

Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) operates as an open-end investment institution. Barring unforeseen circumstances, PCEEEF will issue or redeem its own shares on any trading day of NYSE Euronext Amsterdam. The Net Asset Value (NAV) of the shares is calculated by PCEEEF on each trading day of NYSE Euronext Amsterdam. Shares are issued or redeemed at NAV plus or minus 0.5%.

### 9.18 DEFERRED TAX ASSETS NOT STATED IN THE BALANCE SHEET

Deferred tax assets for an amount of EUR 328,000 (2012: EUR 275,000) have not been included in the balance sheet. These deferred taxes consist of paid withholding taxes paid on dividend income received from equity investments. These withholding taxes maybe can be set off in case PCEEEF pays dividend. However the Managing Board does not expect that these withholding taxes can be set off in the future.

### 9.19 DIVIDEND INCOME

Dividend income represents net cash dividend including reclaimable withholding taxes.

### 9.20 REALIZED GAINS / LOSSES ON INVESTMENTS

Realized gains / losses on investments during the period consist of realized price result on investments as well as realized exchange rate result on investments. The transaction fees related to the disposal of equity investments are also included in the “Realized gains / losses on investments”.

	<b>2013</b>	<b>2012</b>
	EUR 1,000	EUR 1,000
Realized price result on investments	-/- 3,474	-/- 5,609
Realized exchange rate result on investments	-/- 560	-/- 1,576
	-/- 4,034	-/- 7,185
Transaction fees on disposal of investments	-/- 7	-/- 16
	<b>-/- 4,041</b>	<b>-/- 7,201</b>

## 9.21 UNREALIZED GAINS / LOSSES ON INVESTMENTS

Unrealized gains / losses on investments during the period consist of unrealized price result on investments as well as unrealized exchange rate result on investments.

	2013	2012
	EUR 1,000	EUR 1,000
Unrealized price result on investments	3,411	4,787
Unrealized exchange rate result on investments	541	1,330
	<b>3,952</b>	<b>6,117</b>

## 9.22 OTHER INCOME

	2013	2012
	EUR 1,000	EUR 1,000
Interest revenues on cash held	4	8
Other exchange- and currency translation results	-/- 12	-/- 4
	<b>-/- 8</b>	<b>4</b>

The “Other exchange- and currency translation results” represent results due to the conversion of monetary items on the balance sheet date. Exchange rate results related to investments are recognized under “Gains / losses on investments”.

## 9.23 INVESTMENT MANAGEMENT FEES

### 9.23.1 General

Costs related to the Management of investments represent remuneration for the Managing Board. The remuneration is calculated over the Net Asset Value (NAV) of Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) at month-end. The calculation is as follows:

- for the shareholders' equity below EUR 10,000,000: 2.50% per annum (0.21% per month);
- for the shareholders' equity between EUR 10,000,000 and EUR 25,000,000: 1.75% per annum (0.15% per month);
- for the shareholders' equity from EUR 25,000,000: 1.25% per annum (0.10% per month).

### 9.23.2 Agreement with Palmer Capital Fondsenbeheer B.V.

PCEEEF has entered into an agreement dated 22 December 2005 (renewed on the 2<sup>nd</sup> of August 2007 and the 18<sup>th</sup> of February 2010) with its Managing Board, Palmer Capital Fondsenbeheer B.V. (Deventer, the Netherlands) for its appointment as Management Company of PCEEEF under the Articles of Association subject to the following terms and conditions:

1. Palmer Capital Fondsenbeheer B.V. will perform its tasks in accordance with the Articles of Association and that which is provided in this regard in PCEEEF's prospectus dated 19 October 2005.
2. The Management of Palmer Capital Fondsenbeheer B.V. will consist of natural persons approved by AFM with sufficient competence to manage a company such as PCEEEF.
3. The appointment is for an indefinite period. Termination will be possible in accordance with the relevant provisions of PCEEEF's Articles of Association. The applicable Articles of Association can be viewed on the website [www.palmercapital.nl](http://www.palmercapital.nl).

## 9.24 ADMINISTRATIVE EXPENSES

### 9.24.1 General

Administrative expenses cover all costs related to the Management of investments, except for the remuneration of the Managing Board, interest expenses, transaction costs and costs related to entry and resignation of shareholders.

### 9.24.2 Analysis of administrative expenses

	2013	2012
	EUR 1,000	EUR 1,000
Audit fees	24	25
Accounting expenses	42	42
Custody fees	13	16
Supervisory Board fees	28	26
Portfolio fees	3	11
Supervisors' expenses	2	2
Listing, Paying and Fund Agent fees	33	33
Consultancy fees	2	7
Other general expenses	11	15
	158	177
Release administrative expenses previous years	-/- 33	-/- 30
	<b>125</b>	<b>147</b>

With regard to the items mentioned above the following explanation can be given:

- The audit fees include the fees related to the audit for the annual report 2013. Except for auditing, no services of KPMG have been used.
- The accounting expenses include the expenses related to bookkeeping, determination of weekly Net Asset Value (NAV) and other activities on account of administrative requirements.
- The custody fees include the fees for the custodians of the underlying equity investments.

- The supervisors' expenses include costs related to the supervision of the Dutch Authority for the Financial Markets, (Stichting Autoriteit Financiële Markten, the "AFM").
- The consultancy fees include also the expenses related to legal fees.
- Other general expenses include, among others, costs of press releases, NYSE Euronext, bank costs and costs of registration in the Commercial Trade Register.

### 9.24.3 Analysis of Supervisory Board fees

	2013	2012
	EUR 1,000	EUR 1,000
B. Vos M.Sc. (chairman)	10	10
C.J.M. Borst <sup>2</sup>	9	8
Dr. A.D. Plaggemars <sup>2</sup>	9	8
	<b>28</b>	<b>26</b>

PCEEEF has provided no loans, advances or guarantees for the members of the Supervisory Board. The members of the Supervisory Board receive no options or remuneration in the form of PCEEEF's shares.

## 9.25 OTHER OPERATING EXPENSES

### 9.25.1 General

Expenses, which are related to the issuance and the redemption of ordinary shares, are covered by the received surcharges in case of issuances and reductions in case of the redemption of ordinary shares. These surcharges and reductions are completely to the benefit of PCEEEF and are entered in the "Share premium reserve".

Expenses of issued ordinary shares concern commissions paid in case of the issuance of ordinary shares. These expenses do not benefit the Managing Board, directors of the Managing Board, custodian of PCEEEF or affiliated parties.

Transaction fees and commissions with respect to the purchase of equity investments are immediately expensed. Transaction fees related to the disposal of equity investments are entered in the "Realized gains / losses on investments".

### 9.25.2 Analysis of operating expenses

	2013	2012
	EUR 1,000	EUR 1,000
Transaction fees on purchase of equity investments	1	1

<sup>2</sup> The increase relates to the Value Added Tax (VAT) due to changes in legislation as of 1 January 2013.

## 9.26 TAXES

Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) has the status of “fiscale beleggingsinstelling”, or “FBI”. This implies that a corporate tax rate of 0% is applicable provided that a number of conditions are met. One of these conditions is that profits must be distributed to the shareholders within eight months of the end of the financial year.

## 9.27 EXPENSES

### 9.27.1 Employees

Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) does not employ any personnel.

### 9.27.2 Transaction fees

The analysis of identifiable and quantifiable transaction fees on purchase and sale of equity investments during the financial period is as follows:

	2013	2012
	EUR 1,000	EUR 1,000
Transaction fees on purchase of equity investments	1	1
Transaction fees on sale of equity investments	7	16
	<b>8</b>	<b>17</b>

### 9.27.3 Outsourcing expenses

PCEEEF has in the ordinary course of business outsourced the following activities to third parties:

- KroeseWevers Accountants B.V., residing in Enschede (the Netherlands): bookkeeping, determination of weekly Net Asset Value (NAV) and other activities on account of administrative requirements.

Expenses related to the outsourcing of these activities are incorporated under “Accounting expenses” as presented under paragraph 9.24.2.

### 9.27.4 Remuneration for orders on behalf of PCEEEF

The Managing Board, the directors of the Managing Board, PCEEEF or the custodian of PCEEEF, parties affiliated with these parties, or third parties, did not receive any remuneration, nor the promise of such for performing assignments for PCEEEF.

### 9.27.5 Contracts with related parties

PCEEEF has in the ordinary course of business a contract with Palmer Capital Fondsenbeheer B.V. for the Management of PCEEEF, as defined under paragraph 9.23.2.

### 9.27.6 Comparison of actual costs with prospectus

<i>In percent</i>	2012 and 2013 Basis of calculation	2013 Actual	2013 Prospectus	2012 Actual	2012 Prospectus
Investment management fee	Net Asset Value at month-end	0.208%	0.104%-0.208%	0.208%	0.104%-0.208%
Auditing and accounting expenses	Average shareholders' equity	0.909%	0.400%	0.579%	0.400%
Costs of supervision	Average shareholders' equity	0.029%	0.150%	0.021%	0.150%
Listing, Paying and Fund Agent fees	Average shareholders' equity	0.503%	0.150%	0.349%	0.150%
Custody fees	Average shareholders' equity	0.203%	0.075%	0.176%	0.075%
Marketing expenses	Average shareholders' equity	0.000%	0.350%	0.000%	0.350%
		<b>1.852%</b>	<b>1.229%-1.333%</b>	<b>1.333%</b>	<b>1.229%-1.333%</b>
<i>In percent</i>					
Placement fees	Placement of own ordinary shares	0.000%	Max. 1.500%	0.000%	Max. 1.500%
<i>In EUR</i>					
Supervisory Board fees	Per member of the Supervisory Board (average)	9,000	8,000	9,000	8,000

For comparison of actual expenses with budgeted expenses as per PCEEF's prospectus the prospectus dated 21 February 2006 was used, as well as the addendum to PCEEF's prospectus dated the 2 November 2012. The calculation of the average shareholders' equity corresponds with the calculation of the Ongoing Charges Figure as defined under paragraph 9.28.

As a result of the decrease of the average shareholders' equity in the previous years, some actual costs exceed the estimated costs in the prospectus.

## 9.28 ONGOING CHARGES FIGURE

The Ongoing Charges Figure is calculated by dividing the total expenses during the financial year by the average shareholders' equity of Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF). The total expenses include the expenses charged to the profit for the period as well as to shareholders' equity. The expenses that are related to the issuance and the redemption of own ordinary shares, as far as these are covered by the received surcharges and reductions, are not taken into consideration.

The average shareholders' equity is fixed by the average of all calculated and published (i.e. every trade day) Net Asset Values (NAV).

<i>In percent</i>	2013	2012	2011
Ongoing Charges Figure	4.39%	4.06%	3.89%

The expenses (except investment management fees) are mainly fixed costs. The increase of the Ongoing Charges Figure relates mainly to the decrease of the average shareholders' equity.

## 9.29 EARNINGS PER ORDINARY SHARE

### 9.29.1 Basic earnings per ordinary share

The basic earnings per ordinary share are calculated by dividing the net result for the period attributable to shareholders of ordinary shares by the weighted average number of outstanding ordinary shares during the financial period.

### 9.29.2 Weighted average number of outstanding ordinary shares

	2013	2012
Issued ordinary shares as at 1 January	1,570,342	1,996,672
Effect on redeemed ordinary shares during the financial period	-/- 268,893	-/- 118,036
Effect on issued ordinary shares during the financial period	15,045	2,955
Weighted average number of outstanding ordinary shares during the financial period	<b>1,316,494</b>	<b>1,881,591</b>

### 9.29.3 Diluted earnings per ordinary share

The diluted earnings per ordinary share are calculated by dividing the net result for the period attributable to shareholders of ordinary shares by the weighted average number of ordinary shares during the financial period including all outstanding convertible securities. Since there are no outstanding convertible securities, the calculation of the diluted earnings per ordinary share is in accordance with the calculation of the basic earnings per ordinary share.



## **9.30 RISK MANAGEMENT**

According to the investment policy, as defined in the prospectus, Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) is allowed to invest in various derivative and non-derivative shares. The equity investments mainly consist of listed and traded shares on Emerging Eastern Europe stock exchanges. Usually these investments are made for an indefinite period.

Investments made by PCEEEF involve several risks. The most significant risks are market risk, credit risk and liquidity risk.

The Managing Board of PCEEEF determines the investment strategy. Deviation between the previously determined investment strategy and the actual strategy is monitored daily by the Managing Board. The character and size of financial instruments that are presented on balance sheet date and the Management and monitoring regarding aforementioned risks will be discussed subsequently.

### **9.30.1 Market risk**

Market risks arise from open positions in interest rate, currency and equity products. The Management of market risk is determined by the investment strategy of the board. The strategy aims for the realization of investment gains by investing in companies that are supposed to be undervalued and will benefit from further development of the economy in Eastern Europe. The market risk is managed daily.

### **9.30.2 Interest rate risk**

According to its investment strategy PCEEEF is not allowed to contract loans. Since PCEEEF is an open-end investment institution and therefore is obliged to redeem its own ordinary shares, part of the portfolio is held as cash. PCEEEF has the opportunity to invest these liquid assets in short-term deposits, involving a (limited) interest rate risk. Short-term deposits may be set up against a fixed percentage to manage the interest rate risk. Consulting various sources, such as brokers and price lists, on a regular basis, closely monitors the interest rate risk.

### 9.30.3 Currency risk

Investments of PCEEEF are usually made in local currencies, in particular the New Romanian Lei (RON) and Bulgarian Lev (BGN). Therefore, these investments involve a currency risk. Foreign exchange rates are enquired on a daily basis. Furthermore, the size of positions in foreign currency are monitored on a daily basis. The Managing Board has decided not to cover this risk since macroeconomic and political developments indicate that increasing rather than decreasing currencies are more likely in the future. PCEEEF has the option to use financial instruments to hedge the currency risk.

	<b>Assets</b>	<b>Liabilities</b>	<b>Net exposure</b>	
	<b>31-12-2013</b>	<b>31-12-2013</b>	<b>31-12-2013</b>	<b>Percentage</b>
	EUR 1,000	EUR 1,000	EUR 1,000	
New Romanian Lei (RON)	4,059	-	4,059	78.2%
Bulgarian Lev (BGN)	947	-	947	18.3%
Czech Koruna (CZK)	-	-	-	0.0%
Euro (EUR)	274	91	183	3.5%
	<b>5,280</b>	<b>91</b>	<b>5,189</b>	<b>100.0%</b>

	<b>Assets</b>	<b>Liabilities</b>	<b>Net exposure</b>	
	<b>31-12-2012</b>	<b>31-12-2012</b>	<b>31-12-2012</b>	<b>Percentage</b>
	EUR 1,000	EUR 1,000	EUR 1,000	
New Romanian Lei (RON)	5,643	-	5,643	74.4%
Bulgarian Lev (BGN)	1,337	-	1,337	17.6%
Euro (EUR)	731	123	608	8.0%
	<b>7,711</b>	<b>123</b>	<b>7,588</b>	<b>100.0%</b>

### 9.30.4 Price risk

Price risk involves the possibility that the value of investments may change. These changes may occur due to developments affecting a single investment, the issuing company or market-wide developments.

Since the equity investments of PCEEEF are valued against market value, whereby both realized as well as unrealized gains are immediately absorbed in the profit and loss statement, a change in market conditions immediately affects the investment result of PCEEEF.

To monitor the price risk, the Managing Board examines on a regular basis the size of stakes in sectors and in companies in terms of percentage of shareholders' equity. To manage the price risk, PCEEEF pursues a diversified investment portfolio; equity investments are made in different sectors and companies. A detailed overview of the diversification of equity investments as at balance sheet date is defined under paragraph 9.9.2.

### 9.30.5 Credit risk

Credit risk represents the risk that a counterparty is not able to meet its obligations regarding PCEEEF. PCEEEF has a credit-policy and the credit risk is managed continuously. The following items involve a credit risk for PCEEEF: “Receivables from sold equity investments” and “Other receivables”. Given their low maturity, risks regarding these financial instruments are considered to be low.

Moreover, credit risk is managed because the settlement of equity investment transactions takes always place according to the delivery versus payment / receive against payment principle. Transactions are closely monitored on settlement to monitor the credit risk.

### 9.30.6 Liquidity risk

PCEEEF operates as an open-end investment institution. Barring unforeseen circumstances, PCEEEF will redeem its own ordinary shares on any trading day of NYSE Euronext Amsterdam. The redemption of ordinary shares involves a liquidity risk. Due to the liquidity risk, under normal market conditions, part of the portfolio is held as cash and is invested in liquid assets. The Managing Board monitors the liquidity risk by examining the cash position and the size of investments in liquid assets in terms of percentage of shareholders' equity.

*Deventer, 18 April 2014*

*The Managing Board:  
Palmer Capital Fondsenbeheer B.V.  
On behalf of,*

G.St.J. Barker LLB FRICS  
P.H.J. Mars M.Sc.  
P.H. van Kleef M.Sc. RC MRE

*The Supervisory Board:  
B. Vos M.Sc., chairman  
C.J.M. Borst  
Dr. A.D. Plaggemars*

## **OTHER**

### **10.1 GENERAL PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING RESULT APPROPRIATION**

In accordance to Article 22 of the Articles of Association dated 26<sup>th</sup> June 2012, profits are determined and distributed as follows:

1. The Managing board shall annually determine, subject to the objects of the company and upon approval of the Supervisory Board, the amount of the distributable profit -the surplus on the profit and loss statement- that is to be reserved.
2. Out of the profits, after reservation in accordance with the previous Article 22.1, a priority dividend is paid on the priority share, from which the percentage amounts to six percent (6%).
3. The part of the profit remaining after implementing the provisions of Articles 22.1 and 22.2, shall be distributed as dividend on the ordinary shares.
4. The Managing board may resolve, subject to the approval of the priority, to make interim distributions only to the extent that the stipulations set out in Article 22.5 have been complied with, pursuant to an interim statement of assets and liabilities in accordance with Dutch law.
5. Distributions to shareholders may be made only up to an amount which does not exceeds the amount of the distributable reserves.
6. A loss may only be discharged at the expense of a reserve prescribed by law as far as the law allows.
7. Distribution of profits may only be made after adoption of the annual accounts if permissible under the law given the contents of the annual accounts.

### **10.2 PROPOSAL RESULT APPROPRIATION**

The Managing Board proposes to the General Meeting of Shareholders to deduct the net result for 2013 financial period from the other reserves.

This proposal has not been recognized in the balance sheet since this is still a proposal of the Managing Board.

### **10.3 DECREE ON THE DUTCH ACT ON FINANCIAL SUPERVISION**

On 24 January 2006 Palmer Capital Fondsenbeheer B.V. obtained a licence from the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markten, the “AFM”) under the Dutch Act on the Supervision of Investment Institutions (Wet toezicht Beleggingsinstellingen, the “Wtb”), which was superseded by the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the “Wft”) as per 1 January 2007 to act as a Management company of PCEEEF.

### **10.4 PERSONAL INTERESTS**

During the financial period neither the Managing Board nor the Supervisory Board held interests in investments by Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF). During the financial period neither any members of the Supervisory Board nor members of the Managing Board of PCEEEF owned, directly or indirectly, any shares or options to acquire shares.

Mr. J.B. Boekhold, member of the Supervisory Board of Palmer Capital Fondsenbeheer B.V., holds 1,000 ordinary shares of PCEEEF (2012: 1,000 ordinary shares).

## **10.5 SPECIAL CONTROLLING RIGHTS**

Special rights in respect of control of the company have been granted to the holder of the priority share Stichting Prioriteit RBF (“the Foundation”). As provided by the Articles of Association the priority share entitles the Foundation:

- To determine the number of members of the Managing Board and Supervisory Board;
- To make binding nominations for appointment of the members of the Managing Board and the members of the Supervisory Board;
- To make the proposal to the General Meeting of Shareholders to suspend or dismiss a Managing Board member and / or a Supervisory Board member;
- To make the proposal to the General Meeting of Shareholders for the remuneration of the members of the Supervisory Board;
- To make the proposal to the General Meeting of Shareholders to amend the Articles of Association of PCEEEF;
- To make the proposal to the General Meeting of Shareholders for statutory merger or statutory demerger of PCEEEF;
- To make the proposal to the General Meeting of Shareholders for dissolution of PCEEEF.

The General Meeting of Shareholders needs the approval of the Foundation for decisions of the Managing Board concerning:

- Reduction of the issued share capital;
- Interim distributions to shareholders of PCEEEF.

The priority share may not be alienated, except for a transfer to PCEEEF.

## **10.6 MAJOR INVESTORS**

In accordance to the Dutch Act on Financial Supervision (Wet op het financieel toezicht, the “Wft”), Palmer Capital Emerging Europe Equity Fund N.V. (PCEEEF) takes notice of one major investor, namely Stichting Prioriteit RBF (“the Foundation”) which holds all priority shares in PCEEF’s capital.

During the financial period no transactions occurred between the Foundation and PCEEEF.

## **10.7 NET ASSET VALUE**

On each trading day of NYSE Euronext Amsterdam, the Net Asset Value (NAV) per ordinary share and the related issue and redemption price of ordinary shares (in Euro) is determined by the Managing Board. The NAV per ordinary share is calculated by dividing the total value of the investments, plus receivables and other assets and less short-term liabilities, the prepaid expenses and expenses incurred but not yet paid, by the number of ordinary shares outstanding. The NAV thus obtained will be valid during the next trading day. The NAV per ordinary share will be published on the website of Palmer Capital ([www.palmercapital.nl](http://www.palmercapital.nl)).

## **10.8 EVENTS AFTER BALANCE SHEET DATE**

No material events has occurred after balance sheet date.

## **10.9 INDEPENDENT AUDITOR'S REPORT**

To: the General Meeting of Shareholders of Palmer Capital Emerging Europe Equity Funds N.V.

### **Report on the financial statements**

We have audited the accompanying financial statements 2013 of Palmer Capital Emerging Europe Equity Funds N.V., Amsterdam, which comprise the balance sheet as at 31 December 2013, the profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

### **Management's responsibility**

Management is responsible for the preparation and fair presentation of these financial statements and for the preparation of the management board report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code and the Financial Supervision Act (Wet op het financieel toezicht). Furthermore, management is responsible for such internal control as is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of Palmer Capital Emerging Europe Equity Funds N.V. as at 31 December 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code and the Financial Supervision Act.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 18 april 2014

KPMG Accountants N.V.

J.J.A. van Nek RA