

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

February 2014

BALTCAP

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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

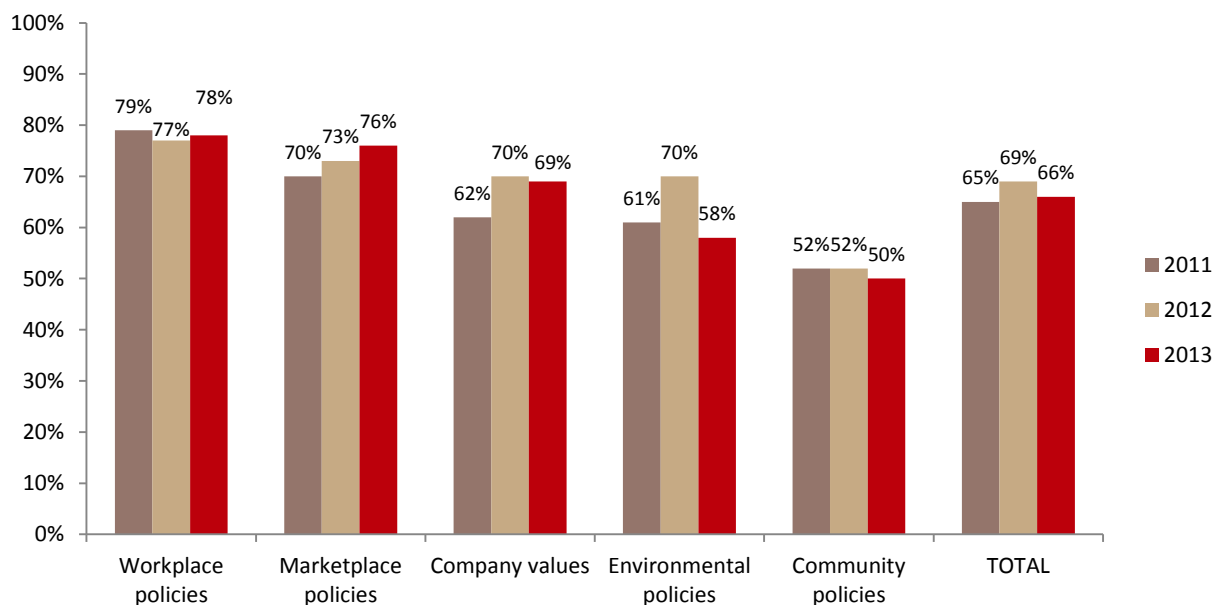


Figure 2: graph of 2011/12/13 scores across all categories in BPEF portfolio companies

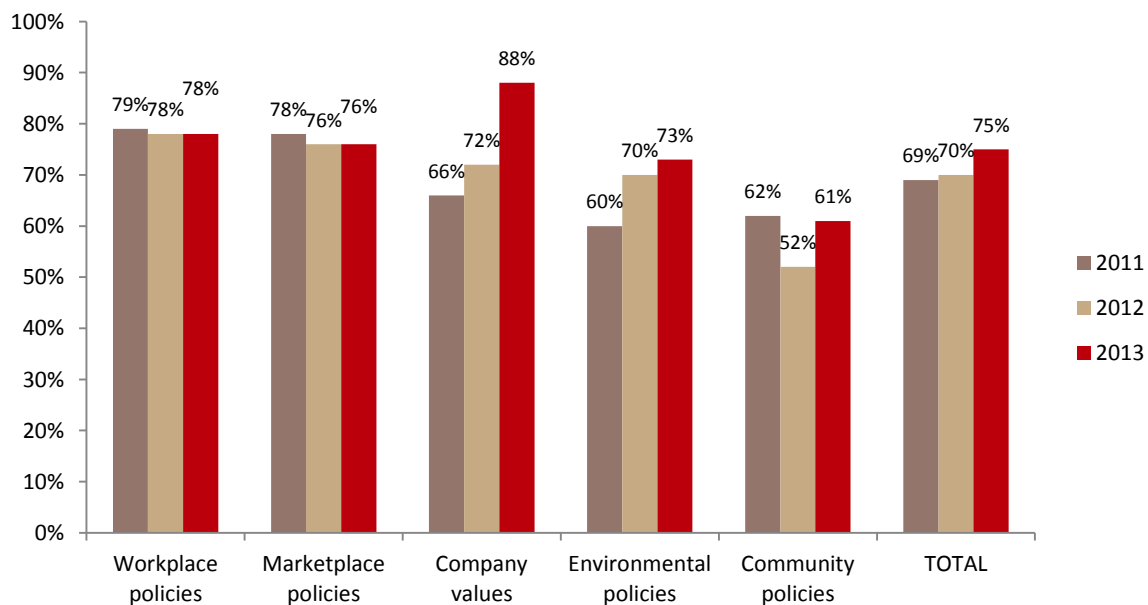
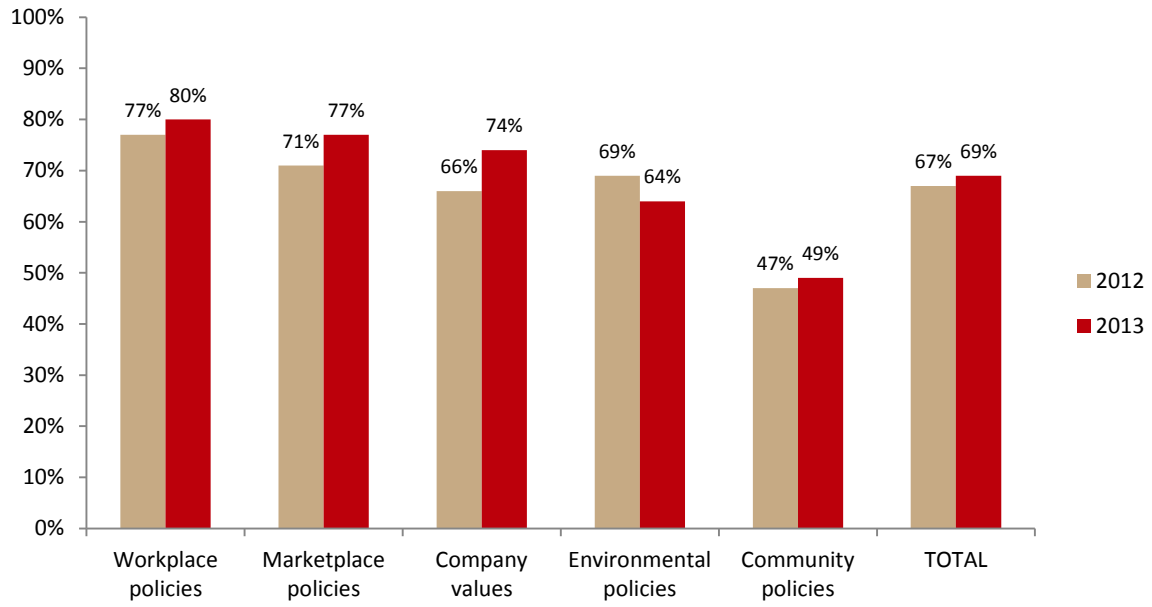


Figure 3: graph of 2012/13 scores across all categories in 15 companies, that participated in both years

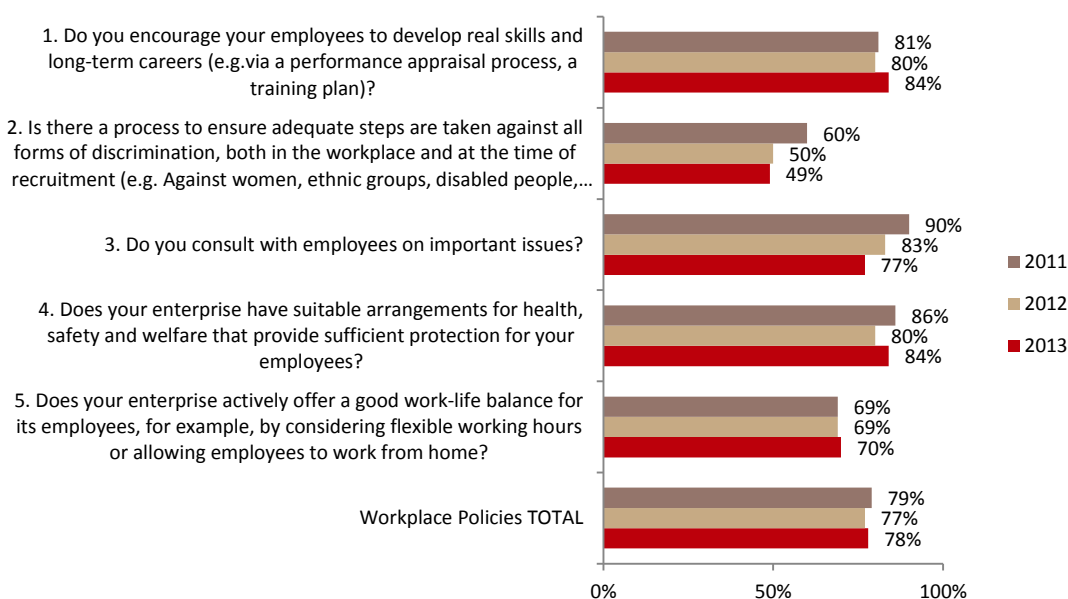


Description of findings by categories

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)

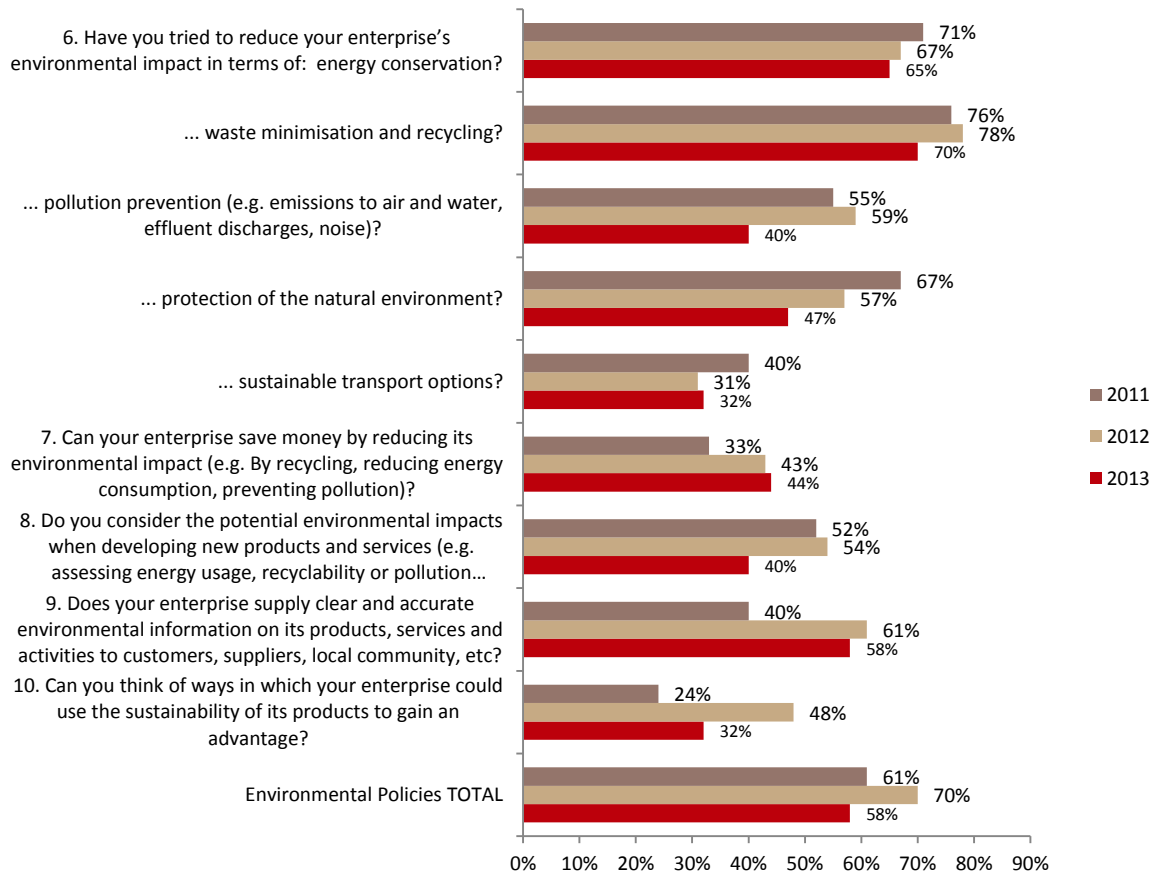
Figure 4: Questions and responses for Workplace Policies category



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)

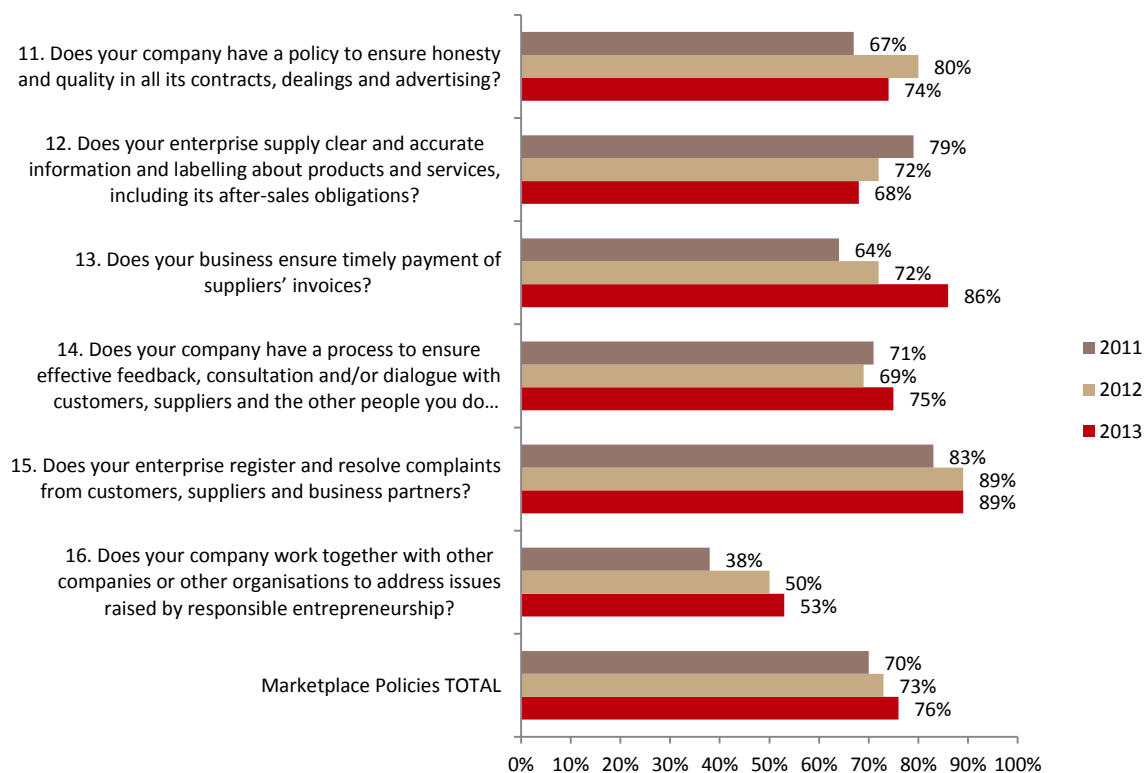
Figure 5: Questions and responses for Environmental Policies category



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)

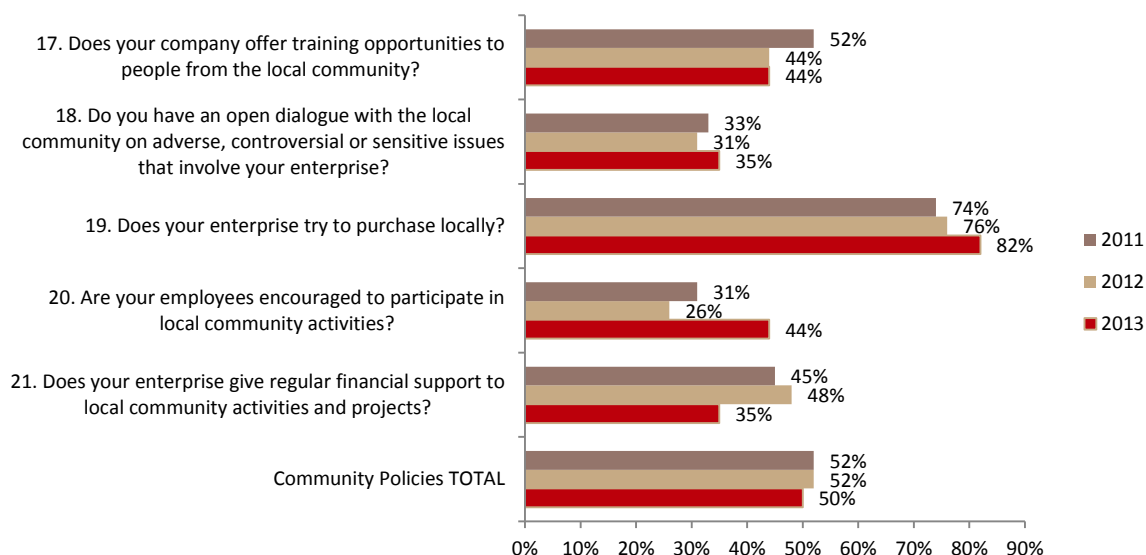
Figure 6: Questions and responses for Marketplace Policies category



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)

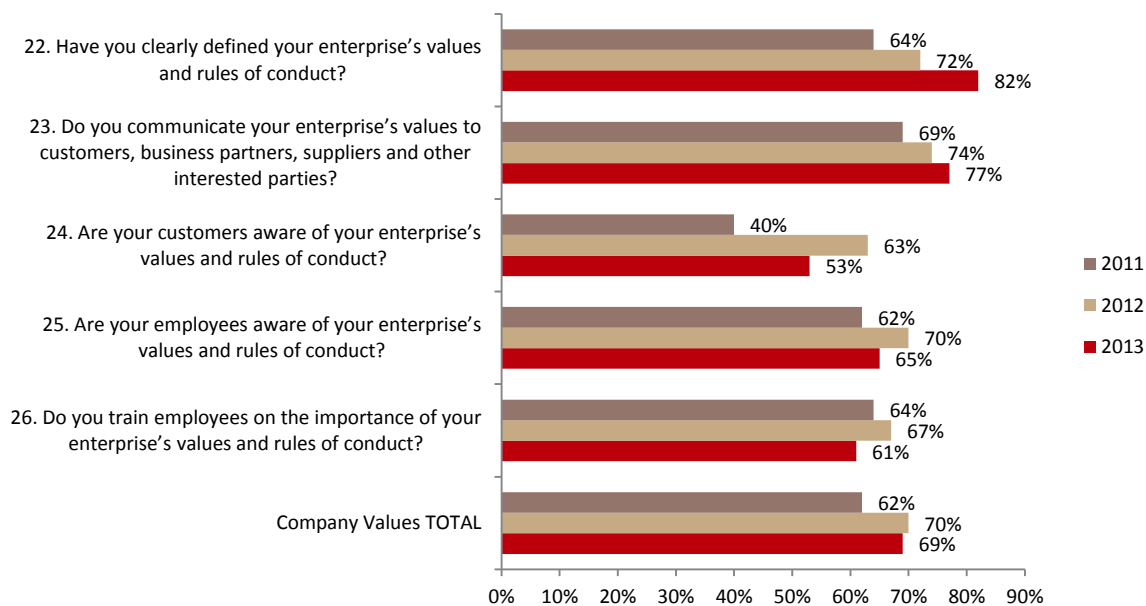
Figure 7: Questions and responses for Community Policies category



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)

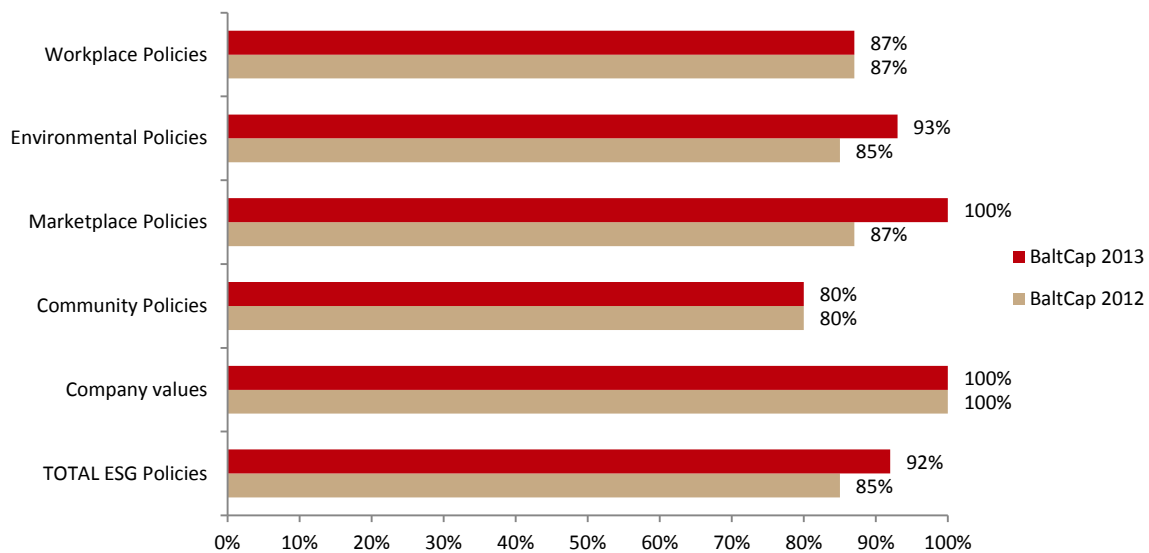
Figure 8: Questions and responses for Company Values category



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.