

ENVIRONMENTAL, SOCIAL &  
GOVERNANCE (“ESG”)  
REPORT FOR 2016

**BALTCAP**

April 2017



<b>04</b>	MESSAGE FROM MANAGING PARTNERS
<b>07</b>	BALTCAP
<b>09</b>	BALTCAP'S APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS
<b>12</b>	ABOUT THIS REPORT
<b>17</b>	OVERVIEW OF THE 2016 SURVEY FINDINGS
<b>21</b>	CATEGORY SUMMARY: WORKPLACE POLICIES
<b>24</b>	CATEGORY SUMMARY: ENVIRONMENTAL POLICIES
<b>27</b>	CATEGORY SUMMARY: MARKETPLACE POLICIES
<b>30</b>	CATEGORY SUMMARY: COMPANY VALUES AND ANTI-CORRUPTION
<b>33</b>	CATEGORY SUMMARY: COMMUNITY POLICIES
<b>36</b>	ABOUT THE SURVEY METHODOLOGY



**RESPONSIBLE  
BUSINESS INDEX 2015  
SILVER LEVEL**

## MESSAGE FROM MANAGING PARTNERS



We are pleased to present our 6th Environmental, Social and Governance Report. As the leading private equity and venture capital investor in the Baltic countries we also strive for leading the way in incorporating ESG issues into the investment process. Every year we ask our portfolio companies to complete a rigorous self-assessment. Find out more and take a look into this ESG report for 2016.

Together with our portfolio companies we are the leading investor contributing to the growth of Baltic economy. Looking back, BaltCap has been managing numerous funds and has made over 70 investments directly contributing to the regional capacity building. We conduct our operations in accordance with the highest legal and ethical standards. We expect nothing less from our portfolio companies.

BaltCap has been following the most rigorous set of principles for responsible investment for a long time. Our company has been a signatory of the United Nations Principles for Responsible Investment since 2008. Responsible investment is a natural part of our business.

BaltCap is also a long-time participant in Estonian Sustainable Business Index. In 2016, BaltCap participated for the 7th consecutive year. For our long-term commitment and excellent ESG performance, BaltCap was awarded a silver-level Quality Label in the 9th Estonian Sustainable Business Index.

In other words, we take performing well in terms of ESG issues seriously and the results from the 2016 ESG survey prove that again. The average score for ESG performance among the portfolio companies has improved compared to the year before. Furthermore, increasing number of portfolio companies have certified system for managing health, safety, quality, and environmental performance. Today 50% of the respondents have a management system that follows internationally acknowledged standards.

Moreover, the improvements and highlights for 2016 include:

- Unimed, Estonian dental care provider, opened a new state-of-the-art clinic in Tartu. The new facilities significantly improve the working environment and take the customer experience to a new level. In addition the new location in the city centre is easily accessible by public transport.

- Magnetic MRO, aircraft maintenance service provider, completed its 500th heavy check of commercial aircraft in its base in Tallinn Airport. Over the years, the company has provided its customers including airlines based in North-Eastern Europe a reliable service near their home base reducing the need to fly long distances to have an aircraft maintained. Furthermore, Magnetic MRO has also improved its service capacity and is able to carry out heavy maintenance checks for 6 aircrafts simultaneously. During the past few years, the company has created many new jobs and as an internationally active business has become an excellent career base for aircraft engineers and mechanics.
- FCR, digital media agency, assisted restructuring process of Truvo Group in Belgium saving the business and ensuring jobs for 300 specialists in Belgium. FCR Media now covers 12 markets in Europe and South America offering needed advertising services in digital channels to more than 100 000 small businesses.
- Ecoservice, waste management company, continued to reduce the landfilled waste and improving recycling rate in Lithuania. In 2016, the company's secondary raw materials' recycling increased by 14% to 14 076 tons and construction waste recycling more than tripled to 16 712 tons as a result of launching a new construction waste recycling line.
- Kelprojektas, Lithuanian road engineering company, contributed to award winning infrastructure projects: "Movable bridge over the river Dane on the street Pilis, in Klaipeda", Product of the Year 2016 by Lithuanian Confederation of Industrialists and "Project of national arterial road A5 Kaunas-Marijampole-Suvalkai of the section from 45,15 to 56,83 km reconstruction to highway", Best Road Project of the Year 2016 in Lithuania.

However, we recognize that to be an industry leader much remains to be done to keep us above the rest. We continue to strive for excellence, be more and be part of a sustainable future. If you have any questions or comments about this report or our ESG principles, please do not hesitate to contact us.



*BPT Real Estate*

*Peeter Saks*

*Martin Kõdar*

*Dagnis Dreimanis*

*Simonas Gustainis*



## BALTCAP



BaltCap is the leading private equity and venture capital investor in the Baltic countries focusing on small and midmarket buyout, expansion and growth capital investments. We partner with ambitious management teams, helping them to deliver transformational growth through active operational engagement. We aim to create strong partnerships with the companies we work with, allowing us to take a hands-on role in strategic development and value creation.

BaltCap has strong presence in all three Baltic countries with local offices and experienced investment team. Since 1995, BaltCap has been managing several private equity and venture capital funds with total capital of over €260 million and has made 74 investments to date.

We are supported by a broad blue-chip investor base that includes both international and local institutions like the European Investment Fund, the European Bank for Reconstruction and Development (EBRD) and the largest pension funds in the Baltics.



*Impuls gym*

## Investment strategy

BaltCap's investment philosophy is based on value creation delivered through active ownership. We focus on working in partnership with management teams to deliver long-term revenue and profit growth, as well as building businesses through acquisition. We invest equity or equity-related instruments, and like to support strong, ambitious management teams with whom we have a good cultural fit.

## Facts about us

Main countries of operation	Estonia, Latvia and Lithuania
Number of Investments	74 (of which current 35)
<b>BaltCap Funds</b>	<b>BaltCap Private Equity II SCSp</b> <b>BaltCap Private Equity Fund L.P.</b> <b>BaltCap Latvia Venture Capital Fund K.S.</b> <b>Lithuania SME Fund KUB</b> <b>Baltic Investment Fund III L.P.</b> <b>Baltic Investment Fund III C.V.</b>
Contact point for questions	Triinu Oll, <a href="mailto:triinu.oll@baltcap.com">triinu.oll@baltcap.com</a>
Homepage	<a href="http://www.baltcap.com">www.baltcap.com</a>



## BALTCAP'S APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS



### Our environmental, social and governance 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 has incorporated ESG considerations into daily operations.

### 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 that are engaged in arms manufacturing, manufacture of tobacco, hard spirits, gambling, human cloning, genetically modified organisms and illegal economic activity;
- Not to proceed with any investment transaction without knowing who the beneficial owner of the counterparty is;
- Carry out relevant due diligence (including environmental and social due diligence) in all the investment cases;
- Ensure that appropriate standards of corporate governance are in place or will be implemented within a reasonable time period in all portfolio companies in 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;
- Manage our business affairs sustainably and reduce our overall exposure to risk;
- Comply with EBRD's Environmental and Social Risk Management Manual;
- Comply with all applicable laws, regulations and best practice principles of the private equity industry, abiding by the Invest Europe Professional Standards

BaltCap is actively contributing to the local market development by being a founding member of the Estonian, Latvian and Lithuanian Private Equity and Venture Capital Associations. BaltCap is also an active member of Responsible Business Forum in Estonia.

## Implementation and monitoring

In order to provide necessary training and ensure environmental and social awareness among BaltCap team, the members are regularly attending conferences and trainings where ESG, sustainable development and corporate social responsibility topics are part of the agenda.

BaltCap also carries out and compiles an annual self-assessment regarding its environmental, social and governance procedures as well as performance based on the UNPRI reporting tool and Responsible Business Forum Estonia questionnaire. The results of this self-assessment are in turn evaluated, ranked and published by the Responsible Business Forum in the annual Corporate Sustainability and Responsibility Index and by UNPRI in its Report on Progress.

In order to ensure that our environmental, social and governance principles are fulfilled, we monitor portfolio companies' environmental and social performance through our own ESG survey, which is presented in this report.

## Communication and transparency

Active co-operation through business associations mentioned above is an important part of our communication activities to address the issues of

responsible entrepreneurship and encourage the development of corporate responsibility in the Baltic region.

The ESG progress regarding the portfolio companies is reported to our investors regularly. Material ESG issues are covered in the quarterly reports to investors. In addition, an annual report is published based on the annual ESG screening results. Furthermore, there is of course daily communication and co-operation with our business partners.



*Stenders shop in Asia Pacific*

## ABOUT THIS REPORT



This is our 6th annual report presenting BaltCap's principles and performance in Environmental, Social and Governance (ESG) matters. Our previous ESG report was published in February 2016. This report is the main point of reference for our stakeholders regarding our annual Environmental, Social and Governance performance.

### Background

BaltCap is a signatory of the United Nations Principles for Responsible Investment (UNPRI) initiative and thus committed to implement the principles and communicate on the progress. Since 2011 we are annually carrying out an ESG survey among our portfolio companies in order to follow up and measure the progress in ESG matters.

The purpose of the survey is also to highlight the importance and raise awareness regarding responsible entrepreneurship. We hope that the questionnaire helps companies to identify the material aspects and relevant actions they can take to strengthen their businesses, reputation and reduce their overall risk exposure.

### ESG survey 2016

The survey carried out during the period December 2016 - February 2017 had the same scope and was identical with the questionnaire used in ESG survey 2015. The main focus of the survey is to provide an ESG performance overview that meets the expectations of our investors and the latest developments in the private equity industry. The questionnaire is designed to fully comply with the latest requirements of European Bank for Reconstruction and Development for annual environmental and social reporting.

32 out of 33 currently active portfolio companies responded to the questionnaire. The response rate was 97% (88% in 2015). 13 out of 13 portfolio companies of BaltCap Private Equity Fund I&II responded to the survey. The participation was voluntary for JEREMIE initiative funds' companies (BaltCap Latvia Venture Capital Fund and Lithuania SME Fund) and in total 19 out of 20 of those companies responded to the survey, demonstrating continuous interest in ESG issues.




## Methodology in brief

In the same way as the year before, our ESG questionnaire for 2016 consisted of five main categories (see Table below) each divided into three groups of questions assessing respondents' ESG profile, risk management and performance. The survey is carried out in form of a web-based self-assessment questionnaire signed by management/executive officer of each participating portfolio company.











	Profile indicators	Risk management	Performance indicators
Workplace policies	Assesses the policy & management system of the portfolio company	Assesses the portfolio company's approach to manage risks	Examines the portfolio company's performance and transparency
Environmental policies			
Marketplace policies			
Company values & anti-corruption			
Community			

## Overview of respondents







The scope and boundaries of this report include the following companies presented below.



	Type of business	Employees	Turnover (€000)	Environmental & social risk classification*
	Property management	87	4 404	Medium
	Dental care provider	273	10 168	Medium
	Waste management	581	27 928	Medium/High

*Private equity (PE) portfolio - including the companies of BaltCap Private Equity II SCSp, BaltCap Private Equity Fund L.P., Baltic Investment Fund III L.P. and Baltic Investment Fund III C.V.*

	Waste management	603	30 361	Medium/High
	Directional media company	1 069	87 125	Low
	Financial technology solutions	113	11 467	Low
	Machinery trade	263	58 492	Low
	Transport infrastructure engineering	298	10 183	High
	Aircraft maintenance, repair and overhaul	344	47 085	Medium
	Occupational health care	77	4 715	Medium
	Business process outsourcing service provider	905	22 263	Low
	Road construction and maintenance	357	53 930	High
	Pumping systems rental	116	4 694	Medium/High
	<b>Subtotal</b>	<b>5 086</b>	<b>372 815</b>	

*Portfolio of JEREMIE initiative funds - including the companies of-BaltCap Latvia Venture Capital Fund K.S., Lithuania SME Fund KUB*

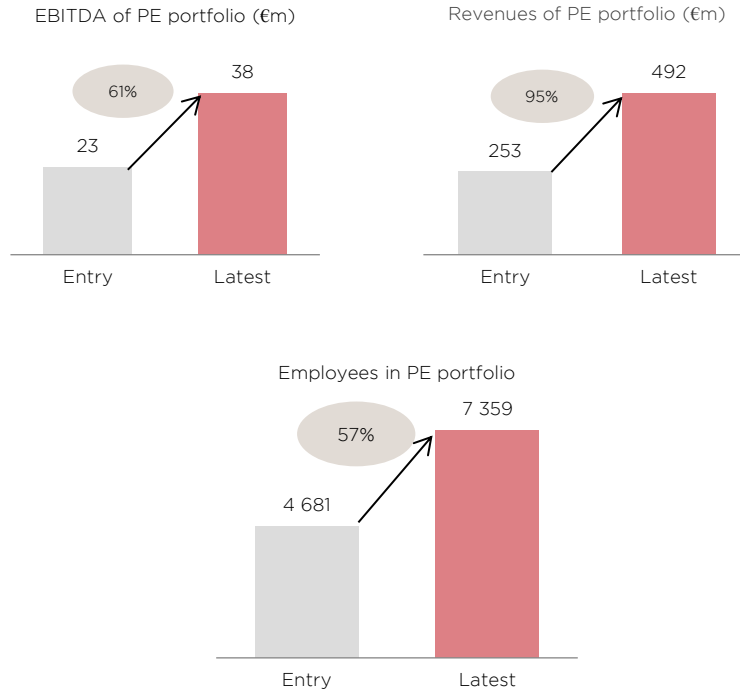
	Software development	29	940	Low
	Metal components producer	46	2 624	Medium/High
	Data interchange solutions	15	840	Low
	Postal operator	22	1 838	Low
	Ultra-fast database management system	27	478	Low
	Chain of branded coffee shops	289	7 990	Medium
	Garden furniture production	177	8 986	Medium

	Liquid crystal display producer	25	730	Medium
	Gym and health clubs operator	412	15 536	Low
	Medical care services provider	397	6 536	Medium
	Laboratory supply provider	60	7 076	High
	Chocolate manufacturer	65	3 487	Medium
	Cosmetics producer	141	6 276	High
	Urban journey planning application	40	1 033	Low
	Monitoring systems for vending machines	12	914	Medium
	Building technical system maintenance	53	1 505	Medium
	Volumetric 3D monitor developer and supplier	1	1	
	<b>Subtotal</b>	<b>1 811</b>	<b>66 790</b>	
	<b>Grand total</b>	<b>6 897</b>	<b>439 605</b>	

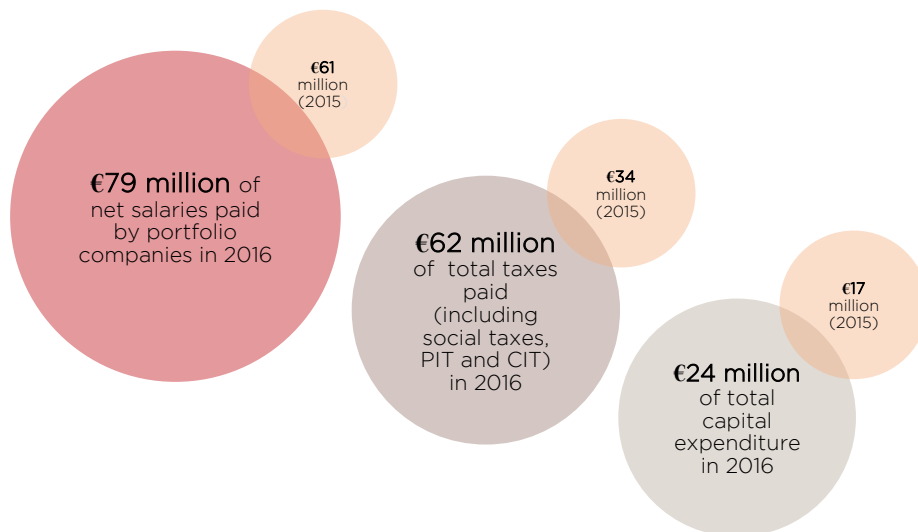


TREV-2 street maintenance

## Overview of private equity portfolio companies



Each year the portfolio companies also pay significant amounts in salaries, taxes and invest in the development of the business.

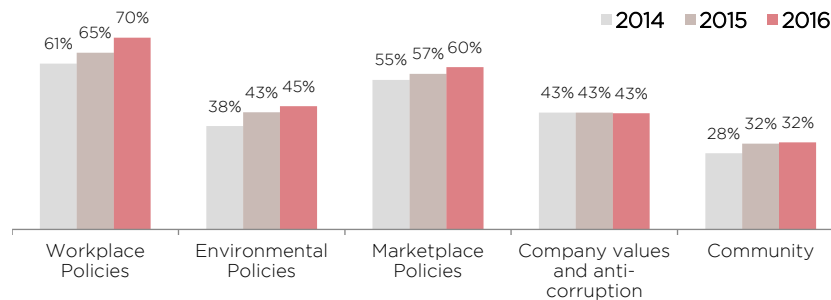




## OVERVIEW OF THE 2016 SURVEY FINDINGS



### ESG Survey results 2014-2016



### Summary

In 2016, the ESG performance improved on the overall level and in the Workplace, Environmental and Marketplace category. The score remained on the same level in the Company values & anti-corruption category and had a minor drop in the Community category.

The average score across all respondents and all ESG categories has increased from 45% in 2014 to 50% in 2016. We are delighted to report that the overall performance has continued to improve since 2014.

As the year before, the portfolio companies continue to perform best in the category Workplace policies

(average score 70%), reflecting that the portfolio companies put a strong emphasis on the health and safety issues as well as employee satisfaction and employees' views regarding important issues for the business. Companies' relatively strong performance in this category compared to the other topics can also be explained by the rather effective enforcement of the legislation regarding the occupational health and safety as well as labour rights.

Another category where the general performance scored above average was Marketplace Policies (60%). Service quality and customer satisfaction, which are some of the

questionnaire topics in this category, are essential issues for every business and thus companies in general demonstrate a strong performance in this section.

The category where portfolio companies scored below average and have most development potential was Community. Compared to the last year's result the category average dropped slightly, remaining however above the outcome for 2014. Community engagement is still considered secondary to day-to-day business issues. Nevertheless, as the governments' and public interest in businesses contributing to local community capacity building and social responsibility is increasing, this category has a potential to become important in the near future.

Certified management systems for managing ESG issues such as ISO 90001, ISO 14001 and OHSAS1800 are applied by increasing number of companies. However, the small-size enterprises still apply a practical approach based on team members' common values and goals for the business rather than documented procedures and policies.

76%

Consider ESG policies important in the business environment where they operate

50%

Average score 2016

48%

Average score 2015

45%

Average score 2014

Among the specific issues covered in the survey, the common practice among all respondents and all business sectors are promoting equal opportunities at work including process for countering all forms of discrimination, ensuring occupational health and safety, making improvements in the working environment, taking into account employees' views regarding important issues for the business and resolving complaints from customers, suppliers and business partners.

Risk management remains a major challenge and in many categories the average score has decreased compared to 2015. Comparing the risk assessment in all categories, the environmental risk assessment is most frequently mentioned procedure. Risk assessment regarding risks related to corruption is a rare practice and still applied by only a small share of respondents.

To sum up, the average ESG performance has improved compared to the last year, however there is

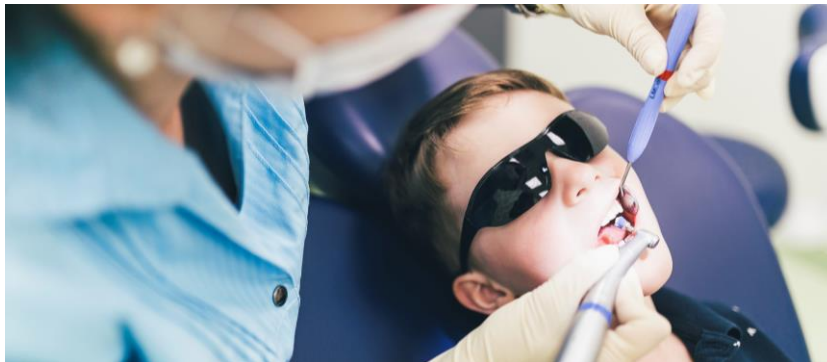
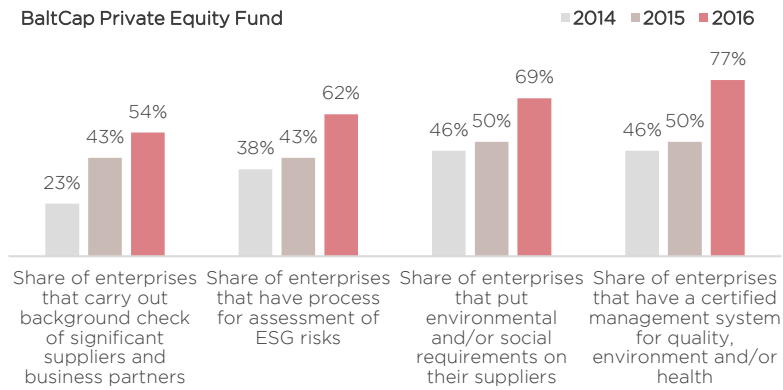
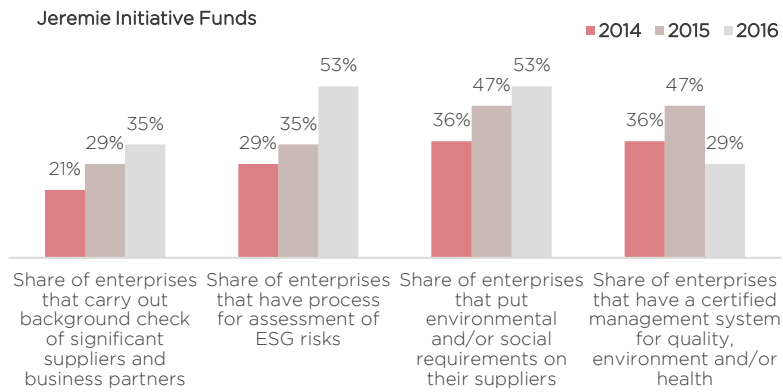
space for improvement when it comes to Company values and anti-corruption and Community category management. This is something we take seriously and need to put some more focus during 2017.

Based on the survey in ESG in 2016, Magnetic MRO, TREV-2 and FCR were among the best performers.



*Magnetic MRO Hangar*

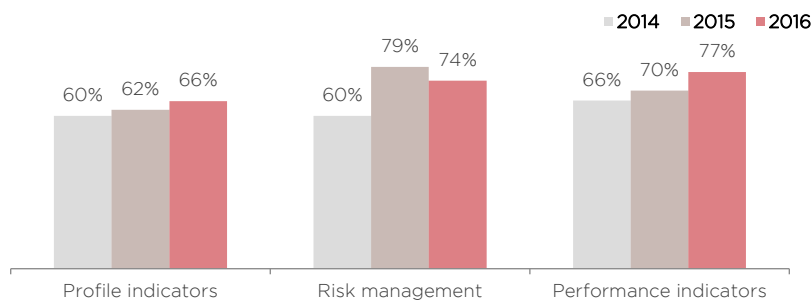
## ESG Management in portfolio companies 2014-2016



*Unimed Grupp dental clinic*

## CATEGORY SUMMARY: WORKPLACE POLICIES

### Workplace policies overview 2014-2016

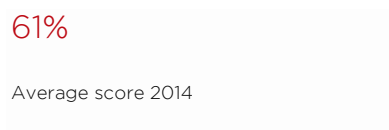
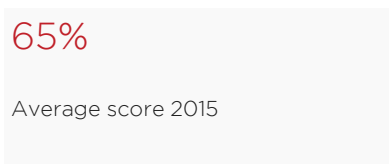
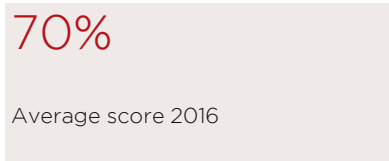


### Achievements and challenges

In the same way as the year before, the good common practice within Workplace policies continues to be:

- Ensuring necessary arrangements for health, safety and welfare to provide sufficient protection for employees (100% of respondents);
- Seeking and taking into account employees' views regarding important issues for the business (100%);
- Improving working environment in offices and/or facilities during the reporting period (100%);
- Promoting employees to develop real skills and long-term careers for instance via

a performance appraisal process and/or a training plan (97% of respondents).



Other examples of common practices are: promoting equal opportunities within the workforce, applying measures to enable a good work-life balance for its employees (e.g. flexible working hours), zero tolerance against all forms of discrimination in recruitment process as a formal policy or non-formal code of conduct, and setting and follow-up of quantitative targets for employee satisfaction.

Examples of important achievements include among others: improved offices/working environment (Agroup, BPT Real Estate, Clusterpoint, Unimed, Fitek, Kelprojekts, Labochema, Runway, Stenders, Trafi, and Uprent), improving work efficiency (FCR, EKJU, Intrac Estonia, Kelprojekts, Vendon, and Ygle pastatu valdymas), improved occupational health and safety measures (Boxnet, Bluebridge Technologies, Magnetic MRO, EKT, and EUROLCDs), actively promoting work-life balance (Unimed and Clusterpoint), and reduced number of workplace accidents (TREV-2).

The main topics where companies in general score low are quantitative targets for occupational health and safety, and risk assessment procedures. Nevertheless, risk assessment is relatively common among industrial/high-impact companies.

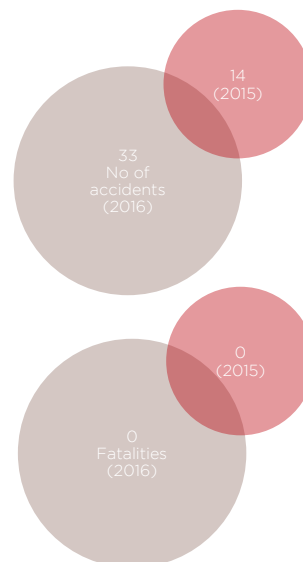
The challenges for the future reported by the participants comprise mainly working environment, health and safety at work, employee satisfaction, enabling flexible working hours and work-life balance. For example, Agrup, Coffee Inn, FCR, and Vendon all report maintaining high employee satisfaction as a crucial challenge for

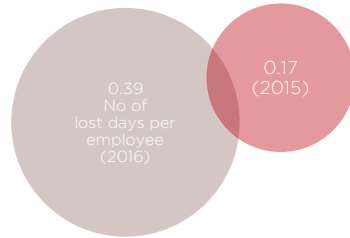
sustainable business. Further - BoxNet, Post Service, Post Service Kurzeme, EKT, Magnetic MRO, and TREV-2 report improving occupational health and safety and reducing number of work place accidents to zero as one of the major challenges in short term. Improving training and qualification of employees (Ecoservice, Unimed, Vendon, Ygle pastatu valdymas) is another example of the reported challenges.

**100%**  
Companies confirm that there were no cases of discrimination at work in the reporting period

**90%**  
Companies actively offer a good work-life balance for its employees

**100%**  
Companies have suitable arrangements for health and safety to provide sufficient protection for employees





The total number of lost workdays was 851 in 2016, 267 in 2015 and 667 in 2014. The number of lost workdays is higher compared to the years

before due to the increase in the number of accidents and due to some accidents that resulted in long incapacity and recovery periods (including two cases of non-observance regarding labour safety instructions resulting in leg fractures with long recovery period). Investigations were carried out in each case and additional preventive measures in form of trainings and clear instructions were implemented.

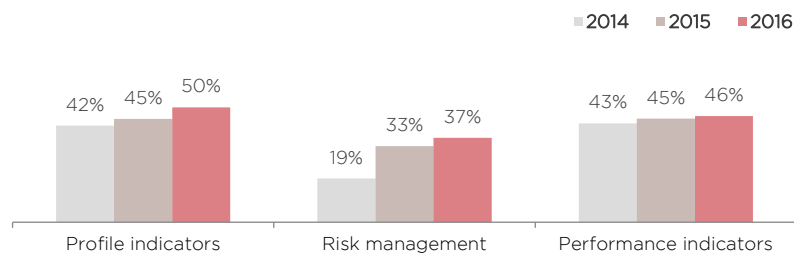


*Qvalitas Arstikeskus mobile clinic*

## CATEGORY SUMMARY: ENVIRONMENTAL POLICIES



### Environmental policies overview 2014-2016

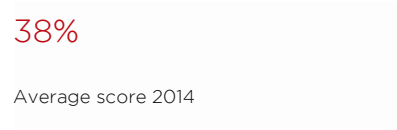
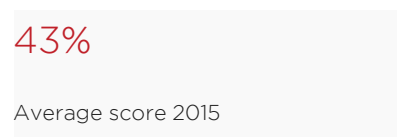


### Achievements and challenges

The good common practice includes:

- Clearly defined highest level of direct responsibility for environmental performance (87% of respondents);
- Considering the potential environmental impact when developing new products and services (70%);
- Providing goods/services that directly enable avoiding negative environmental impact by customers or a third party (60%).

Furthermore, 50% of companies have identified ways how to use the sustainability of its products/services as a competitive advantage.





Many companies (50%) provide environmental information on its products, services and activities. Also, the share of companies that have a written environmental policy has increased from 21% in 2014 to 40% in 2016. The same figure has increased from 24% in 2014 to 43% in 2016, when only comparing the companies that participated both in ESG survey 2014 and 2016.

Increasing the amount of waste that is treated and recycled was the most often mentioned environmental measure among the survey participants, 32% of reported measures in 2016 (35% in 2015). Other common environmental measures include waste minimization, 20% of all reported measures in 2016 (19% in 2015). Producing or purchasing energy from renewable sources has increased slightly, from 12% in 2014 to 16% of reported measures in 2016. The same figure has increased from 5% in 2014 to 14% in 2016, when only comparing the companies that participated both in ESG survey 2014 and 2016. Further, improving energy efficiency was also a rather common environmental measure (14%). For instance, EKJU has reported savings around 10000 EUR per year thanks to energy efficiency measures.

Focus on environmental management and performance has in general increased during the last years. Growing number of companies report that they have a certified environmental management system ISO 14001 (in total 23% of respondents): Amateks, Ecoservice, EKT, Kelprojektas, Magnetic MRO, TREV-2, and Ygle pastatu valdymas. Furthermore, the share of companies that have quantitative targets for their

environmental performance has increased from 13% in 2014 to 30% in 2016. The same figure has increased from 14% in 2014 to 33% in 2016, when only comparing the companies that participated both in ESG survey 2014 and 2016. Also environmental risk management is reported by growing number of companies.

During 2016, zero cases of environmental non-compliance were reported, however two cases of environmental accidents were reported. These cases regarded fires on waste treatment sites; the necessary corrective actions were taken instantly.

In Environmental category, the areas where companies received in general rather low results were: published information about the company's environmental performance, reducing greenhouse gas emissions from business operations, and purchasing vehicle fuels from renewable sources.

Highlights from 2016 regarding environmental achievements among portfolio companies include improved waste management (Ecoservice, EKT, FCR, Intrac, Kelprojektas, Magnetic MRO, and Uprent), and improved resource efficiency (BPT Real Estate, EUROLCDs, and Ygle pastatu valdymas). For instance, Ecoservice reports among other accomplishments: 12% increase in the amount of secondary raw materials sorted out and prepared for recycling compared to the year before.

Further, many portfolio companies also mention energy efficiency improvements as their most important environmental accomplishment for 2016 (BoxNet, Post Service, Post Service Kurzeme,

BPT Real Estate, EKJU, EKT, EuroLCD, Impuls, and Magnetic MRO). Respondents have estimated their annual cost savings thanks to the energy efficiency measures around €10500 per year.

**50%**

Companies need and have a legal permit to operate

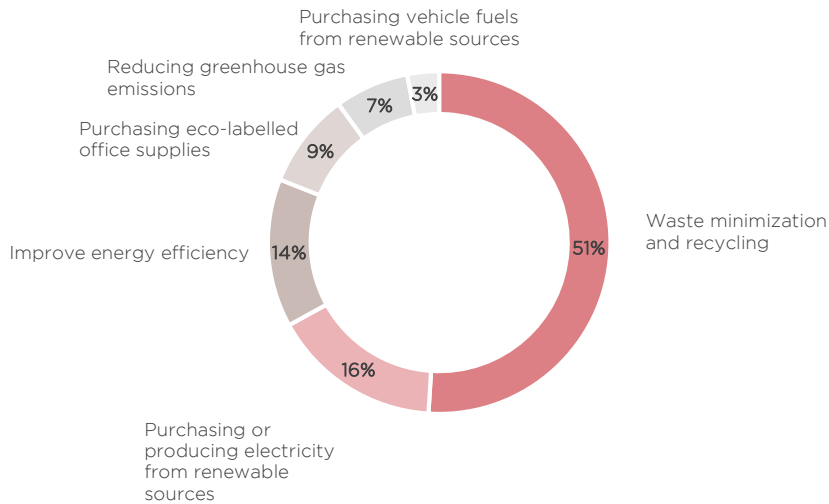
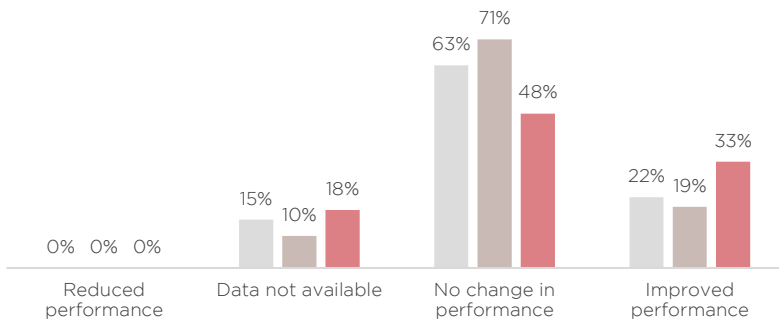
**87%**

Companies have clearly defined highest level of direct responsibility for environmental performance

**53%**

Companies were visited by the local authorities to monitor their environmental and/or social performance during 2015

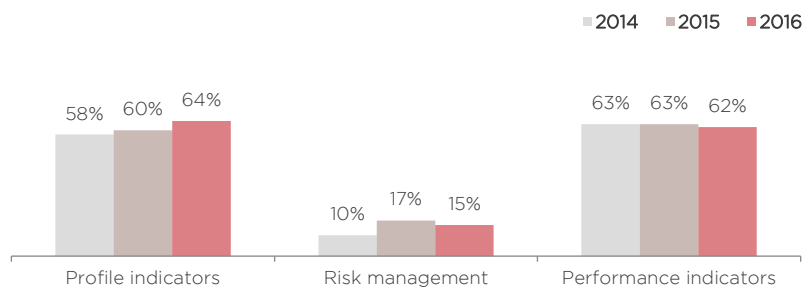
Environmental performance compared to the previous year ■ 2014 ■ 2015 ■ 2016



## CATEGORY SUMMARY: MARKETPLACE POLICIES



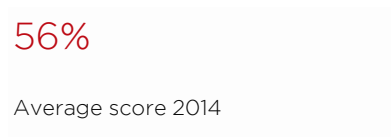
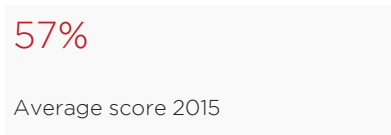
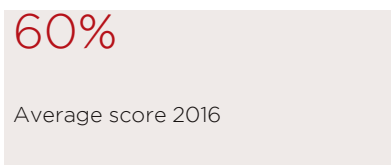
### Marketplace policies overview 2014-2016



### Achievements and challenge

The common practice in Marketplace category continues to include:

- Process for documenting and resolving complaints from customers, suppliers and business partners (100% of respondents);
- Timely payment of suppliers' invoices (93%);
- Process to ensure effective feedback, consultation and/or dialogue with customers, suppliers and the other business partners (93%), and
- Policy to ensure honesty and quality in all contracts, dealings and advertising (83%).



In general, the performance and awareness regarding market place policies has improved. Many companies ensure providing clear and accurate information and labelling about products and services, including the after-sales obligations (80%). The share of companies that have quantitative targets for service quality and/or customer satisfaction has increased from 54% in 2014 to 77% in 2016. The same figure has increased from 62% in 2014 to 86% in 2016, when only comparing the companies that participated both in ESG survey 2014 and 2016. A written policy for quality management is becoming increasingly common practice, 73% of respondents had such policy in 2016 compared to 63% in 2014. In addition, certified quality management system ISO 9001 is also applied by increasing share of companies, reaching 47% in 2016 compared to 38% in 2014.

Compared to 2014, the share of businesses that put environmental requirements on their suppliers has increased from 38% to 50%. Share of enterprises that put social requirements on their suppliers has also increased from 21% to 33%.

Risk assessment of potential negative impacts on society and/or environment in the supply chain remains to be one of the main challenges in the marketplace category, currently a rather low share of the respondents (17%) have such procedures in place. Other challenges in this category reported by the participants are improving service quality and customer satisfaction.

Among important accomplishments are for example Kelprojektas that has

contribution to award winning infrastructure projects: "Movable bridge over the river Dane on the street Pilis, in Klaipeda" (Product of the 2016 Year by Lithuanian Confederation of Industrialists) and "Project of national arterial road A5 Kaunas-Marijampole-Suvalkai of the section from 45,15 to 56,83 km reconstruction to highway" (Best Road Project of the Year 2016 in Lithuania); and TREV-2 that has improved working culture and increased profitability during 2016.

Agrouop, Clusterpoint, BPT Real Estate, EKJU, FCR, Magnetic MRO, Vendon, and Ygle pastatu valdymas report the improved product and/or service quality as the most important accomplishment for 2016. Finally, the improved customer satisfaction was the important achievement for Impuls, Intrac, Labochema, Trafi, and Uprent.

**73%**  
Companies confirm that their targets for service quality and/or customer satisfaction in 2015 were achieved in time

**100%**  
Companies registered and resolved complaints from customers, suppliers and business partners during 2015

83%

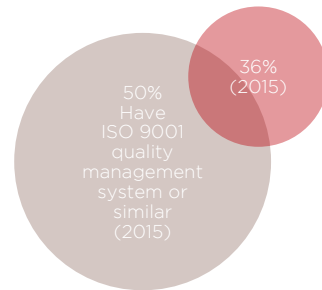
Companies have a formal or non-formal policy to ensure honesty and quality in all its contracts, dealings and advertising

33%

Companies put social requirements on their suppliers

50%

Companies put environmental requirements on their suppliers

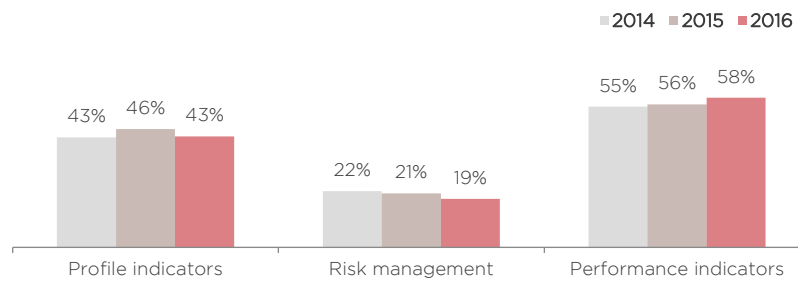


*Impuls Gym*

## CATEGORY SUMMARY: COMPANY VALUES & ANTI-CORRUPTION



### Company values and anti-corruption overview 2014-2016



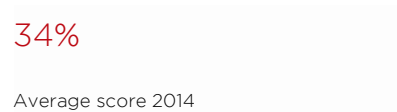
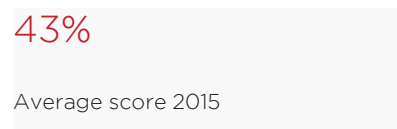
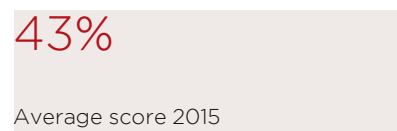
### Achievements and challenges

The common practice in the category Company values and anti-corruption includes:

- Clearly defined values and written rules of conduct including principles for countering bribery and corruption (57%)
- Communicating enterprise's rules of conduct including anti-corruption principles to customers, business partners, suppliers and other interested parties (60%)
- Performance and background check of your significant suppliers and business partners (43%).

Background check of suppliers is most commonly carried out by: revising documentation covering supplier's financial performance,

experience, business ethics and/or reputation.



In total 30% of the companies have internal reporting procedures for countering bribery and corruption (e.g. whistle-blowing procedures).

This is an improvement compared to 2014 where only 25% of the respondents reported having such procedures in place. Risk assessment of business operations regarding risks related to corruption is still rather rare practice among respondents (10%) and needs to be improved. However, companies that have risk assessment in place commonly apply systematic and documented risk assessment procedures. Training for employees regarding company's rules of conduct and anti-corruption principles was carried out by 30% of respondents, which is a positive development compared to 25% in 2014. The same figure has increased from 24% in 2014 to 33% in 2016, when only comparing the companies that participated both in ESG survey 2014 and 2016.

Examples of important achievements from 2016 comprise: Magnetic MRO that has developed and is implementing a Code of Conduct for the business, including among other topics anti-corruption principles; TREV-2 that follow up compliance with company's Code of Business Ethics and Declaration of Business Interests; Unimed that has improved its procedures regarding making procurements and purchasing; and Labochema that carried out a training for employees regarding company values and anti-corruption.

Challenges for the future reported by the companies include establishing fair and transparent procurement and purchasing processes (TREV-2, Ygle pastatu valdymas, and Impuls); to ensure high business ethics and zero tolerance regarding corruption (Coffee Inn, EKJU, Magnetic MRO, and Uprent); improving internal reporting methods for anti-corruption

(Clusterpoint, TREV-2); and developing written rules of conduct (Agroup).

57%

Companies have clearly defined values and written rules of conduct including principles for countering bribery and corruption

97%

Companies confirm that they did not experience any difficulties in implementing the anti-corruption procedures in 2015

43%

Companies carry out performance and background check of significant suppliers and business partners

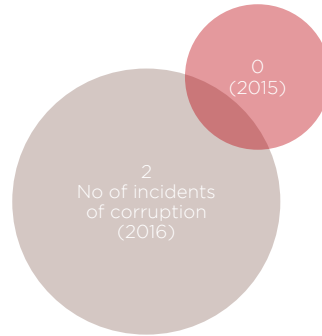
30%

Companies carried out training for employees regarding principles for countering bribery and corruption during 2015

30%

Companies have internal reporting procedures for countering bribery and corruption (e.g. whistle-blower)

In one case an employee of a portfolio company was suspected to have received bribe from provider of materials. In the second case an employee was identified selling scrap metal belonging to the portfolio company. Both cases resulted in corrective actions to ensure that the misconduct would not happen again.

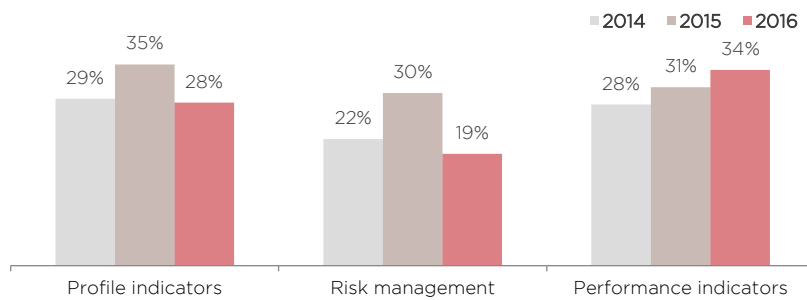


*BPT Real Estate*



## CATEGORY SUMMARY: COMMUNITY POLICIES

### Community policies overview 2014-2016



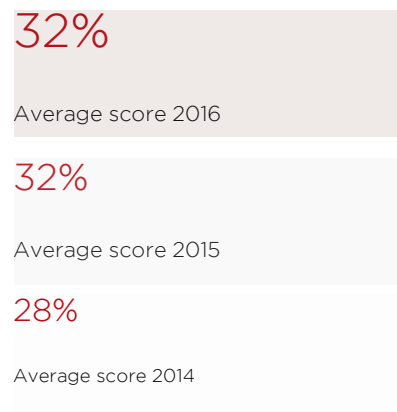
### Achievements and challenges

The portfolio companies in general have least experience in Community category related management systems and activities; some of the more frequently reported procedures are:

- Policy for purchasing locally (50%)
- Encouraging employees to participate in local community activities, e.g. providing employee time and expertise, or other practical help (60%)
- Providing regular financial support to local community activities and projects, e.g.

charitable donations or sponsorship (40%)

The average score in Community category has remained on the same level as for 2015.



Other examples of good practice in Community category includes: funding non-governmental organizations and/or programs to aid vulnerable social groups in the local community (Unimed, FCR, Impuls, Intrac, Kelprojektas, Pure Chocolate, and Ygle pastatu valdymas) by supporting local sports clubs, providing internships for students, and/or making donations to aid to disadvantaged groups; and dialogue with the local community on adverse, controversial or sensitive issues that involve the business (BPT Real Estate, EKT, Impuls, Intrac, Magnetic MRO, and TREV-2).

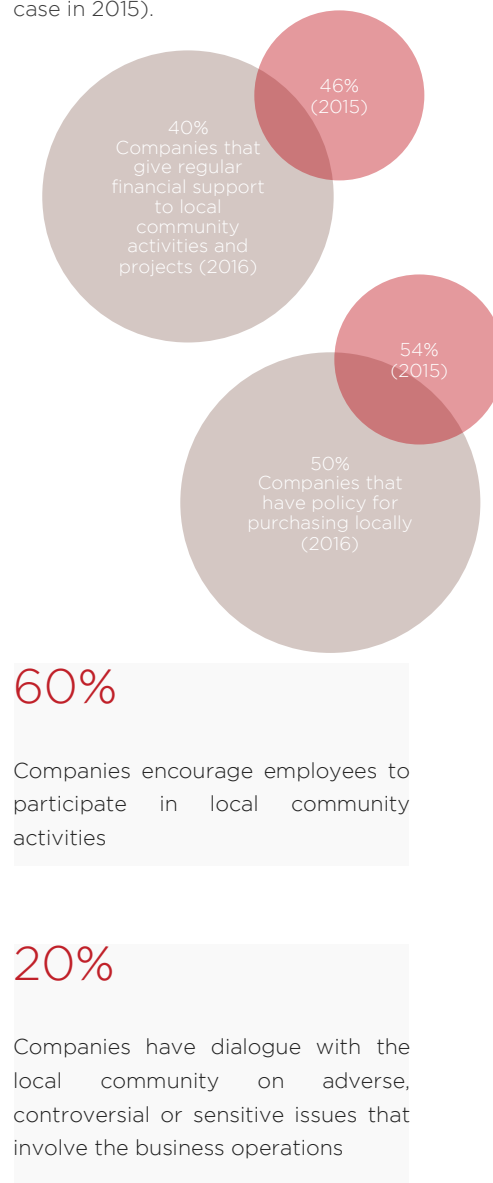
Participating in pollution prevention programs is least common community engagement activity among the companies. However, participation in such activities has grown slightly compared to 2014.

Examples of important achievements from 2016 include: increasing employees' involvement in community activities generating social benefits (Ygle pastatu valdymas); arranging healthy living awareness campaigns and non-formal events for local community (Impuls); supporting local municipality business environment improvement program (EUROLCDS); participating in the local community activities as one of the major employers in the community (EKJU); and developing company's core business of providing dental care that is an essential service in many communities (Unimed).

The challenges in Community category comprise among other topics: identifying and participating in community activities in a way that benefits both the community and the

business (Agroup, Unimed, FCR, Impuls and Runway), improved community dialogue (BPT Real Estate and TREV-2); and establishing collaboration with local communities for job training and capacity building (EKJU, EUROLCDS, and Ygle pastatu valdymas).

During 2016, there were no reported cases of complaints and/or grievances from the members of the public or civil society organizations (1 case in 2015).

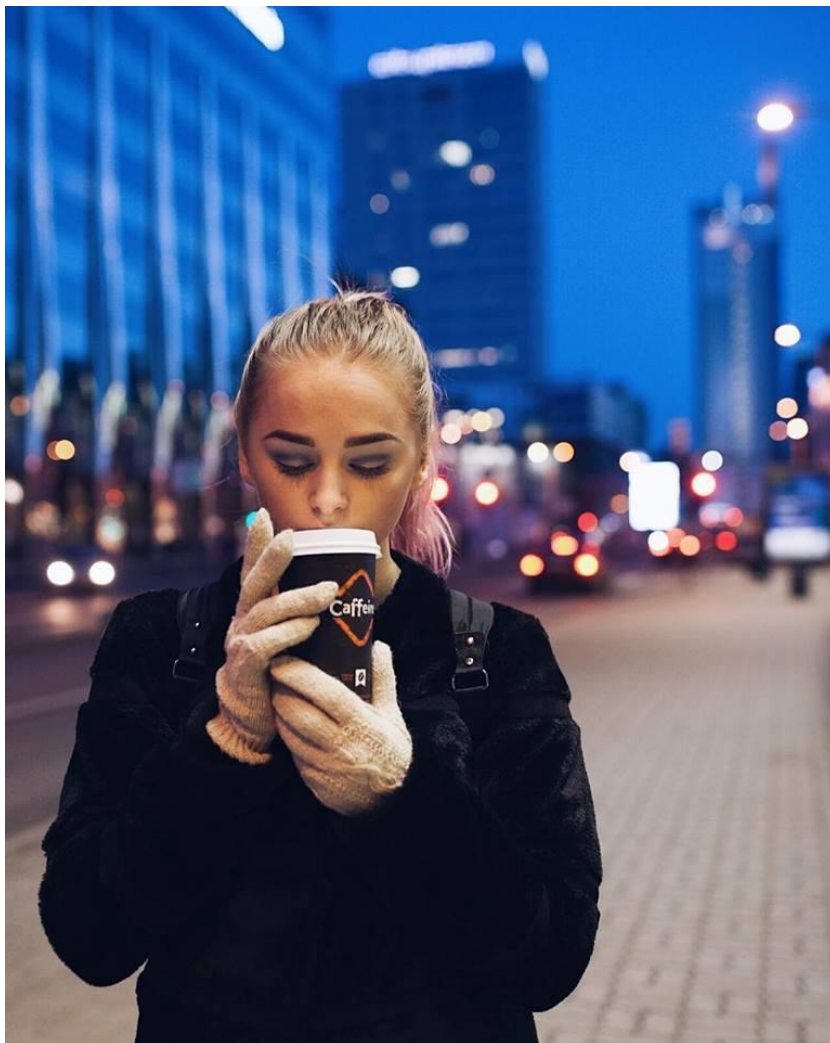


47%

Companies consider that they are better placed to meet the challenges of the market thanks to the ESG policies they have in place

13%

Companies participated in national/international policy programs for ESG in 2016 (14% in 2015)



Caffeine Viru Center (Tallinn, Estonia)

## ABOUT THE SURVEY METHODOLOGY



The survey was carried out during the period December 2016 - February 2017. 19 out of 20 currently active Jeremie Initiative portfolio companies responded to the questionnaire, and 13 out of 13 currently active BaltCap Private Equity portfolio companies responded to the questionnaire. Compared to the last year, the response rate has slightly decreased. The reason for that is among other things the fact that Post Service, Post Service Kurzeme and BoxNet who are registered as three individual companies but carry out identical services filled in a common response, also one Lithuanian company from Jeremie Initiative portfolio decided not to participate in this year's survey.

The content and number of questions in the current survey was identical with the surveys for 2014 and 2015. The included categories and the framework for screening ESG performance is presented on page 7. Further, the questionnaire was prepared in two versions based on the health and safety risk level and environmental impact of the businesses. Based on the type of business, companies were divided into two groups and received a group specific questionnaire: service sector questionnaire - office-based service companies, 18 (18 in 2015); or industry sector questionnaire - companies providing maintenance, construction, infrastructure, transportation and technology services, 14 (10 in 2015).

The scoring system for responses was identical with the surveys for 2014 and 2015. The purpose of this current scoring system is to be able to take into account and promote respondents for additional information and comments regarding their working methods and performance. In the current survey, each answer received score from 0 to 5, where 0 was given for insufficient/lack of information and 5 was maximum score given for an answer including additional information describing work procedures, achievements and/or other performance data. Finally, the total score was converted to percentages by dividing each company's result with the maximum possible score.