

ENVIRONMENTAL, SOCIAL &
GOVERNANCE ('ESG')
REPORT FOR 2017

BALTCAP

05 MESSAGE FROM MANAGING PARTNERS

08 BALTCAP

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

16 ABOUT THIS REPORT

22 OVERVIEW OF THE 2017 SURVEY FINDINGS

26 CATEGORY SUMMARY: WORKPLACE POLICIES

30 CATEGORY SUMMARY: ENVIRONMENTAL POLICIES

36 CATEGORY SUMMARY: MARKETPLACE POLICIES

41 CATEGORY SUMMARY: COMPANY VALUES AND ANTI-CORRUPTION

45 CATEGORY SUMMARY: COMMUNITY POLICIES

49 ABOUT THE SURVEY METHODOLOGY

50 APPENDIX 1: CODE OF RESPONSIBLE BEHAVIOUR



PORTFOLIO IMPACT IN BRIEF

<p>41 Companies 33 current portfolio companies (2016: 33)</p>	<p>7,533 Employees (Entry: 4,923)</p>
<p>€615 million in revenue (Entry: €275m)</p>	<p>€60 million In EBITDA (Entry: €29m)</p>
<p>Around 200 new job positions created¹</p>	<p>€112 million paid for salaries (2016: €81m)</p>
<p>€30 million invested in capital expenditure (2016: €25m)</p>	<p>€78 million taxes paid (2016: €64m)</p>
<p>36 / 0 Work-related accidents / fatalities (2016: 33/0)</p>	<p>0 non-compliances with applicable regulations (including anti-corruption) and accidents or other negative incidents</p>
<p>1/3 of Management Board Members contributed 8+ hours for voluntary work²</p>	<p>1/4 of companies use fully or partially renewable energy</p>

¹ Includes only organic job creation, not taking into account the effect from mergers and acquisitions

² Includes also leadership positions of professional associations and supporting educational institutions

MESSAGE FROM MANAGING PARTNERS



We proudly present you our 7th Environmental, Social and Governance (“ESG”) Report.

Being a responsible investor, we at BaltCap aim to excel in considering ESG aspects in our investment process as well as in general decision making. It is essential to see our portfolio companies follow our lead and continuously mature in ESG issues. Therefore, we annually ask them to complete a thorough self-assessment forming a base for this report.

BaltCap has always strived to build Baltic companies into internationally recognized business champions. We have built a reputation over two decades as the trustworthy partner to management teams and investors of the funds. Our approach has enabled BaltCap to become the most experienced and largest private equity investor dedicated to the Baltic region, covering buyout, growth capital and infrastructure.

We partner with top management teams and entrepreneurs, helping them achieve their ambitions and deliver transformational growth, both regionally and internationally. Since 1995, we have made over 75 investments contributing to the growth of Baltic economy. In 2018 we celebrate our 10th year of being a signatory of the United Nations Principles for Responsible Investment. We can proudly state that starting from our first investment fund launched in 1995, we have always followed the principles for responsible investment as a natural part of our business.

As a business, our primary purpose is to create long term value to our shareholders and investors. We can only achieve this goal by combining excellent financial performance with responsible and sustainable business practices that take into account employees, business partners and society. We conduct our operations in accordance with the highest legal and ethical standards, expecting nothing less from our portfolio companies.

This is the reason we created the Code of Responsible Behaviour (Appendix 1) for managers and employees of BaltCap and our portfolio companies in 2017. The Code defines BaltCap's values and principles we commit to follow in daily operations.

2017 was 8th consecutive year for BaltCap to participate in Estonian Responsible Business Index. Our long-term commitment and excellent ESG performance was awarded with a Gold Level Quality Label.

Every year we conduct a survey among our portfolio companies to measure and monitor their annual ESG performance. Although the 2017 results remained on average at the same level compared to 2016, we see progress behind the numbers:

- **Companies improve their ESG performance under BaltCap ownership.** We proudly witness that portfolio companies improve their individual ESG performance after BaltCap has invested in them. Most portfolio companies demonstrate improvement of their result year by year.
- **Results between different ESG categories are more equal than ever before.** This proves the growing understanding among portfolio companies about the relevance of holistic approach to managing their ESG aspects.
- **Companies with higher risks perform better.** The survey confirms our expectation that ESG matters are more carefully managed in companies that have the highest environmental and social risks.

In 2017:

- Our 33 portfolio companies created around 200 new jobs to labour market, around 3% of total portfolio employment. These companies paid €112 million of net salaries, €78 million of taxes (incl. employment taxes and corporate income tax) and invested €30 million to capital expenditure.
- As the most significant contribution to the environmental sustainability, we launched BaltCap Infrastructure Fund in June 2017 with the target size of €100 million, backed by European Investment Bank, Nordic Environment Finance Corporation (NEFCO) and Baltic pension funds. The Fund will primarily focus on providing development capital for transport, renewable energy, and energy efficiency infrastructure projects in the Baltics.
- Infrastructure development is one of the key priority areas for the Baltic region to improve competitiveness, independency, and meet environmental targets. It is the first time in the region when the Estonian, Latvian and Lithuanian pension fund assets will be deployed to develop infrastructure for future generations. What is equally important, the Fund will create new jobs and by its focus on renewable energy and energy efficiency, it will significantly contribute to the climate change agenda.

- BaltCap established another new investment fund – BaltCap Growth Fund - making growth equity investments in SMEs. This fund is a brand-new instrument in the Baltic market with such an investment focus to assist small companies to grow into market leaders and also increase exports.
- When launching the two new investment funds BaltCap took advantage of the limited partnership funds regime (*Usaldusfond*) in Estonia that became available from the beginning of 2017. It is a significant achievement for Estonia to have a simple and efficient fund structure available that meets all the requirements of international funds regulation (incl. AIFMD) and institutional investors investing in private equity funds. BaltCap was among the first to establish new fund entities under *Usaldusfond* (Estonian limited partnership) regime. We look forward to witnessing *Usaldusfond* structure become widely used among the private equity fund managers in Northern Europe.

Improving ESG impact of our portfolio is a journey. We continue to strive for excellence to be part of a sustainable future. Your suggestions, questions and comments about the report and our ESG principles are always welcome, please do not hesitate to contact us.

Peeter Saks**Martin Kõdar****Dagnis Dreimanis****Simonas Gustainis**

BALTCAP



BaltCap is the most experienced and largest private equity investor dedicated to the Baltic region, covering buyout, growth capital and infrastructure.

We partner with ambitious management teams, helping them 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 €370 million and more than 75 investments to date. Our team has a shared strategic vision, a strong and consistent track record, and experience investing across a range of industry sectors.

BaltCap has always strived to build Baltic companies into internationally recognized business champions. We work closely with our portfolio companies and provide hands-on support, unlocking value and driving sustainable growth in order to achieve the best possible results and deliver superior returns over the long term for our investors. We value teamwork and share responsibility for the growing success of our companies.

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), European Investment Bank and the largest pension funds in the Baltics.

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 and build businesses through acquisition.

BaltCap's primary purpose as a business is to create long-term value for our shareholders and investors. We can only achieve this goal by combining excellent financial performance with responsible and sustainable business practices that take into account employees, business partners and society.

We invest equity or equity-related instruments, and like to support strong, ambitious management teams with whom we have a good cultural fit.

Buyout

BaltCap Private Equity Funds ('BPEF') make buyout investments in mid-sized unlisted companies. The companies are primarily based in the Baltic countries and often have a goal for geographic expansion. The investment focus is set on innovative companies and buy-and-build opportunities. We reflect on lessons learned, we make an effort to drive new and better solutions and to continuously improve as we partner with management teams.

Our buyout funds seek to acquire controlling ownership stakes. We typically invest between €5 – 15 million of equity per portfolio company. The enterprise value of the target companies ranges between €10 – 50 million.

Growth

BaltCap Growth Fund ('BGF') invests in micro-, small- and mid-sized companies (SMEs) across the Baltics. BGF provides growth capital to create regional market leaders and increase exports. The fund, established in 2017, is a brand-new instrument in a market with this investment focus.

We have a fresh viewpoint and proactive approach to making an impact and taking major growth steps towards goals set. We aim to deliver strong, sustainable growth and are committed to strategic priorities.

BGF invests typically between €1 – 3 million of equity per portfolio company. The fund considers financing companies with exceptional growth potential across various industries.

Infrastructure

BaltCap Infrastructure Fund's ('BInF') primary focus is providing development capital for transport, energy and energy efficiency infrastructure projects in the Baltics. Infrastructure development is one of the key priority areas for the region to improve its competitiveness and independence.

BInF's investment strategy is based on the highest environmental, social and governance standards and climate change mitigation criteria. The fund invests between €3 – 12 million per project and has a duration of 20 years.

Facts about us

Main countries of operation	Estonia, Latvia, and Lithuania
Number of Investments	78 (of which current 33)
BaltCap funds	<i>Usaldusfond BaltCap Infrastructure Fund</i> <i>BaltCap Growth Fund EuVECA Usaldusfond</i> <i>BaltCap Private Equity II SCSp</i> <i>BaltCap Private Equity Fund L.P.</i> <i>BaltCap Latvia Venture Capital Fund K.S.</i> <i>Lithuania SME Fund KUB</i> <i>Baltic Investment Fund III L.P.</i> <i>Baltic Investment Fund III C.V.</i>
Point of contact for enquiries	Triinu Oll, triinu.oll@baltcap.com
Homepage	www.baltcap.com



Baltic Coffee Holding, a leading vendor of vending and coffee solutions rebranded to 'Coffee Address', was acquired by BPEF II in 2017

BALTCAP'S APPROACH TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS



We follow internationally recognized responsible investment 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. Similarly to other private equity firms, BaltCap also benefits from following Invest Europe's "Professional Standards" and the "ESG Due Diligence Questionnaire for Private Equity Investors and their Portfolio Companies".

We are committed to our Code of Responsible Behaviour

This Code, developed in 2017 jointly with the representatives of portfolio companies, defines BaltCap's values and principles that BaltCap team and our portfolio companies commit to follow in daily operations. It is a guide helping us all manage risks and become more sustainable.

The Code embraces five aspects of responsible behaviour that our people are expected to follow³:

- Be honest and ethical;
- Keep your house in order and apply good governance principles;
- Care about people;
- Encourage collaboration for more advanced society;
- Respect natural environment

Please refer to full text of the Code in Appendix 1 of the report.

³ http://www.baltcap.ee/uploads/files/The-Code-of-Responsible-Behaviour_BaltCap_final.pdf

As an investment firm BaltCap is committed to:

- 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 compiles and carries out an annual self-assessment regarding our 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 Responsible Business Index and by UNPRI in their Report on Progress.



BaltCap has been rewarded with Estonian Responsible Business Index Gold Level quality label (the highest level).

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. In addition, an annual report is published based on the annual ESG screening results and of course we have our usual daily communication and co-operation with our business partners.



auto24.ee, the leading online automotive marketplace in Estonia, acquired by BPEF II in 2017

ABOUT THIS REPORT



This is our 7th annual report presenting BaltCap's principles and performance in Environmental, Social and Governance ("ESG") matters. Our previous ESG report was published in April 2017. This report is the main point of reference for our stakeholders regarding our annual ESG 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 annually carry 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 raise awareness and highlight the importance of 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 2017

The survey, carried out during December 2017 - February 2018 had the same scope as ESG survey 2016. Compared to previous year, some improvements were made to the questionnaire:

- Several occupational health and safety, and environmental management questions that used to be compulsory only for industrial companies were made mandatory also for service-focused companies;
- Questions about employee training volumes and renewable energy consumption were added for all.

The main focus of the survey is to provide an ESG performance overview that meets the expectations of our investors and reflects the latest developments in the private equity industry. The questionnaire is designed to fully comply with the latest

requirements of the European Bank for Reconstruction and Development for annual environmental and social reporting.

Changes in the questionnaire and in the list of participants might affect the average results – this should be taken into consideration when reviewing the results and comparing them with previous year.

Methodology in brief

As the year before, our ESG questionnaire for 2017 consisted of five main categories (see the Table below), each divided into three groups of questions assessing respondents’ ESG profile, risk management and performance. The survey was 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.




31 out of 33 currently active portfolio companies responded to the questionnaire. The response rate was 94% (97% in 2016 and 88% in 2015). All 15 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 15 out of 16 of those companies responded to the survey, demonstrating continuous interest in ESG issues. Also, one of the two

Infrastructure Fund companies responded (Infrastructure Fund completed both investments only in late 2017).

Out of 31 respondents, 11 represented industrial sector (companies providing maintenance, construction, infrastructure, transportation and technology services) and 20 represented service sector. Among 31 companies we had 3 newcomers, participating for the first time. According to EBRD’s environmental and social risk categorization, we had 7 high risk, 13 medium risk, and 11 low risk companies providing their feedback.




	Type of business	Employees	Turnover (€000)	Environmental & social risk classification*
	Property management	74	3,771	Medium
	Dental care provider	265	11,220	Medium
	Waste management	603	30,848	Medium/High
	Waste management	632	40,764	Medium/High
	Directional media company	761	93,483	Low
	Financial technology solutions	175	12,791	Low
	Machinery trade	235	64,850	Low
	Transport infrastructure engineering	283	8,201	High
	Aircraft maintenance, repair and overhaul	420	93,483	Medium
	Occupational health care	192	7,172	Medium
	BPO service provider	1,013	24,704	Low
	Road construction	358	70,902	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.

	Pumping systems rental	116	5,982	Medium/High
	Coffee and vending services	120	12,894	Low
	Online marketplaces	26	5,094	Low
	Subtotal	5,273	488,737	

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

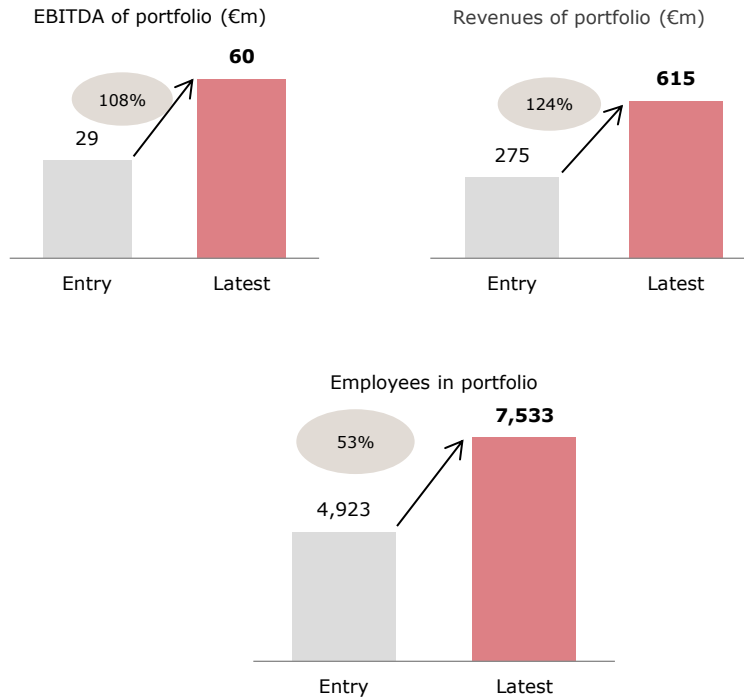
	Software development	15	749	Low
	Metal components producer	50	3,015	Medium/High
	Data interchange solutions	12	554	Low
	Postal operator	32	1,675	Low
	Chain of branded coffee shops	288	9,329	Medium
	Garden furniture production	161	8,875	Medium
	Liquid crystal display producer	25	749	Medium
	Gym and health clubs operator	410	17,384	Low
	Medical care services provider	453	6 536	Medium
	Laboratory supply provider	60	10,502	High
	Chocolate manufacturer	60	2,925	Medium
	Urban journey planning application	40	300	Low

	Monitoring systems for vending machines	12	1,256	Medium
	Building technical system maintenance	51	1,759	Medium
	Volumetric 3D monitor developer and supplier	2	196	Low
	Subtotal	1,672	66,448	
	Grand total	6,945	555,185	

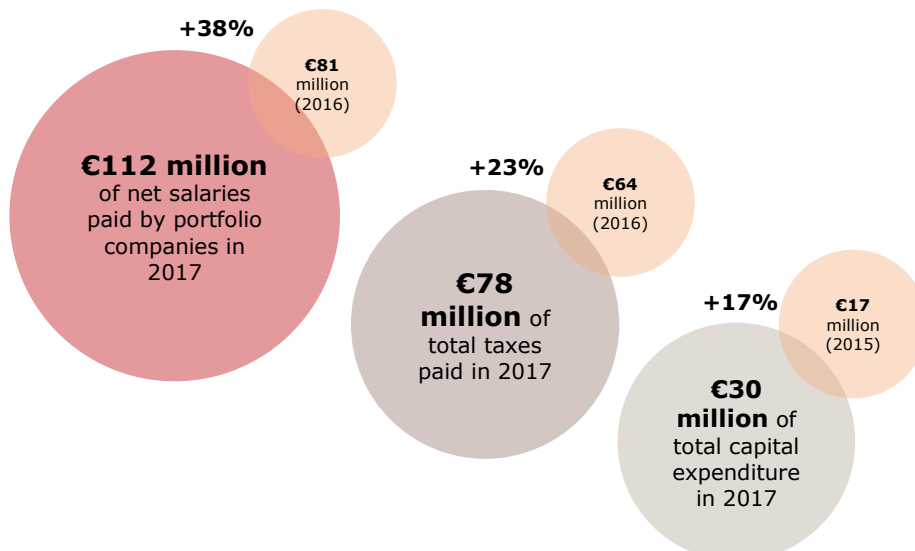


Pure Chocolate, a BLVCF portfolio company, confectionary production line

Overview of portfolio companies

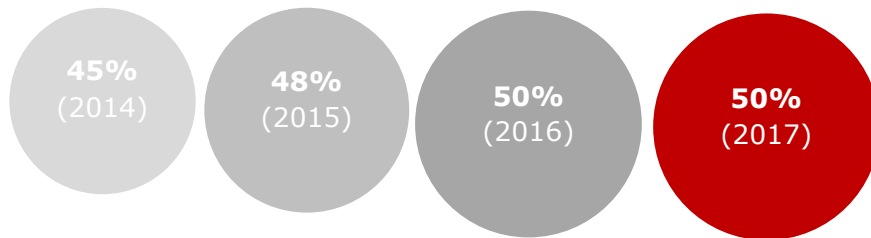


Each year the portfolio companies also pay significant amounts in salaries, taxes and invest in the development of business.

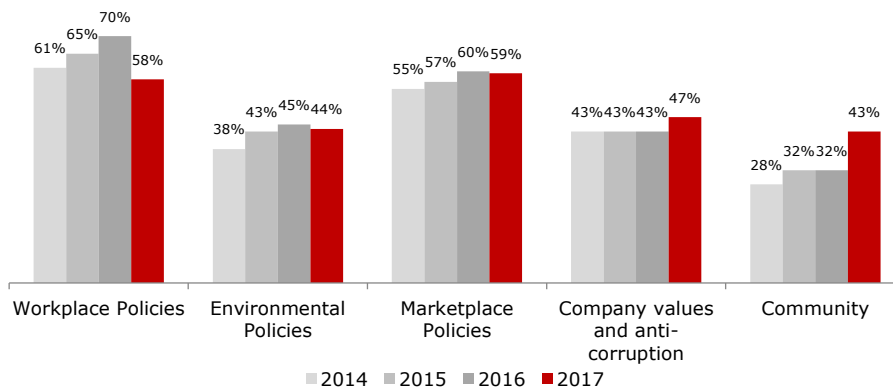


OVERVIEW OF THE 2017 SURVEY FINDINGS

ESG Survey results 2014-2017



Average scores 2014-2017



Summary

In 2017 the portfolio companies scored 50% as the average ESG performance. Compared to 2016, the result remained at the same level. The performance improved significantly in Community category (from 32% to 43%), and increased from 43% to 47% in Company values & anti-corruption category. The overall score stayed at similar level in Environmental and Marketplace sections (decreased 1 percentage point). Workplace category result has decreased to 58% (2016: 70%).

Results between different categories are more equal than ever before – ranging from 43% to 58% of possible maximum. This proves a growing understanding among portfolio companies about the relevance of holistic approach to managing their environmental, social, and governance aspects.

The highest results in employee and workplace management, and in quality and customer experience management (forming majority of Marketplace section) reflect that constantly maturing expectations of employees and customers are the major drivers in shaping responsible and sustainable business.

Explaining changes

- Average performance among industrial sector companies was 58% and among service sector companies 46%.
- As the share of all respondents was 35% industrial and 65% service companies, the total average scores were more influenced by service sector companies.
- Service sector scored the lowest compared to industrial companies in Workplace (51% and 70% respectively) and Environmental (35% and 59% respectively) categories. These were also the only categories where several questions previously applicable only for industrial sector were now made compulsory also for service sector companies (40% of total number of questions in Workplace and 17% in Environmental category). For the most part, the total number of positive answers did not decrease.

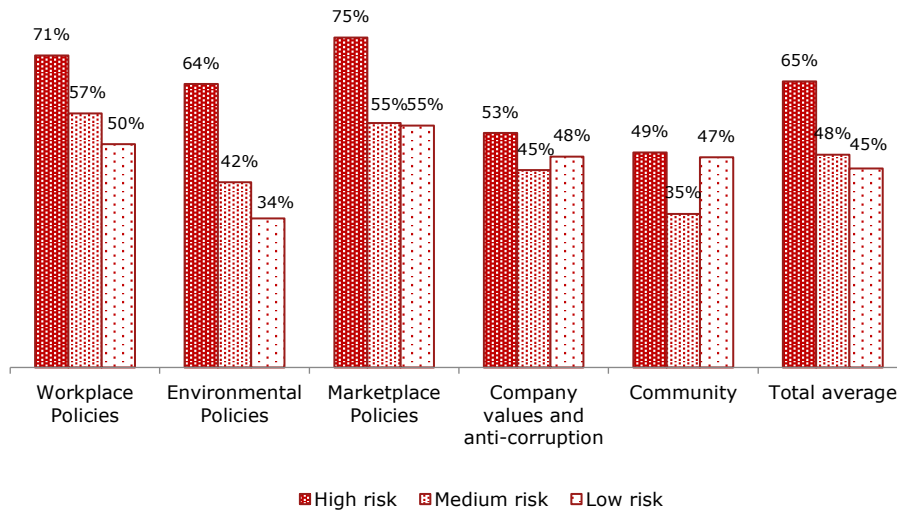
Certain environmental management aspects might not play the highest relevance for service sector companies, and their passiveness and lower results can therefore be partially explained. However, service companies too must find new ways how to achieve better environmental impact and competitive advantage through that. This is why changes were made in the questionnaire.

We are proud to witness that portfolio companies improve their individual ESG performance throughout years. Newcomers receive slightly lower scores when participating in the survey for the first time but they increase their result year by year, and when leaving our portfolio and the survey, they have achieved rather higher ESG performance results than the rest of the respondents.

Companies with higher ESG risks perform better

ESG aspects should be especially carefully managed in companies that have the highest environmental and social risks. By allocating portfolio companies according to EBRD's environmental and social risk categorization, it is clear that companies with higher risks have achieved higher scores. Similarly, companies with medium risk manage workplace and environmental policies better than those with low risk – these

are the most critical categories in terms of environmental and social risks. Out of all respondents we had 7 high, 13 medium, and 11 low risk companies providing their feedback.



Top performers

The highest individual scores both in industrial and service sector were received by companies whose core activities most probably have the largest total impact on nature and society. Also, most of the top performers are among the largest employers in the portfolio.

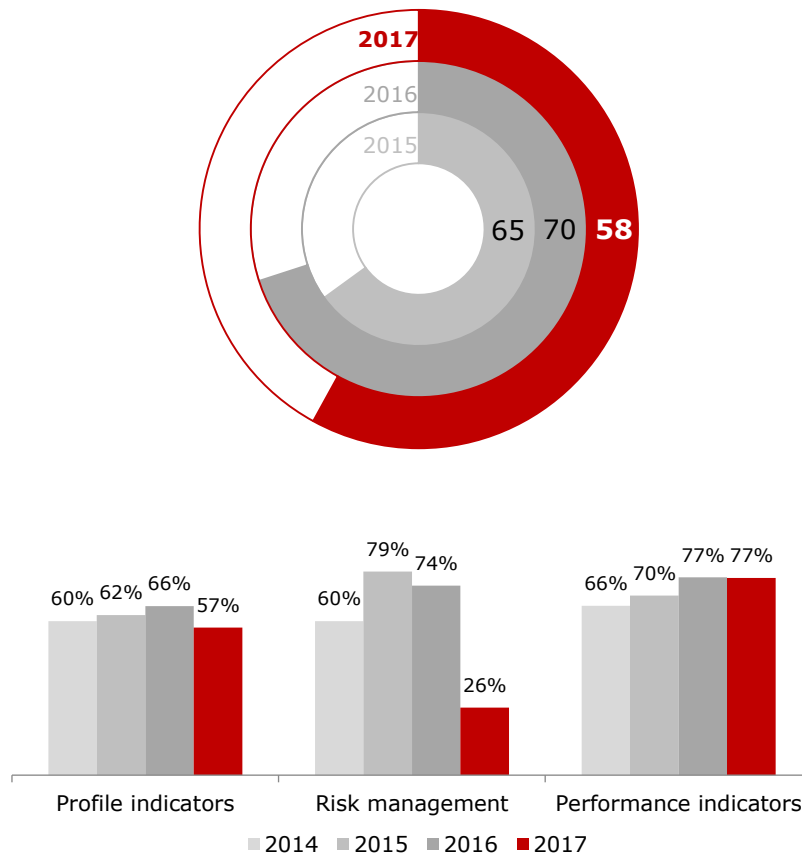
- Industrial:** road construction and maintenance company TREV-2 Group, aircraft maintenance provider Magnetic MRO, waste management operators EKT (Eesti Keskkonnateenused) and Ecoservice, and Intrac that trades and provides services for heavy machinery.
- Service:** property management company BPT Real Estate, transport infrastructure engineering company Kelprojektas, and Ygle that provides maintenance of building engineering systems.



Magnetic MRO's newly built paint hangar opened in Tallinn Airport in 2017

CATEGORY SUMMARY: WORKPLACE POLICIES

Workplace policies overview 2014-2017



Average score in Workplace policies category has dropped to 58% (compared to 70% in 2016). This remarkable decrease is mostly caused by changed methodology in risk management section - several occupational health and safety questions that in previous surveys were applicable only for industrial sector companies, were now made compulsory also for service sector (making 3 out of 4 questions in the section).

As health and safety management forms an integral part of industrial companies' business, they scored an average of 70% compared to 51% average score of service companies, making the total average 58% in this section.

Out of health and safety topics, the results in other questions (non-discrimination, training, wellbeing, satisfaction) did not show that remarkable changes.

Common practices

- ▼ 100% of companies seek and take into account employees' views regarding important issues for the business (2016: 100%);
- ▼ 100% of companies ensure suitable arrangements for health, safety and welfare, providing sufficient protection for their employees (2016: 100%);
- ▼ 97% of companies encourage employees to develop real skills and long-term careers, e.g. performance appraisals, training plans (2016: 97%).

Management of workplace aspects

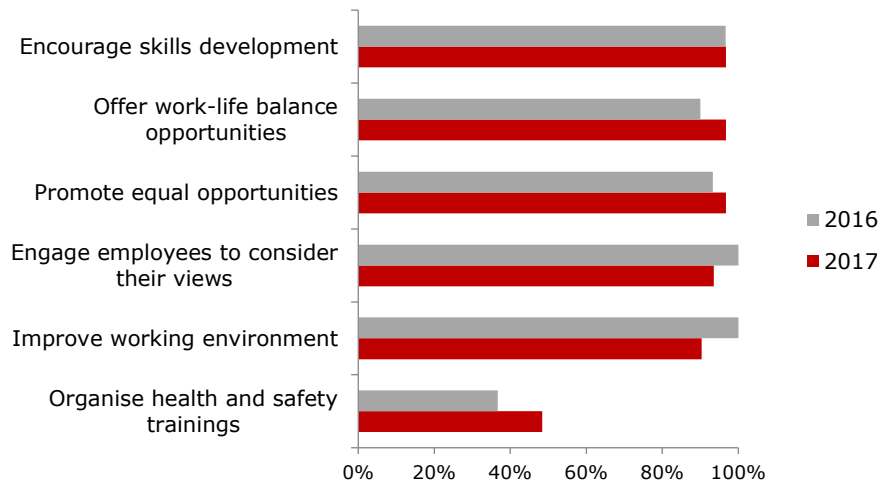
36% of industrial sector companies have OHSAS 18000 or similar health and safety certificate and 64% have set health and safety targets. Since only 10% of service sector companies have these certificates or targets, the overall results are lower - 19% of all portfolio companies have an occupational health and safety certificate (2016: 10%) and 23% of enterprises have some quantitative targets for managing this aspect (2016: 17%).

Risk management of workplace policies is one of the challenges. Only 32% of companies have conducted internal occupational health and safety audits to prevent nonconformity in the last two years. Half of them (13% in total) have identified some major occupational and/or health and safety related risks. One of the reasons might be the requirement in national legislations to run these audits only after major changes in working environment.

Behaviour and practices

Since almost half of companies mentioned that one of the biggest challenges in 2017 was keeping employee satisfaction and motivation, it's important to monitor the current situation and improve the working conditions and motivation systems.

39% of respondents have quantitative targets for job satisfaction (2016: 40%). Although only 45% of companies monitor job satisfaction and wellbeing of employees (2016: 40%), 90% of respondents have taken actions to improve working environment in their offices and/or facilities.



Proportion of companies practising different workplace management measures

Equal treatment plays continuously important role in portfolio companies. All companies confirm they had no cases of discrimination at work in the reporting period. 97% of respondents are sure they promote equal opportunities, and 55% of companies have even placed a process to ensure adequate steps are taken against all forms of discrimination, both in the workplace and at the time of recruitment.

Some of the most often mentioned achievements of 2017 comprise developing better working conditions and protective equipment (highlighted by Coffee Address, TREV2, FCR, EuroLCD). Improved employee rewarding, motivation and recognition systems were mentioned too (highlighted by Ecoservice, Unimed, EuroLCD, Kelprojektas).

Increased noticeably since 2016

- Offering a good work-life balance for employees – 97% (2016: 90%)
- Carrying out trainings for employees regarding occupational health and safety – 48% (2016: 37%)
- Promoting equal opportunities within the workforce – 97% (2016: 93%)

Dropped noticeably since 2016

- Taking any actions to improve working environment in offices and/or facilities in the reporting period – 90% (2016: 100%)

Bottom line

0 cases of discrimination at work

0 work-related fatalities

36 work-related accidents (5.1 per `000 employees) - mostly due to negligence, wrong working methods, and not following safety instructions.

926 workdays (130 per `000 employees) lost due to work-related accidents (2016: 851 in total, 123 per `000 employees)

Example

In 2017 Ecoservice, the leading waste management company in Lithuania, created new employee motivation system that for the first time covered all job positions in the organization. The aim of transparent salary and bonus system is to create better corporate culture and higher employee satisfaction.

All 610 employees were engaged into the process through interviews or survey and they had a chance to express their opinion on how the system should look like.

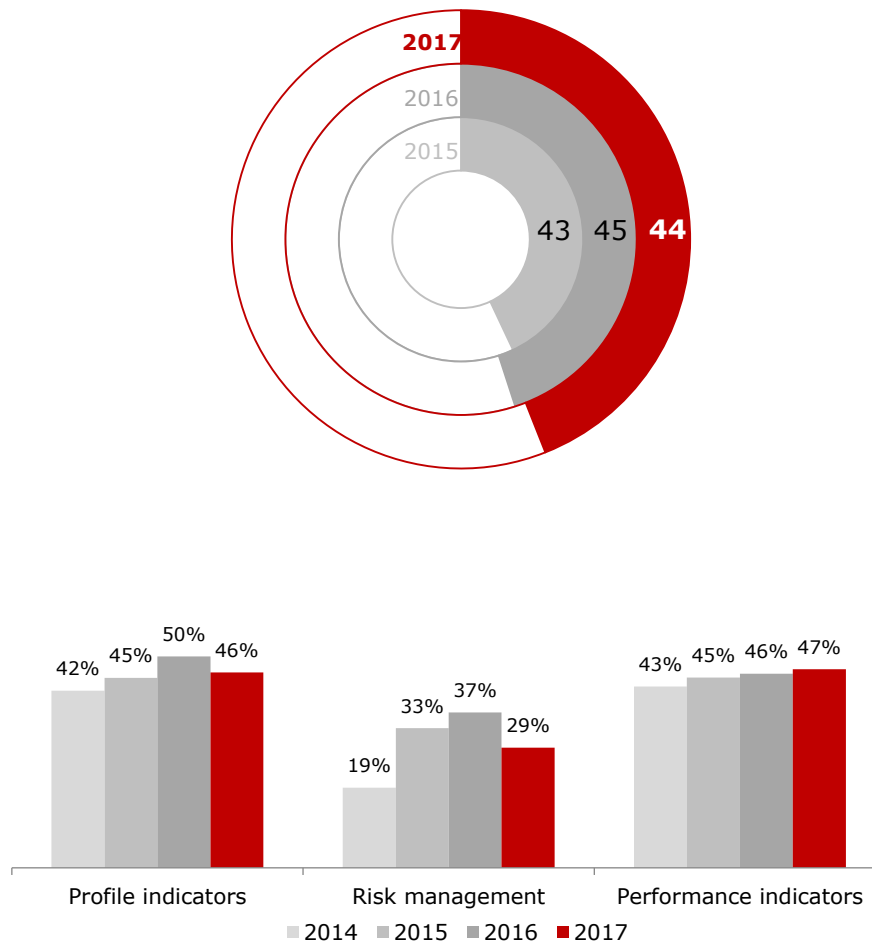
Besides describing wage structure of every job position, the system also includes reward scheme for good performance. Quality, speed, repair costs, achievement of goals, and seniority are some of the criteria that define the rewarding bonuses for different positions.



Ecoservice, a BPEF II portfolio company active in waste management

CATEGORY SUMMARY: ENVIRONMENTAL POLICIES

Environmental policies overview 2014-2017



Based on average score, Environmental policies are one of the least managed categories with average score of 44% (2016: 45%). **Slight decrease in results is partially caused by changed methodology** – 5 questions that in previous surveys were applicable only for industrial sector companies, were this year made compulsory

also for service sector. Results in risk management section got affected the most as half of these questions were new for 20 service sector companies (risk management score 49% for industrial and 17% for service sector companies).

Environmental policies was also the category where the gap between the average result of industrial and service companies was the largest (industrial 59% compared to service 35%).

Common practices

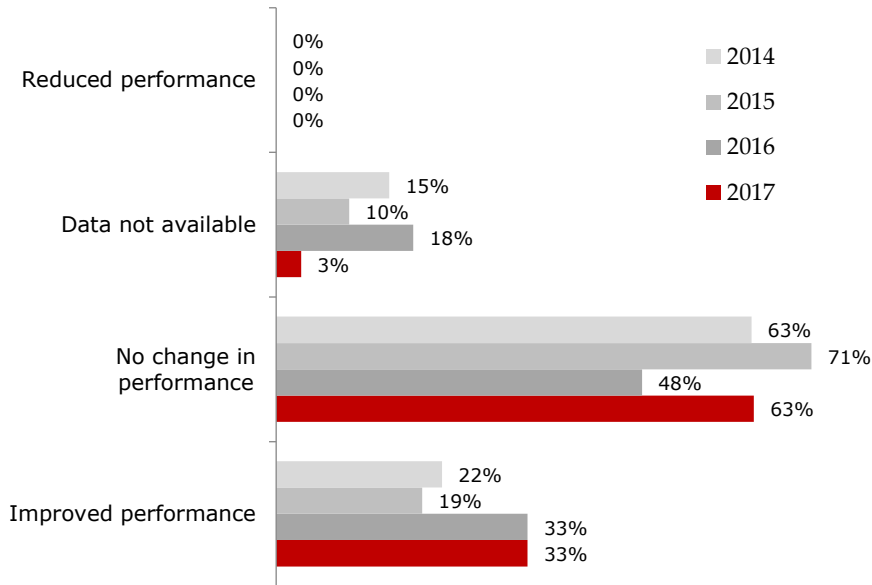
- ▼ 77% of companies consider the potential environmental impacts when developing new products and services (2016: 70%).
- ▼ With 68% of companies recycling, waste management is the most widely practised operational level activity to manage environmental impact.
- ▼ 58% of companies supply clear and accurate environmental information on their products, services and activities to customers, suppliers and local community (2016: 50%).
- ▼ 52% of companies believe that the use of their goods and/or services directly enables to avoid negative environmental impact by customers or a third party (2016: 60%).

Environmental management in portfolio companies

2/5 of portfolio companies have a written environmental policy and most of them have set quantitative environmental targets (26% of total respondents). 88% of those companies report that targets have been achieved or are going to be achieved in time.

Every fourth has applied ISO 14001, EMAS or similar environmental management system certification.

33% of companies reported that their absolute environmental performance improved in 2017 compared to previous year, 63% considered no change (Chart 1). Trends since 2014 show growing awareness about environmental issues: more companies acknowledge improved environmental performance and the number of companies having no data about it has dropped as well.



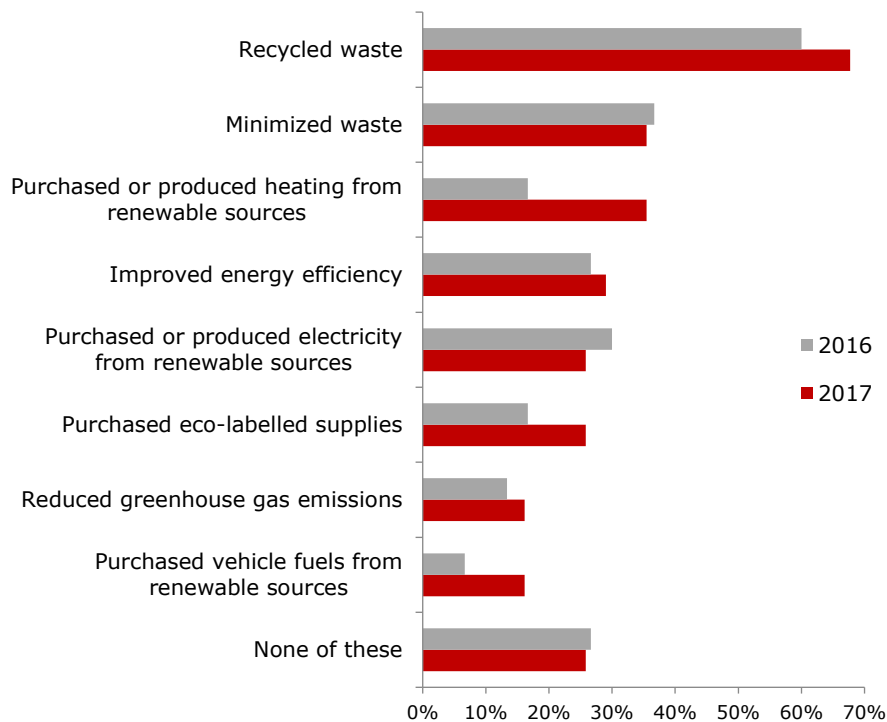
Change in absolute environmental performance compared to previous year (% of companies)

Around half of all companies agree that sustainability of products or services could give them an advantage over competitors – 48% of companies think so, compared to 50% in 2016. The result is supported by the fact that 39% of companies have identified environmental opportunities (current or future) that have the potential to generate a substantive change in their business operations, and only 23% see environmental risks that might substantially affect their business potential.

2/3 of companies that have environmental policy or environmental targets report improved environmental performance. At the same time, only 16% of companies having neither environmental policy nor targets witnessed improvement in their performance.

Environmentally friendly behaviour

The most widely practised steps to reduce environmental impact were again related to waste management (Chart 2). 7 out of 8 companies that practised none of the above mentioned activities, were service firms.



Proportion of companies practising different ways for reducing their environmental impact

Companies that reported significant achievements regarding their environmental performance mostly mentioned waste management (50%; highlighted by Ecoservice, EUROLCDs, Intrac, Kelprojektas, Vendon, FCR, Uprent, Magnetic MRP), energy efficiency (44%; highlighted by Ecoservice, EKJU, Impuls, Intrac, Kelprojektas, Coffee Address, Anaerobic Holding), and environmentally-friendly management of materials (25%; highlighted by EKJU, EUROLCDs, Kelprojektas, Labochema).

The section about major challenges affecting businesses in the future saw the relevance of energy efficiency (44%) and waste management (22%), but also a need and opportunity to consider environmental impact of product and service development (22%) and CO2 emissions (17%).

Increased noticeably since 2016

- Purchasing or producing heating from renewable sources – 35% (2016: 17%)
- Purchasing eco-labelled, fair-trade or environmentally-friendly supplies – 26% (2016: 17%)
- Purchasing vehicle fuels from renewable sources – 16% (2016: 7%)

Dropped noticeably since 2016

- Companies whose goods or services directly enable to avoid negative impact by customers or third party – 52% (2016: 60%)
- Companies that have identified any environmental risks – 23% (2016: 27%)

Bottom line

0 environmental non-compliances. None of the portfolio companies reported about incidents of non-compliance with applicable environmental regulations that would result in fines, penalties or excess fees.

84% of companies did not experience any difficulties in implementing the environmental procedures in 2017 (2016: 80%). Also, no environmental accidents were reported.

Example

EKJU is one of the largest Latvian wooden garden furniture manufacturers. EKJU aims to bring nature close to their clients. The company works by the principle that CO2 emissions into the atmosphere can be reduced by increasing the use of wood. EKJU has obtained a FSC® certificate, proving their desire to use wood that comes from sustainably managed forests.

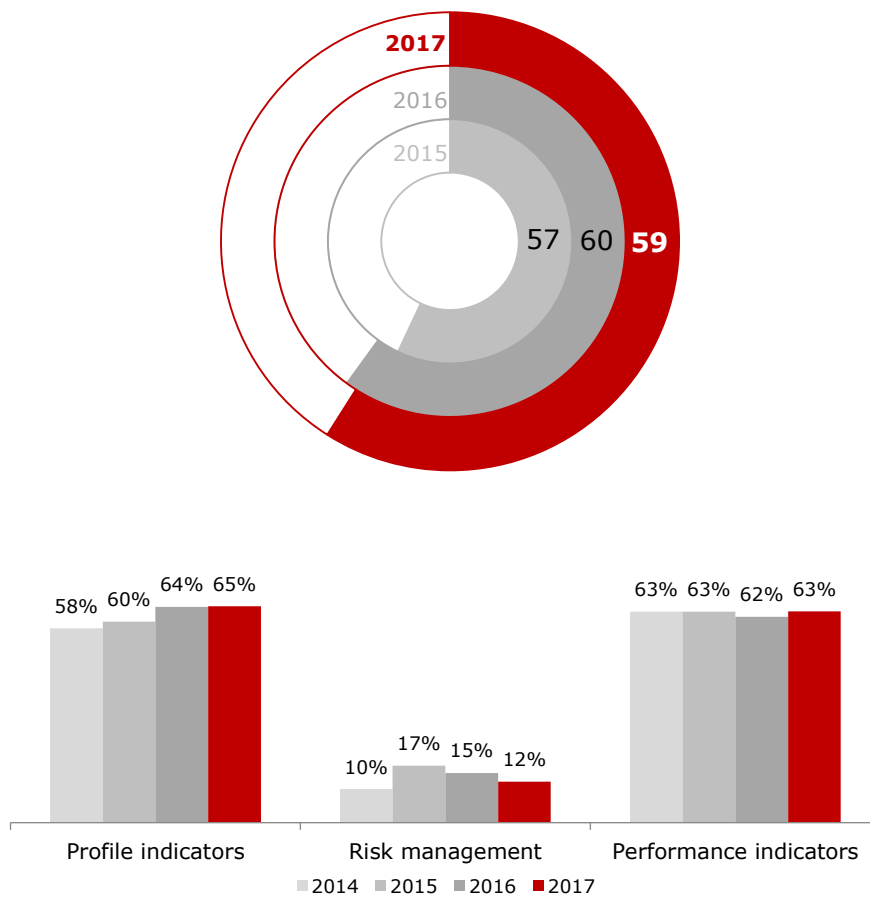
In order to sustain wood as an environmentally-friendly resource and raw material, and contribute to the forest regeneration, EKJU teams voluntarily plant thousands of trees every year. Their products and packaging materials are designed with recycling in mind. In the future, EKJU wants to find even more nature-friendly possibilities for timber treatment.



EKJU, a BLVCF portfolio company

CATEGORY SUMMARY: MARKETPLACE POLICIES

Marketplace policies overview 2014-2017



Marketplace policies category received the highest average result – 59%. Compared to 2016, no major changes in profile, risk management and performance results occurred. The category mostly covers quality management, customer satisfaction and supply chain aspects.

Risk management score is calculated based on only one question about environmental and social risk assessment in supply chain. Even more decreased total score is caused by changed background of the respondents – industrial sector usually scores twice higher in supply chain aspects than service companies, and compared to 2016 the share of industrial companies of all respondents has decreased. Newcomers (all from service sector) scored relatively lower.

Common practices

- All companies register and resolve complaints from customers, suppliers and business partners (2016: 100%).
- 97% of companies have defined a process to ensure effective feedback, consultation and/or dialogue with customers, suppliers and other people they do business with (2016: 93%).
- 97% ensure timely payment of suppliers' invoices (2016: 93%).
- 84% of companies have a policy to ensure honesty and quality in all their contracts, dealings and advertising (2016: 83%).

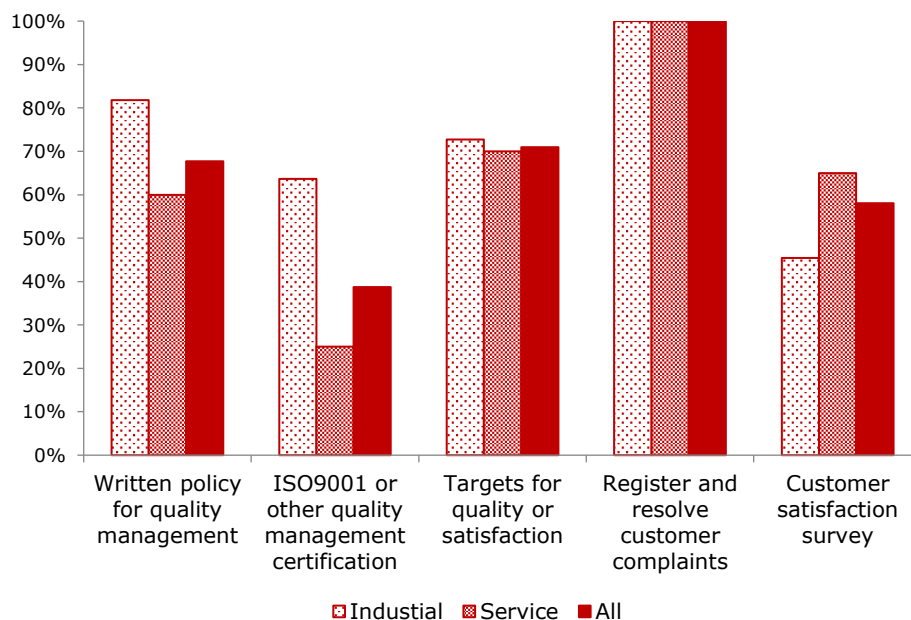
Quality management in portfolio companies

68% of companies have some kind of written policy for quality management. Half of them have also applied ISO 9001 and/or other similar quality management system certification.

71% of companies have set quantitative targets for service quality and/or customer satisfaction, which has decreased from 77% in 2016.

58% of companies monitor customer satisfaction in form of a survey. Almost half of them reported improved customer satisfaction in 2017, and only one company showed decrease in this area.

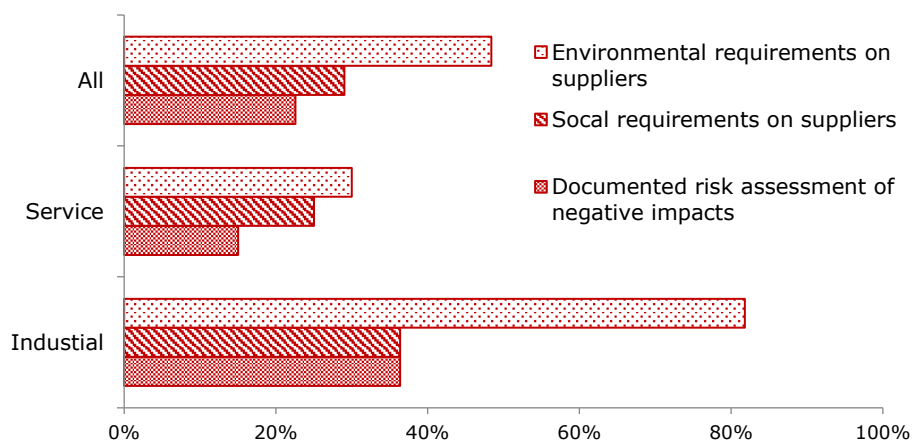
Industrial companies scored higher in quality management aspects, but more service companies monitor customer satisfaction compared to industrial firms.



Supply chain management in portfolio companies

Compared to customer complaints and quality management aspects, supply chain management received relatively lower scores. 48% of respondents put environmental requirements on their suppliers whereas 29% put social requirements on their suppliers. Only 23% had a documented risk assessment of potential negative impacts on society and/or environment in the supply chain.

Impact management in supply chain is rather common for industrial companies by putting environmental and social requirements on suppliers, and assessing risks in supply chain.



Achievements and challenges in responsible market behaviour

Some of the most often mentioned achievements of 2017 comprise dealing with customer experience and achieving higher satisfaction (highlighted by Auto24, BPT Real Estate, Impuls, Intrac, Vendon, Unimed, FCR, Magnetic MRO); improving products and services based on customer feedback or together with customers was mentioned too (highlighted by Agroup, EKJU, Coffee Address, Magnetic MRO).

Companies see major future challenges in managing customer experience (measuring feedback, improving service and satisfaction rate), ensuring product and service quality, and growing market share through meeting the increasing demand of customers.

Increased noticeably since 2016

- Working together with other companies or other organisations to address issues raised by responsible entrepreneurship – 65% (2016: 53%);
- Companies that monitor customer satisfaction – 58% (2016: 50%).

Dropped noticeably since 2016

- Companies that have ISO 9001 and/or some other similar quality management system certification – 39% (2016: 47%).

Bottom line

44% of companies that monitor customer satisfaction reported improved results in 2017.

100% of portfolio companies managed to resolve complaints from customers in 2017.

Example

TREV-2 Grupp focuses on the construction and maintenance of infrastructure objects, structures and civil engineering works. The company has defined major sustainability aspects related to their business and publicly communicates environmental, social and workplace responsibility principles at their website.

Their systematic and holistic approach to ESG topics is a clear sign of management quality to stakeholders and marketplace. TREV-2 Grupp promotes sustainable entrepreneurial culture by regularly and successfully participating at Estonian Responsible Business Index and being a long-time member of Responsible

Business Forum in Estonia – being leading example for other companies in the construction sector.

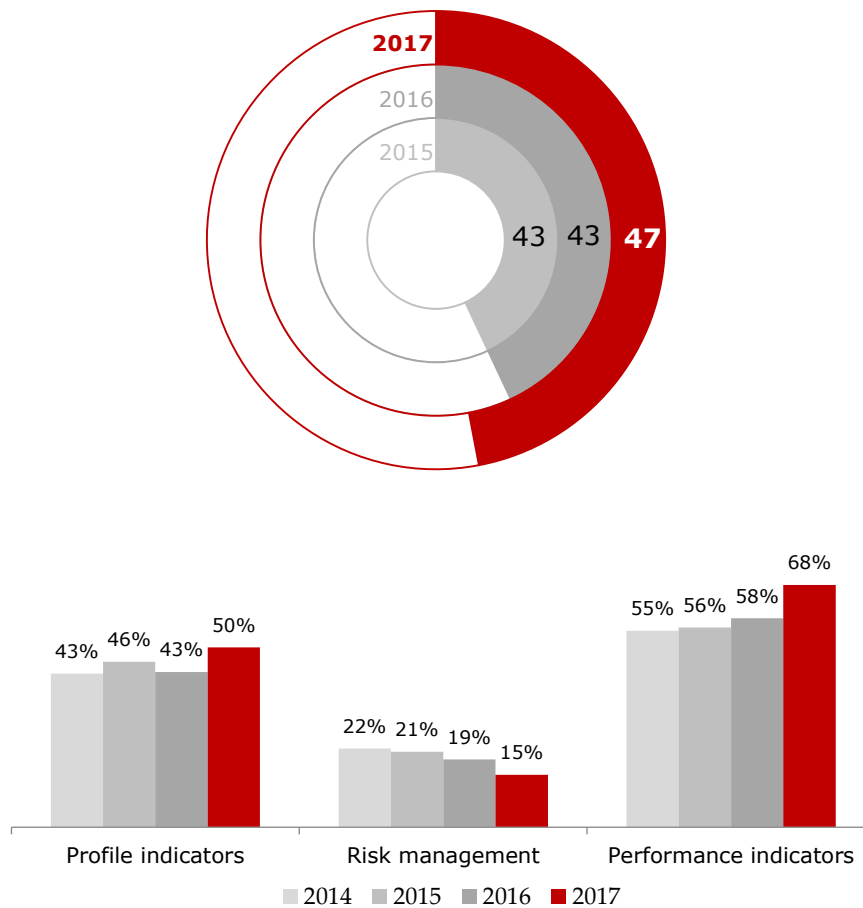


Roundabout built by TREV-2 Grupp, a BPEF portfolio company

CATEGORY SUMMARY: COMPANY VALUES & ANTI-CORRUPTION

Company values and anti-corruption overview

2014-2017



Average score for the category is 47% (2016: 43%) – a minor improvement compared to last three years. Industrial sector scored 48% and service sector 46% as the average result.

Common practices

- 74% of companies have clearly defined values and written rules of conduct including principles for countering bribery and corruption (2016: 57%).
- 65% of companies communicate their rules of conduct including anti-corruption principles to customers, business partners, suppliers and other interested parties (2016: 60%).

Defining responsible management of business

74% of companies have clearly defined values and written rules of conduct including principles for countering bribery and corruption – this applies to 85% of service sector companies and 55% of industrial sector companies.

Significant difference is evident in how industrial and service sector companies communicate their rules of conduct - including anti-corruption principles - to stakeholders: 75% of service companies and 45% of industrial companies practise that.

Although only 6% of respondents have a documented risk assessment of business operations regarding risks related to corruption (2016: 10%), and 29% have internal reporting procedures for countering bribery and corruption (2016: 30%), the actual ability to avoid non-compliances is strong. 84% of companies confirming they did not experience any difficulties in implementing the anti-corruption procedures in the reporting year (2016: 73%) should prove that.

Less than half of companies carry out training for employees regarding enterprise's rules of conduct including principles for countering bribery and corruption – the score 39% (2016: 30%) shows improvement but still remains challenging.

Achievements and challenges in responsible management

Some of the most often mentioned achievements of 2017 comprise contributions in raising employee and management awareness about anti-bribery, anti-corruption principles, business values, and code of business ethics (highlighted by Labochema, Coffee Address, FCR, Magnetic MRO). Improved employee contracts and internal control/monitoring systems were mentioned as well (highlighted by EKT, TREV2, BPT Real Estate).

Companies see major future challenges in developing and implementing procedures, policies, and internal audits to ensure adherence to anti-corruption and business ethics rules among their own employees and sub-contractors.

Increased noticeably since 2016

- ▼ Companies that have clearly defined values and written rules of conduct including principles for countering bribery and corruption – 74% (2016: 57%);
- ▼ Companies that carry out trainings for employees regarding enterprise's rules of conduct including principles for countering bribery and corruption – 39% (2016: 30%).

Dropped noticeably since 2016

- ▼ Carrying out performance and background check of significant suppliers and business partners in the reporting period – 35% (2016: 43%).

Bottom Line

0 confirmed incidents of corruption

0 fines and non-monetary sanctions for non-compliance with laws and regulations

Example

For **Kelprojektas**, the largest transport infrastructure engineering company in Lithuania, supporting sustainability, honesty and responsibility are three core values. Therefore, engaging and respectful approach helps to build trusting and lasting relationships with company's stakeholders.

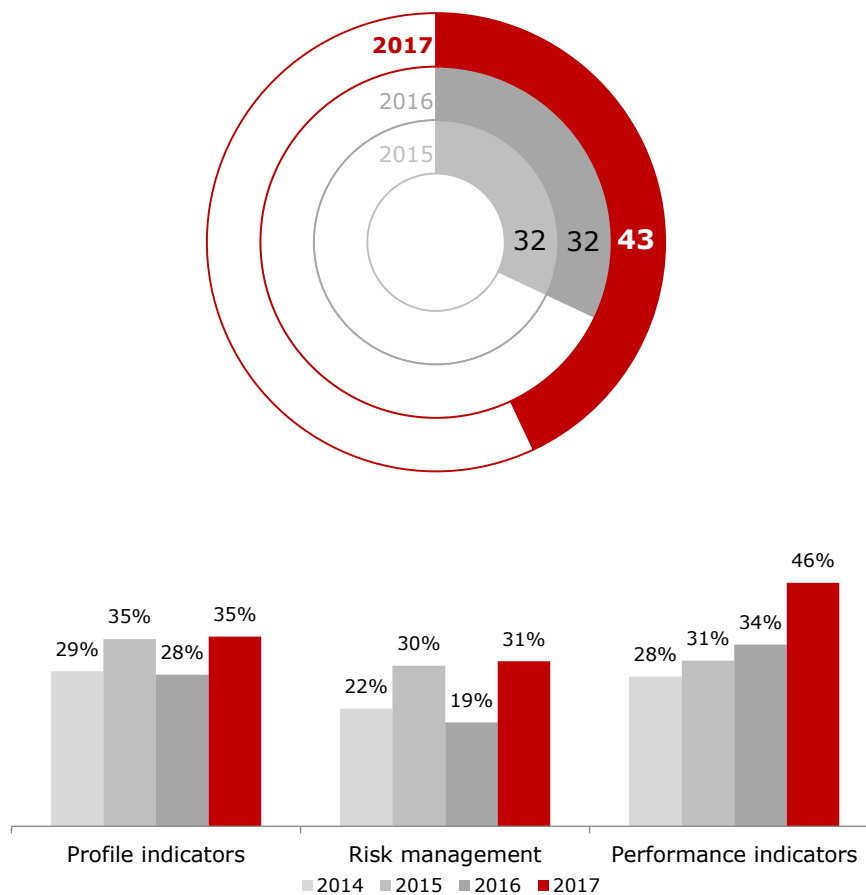
Kelprojektas is committed to providing sustainable solutions for customers and internal operation, so their team follows their own Corporate Social Responsibility Policy, Code of Ethics and also FIDIC Code of Ethics. The company's social responsibility is rooted in these principles: respecting customers, partners, state institutions, employees, and society by paying attention to transparency, compliance, anti-corruption standards, confidentiality, ethics, human rights, and equality.



Kelprojektas, a BPEF portfolio company

CATEGORY SUMMARY: COMMUNITY POLICIES

Community policies overview 2014-2017



Community policies is the category that improved the most compared to 2016 results. The average result changed noticeably and increased from 32% to 43%. Change is mostly based on the quality of responses that reflect more conscious involvement in

community matters, but also on the increased number of companies that support local community activities and projects.

Based on the analysis, industrial sector is remarkably stronger than service sector (the gap is bigger than 40 percentage points) in having a policy for purchasing locally, and keeping an open dialogue with the local community on adverse, controversial or sensitive issues involving the enterprise.

Common practices

- ▼ 65% of companies encourage employees to participate in local community activities (2016: 60%);
- ▼ 55% of companies provide regular financial support to local community activities and projects (2016: 40%).

Three pillars of managing community impact

Firstly, listening to stakeholder expectations is an increasing practice, but unfortunately still common for minority of respondents. 39% of companies have an open dialogue with the local community on adverse, controversial or sensitive issues that involve their enterprise – as mentioned, a significant increase compared to 20% in 2016.

Secondly, supporting local economy through purchasing goods and services from local providers if possible is still a rather frequent practice. According to answers, half of portfolio companies have a policy for purchasing locally (2016: 50%).

Thirdly, contributing to community development through extra effort is the most popular way of improving its impact on local community. Encouraging employees to participate in local community activities (e.g. providing employee time and expertise, or other practical help) shows the highest score - 65% of companies practise that (2016: 60%). 55% of companies give regular financial support to local community activities and projects (e.g. charitable donations or sponsorship). In addition, 23% of companies funded non-governmental organizations or programs to aid disadvantaged or vulnerable social groups in local community.

Achievement and challenges in community aspects

Companies mostly mentioned their positive contribution to society through creating stable working environment for employees, performing ethically, delivering good product and service quality, and considering environmental aspects in their decisions.

Besides the strong contribution to economic development and common welfare through their core work, the companies have done even more. Most of the activities that portfolio companies highlighted as their major achievements in 2017 were

related to giving scholarships, providing internship opportunities and contributing to education, and supporting other areas (childcare, healthcare, sports, environment etc).

Management Board members of around 1/3 portfolio companies have been active contributors (at least 1 full day per year) either for voluntary work, leadership positions of professional associations and/or supporting educational institutions.

Several companies indicated that it is challenging to find the right cooperation partners with whom the societal impact could be greater. Also, the need to create better dialogue with the community and stakeholders was mentioned by several portfolio companies.

Increased noticeably since 2016

- ▀ Giving regular financial support to local community activities and projects – 55% (2016: 40%);
- ▀ Having an open dialogue with the local community on adverse, controversial or sensitive issues that involve your enterprise – 39% (2016: 20%).

Bottom line

0 complaints or grievances from members of the public or civil society organizations.

Example

Unimed, one of the biggest private medical centres in Estonia, participates actively in cross-sectoral cooperation. Together with Estonian Dental Association and around 10 other dental companies they have shared their thoughts and knowledge in an initiative launched in 2017. The aim of the common effort is to improve industry regulations and the image of the industry as a whole.

With this in mind, the network started to increase public awareness through different communication activities at the end of 2017, explaining how good quality service is ensured through continuous investment in new equipment and training.



Unimed, a BPEF II company, is the market leader and a 'centre of excellence' in orthodontic treatment in Estonia

ABOUT THE SURVEY METHODOLOGY



The survey was carried out during the period December 2017 - February 2018. 15 out of 16 currently active JEREMIE initiative portfolio companies and 15 out of 15 currently active BaltCap Private Equity portfolio companies responded to the questionnaire. Also one Infrastructure Fund company provided their answers (in total two companies in the Fund). Like in 2016, the response rate stayed similar – 94% in 2017 compared to 97% in 2016.

Compared to surveys carried out between 2014 and 2016, both content and number of questions received an upgrade this year. From 2017 we don't provide separate questionnaires for service companies and industrial sector companies, as we used to do in the past. Unifying the respondents made several occupational health and safety and environmental impact questions mandatory also for service sector companies (previously applicable only for industrial sector and excluded from calculations of service sector). The included categories and the framework for screening ESG performance is presented on page 16.

The scoring system was identical with that of the surveys carried out during previous years. The purpose of this 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 a score from 0 to 5, where 0 was given for insufficient/lack of information and 5 was a 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.

APPENDIX 1: Code of Responsible Behaviour



We recognize that our actions and decisions influence a large number of people around us. Our primary purpose as a business is to create long term value to our shareholders and investors. But it cannot be done by “cutting corners”. We can only achieve this goal by combining excellent financial performance with responsible and sustainable business practices that take into account employees, business partners and society as well.

This is a joint code for managers and employees of BaltCap and its portfolio companies defining our values and principles which we commit to follow in our daily operations (the "Code"). This Code is not meant to be a definitive list of do’s and don’ts but rather a guide helping all of us to reduce risks and become more sustainable.

In case you face dilemmas in interpreting the Code or witness any relevant stakeholders behaving against these principles and are not sure how to act, turn to BaltCap and/or your company’s board for assistance.

A possible litmus test for application of these principles is personal conviction that your actions would stand up to public scrutiny (e.g. would be discussed on the front page of a national newspaper).

1. Be honest and ethical

Ethics, honesty and integrity are fundamental building blocks of trust in business relationships. We are committed to:

- Acting in good faith
- Building trust in all business relationships
- Keeping promises
- Maintaining confidentiality
- Complying with applicable laws and regulations
- Upholding the highest standards of professionalism
- Having zero tolerance for and never engaging in any form of bribery and corruption
- Keeping company’s business interests above personal interests

- ▼ Ensuring ethical handling of personal and professional conflicts of interests
- ▼ Not providing or accepting unsuitable gifts and payments that may affect the independence of decision making
- ▼ Avoiding to express personal political and/or religious preferences when representing employer

2. Keep your house in order and apply good governance principles

Good governance and leadership provide vital framework for the companies to operate successfully. We always aim to:

- ▼ Foster transparency
- ▼ Be open-minded and encourage each other to create an open and honest dialogue
- ▼ Compete fairly and make sure competitors do as well
- ▼ Ensure that our activities do not jeopardise the company's reputation and brand
- ▼ Practise responsible communication and marketing
- ▼ Ensure that best practice governance standards are followed in all corporate bodies
- ▼ Communicate openly about efforts and achievements in being a responsible business
- ▼ Ensure that our products and services are safe and with good quality
- ▼ Be responsible leaders (not only as technical managers)
- ▼ Require co-operation partners to follow responsible business principles

3. Care about people

People are of highest value to us and have to be respected with care. We do our best to:

- ▼ Treat everyone with care, courtesy, dignity, fairness, and respect
- ▼ Not to discriminate or harass anyone
- ▼ Support motivation and ensure well-being of employees
- ▼ Provide a safe and healthy workplace to all employees
- ▼ Facilitate development and professional growth of each individual
- ▼ Share knowledge and experiences with colleagues and partners

4. Encourage collaboration for more advanced society

The increasing interconnection of business and society is something that all companies have to deal with to build long term success. We make an effort to:

- ▼ Consider wider societal impact of every business decision

- Promote dialogue and collaboration with peers in our industry and local business community
- Organize activities in a manner that consider the interest of the communities around us
- Devote resources and support initiatives that lead a shift to a more sustainable society

5. Respect natural environment

We respect the limits of our planet and take our responsibility towards environment seriously. We seek to:

- Consider environmental impact of all our actions and decisions
- Strive beyond the minimum requirements of environmental regulations and standards
- Adopt new technological solutions to improve our efficiency and reduce the use of resources, waste and emissions
- Support innovation that results in smarter use of natural resources in our own activities and also for our cooperation partners and customers