

BALTCAP PRIVATE EQUITY FUND L.P.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”)
REPORT 2011

February 2012

BALTCAP

Table of Contents

BaltCap Environmental, Social and Governance (ESG) Principles	3
Participation in 4th Corporate Responsibility Index in Estonia.....	4
ESG Survey among BaltCap Portfolio Companies	5
Survey Methodology & Responses.....	5
Overview of the Findings.....	6
Description of Findings by Categories	7
Annual Environmental Report of BaltCap Private Equity Fund	11
Contact Holding SIA	12
MediCap Holding (Quattromed HTI Laborid)	13
Energate OÜ.....	15
Air Maintenance Estonia.....	16
TREV-2 Group	17
Kelprojektas	18
Runway.....	20

BaltCap Environmental, Social and Governance (ESG) Principles

As a signatory of the United Nations Principles for Responsible Investment (UNPRI), an investor initiative in partnership with UNEP Finance and the UN Global Compact, BaltCap follows the policies and practices of responsible investment and believes that environmental, social and governance (“ESG”) issues play an increasingly important role in today’s business environment.

BaltCap is committed to the following:

- Participating actively in the strategic management of portfolio companies through Council and Board memberships;
- Identification, credit analysis and supervision of portfolio investments will be carried out with due regard to ecological and environmental factors;
- Not to invest in companies which are engaged in arms manufacturing, manufacture of tobacco, hard spirits, gambling, human cloning and genetically modified organisms;
- Not to be involved in hostile bids;
- Carry out environmental due diligence in all the investment cases with potential environmental risks and issue annual environmental report on the portfolio companies;
- Ensure that appropriate standards of corporate governance are in place or will be implemented within a reasonable time period in all portfolio companies, including regular board meetings, an audit committee, a code of ethical business behaviour and compliance with the OECD Corporate Governance Principles;
- Ensure that all Portfolio Companies comply with the health, safety, worker protection and environmental regulations and standards applicable in the country where the investment is situated.

The Responsible Investment Policy¹ has been adopted by the management and supervisory board of BaltCap in June 2011.

¹ <http://www.baltcap.com/en/focus/responsible-investment>

Participation in 4th Corporate Responsibility Index in Estonia

In 2011 BaltCap participated in 4th Corporate Responsibility Index in Estonia organised by Responsible Business Forum of Estonia in cooperation with Estonian Business School and Business Newspaper Äripäev.

BaltCap was the only investment firm to participate in this index in 2011. BaltCap gained 83.1 points of the possible 100 and took 6th place in general standings, yet winning in the category of local small businesses.



ESG Survey among BaltCap Portfolio Companies

To help portfolio companies think about overall efforts towards responsible entrepreneurship and the possible ways to improve their business in a profitable and sensible manner, BaltCap has asked its portfolio companies to complete an awareness-raising questionnaire on the ESG issues². BaltCap hopes the questionnaire also helps companies to identify further actions they can take to strengthen the business, its reputation and performance. The questionnaire was divided to five sections (Workplace-, Marketplace-, Community-, Environmental Policies and Company Values). A short description and tips were also given for each category.

Survey Methodology & Responses

This survey was carried out at the end of 2011. Fifteen (out of total 20) currently active portfolio companies of different size and sectors responded to the questionnaire.

The respondents were the following:

- Contact Holding (directional media company, pan-Baltic)
- Energate (natural gas distribution networks operator and wind park developer, Estonia)
- MediCap Holding (clinical laboratory services provider, Estonia, Lithuania)
- Air Maintenance Estonia (aircraft maintenance, repair and overhaul, Estonia)
- TREV-2 Grupp (road and environmental construction, Estonia, Latvia)
- Kelprojektas (transport infrastructure engineering, Lithuania)
- Intrac Group (machinery trade, pan-Baltic)
- Papermill Ligatne (papermill, Latvia)
- NeoQi (spa equipment producer, Estonia)
- Hanzas Elektronika (electronics contract manufacturing services, Latvia)
- Oobelisk (corporate media production, Latvia)
- EUROLCDs (LCD manufacturing, Latvia)
- Agroup (software development, Latvia)
- Ygle (building management systems installation, Lithuania)
- Impuls (gym and health clubs operator, Lithuania)

² http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/campaign/documentation/download/questionnaire_en.pdf

Grading of the received responses was carried out as follows:

1. Each answer received points
 - Yes answers – 3 points
 - No answers – 0 points
 - In part – 1 point
 - Not applicable – 0 points, causing the question to be removed from the grading pool for that specific company
 - Don't know – (minus 1) point
2. The points were converted to percentages by dividing each company's result in points with the maximum possible point score. There being 30 questions in total, the maximum possible point score is 90.

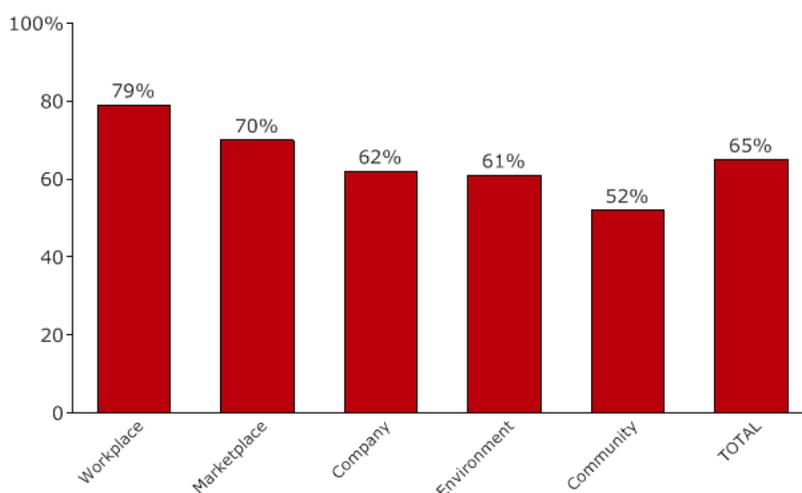
Overview of the Findings

The overall average performance score across all respondents and all ESG categories was 65% with the scores ranging between 83% for the best performer and 38% for the worst. As a positive finding it is worth to mention that the companies involved in production and being larger in size (therefore having a higher ESG impact) showed better scores than smaller companies operating in sectors where the ESG impact is lower.

The average score was highest (79%) for Workplace category, reflecting that the companies' place emphasises effectiveness of daily operations, motivation of employees and company reputation.

The average grade was lowest (52%) for Community category, which shows that the overall engagement in matters may not always be directly related to the everyday business.

Figure 1: Overall score for all respondents and categories

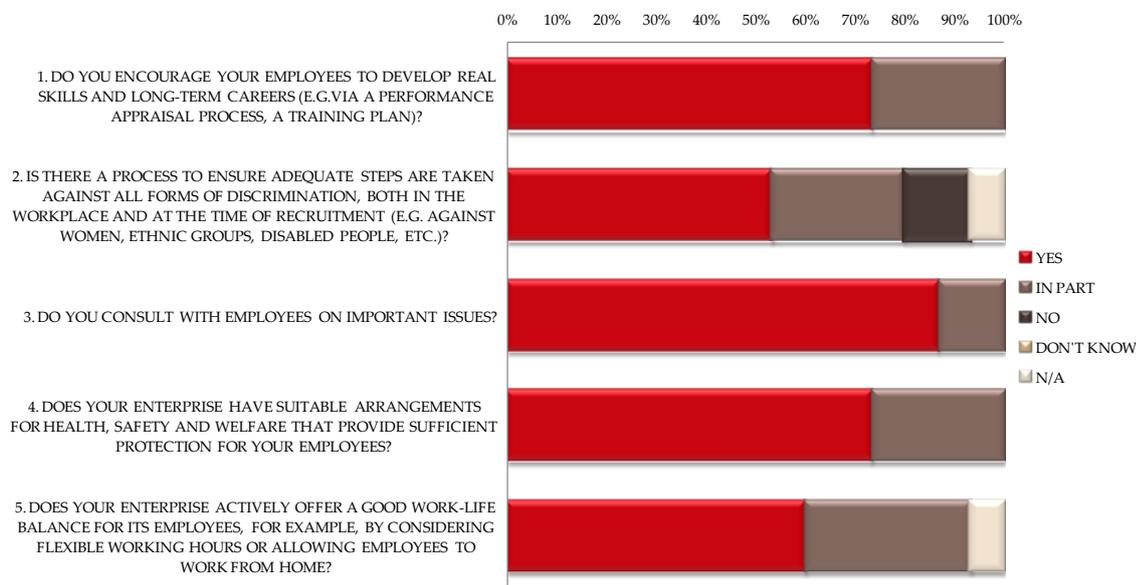


Description of Findings by Categories

Workplace Policies

- All companies responded that they are consulting with their employees on important issues and developments.
- The health and safety of their employees are important for all companies as well as training and career development.
- The processes against discrimination received the lowest score. This can be explained by discrimination not being a serious issue in the Baltic countries in general.

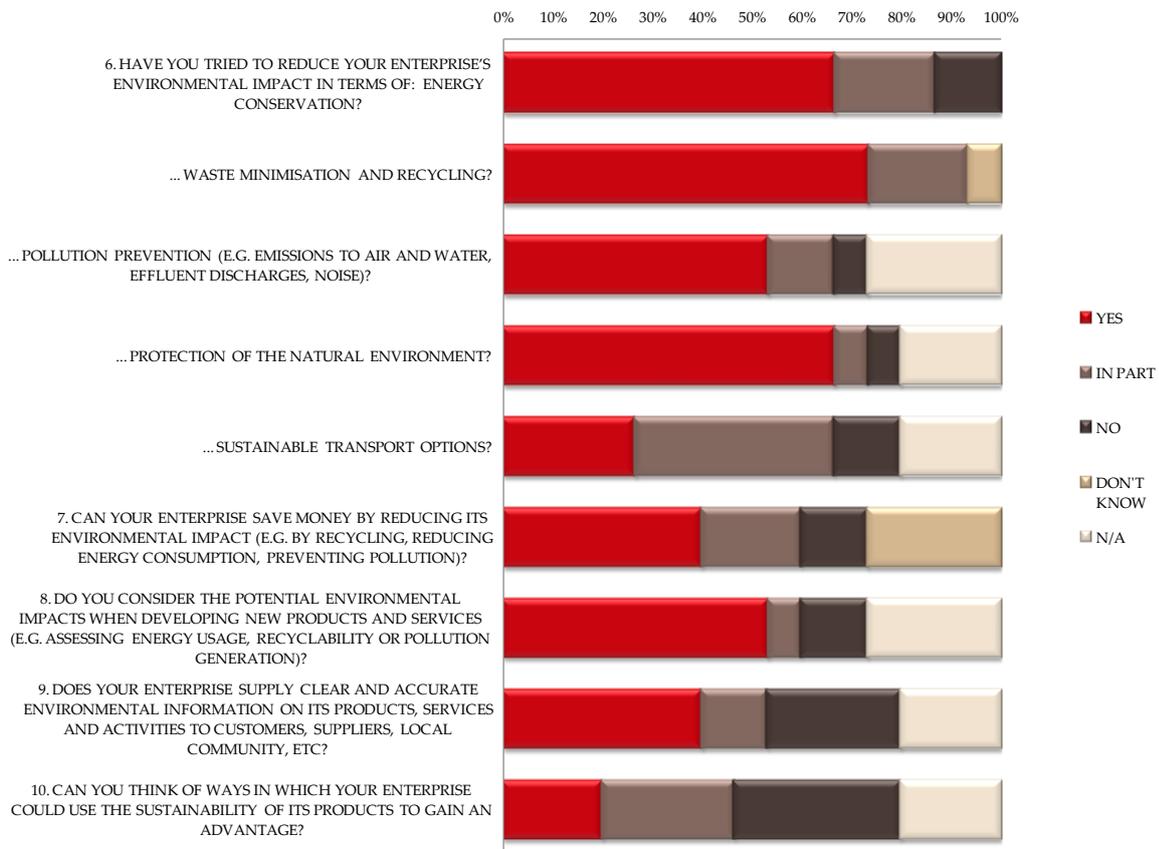
Figure 2: Questions and responses for Workplace Policies category



Environmental Policies

- Majority of the responded companies are making efforts to improve energy conservation, increase recycling and reduce waste.
- Also protection of the natural environment is high up in the agenda for most companies.
- At the same time many companies are not yet thinking of how to turn sustainability efforts to their advantage and measure the reduced environmental impact in terms of money.

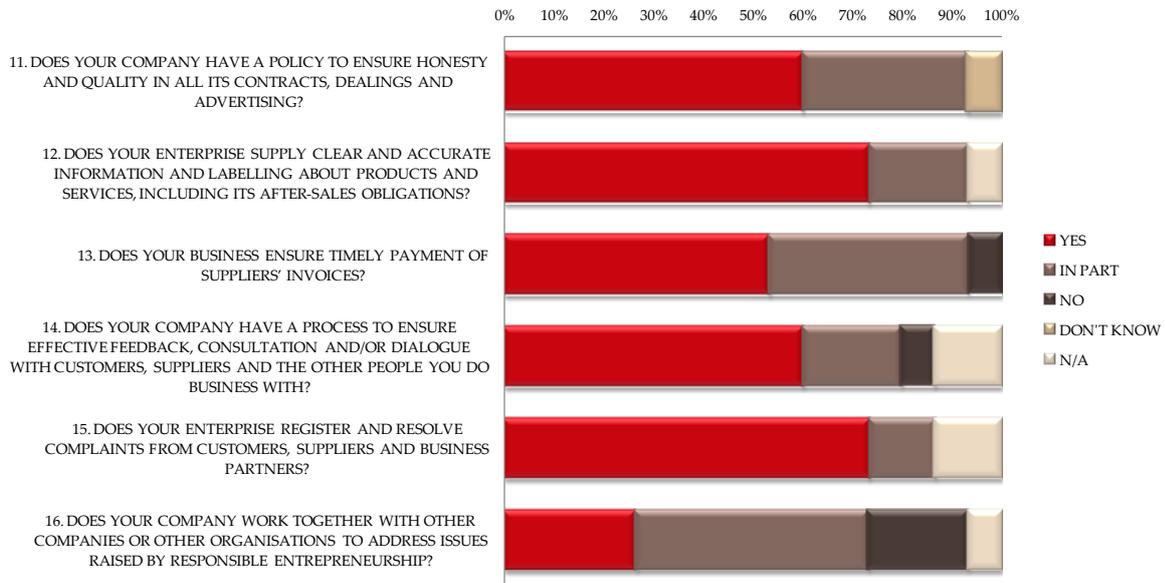
Figure 3: Questions and responses for Environmental Policies category



Marketplace Policies

- Honesty and quality in dealings and contracts are important for basically all companies
- Most companies also confirm that communication with customers is important to them.
- As we expected, due to the after-effect of the economic crisis in the Baltics, the timely payment of suppliers' invoices received somewhat lower score.
- The area that needs most improvement in the marketplace section is the collaboration with other organisations on ESG issues.

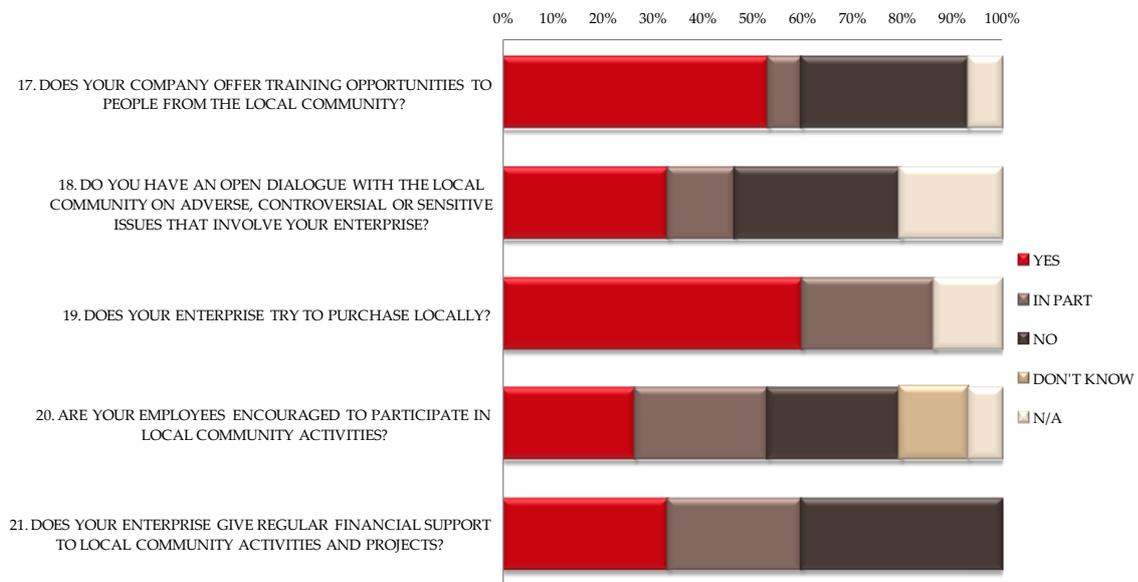
Figure 4: Questions and responses for Marketplace Policies category



Community Policies

- Most of BaltCap portfolio companies try to purchase the goods locally.
- More than half of the companies offer training opportunities to people from the local community.
- At the same time, the dialogue and overall involvement in local communities is still fairly weak. The likely reason for that is the relatively small size of the companies and the lack of resources.

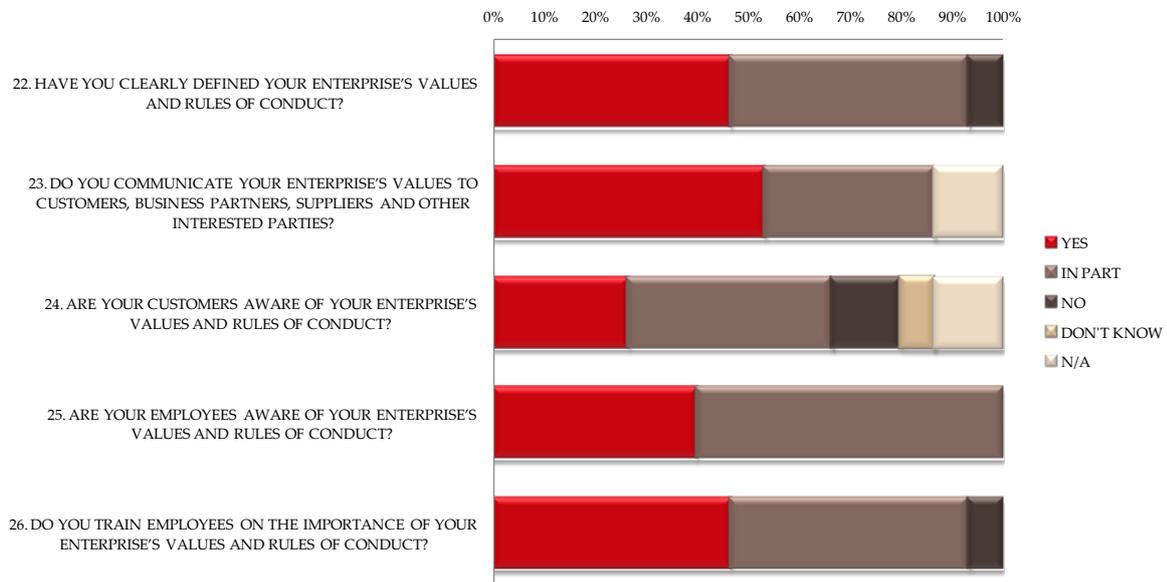
Figure 5: Questions and responses for Community Policies category



Company Values

- Most companies have, at least in some level, defined the company values and rules.
- The company values and rules are communicated internally and the employees have received training for that.
- The communication of the values outside the organisation still remains a challenge as many companies believe that their customers are not well aware of their values.

Figure 6: Questions and responses for Company Values category



Annual Environmental Report of BaltCap Private Equity Fund

The following section of the report is prepared in accordance with EBRD's Environmental Procedures outlining the material environmental issues affecting each portfolio company as well as reporting on the compliance of the portfolio companies with EBRD guidelines.

During the year BaltCap reviewed more than 200 potential investment cases. No projects were rejected specifically on environmental, health and safety, or social grounds.

Contact Holding SIA General Information

Description of the business	Directory search solutions (print, online, directory assistance)
Investment of BaltCap Private Equity Fund L.P. at the end of reporting period	EUR 9,879 thou.
Use of investment proceeds	Buyout of existing shares
Environmental risk category	Low (Advertising)
Investment Manager responsible	Mr. Oliver Kullman, Mr. Simonas Gustainis (BaltCap AS)

Environmental Performance

Main health, safety and environmental issues	No issues have been identified. No environmental due diligence was carried out.
Fulfilling the Environmental Requirements	There are no special requirements to fulfil for the Company.
Compliance with applicable health, safety and environmental legislation	The company has not been subject to fines, penalties or excess fees for non-compliance with health and safety regulations.
Positive environmental effects or opportunities achieved with the investment	The company has implemented a strategy for gradually reducing the volumes of printed phone catalogues replacing them with online products.
Monitoring the environmental performance	The management of the Company is responsible for the operations including the environmental performance.
Persons responsible for the implementation of the environmental procedures	No specific person has been assigned.
Difficulties in implementing the environmental procedures	No difficulties have been encountered.

**Annual Environmental Report
MediCap Holding (Quattromed HTI Laborid)**

**MediCap Holding (Quattromed HTI Laborid)
General Information**

Description of the business	Clinical laboratory services
Investment of BaltCap Private Equity Fund L.P. at the end of reporting period	EUR 4,967 thou.
Use of investment proceeds	Buyout of existing shares
Environmental risk category	Low (Other human health activities)
Investment Manager responsible	Mr. Oliver Kullman, Mr. Peeter Saks (BaltCap AS)

Environmental Performance

Main health, safety and environmental issues	During the course of its business, the company deals with infectious samples and hazardous waste. Environmental due diligence was carried out in June 2008 and no issues were identified.
Fulfilling the Environmental Requirements	<p>The company's environmental management system is part of the quality management system ISO 15189.</p> <p>Handling of hazardous materials only occurs in special low pressure chambers, where employees wear protective clothing and equipment to avoid infections. Employees in the laboratory undergo a health check at employment and regular health checks during the employment. Employee safety instructions and manuals are available and updated as necessary.</p> <p>Management of hazardous waste is outsourced to specialised companies.</p>
Compliance with applicable health, safety and environmental legislation	The company has not been subject to fines, penalties or excess fees for non-compliance with health and safety regulations.

Annual Environmental Report MediCap Holding (Quattromed HTI Laborid)

Positive environmental effects or opportunities achieved with the investment The new centralised laboratory will enable more efficient operation reducing the use of energy and emissions.

Monitoring the environmental performance The management of the Company is responsible for the operations including the environmental performance. The environmental procedures are evaluated annually in ISO certificate audits.

Persons responsible for the implementation of the environmental procedures Two quality managers are responsible for environmental issues and health and safety issues: Mrs. Kai Jõers and Mrs. Kai Lauri.

Difficulties in implementing the environmental procedures No difficulties have been encountered.

Energate OÜ General Information

Description of the business	Low pressure natural gas distribution networks. The company owns and operates the networks. In addition Energate is also developing wind parks in south-west Estonia
Investment of BaltCap Private Equity Fund L.P. at the end of reporting period	EUR 4,605 thou.
Use of investment proceeds	Buyout of existing shares, investment into acquisition of additional gas distribution networks and working capital.
Environmental risk category	High
Investment Managers responsible	Mr. Kristjan Kalda, Mr. Peeter Saks (BaltCap AS)

Environmental Performance

Main health, safety and environmental issues	Environmental due diligence was carried out in April 2008. No issues were identified.
Fulfilling the Environmental Requirements	The company has to comply with all the regulations concerning building new pipelines. Due to low gas pressure in last mile pipelines, environmental risk is low.
Compliance with applicable health, safety and environmental legislation	The company has not been subject to fines, penalties or excess fees for non-compliance with health and safety regulations.
Positive environmental effects or opportunities achieved with the investment	Natural gas is an efficient and environmentally friendly option for producing heat for businesses and households. The wind park development will help Estonia to diversify the country's energy production away from oil shale.
Monitoring the environmental performance	The management of the Company is responsible for the operations including the environmental performance.
Persons responsible for the implementation of the environmental procedures	Chairman of the board Hardi Sui.
Difficulties in implementing the environmental procedures	No difficulties have been encountered.

Air Maintenance Estonia General Information

Description of the business	Aircraft maintenance
Investment of BaltCap Private Equity Fund L.P. at the end of reporting period	EUR 4,990 thou.
Use of investment proceeds	Buy-out
Environmental risk category	High
Investment Managers responsible	Mr. Kristjan Kalda, Mr. Martin Kõdar, Mr Peeter Saks (AS BaltCap)

Environmental Performance

Main health, safety and environmental issues	Environmental due diligence was carried out in October 2009. No issues were identified.
Fulfilling the Environmental Requirements	The company has to comply with the whole range of environmental regulations. Although AME does not have environmental certificate of its own, the whole airport territory and activities on the territory are subject to Tallinn Airport ISO 14001:2004 certificate issued by Bureau Veritas.
Compliance with applicable health, safety and environmental legislation	The company has not been subject to fines, penalties or excess fees for non-compliance with health and safety regulations.
Positive environmental effects or opportunities achieved with the investment	Not applicable
Monitoring the environmental performance	The management of the Company is responsible for the operations including the environmental performance.
Persons responsible for the implementation of the environmental procedures	Chairman of the board Lars-Olof Bolinder
Difficulties in implementing the environmental procedures	No difficulties have been encountered.

**TREV-2 Group
General Information**

Description of the business	Infrastructure construction
Investment of BaltCap Private Equity Fund L.P. at the end of reporting period	EUR 5,113 thou.
Use of investment proceeds	Through new issue into working capital, capital investments & acquisitions.
Environmental risk category	High
Investment Managers responsible	Mr. Kristjan Kalda, Mr. Martin Kõdar (BaltCap AS)

Environmental Performance

Main health, safety and environmental issues	Environmental due diligence was carried out in September 2010. No issues were identified.
Fulfilling the Environmental Requirements	The company has to comply with the whole range of environmental regulations concerning mining, asphalt production, construction etc. TREV2 Group and its main subsidiaries have been issued ISO 9001:2008 as well as environmental ISO 14001:2004 certificates by Bureau Veritas. In addition Teede REV-2 has been certified OHSAS 18001:2007.
Compliance with applicable health, safety and environmental legislation	The company has not been subject to fines, penalties or excess fees for non-compliance with health and safety regulations.
Positive environmental effects or opportunities achieved with the investment	TREV2 has historically led innovation in road construction in Estonia. In 2011 TREV2 started underwater mining in Marinovo quarry using simple by efficient technology. For that the company received the annual environmental award in mining.
Monitoring the environmental performance	The management of the Company is responsible for the operations including the environmental performance.
Persons responsible for the implementation of the environmental procedures	Chairman of the board Tõnis Pleksepp.
Difficulties in implementing the environmental procedures	No difficulties have been encountered.

Kelprojektas General Information

Description of the business	Transport infrastructure engineering company in Lithuania. It designs roads, bridges, railways and other transport infrastructure.
Investment of BaltCap Private Equity Fund L.P. at the end of reporting period	EUR 4,603 thou.
Use of investment proceeds	Buy-out
Environmental risk category	Low
Investment Managers responsible	Mr. Šarūnas Alekna, Mr. Simonas Gustainis (BaltCap AS)

Environmental Performance

Main health, safety and environmental issues	<p>Environmental due diligence was carried out in June 2011. No issues were identified.</p> <p>The company has to comply with all health and safety regulations, but doesn't have OHSAS 18001:2007 certificate.</p>
Fulfilling the Environmental Requirements	<p>The company has to comply with the regulations concerning roads, bridges, railways, airports and seaports infrastructure and related structures. JSC "Kelprojektas" have been issued ISO 14001:2004 and ISO 9001:2008 certificates by Det Norske Veritas (DNV) in June of 2006.</p>
Compliance with applicable health, safety and environmental legislation	<p>The company has not been subject to fines, penalties or excess fees for non-compliance with health and safety or environmental legislation.</p>
Positive environmental effects or opportunities achieved with the investment	<p>The company has bought traffic modelling software "Sidra Intersection" and "Vissim". It helps to choose the best design solutions, which have minimum negative impact on the environment (the lowest emission of CO₂, NO_x, CO and HC, fuel consumption and other indicators).</p> <p>Taking into consideration the environmental impact reduction, the company uses energy saving lamps, also sorts and utilizes waste.</p> <p>The company also has bought video conferencing equipment, it helps us to reduce fuel, time and money which we would spend for travels.</p> <p>The company has engrafted a software for ISO documentation management. This software allows us to reduce paper waste, because all documents are managed in electronic way.</p> <p>The company got a certificate for the preservation of trees in October of 2011.</p>
Monitoring the environmental performance	<p>The management of the Company is responsible for the operations including the environmental performance. The environmental procedures are evaluated in ISO certificate audits by DNV and in internal audits which</p>

are performed by audit team.

Persons responsible for the implementation of the environmental procedures

Management representative of the quality and the environment Akvilė Balsienė.

Difficulties in implementing the environmental procedures

No difficulties have been encountered.

Runway General Information

Description of the business	Business process outsourcing service (BPO) provider for multinational companies. Services provided by the company include customer interaction services (inbound and outbound services, tech support, help desk services, etc.) and BPO services (accounting and finance, HR, data processing, marketing, back office services).
Investment of BaltCap Private Equity Fund L.P. at the end of reporting period	EUR 3,700 thou.
Use of investment proceeds	Buy-out
Environmental risk category	Low
Investment Managers responsible	Mr. Dagnis Dreimanis, Mr. Sandijs Abolins-Abols (BaltCap AS)

Environmental Performance

Main health, safety and environmental issues	No issues have been identified. No environmental due diligence was carried out.
Fulfilling the Environmental Requirements	There are no special requirements to fulfil for the Company.
Compliance with applicable health, safety and environmental legislation	The company has not been subject to fines, penalties or excess fees for non-compliance with health and safety regulations. Not applicable
Positive environmental effects or opportunities achieved with the investment	
Monitoring the environmental performance	The management of the Company is responsible for the operations including the environmental performance.
Persons responsible for the implementation of the environmental procedures	No specific person has been assigned.
Difficulties in implementing the environmental procedures	No difficulties have been encountered.