

BALTCAP PRIVATE EQUITY FUND L.P.

BALTCAP ENVIRONMENTAL, SOCIAL AND
GOVERNANCE (“ESG”) REPORT 2013

February 2014

BALTCAP

Table of Contents

Message from Managing Partners	3
BaltCap Environmental, Social and Governance (ESG) Principles	4
Survey of BaltCap portfolio companies	5
Survey methodology and responses	5
Overview of the findings	6
Description of findings by categories.....	9
BaltCap ESG questionnaire	15
Conclusions.....	16
Annual Environmental Report of BaltCap Private Equity Fund	17
FCR Media Holding	18
Energate.....	19
Air Maintenance Estonia.....	20
TREV-2 Group	21
InfraCap Holding (Kelprojektas)	22
Runway	24
HOB (Wind Energy).....	25



Message from Managing Partners

We are pleased to be able to present BaltCap's Environmental, Social and Governance Report 2013.

As our industry continues to mature and develop, there is a growing awareness of the important role private equity and venture capital plays in the economy, and in society at large.

At BaltCap, we take a proactive approach to ESG. We do not view it as a simple box-ticking exercise. Rather, we see ESG as a vital foundation for our entire business: a constantly evolving set of guidelines and tools that allows us not only to ensure we manage environmental, social and business risks effectively, but also that puts our portfolio companies in the very best position to achieve long-term success.

To help ensure that our ESG policies remain at the forefront of industry thinking, every year we ask our portfolio companies to complete a rigorous self-assessment, covering workplace and marketplace issues, the community, environmental policies and company values. The results of this study form the basis of this document, and we are encouraged to report that the majority of businesses have shown a healthy development over the past 12 months.

In recognition of our forward-thinking approach to ESG, we are delighted to reveal that we have been awarded a Silver-Level Quality Label in the Corporate Social Responsibility Index 2013 in Estonia. BaltCap was one of 15 businesses in the category of SME and large companies that received a Silver-Level Quality Label – awarded by the Responsible Business Forum in collaboration with the Ministry of Economic Affairs and Communications, the EBS Ethics Centre and KPMG Baltics. We believe that this is a testament to the hard work we, and the staff at all of our portfolio companies, have committed to this crucial area in recent years.

If you have any questions or comments on this report or our ESG Principles (to be found on page 4), please do not hesitate to contact us.

Peeter Saks

Martin Kõdar

Dagnis Dreimanis

Simonas Gustainis

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.

BaltCap is a founding member of the Estonian, Latvian and Lithuanian Private Equity and Venture Capital Associations and a member of the European Private Equity & Venture Capital Association (EVCA), abiding by the EVCA Professional Standards.

¹ <http://baltcap.com/company/responsible-investment>

Survey of 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 issues.

BaltCap hopes the questionnaire also helps companies to identify further actions they can take to strengthen their businesses, reputations 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 and responses

The survey was carried out in the beginning of 2014. 19 out of 28 currently active portfolio companies responded to the questionnaire. Compared to last year, the percentage of participation increased from 64% to 68%. The survey itself remained exactly the same as last year, but it is worth mentioning that four participants have not taken part in the previous year and the additional companies are from JEREMIE funds' portfolio. Last year, 18 out of 28 portfolio companies responded, and in some cases the individuals responsible for responding at each company may also have changed since then.

The respondents were the following:

- FCR Media Group (FCR, directional media company, pan-Baltic, Ireland, Czech Republic, Slovakia, Sweden, Russia, Romania, Hungary)
- Energate (natural gas distribution networks operator and wind park developer, Estonia)
- Air Maintenance Estonia (AME, aircraft maintenance, repair and overhaul, Estonia)
- TREV-2 Grupp (Trev-2, road and environmental construction, Estonia, Russia)
- Kelprojektas (transport infrastructure engineering, Lithuania, Latvia)
- Runway (business process outsourcing service provider, Baltics, Norway, Ukraine)
- HOB (wind farm development, Estonia)
- Intrac Group (machinery trade, pan-Baltic, Poland)
- Agroup (software development, Latvia)
- Primekss (industrial flooring company, pan-Baltic, Poland, Sweden, Norway, Finland)²
- EKJU (garden furniture production, Latvia)
- Impuls (gym and health clubs operator, Lithuania)
- Seimos medicinos klinika (SMK, medical care services provider, Lithuania)

² The company was sold on January 2014 and is no longer in the portfolio

- Vendon (monitoring systems for vending machines, Lithuania)
- Labochema (laboratory supply provider, Lithuania)
- Coffee INN (Chain of branded coffee shops, Lithuania, Latvia)
- PostService Group (PSG, Leading Latvian private postal operator, Latvia)
- AMATEKS (Producer of metal components, Latvia)
- Blue Bridge Technologies (BBT, Data interchange solutions, Latvia)

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 with the maximum possible point score.

Overview of the findings

The overall average performance score across all respondents and all ESG categories was 66%. The results in 2013 are slightly lower than 2012 but higher when compared to the 2011 performance. If to compare the participants that took part also last year, for 87% of the respondents performance across all ESG categories remained on the same level or were slightly better. This is especially so for BPEF portfolio companies, for which the average score across all categories increased from 70% to 75%.

Portfolio companies performed best third year in a row in Workplace policies (78%), reflecting the fact that our portfolio companies place a strong emphasis on the effectiveness of daily operations, motivation of employees and company reputation. The lowest scoring category was Community policies (50%), which shows that engagement in non-business areas are often considered secondary to day-to-day business issues. A significant change was observed for the score in the Environmental policies category, which can be lower due to new JEREMIE companies that participated in the survey this year. Owing to the nature of their businesses and size, most environmental issues are of less relevance for these companies. For BPEF companies, the score in environmental policies category actually improved.

With the exception of Environmental policies, the overall performance in the categories remained basically on the same level or was slightly better.

Figure 1: graph of 2011/12/13 scores across all categories

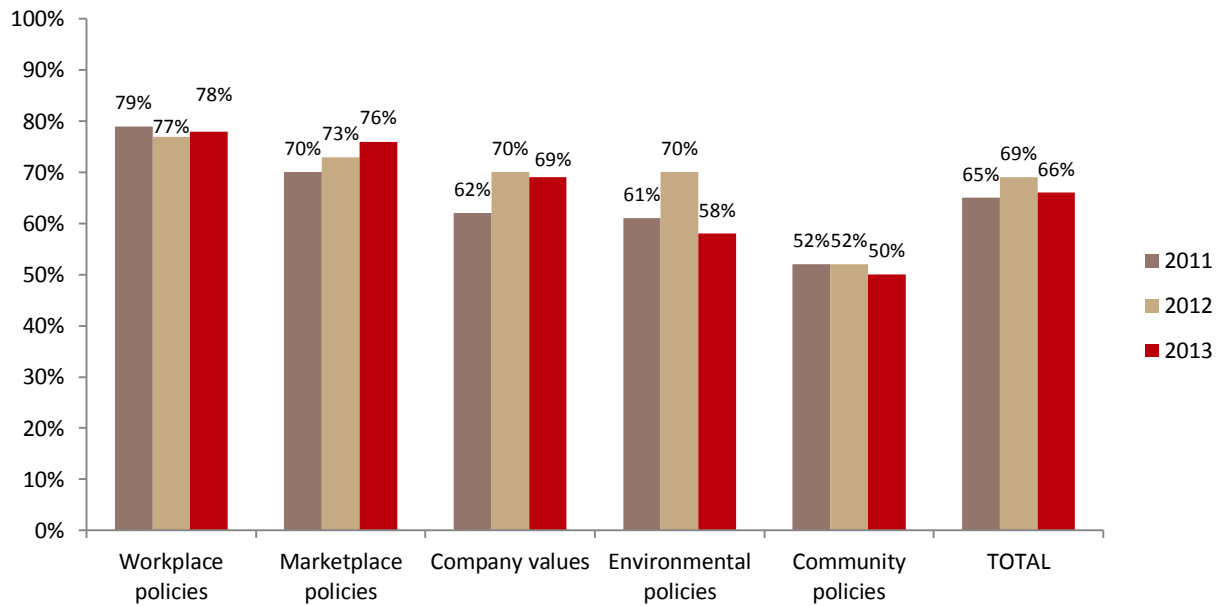


Figure 2: graph of 2011/12/13 scores across all categories in BPEF portfolio companies

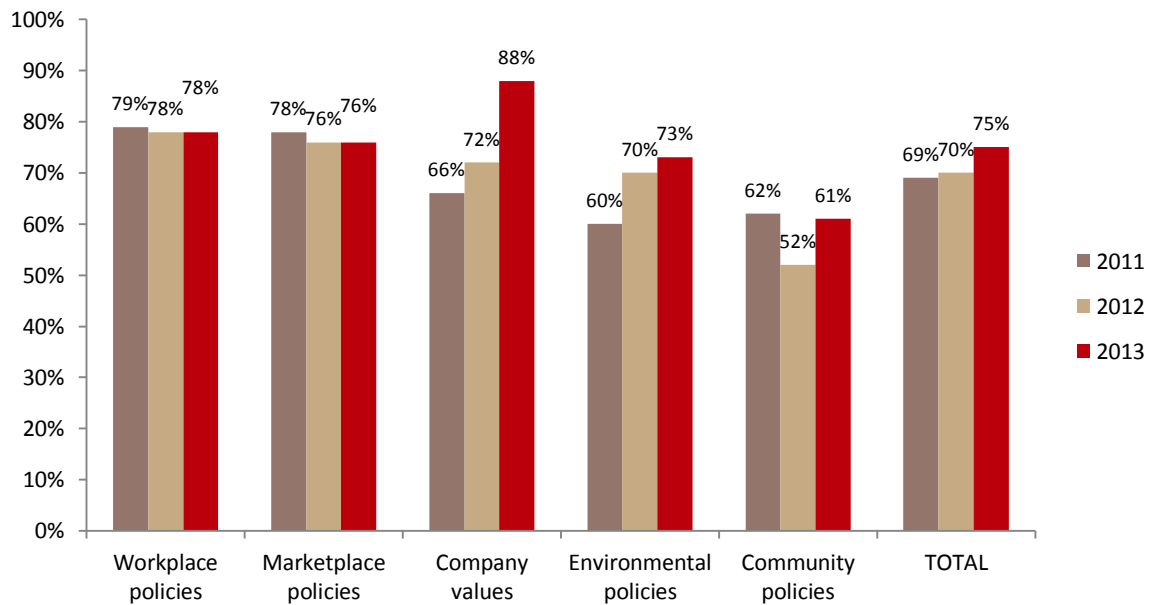
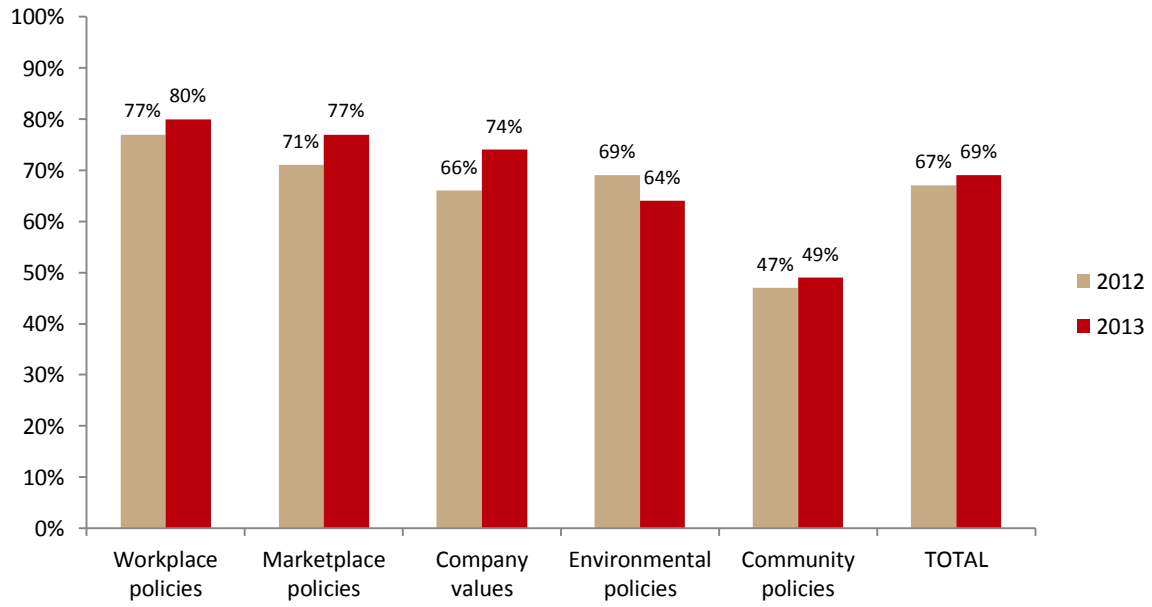


Figure 3: graph of 2012/13 scores across all categories in 15 companies, that participated in both years

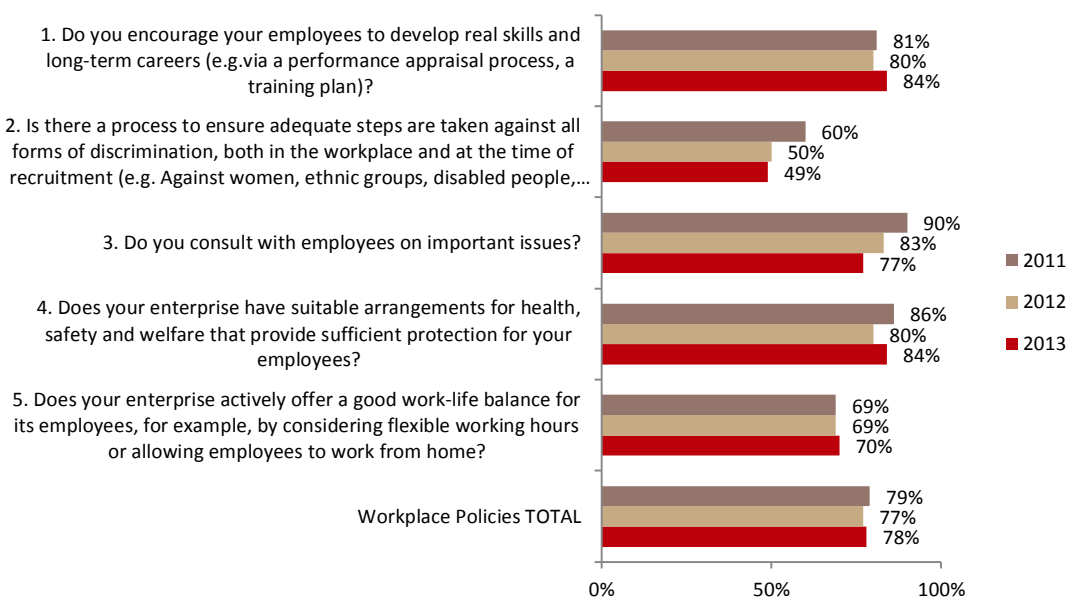


Description of findings by categories

Workplace Policies

- Broadly very positive responses, with encouraging the development of skills (84%) and suitable arrangements for the protection of employees (84%) scoring best
- Portfolio highlights included improved working environments (Energate, Impuls, PSG, Trev-2, BBT), employee training and adaption programmes (Amateks, Trev-2, EKJU, Impuls), dialogue forums with employees (Trev-2), medical checks (Energate, Amateks) and health insurance (BBT)
- Having in place a process for ensuring adequate steps against discrimination continues to be the category with the lowest score. Somewhat disappointing fall was registered also in the score on consulting employees on important issues
- Challenges for the future mentioned by the portfolio companies include improvement of working conditions and safety (EKJU, AME), change management (Impuls), medical insurance (PSG) and lean process implementation (Amateks)

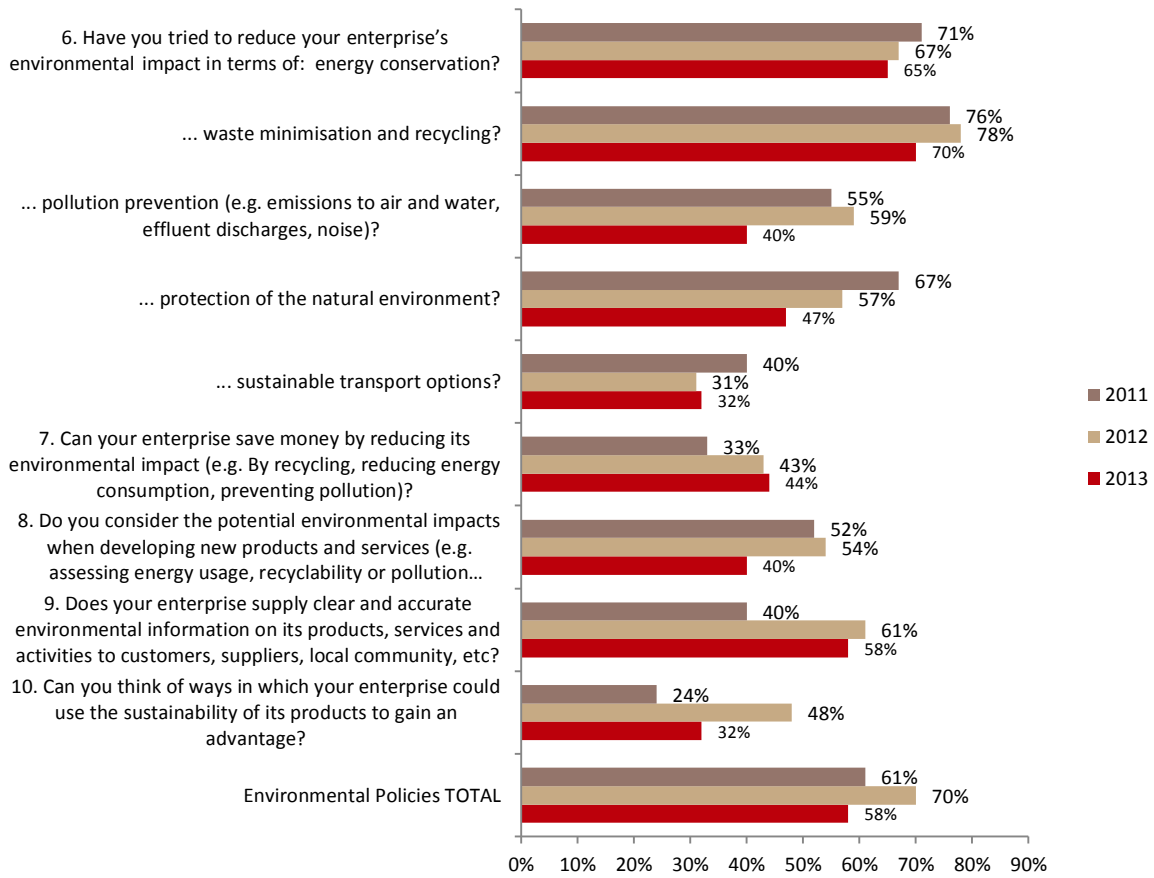
Figure 4: Questions and responses for Workplace Policies category



Environmental Policies

- Environmental Policies category is the only category where a considerable decrease in results compared to last years can be observed (70% to 58%). This is the effect of new participants in the survey – if to compare the results of companies that participated both in 2012 and 2013, the scores are 69% and 64% respectively, while for BPEF companies the score has increased to 73% from 2012
- Improvement can be seen in the areas of saving money by reducing the environmental impact and supplying accurate environmental information on the products
- Portfolio highlights included reducing electricity consumption through automatic lighting (AME), energy efficiency in illumination, heating and ventilation (Impuls), reducing waste in the production process (Amateks), recycling road construction raw materials (Trev-2), using recycled paper (Kelprojektas), recycling and waste separation (Runway, PSG), introducing ecological packaging from recycled cardboard (PSG), starting production with wind generators that reduce CO₂ emission (HOB) and acquisition of a new more efficient and environmentally-friendly asphalt plant (Trev-2)
- 2013 results fared poorly compared to last years in reducing the environmental impact and considering the environmental impact when developing new products
- Challenges for the future include reducing waste and heat and energy saving measures (EKJU, Impuls), using more environmental-friendly materials without compromising on quality (PSG), staff awareness (AME), sustainable transport options (Labochema), overcoming the requirements of business partners to have paper-based processes (BBT), implementing ISO 140000 (Amateks) and starting full production with six wind generators that will reduce CO₂ emission by 31 000 tons annually (HOB)

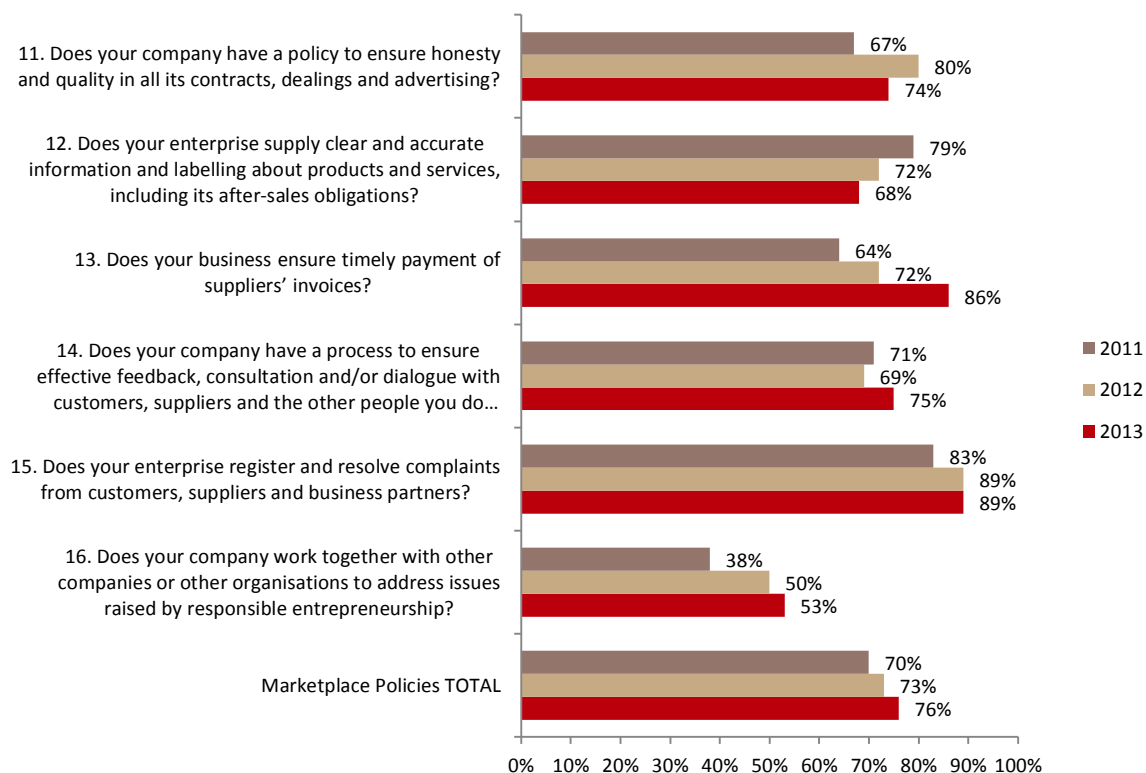
Figure 5: Questions and responses for Environmental Policies category



Marketplace Policies

- Further improvements were seen this year in how portfolio companies collaborate with other organisations to address issues raised by responsible entrepreneurship, in timely payment of invoices and in processes that ensure effective feedback from customers and business partners
- Portfolio highlights included product of the year award and winning a quality competition (Kelprojektas), being honest with partners (EKJU), enhancing communication with customers (Impuls), renewal of quality insurance policy ISO 9001 (Labochema)
- A modest fall was registered in information and labelling of products and services.
- Challenges include establishment of a fair purchasing policy (Coffee INN, Amateks), cooperation with other organisations (Impuls, Labochema) and price being the major deciding factor in tenders (Trev-2)

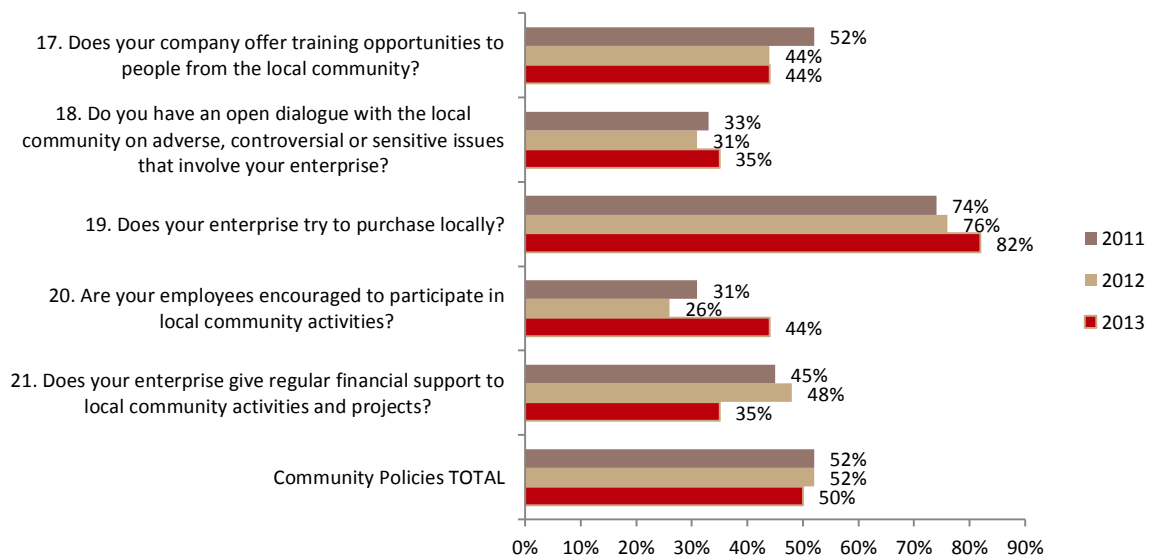
Figure 6: Questions and responses for Marketplace Policies category



Community Policies

- Despite being the lowest-scoring category, better results were achieved this year across most areas. The policy to purchase locally continues to deliver the highest scores. Several respondents from JEREMIE companies indicated that they would like to contribute more, but are currently restricted by lack of resources
- Portfolio highlights included charity (Impuls, Trev-2), sponsoring sport clubs and events (Trev-2), training and work experience (Impuls, Amateks, Trev-2), sourcing from local producers (PSG, Coffee INN), involvement of employees in local community activities (Labochema), close co-operation with local county and community (HOB)
- While results declined in giving regular financial support to local community projects, a significant positive development has occurred in encouraging employees to participate in local community activities
- Challenges for 2013 include promoting healthy lifestyle and finding locally produced healthy products supplier (Impuls) and improving co-operation with local communities for environment improvement (EKJU)

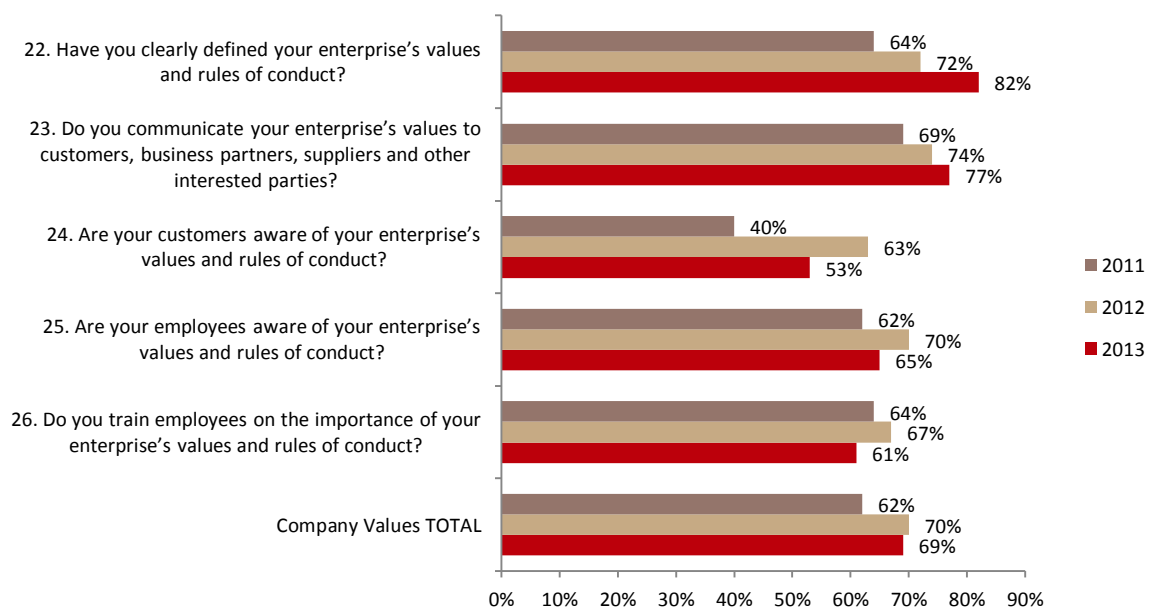
Figure 7: Questions and responses for Community Policies category



Company Values

- Strong performers included clearly defining each organisation's values and rules of conduct (rising from 72% to 82%) and making stakeholders like customers and business partners aware of each enterprise's values (up from 74% to 77%)
- Portfolio highlights included establishing new vision, mission and values together with key personnel (Trev-2), company-wide info session on revised management principles and values (Trev-2), revised company values (Impuls, Labochema, Amateks), rules of conduct for employees and clients (Impuls), training on code of conduct (AME)
- Challenges for 2013 include living the company values by the staff and clients (Amateks), informing the workforce about goals and visions (AME) and improving the communication process within the company (BBT)

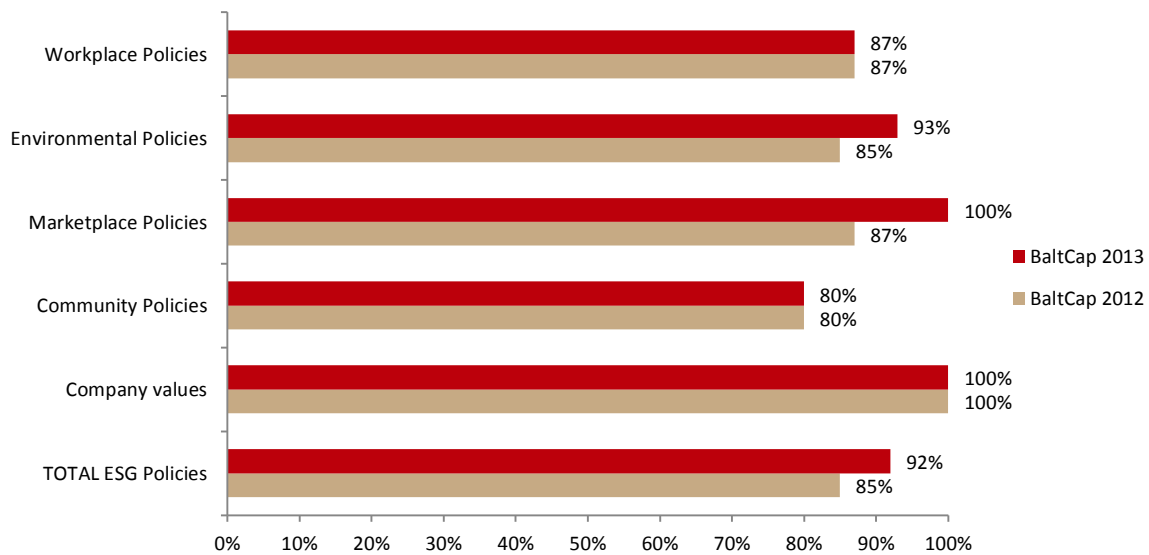
Figure 8: Questions and responses for Company Values category



BaltCap ESG questionnaire

BaltCap gives its own staff the opportunity to answer the same questions it asked of portfolio companies. Representatives from each office of BaltCap completed the questionnaire, with responses showing that the firm performs particularly well in Company values (100%). As with portfolio companies, Community policies showed the worst performance, however all categories posted scores of 80% or more, showing that BaltCap is a genuine market leader in ESG thinking.

Figure 9: BaltCap responses



Conclusions

Overall, 2013 has been a positive year in terms of ESG performance, with improvements seen in majority of categories at portfolio companies and especially so in BPEF companies. BaltCap takes a leading role in terms of introducing ESG and responsible investment principles to our community, as well as in promoting ESG principles in the Baltics as a whole, and guiding and helping portfolio companies to improve their policies and recognise the benefits of ESG. Going forward, we will continue to integrate CSR and sustainability into our business strategy with the priority set on work with lower-performing ESG categories. Delivering results for investors through continuous nurturing of portfolio companies will remain our main priority.

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.

FCR Media Group 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	€10,422 thousand
Use of investment proceeds	Buyout of existing shares
Environmental risk category	Low (Advertising)
Investment Manager responsible	Mr. Oliver Kullman, Mr. Simonas Gustainis, Mr. Sarunas Alekna (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.

Energate General Information

Description of the business	Low pressure natural gas distribution networks. The company owns and operates the networks.
Investment of BaltCap Private Equity Fund L.P. at the end of reporting period	€4,605 thousand
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.
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	€6,911 thousand
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 David Williams
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	€6,896 thousand
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 as well as environmental ISO 14001 certificates by Bureau Veritas. In addition Teede REV-2, TREV-2 Ehitus and Taskar have been certified OHSAS 18001.
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 Erki Mölder
Difficulties in implementing the environmental procedures	No difficulties have been encountered.

**InfraCap Holding (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	€4,603 thousand
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	Environmental due diligence was carried out in June 2011. No issues were identified. The company has to comply with all health and safety regulations, but doesn't have OHSAS 18001:2007 certificate.
Fulfilling the Environmental Requirements	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.
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 or environmental legislation.
Positive environmental effects or opportunities achieved with the investment	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 CO ₂ , NO _x , CO and HC, fuel consumption and other indicators). Taking into consideration the environmental impact reduction, the company uses energy saving lamps, also sorts and utilizes waste. The company also has bought video conferencing equipment, it helps us to reduce fuel, time and money which we would spend for travels. 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. The company got a certificate for the preservation of trees in October of 2011.
Monitoring the environmental performance	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 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	€4,027 thousand
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.

HOB (Wind Energy)
General Information

Description of the business	18MW wind farm development in western Estonia
Investment of BaltCap Private Equity Fund L.P. at the end of reporting period	€3,650 thousand
Use of investment proceeds	Expansion investment
Environmental risk category	Medium
Investment Manager responsible	Mr. Kristjan Kalda, Mr. Peeter Saks (BaltCap AS)

Environmental Performance

Main health, safety and environmental issues	No issues were identified.
Fulfilling the Environmental Requirements	The company has to comply with all the regulations concerning building wind farm. Thorough study of environmental impact was carried out before the construction permit was issued.
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	Wind is a clean source of energy. Utilising wind will environmentally improve energy balance in Estonia, where main energy source is 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 Andres Lõhmus
Difficulties in implementing the environmental procedures	No difficulties have been encountered.