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2012 Fourth quarter report to Shareholders

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Please note that investments in Emerging and Frontier markets usually suffer from liquidity problems, and are often affected by governmental interference in the free market, local politics and vagaries in commodity prices; therefore, their prices can be very volatile. This means that it can be difficult to acquire and subsequently sell the shares noted in this, and prior, reports.

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PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

February 28, 2013

Terra Capital ended 2012 a bit over 20% invested in 15 positions. As of the date of this report we are now 30% invested and continue to buy either new stocks, or add to current positions every day. We thought it would be helpful to take this opportunity to explain to our fellow shareholders (each member of management owns shares personally) why our investing has been moving slowly and cautiously, what are our

most current acquisitions, and to provide an update on some of the positions we have already reported to you.

First, our due diligence process usually involves our traveling to the target country and meeting the company's management before we commit to buying – this takes time. In view of all the uncertainties in Emerging and Frontier Markets, in addition to the issues involved in selecting stocks, we aim to have a comprehensive understanding of the company we are investing in so we can achieve a high level of confidence in a position we expect to retain for the long term (we prefer a low turnover in the portfolio).

Second, it is normal for the kinds of stocks we seek, undervalued stocks that sell at large discounts to their "real" or expected value and which have been overlooked or which languish in an unloved market, to trade in small quantities due to their very nature – they are undervalued and sell at large discounts to their anticipated price. As a result, typical sellers are usually those who have little choice but to sell. This makes acquisition of large quantities quite difficult, especially since we want to avoid pushing up the price during our acquisition phase; therefore we buy our targeted companies patiently and judiciously as they come to market.

Third, our investment experience over the last 20 years has shown us that too often fund managers "rush to judgment" when they get control over a large sum of money and invest it as fast as they can simply to "be invested". When investors reviewed such portfolios a year or two later they ask "What was the manager thinking when it bought that?" and the answer is too often "It seemed like a good idea at the time". We do not intend to follow that path and be forced to offer such a limp explanation in the future. Instead, we prefer to invest slowly and patiently into stocks where we can clearly justify our purchase decisions. We have presented our decisions in our quarterly reports and hope our fellow shareholders agree with our logic.

Last, while we have now been able to open accounts in most of the markets we want to trade in, the opening of the brokerage and custody accounts required a lot of time and management attention is still a barrier to entry to other market participants.

Since our last report we have identified ten new positions to acquire, six of which are set out below. We strive to be transparent about our investing and to share our portfolio construction with our shareholders; but in view of the illiquid nature of some of our stock picks, until we reach a critical point of at least 75% of our targeted position we prefer to keep information about these stocks confidential to avoid any premature run up in the stock price due to parallel purchasing. We will continue our search for undervalued stocks in 2013 and expect to be at least 50% invested before the end of the first half of this year.

We hope that our continuous reports about our purchases are clear and that it helps our current shareholders and potential investors to understand our investment policy and approach. We believe that it allows us to build a long-term, value-oriented and dividend producing portfolio.

We are always available for any shareholder inquiries and welcome any suggestions from our shareholders and others.

EGIS Pharmaceuticals PLC

(Current dividend yield of 1.4%)

What is it? EGIS is a Hungarian producer of basic pharmaceutical materials (“active ingredients”) and finished medicines (tablets, syrups, injections etc.) for sale both in the domestic and export market. It currently has about 5% of the Hungarian market.

Why did we buy this? This is the cheapest pharmaceutical stock in Central and Eastern Europe with quite a wide valuation gap over its peers. We started buying the stock at P/E of 7.1, representing a substantial discount to the Company’s long-term average (8-year average P/E of 11.7) as well as to its regional peers. Possibly due to being listed in Hungary (or the overall market sentiment in Europe), at the time of purchase EGIS traded at levels last seen in the beginning of 2009 when all markets worldwide recorded their long term lows. While the Company’s slightly declining trend in profitability could have been a factor in the indicators, its levels displayed substantial undervaluation; P/BV of 0.74, EV/EBITDA of 3.0, and EV/sales of 0.67 were not justifiable.

The Company recently posted favorable results for the last fiscal year (ended Sep-12). Revenue grew 3% as compared to the previous fiscal year and while domestic revenue dropped 10%, export sales increased 8% (although with a substantial contribution from the Hungarian forint depreciation). Operating profit grew 25% and the margin improved by 2.7% to 15.4%, as a result of continued programs promoting long-term efficiency. Net profit soared 36%, leading to a substantial improvement in the respective margin to 13.9% vs. 10.5% year ago, all of which helped the Group to record moderate progress in profitability.

Similarly, the first quarter of this fiscal year (1Q.13, ended Dec-12) looks interesting, with revenue growth of 3.5% (vs. 1Q.12), operating income growth of 1.6%, and net income growth of 23.5%. A significant increase in the bottom line was caused by higher interest income (in comparison with 1Q.12), in particular. What also pleased the market, in addition to favorable 1Q.13 results, was the current fiscal year’s outlook stating: revenue growth of 4-6%, particularly due to increased expectations on sales from Western Europe.

However, despite the stock’s rising about 10% over last two months, it still sells at a 21% discount to book, a P/E of 7.4 (which is a 54% discount to the Budapest stock exchange), and EV/EBITDA of 3.4. Despite its recent price rise, the Group still retains its status as the cheapest CEE pharma stock.

What could go wrong? About one quarter of the Company’s sales has traditionally come from the domestic (Hungarian) market that has been strongly hit by new regulations, in addition to suffering from a difficult macroeconomic situation. Further, the government may be forced to raise taxes again, clearly affecting the Group’s bottom line. Also, new regulations substantially across all European countries could be one of the reasons for possible headwinds as well as lower valuation

KGHM Polska Miedź

(Dividend yield at current price is about 9%)

What is this? KGHM is a Polish copper and silver mining company listed on the Warsaw stock exchange (it is cross-listed on the LSE and other exchanges, but the volume on those exchanges is negligible so we disregard them). It is the 8th-largest producer of copper and the 3rd-largest producer of silver in the world. It has the 4th largest copper resources in the world with an expected additional 40 years of mine life. It is one of the top five Polish companies by revenue and the first by income. The Polish State Treasury owns 32% of the company, and none of the remaining shareholders hold more than 5%. This is a well-run company (except for its decision to enter the energy sector, but this seems to be progressing at a comfortably slow pace) with competent management that foresees the need for growth with proper timing. It has a reasonably diversified and stable portfolio of operating mines, provides a high dividend yield and yet sports one of the lowest valuations in the industry. These attributes combine with a conservative and solid balance sheet with low leverage.

It trades at a significant discount to most other copper producers - about a 20-25% discount on a P/E basis, and over a 70% discount on an EV to EBITDA discount given its low leverage.

The Company has a history of paying generous dividends, partly as a result of pressure from its largest shareholder, the state. Historically, the Company paid out between 47%-100% of its net profit as a dividend from 2005-2011 (with the exception of 2009). On June 28, 2012, the Company agreed on a dividend of PLN 28.34 per share for the year 2011, which translated to a dividend yield of 19%. The total dividend payment to shareholders in 2011 amounted to 51% of net profit after tax. Such unusually high dividend payout cannot continue and we expect the forward dividend rate to decline to about 9-10%, still not a bad yield.

This company is so debt free, that it recently made a \$1 billion acquisition in Chile, the Sierra Gorda project (the world's seventh largest copper project) for which it paid cash. This immediately added 25% to KGHM's output (or 100,000 tons), at a lower price per ton than it now costs. This could ultimately boost its output by as much as 50% when the Sierra Gorda mine goes into production.

What can go wrong?

Downturn in Commodity prices: This company is a strong play on commodities recovery and if China tanks, or the recovery falters, the need for copper would almost certainly decline, with adverse effects. It is not a leveraged commodity play, however, and it is acquiring additional copper reserves at a lower cost than it currently pays and it has the reserves and low leverage to ride out a downturn for a reasonable time.

USD/PLN exchange rate risk: The strengthening of the Polish Zloty vs. USD and/or copper price decreases could pose significant downside risk to KGHM's result.

New production: There is substantial exploration around the world and if the currently planned new mines go ahead as scheduled and their capacities remain unchanged, total copper output could increase globally by 30% over the next 3 years. For copper demand to match such increased supply, annualized consumption growth would have to amount to 7-7.5% or certain investments would have to be given up and such excess production will exert pressure on prices. NOTE: The Company partially hedges its copper price risk and FX risk via financial instruments. In the first half of 2012, total

hedged volume of copper represented 36% of sales and total hedged volume of silver represented 26% of sales

Energy sector investment would weigh on the balance sheet. KGHM wanted to add power generation activities to its current mining operations, with a view to generating 1/3 of total revenues from this new business in the future. This has moved ahead slowly and does not *appear* to be a major concern.

Stable production and multiple factors indicate likely near term subdued performance. A new minerals tax, the first in Poland's history, starting in April 2012 will add another 12%-20% to operation costs. The new tax would increase the effective interest rate to 23.52% from 18.05% as interest is not a deductible cost for tax purpose. Higher operational costs at KGHM's international mines would also reduce margins.

Following our purchase, 2012 results were announced and they showed a slight increase in 4Q Sales, from 5,042 mln PLN to 5,178mln, but a 74 mln PLN decline in net profit from 827mln PLN to 753mln PLN (almost 9%). Another disappointment was that the cost of developing its Sierra Gorda project, a copper-molybdenum-gold mine in Chile, will be 34% higher than planned due to higher labor, materials and energy costs as well as the strengthening Chilean peso. This was already known to the market and it seems clear that the total CAPEX will not exceed USD 4bn (for the 1st phase of the project). These factors added to the negative result on hedging (PLN -69m net) due to rising copper prices at the turn of the 3Q and 4Q and the loss related to the asset for sale revaluation at PLN -158m leading to a negative short-term market reaction. EBIT declined by 76% YoY. Revenues were broadly in line with slightly higher prices of copper and silver and increased 7% YoY; however, operating costs were higher YoY mainly due to a new mining tax in Poland (the Company started to pay in April), which inflated costs by PLN 571m (\$180 million).

We think the company's price is likely to recover when production goes on line and in the meantime this should not affect its normal high dividend.

Silvano Fashion Group AS (Indicated dividend yield of almost 9%)

What is this? Silvano is a manufacturer, distributor and franchise operator of lingerie. Its main market is in the former CIS, especially Russia and the Ukraine and it is listed on the Estonian stock exchange. Silvano manufactures its products through a large, privately owned, production facility in low cost Belorussia and sells them through self-owned and franchised stores under the "Milavitsa" brand. It now has a total of 500 stores throughout the world – mainly in the CIS, but also in Cape Town and Belgium.

Why did we buy this? In 2008, the Company was managed by a group of funds using a directly owned retail model, which was unprofitable. The majority ownership changed hands and the increase in profits since 2008 – leaving aside the very unusual 2011, where there was a major one time increase because of Belorussian hyperinflation – is not from an increase in sales; rather it is from a significant cut in overhead expenses. Sales and distribution expenses are about half what they were previously, and administrative salaries even less. When the current majority owners took control,

they slashed non performing stores, cut rent, cut personnel expenses, and moved to a franchise-wholesale model, saving, for instance, more than 5 million euros in rent (which is passed on to the franchisees) and offering 3 million euros in advertising support (creating a much larger advertising budget while still saving 2 million euros). Administrative overhead was cut significantly, with small savings appearing across the board. The move to a heavy franchise mode seems to have paid off. There are now 500 stores distributing its product with much less overhead. Checking reported production figures against sales, the average cost of a piece of the company's product in 2008 was 4.9 Euro compared to 5.07 today (with a slightly different product mix). Of course, the last five years has also been a period of deep recession in the CIS, and fancy lingerie being a luxury expense, one could claim that maintaining sales volume while cutting expenses and moving these over to franchisees is a big achievement. This is a play on a healthy local manufacturer, with production costs even lower than the normal in the CIS region, low overheads and a rapidly growing franchise base, a 8+% yield and a P/E of 6.

While we usually disregard broker's recommendations, it is of some note that every Swedish bank and broker that follows the stock rates it a buy, all based on an expanding Russian and Ukrainian lingerie market and the Company's position as one of many competitors for market share, but a relatively efficient one. It has no debt and its balance sheet is strong. The Franchise model leads to significantly lower overhead, and the high P/B is not uncommon in successful franchise companies, because so much of the physical property is owned by small entrepreneurs which are locked in customers for the product. It sells at a Current P/E of 5.14; however it is expected to end 2012 at a P/E nearer to 8. While it sells at 2.23 times book, the high P/B is not uncommon in successful franchise companies, because so much of the physical property is owned by small entrepreneurs who are "locked in" customers for the product but represent 91% of sales.

What can go wrong? First, the competition for new clients in Russia's market is fierce; this company is a low cost manufacturer, with a relatively unknown local brand. While we believe that growth will come; there are many ways that it could fail. (The company's policy of putting a Milavitsa store in every one of the shopping malls that are flourishing in mid-tier Russia is a good one, despite being risky.) Second, its production is in Belarus and there are issues with its hyperinflationary accounting which could skew the profit, making it look less than it really is. Third, Silvano's ownership is lead by a secretive local businessman, "Tomas Tool", who owns about 21% in his own name and another 22% is owned by a local businessman no one has heard of, who is almost certainly Tool's man. Therefore the company is controlled by the closest thing to an Estonian oligarch. We think this risk is partially mitigated because Estonia is in the EU and its courts work better than in many other places.

Following our purchase and prior to the completion of this report, 2012 results were announced showing a 19.3% increase in sales but a 35% decline in earnings per share for the period.

On a quarterly level, its operating profit increased to EUR 478,000 compared to last year's loss of EUR 2m. However, the most important factor to us was the sales increase, since margins are so difficult to determine given the Belorussian cost volatility.

Further, since Russian sales represent 61% of total sales, we were impressed that sales in Russia increased 13% YoY.

Management explained the margin as follows: "positive effect of the devaluation on the cost side has been leveled out by increased expenses for labor, outsourcing, utilities, and, to some extent, materials sourced from Belarus. But the main impact on reported results is coming from hyperinflationary accounting, which requires us to apply certain accounting methods that have negative influence on Group`s financial results and margins in 2012."

We believe that it is only a matter of time before the company will achieve a windfall profit because of a future devaluation of the Belorussian currency and we will be collecting a nice dividend while waiting for this to occur.

Allami Nyomda

(Indicated dividend yield above 9.5%)

What is this? Allami Nyomda (State Printing House) {the Company recently changed its name to ANY Security Printing Company Plc.} is a Hungarian company specializing in security products and solutions. It has coverage in Romania, Bulgaria, Moldova and Slovakia through its subsidiaries.

The company earns revenue from:

Security products and solutions (39%): manufacture of mobile phone vouchers and chip telephone cards, parking and commercial cards, bankcards and intelligent cards suitable for the purpose of digital signatures, tax stamps equipped with holograms.

Form production and personalization (30%): Production of ballots used in parliamentary and municipality elections, and business correspondence of several banks, insurance companies and public service companies.

Card production and personalization (24%): ID cards, driving licenses, student cards, vehicle registration cards, etc.

ANY has been focusing on measures to enhance efficiency to boost its bottom-line and despite a 2% revenue decline in 2012 the company increased its Gross Profit by 9% due to firm control of its cost of goods sold. Operating income declined by 13% due to one-off settlements for the costs in restricting a plant in Paszto and a HUF 60m foreign currency loss (9% of operating income) due to appreciation of the HUF. The company managed to maintain a Gross Margin of 27% and a Net Margin of 4%. Management expects significant improvement in the company's competitiveness in 2013 due to its restructuring. The Company's recent involvement with Telenor for NFC (Near Field Communication) based services is expected to add some HUF 70-100m (10-15% increase in profit) in the future.

Its dividend payout ratio has been between 45% to 102% over the last 4 years with a 9.57% dividend yield in 2011. Dividends are expected to continue in this range if the company can reap the benefits of cost cutting measures.

Why did we buy this? The Company has been shifting its focus from traditional printing products to higher value added security printing services. Its recent partnership with Telenor for NFC-based services is a manifestation of the Company's continuous

effort towards high end products. The Company was among the first to join the Hungarian Mobile Wallet Association. Full details about this arrangement are not yet available, but the growth rate of m-wallet has been very high in other regions.

The Company has been able to maintain a much better net profit margin than its peer group and has a similar ROE and ROA as Thai British Security Printing but with a much higher dividend yield. Its efficiency, leverage and valuation indicators are also much better than any of its peer group companies. Despite this, it trades at a 25% *discount* to book compared to a 120% *premium* for the Thai company. This area has high interest with investors and De la Rue, a French comparable with negative equity trades at over 25 times earnings and gives a dividend of about half. ANY has made significant CAPEX investments in the last four years, mainly into state of the art equipment which should stand it in good stead for future competitiveness.

In 2012, it was able to cut direct costs and reduce its cash conversion cycle by 41%. The free cash flow per share is up by 58% and it is currently trading at a 28% discount to book and a 59% discount to revenue. The price to cash flow multiple is 3 at its current price of 460, the lowest in the last 5 years. With an ROE of 10.5% and an expected dividend yield in excess of 9.5%, the multiples seem to indicate that the stock is still undervalued and we will get a nice dividend while waiting for its revaluation.

What can go wrong? The Company is exposed to foreign currency risk, especially to the HUF appreciating against the EUR. A 10% depreciation in foreign currency could lead to a HUF 44 million negative impact (7% of net profit). The Company's efficiency ratios are declining, hinting that it might have lax credit policies. This might be a problem in the future if not properly addressed. This coupled with a large pile up of payables and trade creditors and a very low cash ratio may be detrimental to the Company's health.

Bank of Georgia

(2013 anticipated Dividend Yield of 5.5 %)

What is this? Bank of Georgia is the largest bank in the country of Georgia and offers a broad range of services to clients, from traditional retail banking, corporate banking, and wealth management to insurance and brokerage services. Its total assets account for 36% of the entire banking market; its gross loans and total customer deposits hold a similar market share. It boasts the largest ATM network with more than 400 ATMs and the largest distribution networks of full-service branches and smaller-scale sales outlets in Georgia. Its credit risk rating is BB- from both S&P and Fitch. The second largest bank in the country is less than half of BoG's size.

Why did we buy this? With a PE of about 7 and a PB around 1.3 we believe its current price has not fully reflected the bank's underlying strength or its growth potential. This is the leading bank in a frontier market country where banking penetration is still low and investors' attention has been growing considerably.

Bank of Georgia's potential begins with our generally positive macro views on the Georgian economy. In recent years, Georgia has embarked on a journey of reforms and achieved decent success; even though it suffered multiple blows during the period (first were the violent protests in 2007 quickly followed by the double crisis in the U.S.

and E.U. and that was without mentioning the brief 5 day conflict with Russia over Abkhazia and South Ossetia in 2008 which caused substantial damage). The government's determination to stay on the free market path, to adhere to strict austerity measures such as government expenditure not exceeding 30% of GDP with a budget deficit below 3% and government debt not exceeding 60% of GDP and to eradicate corruption – a major problem for countries in this region, has received much cheer from international community. Its GDP grew by a healthy rate of 6-7% real GDP growth in the last 2 years while maintaining inflation and external public debt at comfortable levels of 2% and 29% respectively. With about \$1.5 billion of donor funds still to flow into the country, Georgia is gearing to capitalize on its distinct competitive advantages such as tourism, hydropower, and an important energy transit hub. It was able to increase the number of tourists from 700,000 in 2006 to nearly 3 million in 2011 and the government expects the number to continue to increase to reach 5 million per annum by 2015. It recorded \$1.2 billion in tourism revenues in 2011, approaching the level of net remittances – the traditional source of the country's capital inflow. The banks' constant increase of deposits illustrates the recovery of trust in financial institutions and an increasing rate of domestic savings is perceived to be the key to sustainable investment and growth in the long-run

As the major bank in the country, Bank of Georgia is uniquely positioned to benefit from an improved macroeconomic outlook and growing capital inflow into the country. Since some of the aid money was pledged to the banking system, and Bank of Georgia is the major bank, it has benefitted in the form of cheaper than normal funding from the EBRD, which allowed the bank to capitalize itself above and beyond customer deposits, a situation which would normally be very limited for a small bank in a remote country like Georgia. Since banking penetration reaches only about 30% of the population, there is significant room for the Bank to grow its market share and expand its operation.

Preliminary 2012 results showed an increase in net income of 32% YoY (2011: 64%) with revenues growing by 20% YoY (2011: 18%; 2010: 16%) which not only exceeded its prior years' in absolute amount, but continued its annual increase. Deposits grew by 27%, although this increase came at decreasing pace (2010: 57%). The cost to income ratio improved to 44.4% in 2012 from 52.4%. On the other hand, the prior positive trend of decreasing impairment charges was interrupted in 2012; impairments increased by more than by 100% YoY, amounting to 1.4% of total loans (2011: 0.8% of total loans; 2010: 2%; 2009: 8%). This could mean that the bank is more realistic on its write-downs, or it could reflect a normal increase in NPL's due to increased lending.

In his statement accompanying 2012 preliminary results, the bank's CEO announced: "The Board intends to recommend an annual dividend of GEL 1.5 per share payable in British Sterling at the prevailing rate. This represents a significant increase of 114.3%, compared to the annual dividend of GEL 0.70 per share last year, a payout ratio of 28.7% and a dividend yield for shareholders of 5.5%, calculated on the basis of the preliminary results and using the 31 December 2012 share price of GBP 10.30". At current prices of about 13.9 pounds per share (it trades as an ADR on the LSE main board) the 61 pence produces a dividend yield of about 4.4% at its current price.

What could go wrong? Worsening of Georgia's relationship with Russia, or major changes in Georgia's relations with Western governments and institutions, may have a

negative effect on the country's economic and political stability. The deterioration of its relationship with Russia may affect national safety, while a deterioration of relationships with Western countries may affect its national economy.

Another risk is depreciation of the GEL (the local currency) due to the high level of Georgia's current account deficit. This is likely to adversely affect the Banks profitability and increase the NPLs.

Komercijalna Banka AD Skopje
(Expected dividend yield of at least 7%)

What is this? Originally established in 1955 as the Komunalna Banka of the City of Skopje, for citizens' savings, housing loans to citizens and enterprises and financial support to construct municipal projects, this bank went through several evolutionary changes and in 1990 it became a shareholding company under the current name of Komercijalna Banka AD Skopje. It is now a universal bank with a wide range of banking activities, such as taking deposits, lending to legal entities and individuals, issuing bankcards, providing services in the domestic and international payment operations, e-banking, intermediating activities in purchase and sale of foreign currencies, securities, forfeiting etc.

Why did we buy this? Komercijalna Banka is the largest bank in Macedonia, with 24.2% of the total assets of the Macedonian banking and a 28% share in total deposits (information as of Dec 31, 2011). As such, it is the most liquid stock on the Macedonian exchange, and a real change for us to have a relatively liquid stock! The European Bank for Reconstruction and Development (EBRD) holds 5.25% and East Capital Explorer Investments AB, a listed Swedish investment company along with related parties, holds 13.08%. This leaves a free float in excess of 80%. With its expected continual growth, potential as a takeover target if the European situation improves and its strong current yield, it was an attractive addition to TCA's portfolio.

What could go wrong? Its non-performing loans (NPL's) could increase substantially due to economic problems in the country and the lack of attractive projects in the country could slow its growth and profit pace.

Subsequent to our purchase, the 2012 results were announced and showed that it had impairments of about EUR 10m in the fourth quarter (11% increase QoQ), which gives a total of EUR 31m for the whole year. Net income was still positive and amounted to about EUR 9 m, which is half of 2011 net income. Also, operating income declined by 50% YoY. Net interest revenue increased by 4% YoY and net commission revenue increased by 5% all of which was in line with our expectations

BRAC Bank

(Dividends usually paid in stock – with the price not adjusting proportionately)

What is it? BRAC Bank Ltd is one of the largest Bangladesh based commercial banks and is an affiliate of BRAC (Bangladesh Rural Advancement Committee), one of the world's largest NGOs. It started operations in 2001 and its shares were listed on the Dhaka and Chittagong Stock exchanges in 2007.

The bank is focused on the growth of small and medium enterprises (SMEs) with about 51% of its loans and advances in 2011 disbursed to SME (compared to 22% for private commercial banks in Bangladesh). SME loans grew by 17% and deposits grew by 47% in 2011, in line with the Company's focus on high growth asset sector and lower cost deposits (SME contribute 25% of the country's GDP). The bank's definition of SME lending includes small enterprises that would be considered as a form of Micro- lending in most other countries.

Remittance is an important industry in Bangladesh and the bank received around 5% of all inward remittances in 2011. Remittances in 2012 grew to over US\$ 14 billion and having such a large percentage of them generates large income to the bank. It has an agreement with Moneygram and is the first bank in the country to provide remittance services through both Western Union and Moneygram. With several innovative products like "Probashi card" which allows a customer to withdraw remittance directly from an ATM, BRAC is expected to play a major role in inward remittance business in the coming years, which could make a strong impact on BRAC's profitability.

Why did we buy this? BRAC is one of the fastest growing banks in the country with Funds under management (assets + liabilities) growing at a CAGR of 22% from 2008-2011. With an ROE near 14%, it trades at a PE of only 8.08, one of the lowest among its peers. The central bank of Bangladesh is facilitating lending to the SME sector and changed guidelines for provisioning of small loans in December 2012. BRAC, with its 51% exposure to SME, will now be required to maintain much lower provisions and the positive impact is expected to be seen in the last quarter of 2012.

The company has good corporate governance standards with most senior management having over 10 years of experience in the sector. The company owns 51% of b-kash, which offers tele-banking services to the unbanked rural population. The initiative already has BDT 1.2bn in transactions. Overall loans and advances grew by 12% in the first 3 quarters compared to 2011. Deposits grew by 18% over same period.

What could go wrong? Several factors may affect the operating profits of most banks, including BRAC. Some of them being the sluggish trend in the country's import - export situation, contradictory monetary policy aimed at reining in inflation and a slowdown in industrial investment due to gas and power shortage.

In addition to the above purchases, we have been buying another 5 positions but until they reach a critical size, we prefer not to report about them.

As part of our Year End Report we thought it would be helpful to present a brief review of some of the other positions we hold in the portfolio including any amendments and updates on such positions.

Société de la Tour Eiffel (indicated gross dividend yield of 10.4% at our average unit cost of €40.22): A French REIT owning mainly office parks and commercial properties on the periphery of Paris and trading on Euronext. Since initial acquisition this gave a semiannual dividend equivalent to over 10% p.a. which we took in more shares since the dividend re-investment policy allowed us to acquire those shares a discount in excess of 10% to the then market price – we "paid" 37.04 Euros at a time when the market price was 41.79. As of Feb. 27, 2013, the market price was €44.60. Its

portfolio is invested 85% (in value) in office space with about 15% in warehouses and some other small investments, concentrating on office parks in the outskirts of Paris and regional business hubs such as Lyon and Strasbourg which are easier to rent than prime properties in central Paris and have a much lower land cost. Much of this property is leased to large corporates until 2016, providing a steady income stream. The company has relatively low debt at a blended rate of 3.5% p.a. and it is 93% hedged. We remain favorable on this position with its high yield and low likelihood of negative surprises.

Euro Properties (Gross dividend yield of 9.3% at our average acquisition price of €4.37). This Greek REIT still trades on the Athens stock exchange at 44% discount to a realistic NAV despite its large price increase (over 40% since initial purchase). The bank that manages this REIT, and owns about 55% of its stock, is being acquired by the National Bank of Greece (a commercial bank) which may look to the fund's large cash hoard to help it out. In the meantime the REIT used the market weakness to re-purchase over 15,000 shares. We have had lengthy conversations with the CEO and CFO feel comfortable that management not only has the interests of the shareholders at the top of its list, but that it is competent and quite capable of handling the current situation.

U-Blox Holding AG, Switzerland (Indicated gross dividend yield of 2.2%) This is a Swiss-based global leader in positioning and wireless semiconductors for the consumer, industrial and automotive markets. This enables people, vehicles and machines to locate their exact position and wirelessly communicate via voice, text or video. In mid-January it announced that it achieved successful satellite positioning using China's BeiDou Navigation Satellite System which established it as the first GNSS ("Global Navigation Satellite System") component vendor to demonstrate compatibility with all globally deployed positioning systems: GPS, GLONASS, Galileo, QZSS and now BeiDou. This was a milestone it achieved only 3 weeks after the BeiDou specification was published. For more information about u-blox, visit www.u-blox.com

Equity Bank (Indicated gross dividend yield of 4.3%) is the second largest bank in Kenya by assets and provides services to the significant "unbanked" market throughout Kenya, the hub of the East African Region (Horn of Africa), with a nominal GDP of \$30 billion. It also has operations in Southern Sudan, Uganda, and lately Tanzania and Rwanda and holds a 24.9% stake in Housing Finance Company, a leading mortgage provider in Kenya.

On December 5, 2012 the World Bank reported that Kenya's economy has the potential to achieve a 5% growth rate for 2013, an improvement on its 4.3% performance for 2012. This is premised on a peaceful and credible March 4, 2013 presidential and parliamentary election with a smooth transfer of power to a new administration. Due to Kenya's rapid urbanization, the ratio of Kenyans engaged in family farms has declined from two-thirds to less than half of the workforce in the past two decades. This transition has translated into a strong demand for banking services.

On February 28, 2013, Equity Bank Group announced a 36% growth in pre-tax profits to Kshs17.2 billion for the full year period ending 31 December 2013. The improvement in earnings was driven by a 100 basis point expansion in net interest margin, which in turn was spurred by an increase in the yield on advances from 17% to 22%. Foreign

currency trading also contributed meaningfully to the income statement, as the Group became the largest player in diaspora remittances, with a market share of 12.3% of the \$1 billion inflow into Kenya in 2012.

The balance sheet expanded by 24% to Kshs 243 billion, as advances grew by 19%. The loans-to-deposit ratio remained flat at 82% showing that deposits also grew at 19%. Mobilization of deposits for lending remains the pillar of the Group's business model. Asset quality improved marginally to 2.45% and is the best in the Kenyan market, which has an average of 6%.

Prudential ratios remain above regulatory minimums, with the liquidity ratio of 46% against 20% required minimum and a tier 1 capital ratio of 21%. The Group also improved its asset quality to 3% from 3.1% for the period and Global Credit Rating gave the bank a long term AA- interpreted as "... very high credit quality..." and short-term AI+, meaning "... highest certainty of timely payment..." in line with the reported asset quality.

The Central Bank announced that as of December 2012 Equity Bank handled 12.3% of all remittance inflows into the country, making it the largest bank in this space. Diaspora remittances rose by 31% to USD1 billion in 2012 and now comprise a very lucrative source of transaction fees for banks.

Portucel Soporcel (Gross dividend yield of 10.1% at our average unit price of €2.19) Portucel is a vertically integrated forestry group that exports its products to 119 countries over five continents. It produces and sells writing and printing paper and related products and it is present in the entire value-added chain from research and development of forestry and agricultural production, to the purchase of wood and the production and sale of bleached eucalyptus kraft pulp and the production of electric and thermal energy.

The Group posted solid results for the fiscal year 2012 (ended Dec-12), slightly beating market expectations. It experienced a strong price rise from beginning of Dec-12 (more than 30%) to end of Jan-13, however, it has subsequently pulled back a bit. Despite the stock's decent performance, current valuation does not seem to be high (still below long-term average levels). Moreover, with its strong dividend and clean business model, there is no reason to take profits at this juncture.

Oman Refreshments: This is the Pepsi franchisee, as well as the distributor for a number of other soft drinks, in Oman. Further investigation of wholesale prices for drinks in Oman have given us a new estimation of the penetration, which is higher than previously thought, but the analysis still shows high potential for strong growth. After our purchase, the 2012 results came out and they showed that 2012 revenue increased 19% with Net Profit up by 42% on a net margin of 15%. Based on its current reports, the new indicated gross dividend yield is 4.1% with a 5 year annual dividend growth rate of 36%. At its meeting on 26th February 2013 the board reported that the Company achieved a net profit after tax of RO 10,015,737 on revenue of RO 66,705,330 in 2012 compared to a net profit after tax of RO 7,044,944 on revenue of RO 56,036,800 in 2011.

Oman Cement: This is the dominant cement manufacturer in Oman, a country that recently began urbanization. Revenue increased by 18% in 2012, most of which came from local sales. Cost of goods sold increased by 15%, leading to a gross margin of 37%. The company managed to reign in operating expenses which increased by only 7%. Net profit for 2012 was up by 37% with a net margin of 31%. The company had a OMR 2m fair value gain on AFS securities (mostly quoted local equity investments), which was seen in other comprehensive income. The company has an ROE of 11.3%. While the price has not yet moved substantially in view of this good news, it is highly likely that it can at least maintain, and perhaps increase, its 2012 dividend and we are confident that as money moves into the frontier market space its price will begin to reflect its high potential. With the price of oil continually remaining above USD \$75 per barrel oil, the assumed price on which the Omani Government budget was set, the large building program, which will require large amounts of cement, should remain full on course

As of February 27, 2013 we held 70% in cash and the remaining 30% invested in the following positions:

| Company | Number of Shares | Valuation | % Portfolio |
|---------------------------|-------------------------|---------------------|--------------------|
| Brac Bank | 1,745,500 | \$776,417 | 1.25% |
| U-Blox | 21,904 | \$995,423 | 1.61% |
| Crnogorski Telekom | 227,050 | \$1,023,098 | 1.65% |
| Eurobank Properties | 191,770 | \$1,457,740 | 2.35% |
| Portucel | 370,723 | \$1,342,690 | 2.17% |
| Silvano Fashion Group | 267,000 | \$927,618 | 1.50% |
| Société de la Tour Eiffel | 26,149 | \$1,520,159 | 2.45% |
| Bank of Georgia | 39,500 | \$821,477 | 1.32% |
| Allami Nyomda | 439,805 | \$885,919 | 1.43% |
| EGIS Pharmaceuticals | 16,000 | \$1,331,681 | 2.15% |
| Equity Bank | 4,410,200 | \$1,351,350 | 2.18% |
| Stock being acquired | 1,740,200 | \$366,778 | 0.59% |
| Komercijalna Banka | 22,415 | \$1,261,489 | 2.03% |
| Oman Cement | 720,950 | \$1,220,933 | 1.97% |
| Oman Refreshment | 175,000 | \$1,107,727 | 1.79% |
| KGHM Polska Miedz | 23,755 | \$1,353,614 | 2.18% |
| Stock being acquired | 12,980 | \$44,426 | 0.07% |
| Stock being acquired | 170,370 | \$220,201 | 0.36% |
| Stock being acquired | 250,000 | \$406,893 | 0.66% |
| Stock being acquired | 5,575 | \$203,829 | 0.33% |
| TOTAL | N/A | \$18,619,462 | 30.03% |

Respectfully submitted,

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