

BALTCAP ENVIRONMENTAL, SOCIAL AND
GOVERNANCE (“ESG”) REPORT 2012

February 2013

BALTCAP

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Message from Managing Partners

We are pleased to be able to present BaltCap's Environmental, Social and Governance Report 2012.

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 5th Corporate Social Responsibility Index 2012 in Estonia. BaltCap was one of just six small businesses that received a Quality Label – awarded by the Responsible Business Forum in collaboration with the Ministry of Economic Affairs & Communications, the EBS Ethics Centre and business newspaper Äripäev. 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://www.baltcap.com/en/focus/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 & Responses

The survey was carried out at the start of 2013. 18 (out of total 28) currently active portfolio companies of different sizes and sectors responded to the questionnaire. It is important to note that this survey is not a direct comparison to last year's. Last year, 15 out of 20 portfolio companies responded, and in some cases the individuals responsible for responding at each company may also have changed since last year.

The respondents were the following:

- FCR Media (directional media company, pan-Baltic, Ireland, Czech Republic, Slovakia, Sweden)
- 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, Russia)
- Kelprojekts (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)
- Papermill Ligatne (papermill, Latvia)
- Agroup (software development, Latvia)
- Primekss (industrial flooring company, pan-Baltic, Poland, Sweden, Norway, Finland)
- EKJU (garden furniture production, Latvia)
- Ygle (building management systems installation, Lithuania)
- Impuls (gym and health clubs operator, Lithuania)
- Seimos medicinos klinika (medical care services provider, Lithuania)
- Vendon (monitoring systems for vending machines, Lithuania)
- Labochema (laboratory supply provider, Lithuania)

Grading of the received responses was carried out as follows:

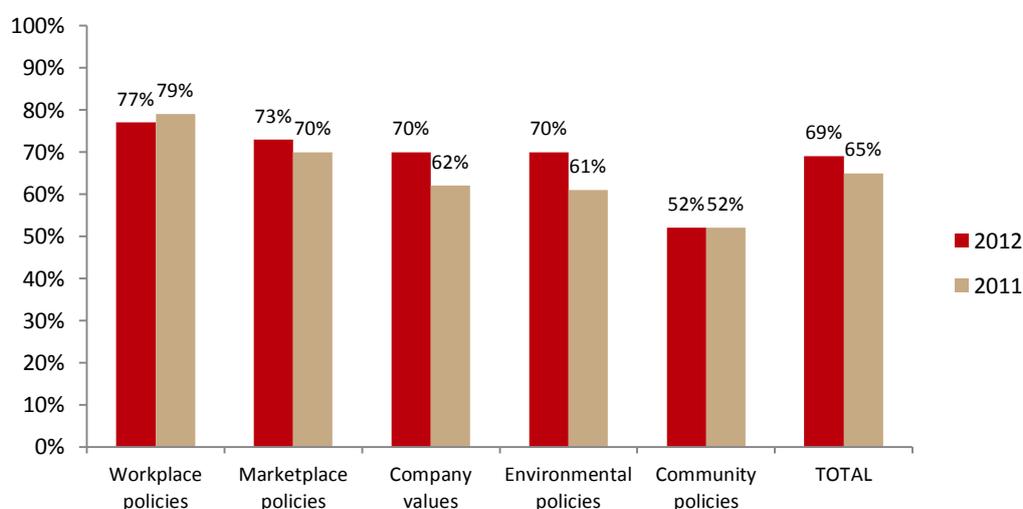
1. Each answer received points
 - Yes answers – 3 points
 - No answers – 0 points
 - In part – 1 point
 - Not applicable – 0 points, causing the question to be removed from the grading pool for that specific company
 - Don't know – (minus 1) point
2. The points were converted to percentages by dividing 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 69% - a significant improvement on last year, when the average score was 65%. Portfolio companies performed best in Workplace policies (77%), 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 (52%), which shows that engagement in non-business areas are often considered secondary to day-to-day business issues. This is to be expected, but could be improved upon in 2013.

Encouragingly, with the exception of Workplace policies and Community policies, which remained at the same level (52%) as last year, improvements were seen across all categories, with Environmental policies showing the largest rise, from 61% in 2011 to 70% in 2012.

Figure 1: graph of 2011/12 scores across all categories plus the total average figure

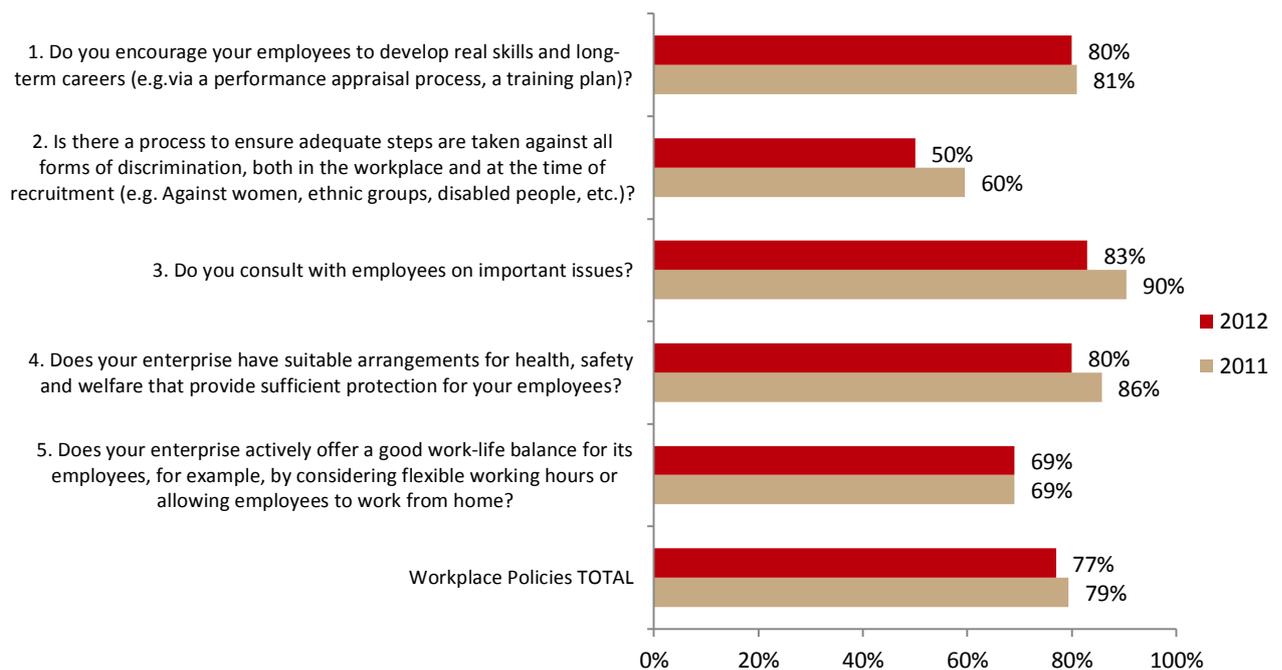


Description of Findings by Categories

Workplace Policies

- Broadly very positive responses, with consulting employees on important issues (83%) and encouraging the development of skills (80%) scoring best (80%)
- Portfolio highlights included improved working environments (Amateks, AME, Trev-2), employee training programmes (Trev-2) and medical checkss (Energate, Trev-2).
- Somewhat disappointing falls were registered in scores on discrimination and health and safety
- Challenges for the future mentioned by the portfolio companies include integration of a newly acquired business (SMK), employee insurance (Labochema) and employee motivation (Kelprojektas).

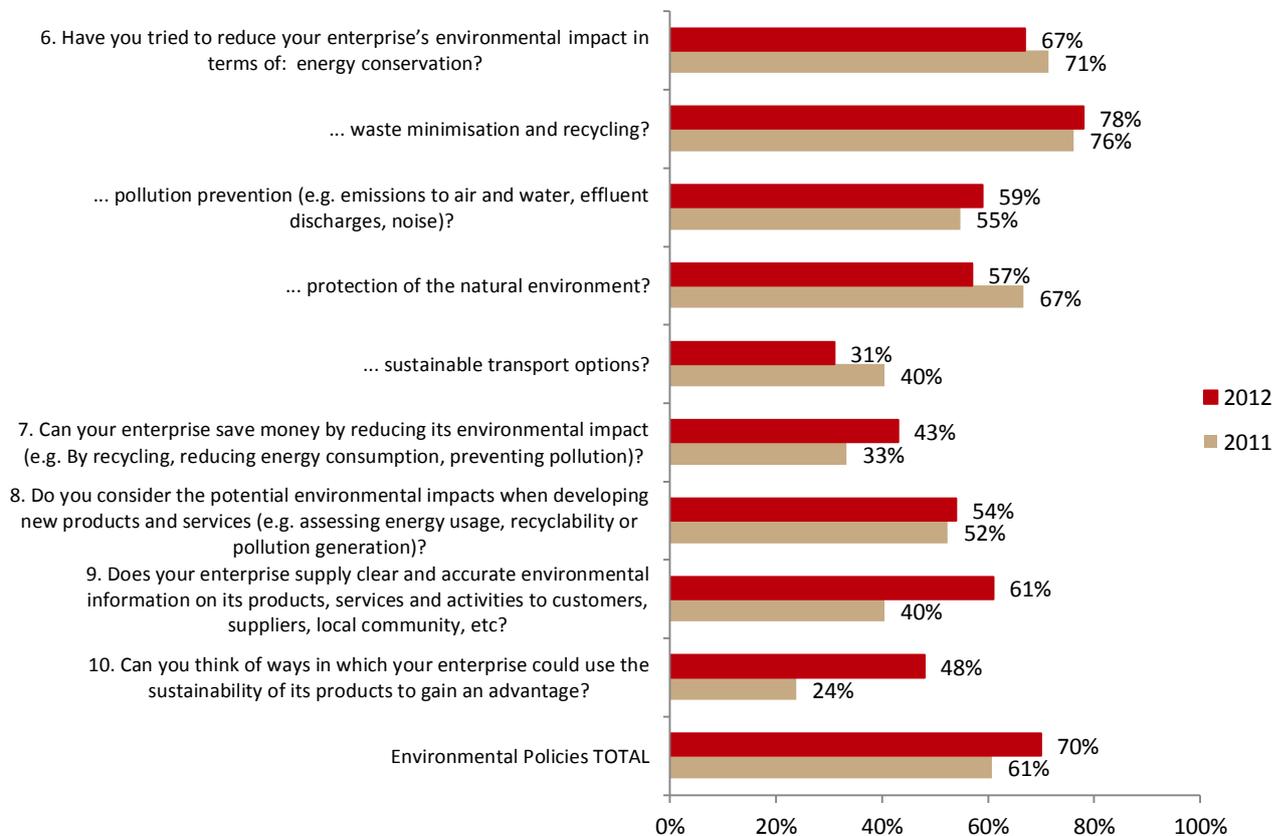
Figure 2: Questions and responses for Workplace Policies category



Environmental Policies

- Strong improvement seen overall compared to 2011, with particular highlights being employee recognition of how improved sustainability of products can deliver competitive advantage, and around how costs can be cut through reducing environmental impact.
- Portfolio highlights included wide-ranging energy reduction efforts around lighting, transportation and paper use (Kelprojektas), changing to electric vehicles (AME) and recycling road construction raw materials (Trev-2).
- 2012 results fared poorly compared with last year in areas such as reducing environmental impact through sustainable transport and protection of natural environment.
- Challenges for the future include certification (Amateks), energy efficiency (Impuls), staff awareness (AME) and the acquisition of a new more efficient and environmentally-friendly asphalt plant (Trev-2).

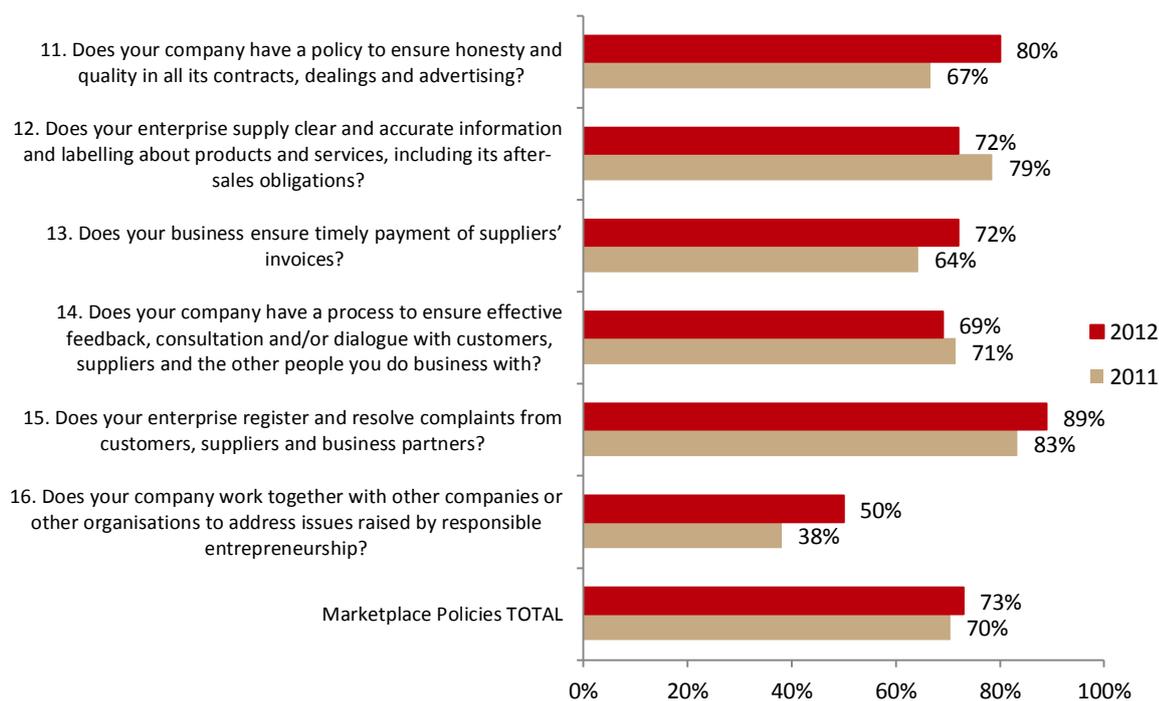
Figure 3: Questions and responses for Environmental Policies category



Marketplace Policies

- Very encouraging 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 policies to ensure honesty and quality in all dealings.
- Portfolio highlights included an innovation award and product of the year awards (Kelprojektas), honest tendering processes (HOB), and a new safety reporting system (AME).
- Modest falls were registered in information and labelling of products and services, as well as in having processes in place to ensure effective feedback from customers and business partners.
- Challenges include improving customer satisfaction (Energate), effective feedback (Impuls) and employee education around codes of conduct (AME).

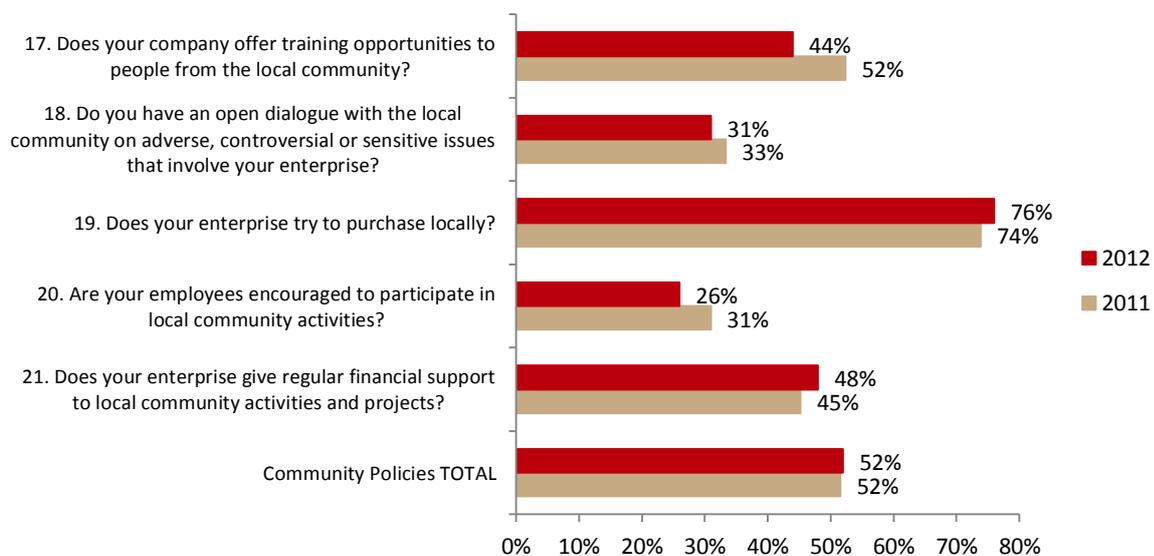
Figure 4: Questions and responses for Marketplace Policies category



Community Policies

- Despite being the lowest-scoring category, better results were achieved this year in giving regular financial support to local community activities and projects, and in sourcing from local suppliers.
- Portfolio highlights included public health and sporting initiatives (Impuls), an apprenticeship scheme (AME) and training and work experience (Trev-2).
- Disappointingly, results declined in offering training opportunities to people from the local community, and encouraging employees to participate in local community activities.
- Challenges for 2013 include greater participation in community activities (Impuls) and improving the level of employees drawn from the local community (AME).

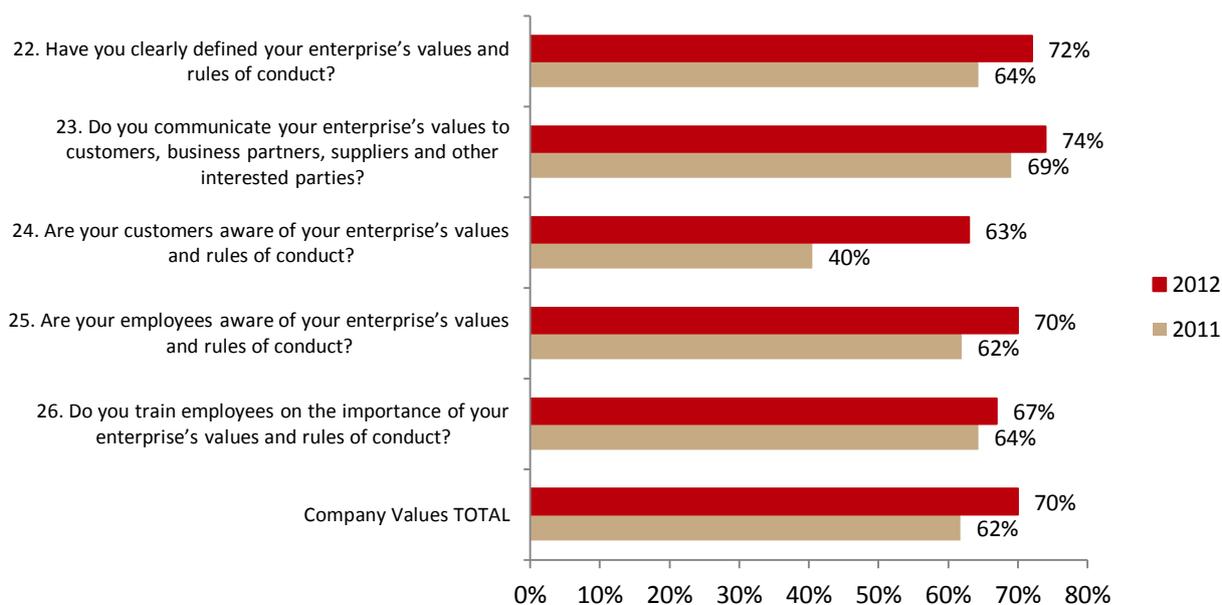
Figure 5: Questions and responses for Community Policies category



Company Values

- In Company Policies, all areas saw improvements in 2012. Very strong performers included clearly defining each organisation's values and rules of conduct (rising from 64% to 72%) and making customers aware of each enterprise's values and rules of conduct (up from 40% in 2011 to 63%).
- Portfolio highlights included company values training (Impuls), the creation of a code of ethics (Kelprojektas) and the implementation of a code of conduct and training therein (AME).
- Challenges for 2013 include resistance to change (Impuls), enforcement of code of conduct (AME) and changes to company values (Labochema).

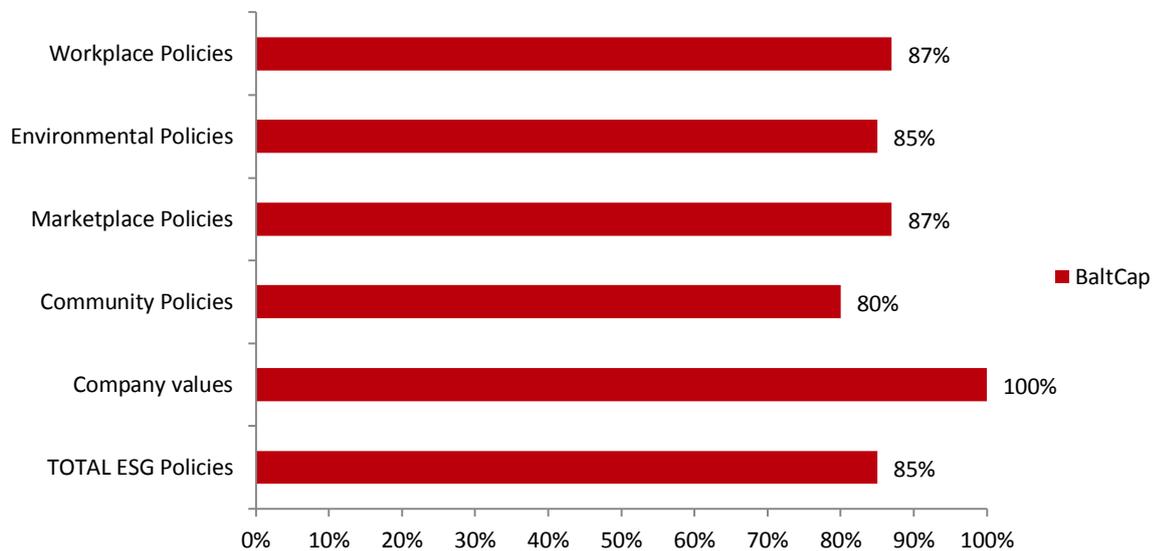
Figure 6: Questions and responses for Company Values category



BaltCap ESG questionnaire

This year, BaltCap decided to give 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 7: BaltCap responses



Conclusions

Overall, 2012 has been a very positive year in terms of ESG performance, with improvements seen across the board at portfolio 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. We are in the process of setting realistic ESG targets for our portfolio for the year ahead, as well as prioritising key staff training and monitoring.