



ENVIRONMENTAL, SOCIAL
AND GOVERNANCE (ESG)
REPORT FOR 2019

BALTCAP

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Portfolio impact in 2019 in brief

Our total impact and contribution to society lies in generated and distributed financial value (revenue, taxes, salaries, and payments to suppliers and providers of capital), providing employment and development opportunities, mitigating environmental footprint, innovation and new knowledge created for the market, an extra contribution made to societal initiatives, and many more activities by our portfolio companies.

Total all time investments ¹

85 platform investments

Overall portfolio impact in 2019 ²



€709 million

revenue of portfolio companies

(2018: €649 million)

(2017: €615 million)

(Entry: €300 million)



€77 million

In EBITDA

(2018: €67 million)

(2017: €60 million)

(Entry: €35 million)



8720

employees

(2018: 8000)

(2017: 7533)

(Entry: 5120)

¹ As at 31.12.2019.

² Aggregate figures of 47 companies of BaltCap managed funds BIF III (Intrac only), BPEF I, BPEF II, LSMEF, BLVCF, BGF, BinF out of which 18 had been exited before end of 2019. For exited companies latest available data before exit is used. 28 companies are active in the portfolio as at 31.12.2019.

Current portfolio development in 2019 ³



€62 million

paid in salaries



Approximately
100
new job positions created⁴



€55 million

Invested in capital expenditure
and R&D



€71 million

taxes paid



38,000
hours of training provided
for employees in total



€115,000
financial support to local community
and societal initiatives



32 / 0
work related accidents / fatalities



0
major non-compliances with
applicable regulations

³ Data provided for 28 measured portfolio companies. During 2019 several large companies with significant numbers of employees were exited, so the data in current report is not comparable to the previous year's report

⁴ Not counting mergers and acquisitions



Message from the Managing Partners

2020 marks the 25-year business anniversary for BaltCap. Since the launch of our first investment fund in 1995, we have followed the principles for responsible investment as a natural part of our business. Today we are happy to see that investing and growing businesses in responsible and sustainable manner has become a consistency, confirming BaltCap's commitment to ESG issues.

During the last couple of years, BaltCap has witnessed remarkable growth. **We have entered new strategies and attracted new investors to our funds, we have broadened our target markets** and grown our team. The recent milestones include:

- Establishing Nordic Ninja venture capital fund as a joint venture with Japanese JBIC IG Partners.
- Launching largest buyout fund for BaltCap to date, Private Equity Fund III, focusing on the New Nordics (Baltics and Nordic companies with a Baltic nexus).
- Opening BaltCap offices in Warsaw, Helsinki and Stockholm and rising our core staff.

Our recent progress has been led by a strong vision of sustainable growth. This means combining excellent financial performance with responsible and sustainable business practices considering employees, business partners and society at large. We are thankful to our investors for their continuing support and trust reaffirming that we are on the right track in pursuing our vision.

Role of ESG in business environment

During our 25-year journey as a responsible investor, great changes have taken place in business environment. **We have witnessed how sustainability, responsible management, and especially climate issues have increasingly started to impact businesses in all sectors.** Also, the late Covid-19 outbreak insists businesses to rethink their value chains and ask how to build resilience for global social and environmental effects in turbulent times.

During the last years, the ESG awareness of customers, employees, business partners, local communities and investors has risen enormously, also **the expectations towards individual businesses in ESG matters have increased vigorously.** Alongside new challenges, the trend also provides businesses new opportunities when creating value for customers.

BaltCap has continuously been committed to supporting its portfolio in integrating ESG factors in their daily operations. **Our growing focus has been on making ESG management more practical and business relevant.** It starts by asking simple questions. *What is the real value of my company's product or service to the customers and society? How can we create the value in the best possible way? How can we as market leaders enhance the ESG values in the supply chain?*

In doing so, we strive to build our companies into business champions that are ahead of the market and turn ESG related global risks and challenges into business opportunities and advantages also awarding the customers.

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Our focus in 2019

In 2019 we set special focus on two ESG initiatives in BaltCap. Firstly, **paving the way for portfolio-wide carbon footprint measurement**. Secondly, **launching a series of ESG seminars for portfolio companies to further increase the ESG awareness and provide a platform for discussion**, debate and sharing the best practices. In 2020 we are committed to establishing both initiatives.

Our portfolio companies are the face of BaltCap. Last year we witnessed many exciting ESG developments and encouraged new initiatives. Also, the portfolio-wide carbon footprint measurement has been inspired by our company EKJU, that successfully piloted carbon footprint assessment in 2019.

We proudly present our 2019 ESG report, the ninth consecutive annual report for BaltCap highlighting the main ESG related activities and developments in our portfolio.

Peeter Saks

Martin Kõdar

Dagnis Dreimanis

Simonas Gustainis



Peeter Saks



Martin Kõdar



Dagnis Dreimanis



Simonas Gustainis

A portfolio example of positive action during Covid-19

Ygle engages in ad-hoc COVID-19 hospital planning for Vilnius

Ygle in partnership with Do Architects and 2L Architects carried out temporary COVID-19 hospital and quarantine premises planning. The ad-hoc plan was prepared to Vilnius municipality in case major COVID-19 outbreak pushed the Lithuanian hospitals out of capacity.

The project was coordinated by BaltCap to contribute to mitigating the negative effects of the COVID-19 crisis. BaltCap exploited its extensive network of partners and helped to connect relevant public and private sector counterparts for the ad-hoc hospital planning in Vilnius.

Ygle, Do Architects and 2L Architects designed a detailed installation guide to prepare schools and other public facilities (e.g. sports and showroom venues) in Vilnius for conversion into emergency hospitals for COVID-19 patients. Ygle also secured a supply chain for beds, oxygen and mobile sanitation units; for detailed plans see www.school2hospital.lt.

Ygle Pastatu Valdymas is building technical system maintenance provider in Lithuania





About BaltCap

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

Since its foundation in 1995, **BaltCap has raised multiple generations of private equity funds** with aggregate capital of over €600 million and invested in about 100 companies across a wide range of industry sectors and stages of development.

Our team has a shared strategic vision, a strong and consistent track record, and experience in investing across different industry sectors. We partner with top management teams and entrepreneurs, helping them achieve their ambitions and deliver transformational growth, both regionally and internationally. **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 for our investors over the long term. We value teamwork and share responsibility for the growing success of our companies.

We are backed 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), the European Investment Bank, and the largest pension funds in the Baltics. In cooperation with a Japanese firm JBIC IG Partners, BaltCap recently added Japan Bank for International Cooperation, Honda, Panasonic and Omron to its investor base.

BaltCap has a strong presence in all three Baltic countries with local offices and experienced investment teams in Tallinn, Riga, Vilnius, Warsaw, Helsinki and Stockholm.

BaltCap Private Equity Fund III - €126 million successor buyout fund

In October 2019, BaltCap launched a €126 million successor buyout fund BaltCap Private Equity Fund III (BPEF III) focusing on making equity investments in mature innovative enterprises in the Baltics and the New Nordics.

BPEF III broadens the scope of BaltCap target markets - in addition to the Baltics, which have been the core region for BaltCap, the new fund will also focus on Finnish and Swedish companies with a Baltic nexus. The Nordic and Baltic economies are increasingly forming a larger, integrated market, the New Nordics, with enhanced business opportunities and BPEF III expects to be one of the facilitators of further business integration in the New Nordics.

The new fund aims to make 8 to 10 platform investments in the Baltic and Nordic countries with enterprise values of these companies typically being between €10 to €50 million and the fund's equity investment between €10 to €20 million.

Main countries of operation	Estonia, Latvia, Lithuania, Poland, Finland, Sweden
BaltCap Funds	<p>BaltCap Private Equity Fund III Usaldusfond</p> <p>BaltCap Infrastructure Fund Usaldusfond</p> <p>BaltCap Growth Fund EuVECA Usaldusfond</p> <p>BaltCap Private Equity II SCSp</p> <p>BaltCap Private Equity Fund L.P.</p> <p>BaltCap Latvia Venture Capital Fund K.S.</p> <p>Lithuania SME Fund KUB</p> <p>Baltic Investment Fund III L.P.</p> <p>Baltic Investment Fund III C.V.</p> <p>JB Nordic Ventures Fund SCSp</p>
Contact person for questions	Triinu Oll, triinu.oll@baltcap.com
Homepage	www.baltcap.com













Unimed spring conference 2020

Portfolio
companies



Portfolio companies












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

	Type of business	Number of employees	Turnover (€ million)	Environmental & social risk classification ⁵
	Property management	48	3.2	Medium
	Dental care provider	449	24.8	Medium
	Waste management	830	33.4	Medium/High
	Waste management	612	44.7	Medium/High
	Directional media company	400	49.5	Low
	Machinery trade	241	76.3	Low
	Occupational health care	199	8.4	Medium
	Pumping systems rental	77	7.0	Medium/High
	Coffee and vending services	234	25.8	Low
	Online marketplaces	34	7.4	Low

⁵ Here and in the following tables of portfolio companies according to EBRD Environmental and Social Risk Categorisation List.




Portfolio companies

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






	Type of business	Number of employees	Turnover (€ million)	Environmental & social risk classification
	Software development	18	0.8	Low
	Metal components producer	34	2.4	Medium/High
	Data interchange solutions	20	0.8	Low
	Garden furniture production	158	10.9	Medium
	Gym and health clubs operator	390	18.2	Low
	Laboratory supply provider	64	12.5	High
	Chocolate manufacturer	57	3.8	Medium
	Urban journey planning application	75	6.6	Low
	Monitoring systems for vending machines	22	2.3	Medium
	Building technical system maintenance	51	2.2	Medium
	Volumetric 3D monitor developer and supplier	32	0.7	Low

Portfolio companies

Growth fund portfolio – including the companies of BaltCap Growth Fund






	Type of business	Number of employees	Turnover (€ million)	Environmental & social risk classification
	Network of fuel stations and convenience stores	73	10.9	High
 PIHLAKODU	Elderly homes and private ambulance	526	11.9	Medium
 Livinn sveiki produktai	Organic retail stores	92	5.9	Low

Infrastructure fund portfolio – including the companies of BaltCap Infrastructure Fund

	Type of business	Number of employees	Turnover (€ million)	Environmental & social risk classification
	Biogas plants in Latvia	50	8.9	High
ENERGIA  VERDE	Biomass-fired combined heat and power plant	9	7.5	High
 KNOWLEDGE	School development project in Vilnius	1	0.07	Low
 FOREST	Biomass plant in Vilnius	1	5.4	High
 IZIM inwestycje infrastrukturalne	IZIM Energy efficiency PPP in Poland	1	0	Medium

Portfolio companies

Nordic Ninja (these companies were not in the scope of the ESG survey)

	Type of business	Number of employees	Turnover (€ million)	Environmental & social risk classification
	Mobility-as-a-Service operator	91	4.7	Low/Medium
	Augmented audio	11	0.5	Medium
	Ride hailing	1480	192.5	Medium
	Electric road freight	67	0.8	Medium
	AI diagnostics	9	0.6	Low



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 consideration employees, business partners and society.

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

Buyout

The buyout funds (BaltCap Private Equity Fund family) invest in mid-sized companies that are primarily based in the Baltic countries or have a Baltic nexus in the Nordic countries. The investment focus is on innovative market leaders in their field of activity that often have international expansion ambitions.

Our buyout funds seek to acquire controlling ownership stakes. We typically invest between €10–20 million of equity per portfolio company. The enterprise value of the target companies falls within the range of €10–50 million.

Growth

The 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 unique 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 the goals that have been set. We aim to deliver strong, sustainable growth and are committed to strategic priorities.

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

Infrastructure

The 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.

Venture capital

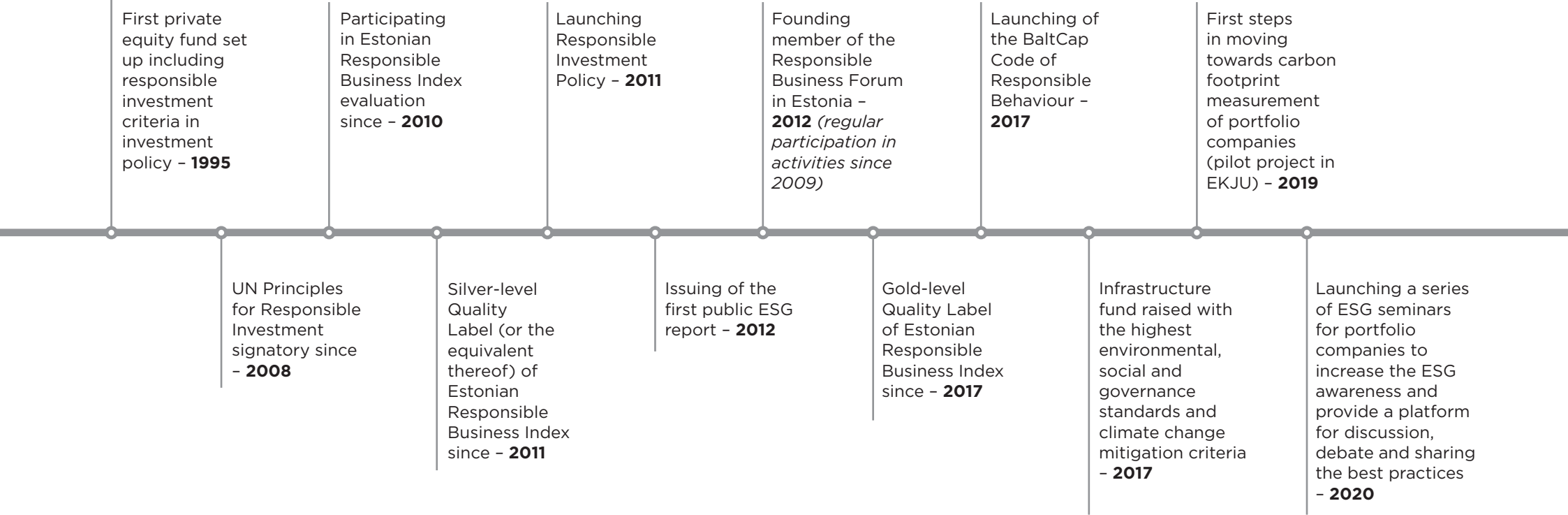
JB Nordic Ventures, also known as the "NordicNinja", is a joint venture established in 2019 by BaltCap and JBIC IG Partners. It manages a venture capital fund of over €100 million backed by Honda, Panasonic, Omron and the Japan Bank for International Cooperation. The fund supports entrepreneurs' scale-up goals in the New Nordics (Nordic and Baltic region). With NordicNinja, your entry to Japan has never been simpler.

We are open-minded and we love tech, especially robotics, automation, health tech, AI and mobility. Our ideal investments are ca €2–4 million, and we follow the standard terms in the Nordics, like seriesseed.fi and Startupdocs. We also love to co-invest with local investors, although, if necessary, we are happy to lead as well.



Approach to
Environmental, Social
and Governance Matters

ESG History in BaltCap



A portfolio example of positive action during Covid-19

BaltCap and Labochema mobilised medical equipment for the Baltics

BaltCap Infrastructure Fund (BInF) portfolio companies with partners and Labochema supplied 50,000 respirators, 75,000 3-ply masks, over 100,000 gloves, 5,000 rapid tests and other personal protection equipment to the Baltic countries.

In Estonia, recipients of the donation were national Covid-19 treatment hospital North Estonia Medical Centre and Kuressaare Hospital in Saaremaa. Saaremaa is an island in Estonia most severely hit by the Covid-19 crisis where self-protection measures have been lacking. In Latvia, donations addressed 70 municipalities and their social workers, municipal police and elderly homes. In Lithuania, the personal protection measures were supplied to numerous Vilnius healthcare institutions.

BInF portfolio companies and other infrastructure companies in the Baltics acted as market makers to Labochema and helped to mobilize EUR 338,000 worth of supplies by donating EUR 153,000.

Matiss Paegle, Investment Director of BaltCap Infrastructure Fund, helping to deliver the medical supplies. Photo: BaltCap.



Our approach to ESG 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 the UNEP Finance Initiative and the UN Global Compact, BaltCap follows the policies and practices of responsible investment and has incorporated ESG considerations into its daily operations. BaltCap also compiles and carries out an annual self-assessment regarding its environmental, social and governance procedures as well as performance based on the UN PRI Initiative. The results are published by UN PRI in their Report on Progress.

As an active member of Invest Europe BaltCap also abides by Invest Europe's Professional Standards and other guidance including on ESG matters.

As an investment firm we are committed to:

- Participating actively in the strategic management of portfolio companies through Council and Board memberships;
- Carrying out the identification, credit analysis and supervision of portfolio investments with due regard to ecological and environmental factors;
- Not investing in companies that are engaged in arms manufacturing, the manufacture of tobacco, hard spirits, gambling, human cloning, genetically modified organisms and illegal economic activity;
- Not proceeding with any investment transaction without first knowing who the beneficial owner of the counterparty is;
- Carrying out relevant due diligence (including environmental and social due diligence) in all investment cases;
- Ensuring that appropriate standards of corporate governance are in place or will be implemented within a reasonable period of time in all portfolio companies, in compliance with the OECD Corporate Governance Principles;
- Ensuring 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;
- Managing our business affairs sustainably and reducing our overall exposure to risk;
- Complying with EBRD's Environmental and Social Risk Management Manual;
- Complying with all applicable laws, regulations and best practice principles of the private equity industry, abiding by Invest Europe Professional Standards.

We take leadership in promoting responsible business behaviour:

BaltCap actively contributes to local market development by being a founding member of the Estonian, Latvian and Lithuanian Private Equity and Venture Capital Associations.

BaltCap is an active member of the Responsible Business Forum in Estonia. Martin Kõdar, the Managing Partner of BaltCap has been a Board Member since 2012. Also, on the European level, Martin Kõdar is a member of the Mid-Market Council and Professional Standards Committee in Invest Europe, which are driving best practices for the whole private equity industry across Europe.



Each year BaltCap completes the questionnaire from the Responsible Business Forum in Estonia. The results of the self-assessment are evaluated, ranked and published by the Responsible Business Forum in the annual national index. For several years already, BaltCap has been rewarded with a gold-level Quality Label (the highest level) of Estonian Responsible Business Index.



We encourage and raise awareness of portfolio companies:

In January 2020, we launched a series of seminars on ESG and sustainability for BaltCap team and our portfolio companies. The event was well received and we plan to proceed with the seminars on different ESG topics to share the best practices, and discuss and debate on ESG matters with our portfolio companies.

In 2019, we initiated a roadmap for annual portfolio-wide carbon footprint measurement. The pilot project was carried out in EKJU.

*ESG seminar for the portfolio companies
- participants in Tallinn office*





ESG seminar for the portfolio companies - participants in Tallinn office

ESG seminar for the portfolio companies

In January 2020, we organized a seminar on ESG and sustainability topics for the portfolio companies. The event took place via online video bridge simultaneously in our four country offices, and was led by acknowledged external sustainability experts. 21 portfolio companies attended. Feedback received from participants:

“Great that such thinking will start to affect investment decision.”

“It was useful to think how we can promote more what we already do in ESG.”

“The topic will get only more important. Everyone is responsible and should be involved. Goal is clear.”

“We liked the overview of environmental issues of the Baltics, common problems and opportunities for future achievements.”

“It was interesting to hear about the reality and how different companies are trying to put more effort into making our environment better.”

“It was valuable to hear the experience of other companies in the areas of ESG - how they achieved exact results by taking very specific steps.”

“It could be sensed that everyone is aware that this is an evolving topic that needs more and more attention.”

“Having an E (environmental) mind-set is probably inevitable, but S (social) and G (governance) might be more relevant in terms of managing the companies.”

We ensure transparency and communication:

ESG progress regarding portfolio companies is reported to our investors regularly. Material ESG issues are covered in the quarterly reports.

Since 2011, we annually carry out an ESG survey among our portfolio companies in order to follow up and measure progress in ESG matters. Our aim is to ensure that our environmental, social and governance principles are fulfilled. The results of the most recent survey are presented in the current report.

We are committed to our Code of Responsible Behaviour

This Code, developed in 2017 jointly with portfolio companies, defines our values and principles which BaltCap's 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 follow

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

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

A decorative background pattern consisting of various-sized triangles in shades of gray and a single prominent red triangle. The triangles are arranged in a non-repeating, geometric fashion across the page.

About this Report

This is our ninth annual report presenting BaltCap's principles and performance in Environmental, Social and Governance (ESG) matters. Our preceding ESG report was published in June 2019. The current report is the main point of reference for our stakeholders regarding the annual ESG performance of our portfolio companies.

The purpose of carrying out an ESG survey among portfolio companies is to measure their progress in ESG matters, highlight the importance thereof and raise their awareness regarding responsible entrepreneurship. We hope that the questionnaire helps companies to identify the material aspects and relevant actions they can undertake to strengthen their businesses, reputation and reduce their overall risk exposure.

The main focus of the survey is to provide an ESG performance overview that meets the expectations of our investors. It allows assessing and presenting current situation and dynamics of ESG management of our portfolio to all external stakeholders. 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.

Methodology

Our ESG questionnaire allows comparing the management approach of different ESG aspects in a universal way in different portfolio companies with diverse background. The survey enables to measure the progress and present the results as the BaltCap ESG Index.



Each category includes four types of questions: (1) system of the management approach, (2) self-assessment, (3) practical implementations, and (4) performance data (the latter not used in ESG Index calculation)

Figure 1. Structure of the questionnaire

⁶ % of overall index

The questionnaire consists of five major categories, plus ESG leadership as an overall category (Figure 1). As the number of judged questions is different in each part, each category is given a fixed percentage of the final result – workplace, environment, marketplace and governance as the most important categories receive 20% each, while community and ESG leadership receive 10% each.

Each category is divided into ESG aspects to cover the major ESG topics that should be relevant among all companies despite their field of activity. Every aspect consists of four different types of questions addressing: (1) system of the current management approach, (2) a self-evaluation of the actual adherence to the management approach, (3) the level of practical implementation, and (4) quantitative performance data of some major measures within the aspect.

Answers on the management approach, self-assessment, and practical implementation are judged and scored later by neutral sustainability experts (Estonian based sustainability advisory firm Sustinere), based on simple methodology – more conscious, systematic and strategic practices receive a higher score.

Based on the results received in 5+1 categories, the overall ESG index is calculated for each respondent and as an average of the whole portfolio (100% scale).

The scope of the questionnaire is based on EBRD Environmental and Social Policy, paired with other recognized sustainability management and reporting frameworks (e.g. ISO 26000, UN Global Compact, UN SDG, GRI), and topics which take into account the specifics of the portfolio companies and their home markets.

In 2019, the questionnaire was updated by adding more specific questions on climate change, greenhouse gas emissions and carbon footprint. Few questions were removed. Despite the amendments, the results of the survey remained to be comparable to previous year's survey.

The survey was carried out in an online self-evaluation form from January until March 2020, signed by management/executive officer of each participating portfolio company.

Qualitas is the largest occupational health care service provider in Estonia



Respondents

A total of 24 out of 29 currently active portfolio companies responded to the questionnaire. The response rate was 83% (2018: 93%; 2017: 94%; 2016: 97%; 2015: 88%). As the outbreak of Covid-19 and related emergency situation in the Baltics took ground in mid-March 2020, right before the final submission deadline of the questionnaire, some portfolio companies did not manage to complete the survey.

A total of 11 out of 11 portfolio companies in the BaltCap Private Equity Fund I&II responded to the survey. Participation was voluntary for JER-EMIE initiative funds' companies (BaltCap Latvia Venture Capital Fund and the Lithuania SME Fund) and in total 8 out of 12 of those companies responded to the survey. Also, 2 out of 3 Growth Fund companies and 3 of 5 Infrastructure Fund companies responded.

Out of 24 final respondents there were:



8 industrial sector companies (manufacturing, energy, waste, maintenance and machinery,) and **16 service sector companies**



8 micro or small businesses (49 or fewer employees), **12 medium-size** (50-249 employees) and **4 large companies** (250 or more employees) in terms of the number of employees



3 newcomers participated for the first time



Major events in 2019

January

- BaltCap Growth Fund (BGF) signed an agreement to acquire 100% of shares in UAB Sveiki Produktai (Livinn) and UAB Bio Sala (Biosala), two leading retail chains of organic products in Lithuania.

March

- BaltCap won the Venture Capital Firm of the Year award at the 2nd annual CEE Mergers & Acquisitions (M&A) Awards ceremony, in Warsaw.

April

- BaltCap sold its 95% stake in Fitek Holding (the market leader in financial automation processes) to UnifiedPost Group, one of Europe's leading FinTech firms headquartered in Belgium.
- BaltCap Growth Fund (BGF) announced an investment of growth capital in Viru Haigla AS in order to expand the Pihlakodu chain of modern elderly care homes.

May

- BaltCap was recognized with a gold-level Quality Label from the Responsible Business Forum in Estonia.
- Newly established venture capital firm NordicNinja VC made its first startup investment into the Finnish all-in-one mobility service provider MaaS Global.

June

- NordicNinja VC made an investment into Finnish FLEX-OUND - The Augmented Audio Company.

July

- NordicNinja VC invested into Estonian company Bolt (formerly Taxify), the leading European transportation platform.

August

- BaltCap announced an agreement to sell auto24, a leading automotive classifieds portal in Estonia, to Baltic Classifieds Group.

October

- BaltCap held the first close of BaltCap Private Equity Fund III (BPEF III) at €126 million - a successor for BPEF I and BPEF II buy-and-build strategy funds.
- NordicNinja VC made a series A investment in Einride, a Swedish company developing an autonomous electric transport system - the world's first Transport as a Service solution.

November

- NordicNinja VC, together with partners made a series A investment in Combinostics, a Finnish healthtech company developing software platform for early-stage Alzheimer's diagnosis.
- The Poland-based company IZIM, owned by BaltCap Infrastructure Fund (BInF), won a municipal tender in the Polish town of Mielno on increasing the energy efficiency of public buildings.

December

- BaltCap Private Equity Fund III has signed an agreement to make its first investment and acquire Krekenavos Agrofirma, the largest meat processing company in Lithuania.
- BaltCap portfolio company Coffee Address, a vending and coffee service company acquired Latvian vending operator SIA Kafe-Serviss.

Read more:
www.baltcap.com/newsroom



Overview of 2019 ESG Performance

In 2019, 24 portfolio companies scored an average of 52% (2018: 52%) in the BaltCap ESG Index – exactly the same level as a year before. The average scores increased in four of the six categories. Also the management of most of the primary aspects of ESG has become more systematic. It should be noticed that in environmental category new questions about climate impact were added.

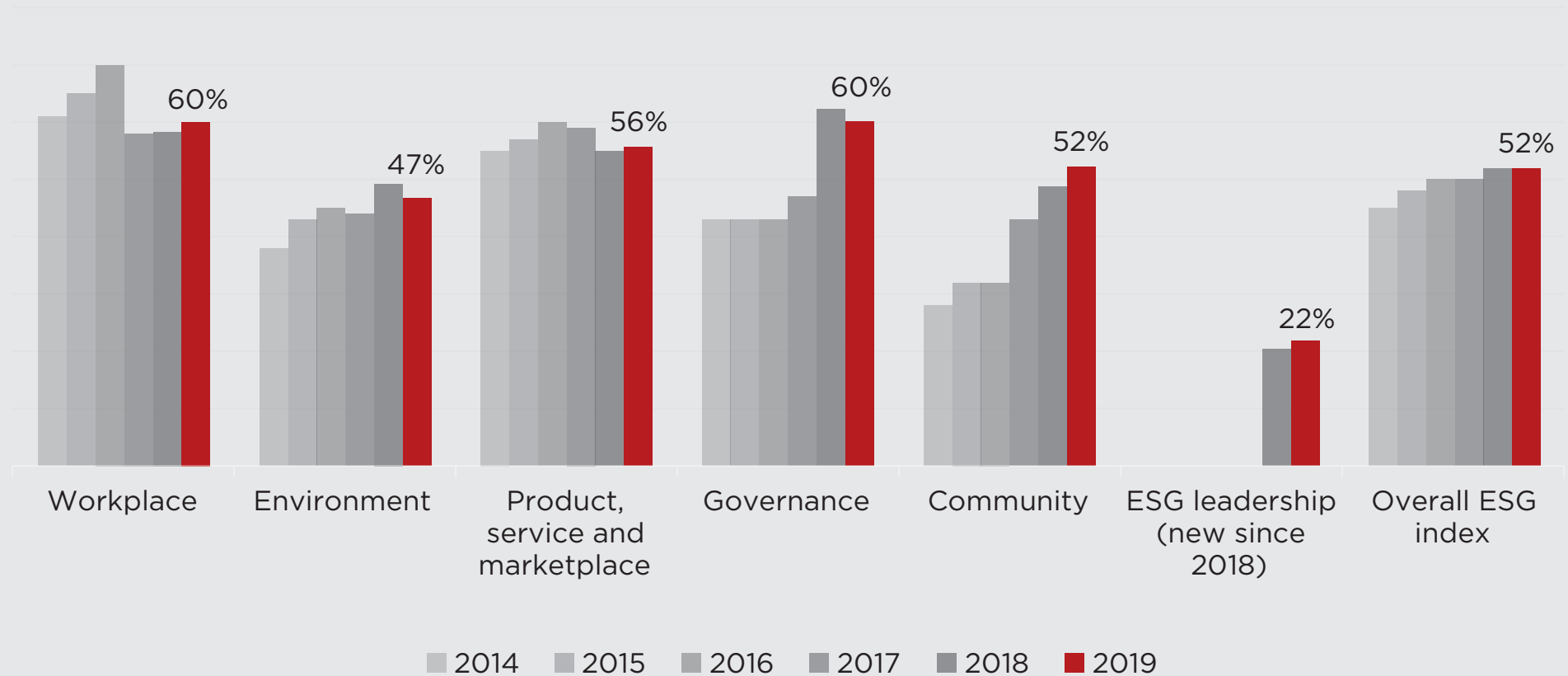


Figure 2: Average results of all respondents in each reporting year

The survey evaluated a total of 25 aspects in six categories. The average total score of each aspect consists of three inputs from each respondent: (1) a score of systematic management approach, (2) a self-evaluation of the actual adherence of the management approach, and (3) the level of practical implementation of some major measures within the aspect.

Five aspects with the highest average score in 2019:

1	Employee health and safety	71%
2	Employee training	68%
3	Ethics and anti-corruption	64%
4	Values and principles of behaviour	63%
5-7	Compliance and fair competition	62%
5-7	Waste	62%
5-7	Customer experience	62%

Five aspects with the lowest average score:

21	Climate resilience and greenhouse gas emissions	38%
22	Supplier ESG management	37%
23	ESG communication and reporting	31%
24	ESG impact, risk and opportunity assessment	25%
25	ESG membership and external recognition on ESG performance	18%

Drivers behind the dynamics

The following factors could be considered to affect the results of the different ESG categories:

- **Workplace issues** are one of the best managed topics of the survey, but still the biggest challenge in terms of ESG management, greatly due to the work force shortage on the Baltic labor markets. Prior to the Covid-19 crisis, unemployment in the Baltics according to OECD was at the lowest levels in the century (ca 4%).
- Although the **environmental category** witnessed slight decrease in total score, it is probable that intensified public debate on climate issues and other environmental impacts has made increasing number of portfolio companies to focus more on their needs, risks and opportunities regarding the environmental issues.
- In **product and service responsibility category** two key ESG aspects - product and service safety and sustainable supply chain management - stood out with a clearly higher result than a year ago - a sign of stakeholders across all value chains demanding more responsible and sustainable business practice.
- Though the score of **governance category** dropped in the total score, the impact of introducing BaltCap`s Code of Responsible Behaviour (launched in 2018) could still be seen - more companies have introduced principles of responsible behaviour within their own teams.

- The increased score in **community category** most probably refers to the enhanced expectations of customers and society at large towards societal consciousness of businesses.
- There are indications about positive development in **ESG leadership category** - a trait BaltCap has tried to encourage by raising the general ESG awareness of the portfolio companies.

Nevertheless, portfolio companies could integrate ESG factors more into their daily operations and make ESG initiative increasingly business relevant.

It is important for us that our portfolio companies not only recognize the challenges related to ESG, but also acknowledge the new business opportunities when creating value for customers.

6 major findings and 2 bottom-line conclusions

1. **Results between major categories are more equal than in previous years** and prove a growing understanding about the relevance of the holistic approach to ESG.
2. Out of 25 total aspects evaluated in five ESG categories: **in 15 the average score increased, in 2 remained the same, and in 8 decreased.**
3. **Aspects that are more closely related to company operations are more consciously managed**, but wider social and environmental impact of the whole value chain considered to a lesser extent.
4. **The primary aspects of ESG lagged behind the secondary aspects of ESG in terms of average score in these aspects, but experienced higher growth** in relation to the average score as a whole.
5. **In 2019, environmental matters gained most importance.**
6. **Companies are better in the actual and operational management of ESG aspects** than in implementing official strategic management systems or respective certificates and standards.

Our portfolio companies have room for improvements in terms of becoming more strategic in ESG management, but there have not been any major accidents or serious non-compliances among the portfolio companies in the last several years – **no fundamental contradictions related to environmental pollution, human rights or discrimination, supply chain violations, fatal health and safety, business ethics and regulatory compliance.**

Rather consistent results of BaltCap portfolio companies concerning the overall ESG index over the last five years refer that **the portfolio has reached a certain sufficient level in ESG matters. Major ESG-related risks are mitigated, and fundamental aspects well managed** (e.g. safety, non-discrimination, anti-corruption). **Although organic development is likely to continue, the next leap forward would require more strategic involvement in turning ESG matters purposefully into business benefits.**

Outlook on the relevance of ESG:

63% of all portfolio companies see any type of challenges for their organization in the coming years as follows (respondents could choose one or more categories):

- 50% in human resources and workplace related issues (42% in 2018),
- 38% in environmental impact management (25% in 2018),
- 25% in product and service responsibility topics (25% in 2018),
- 21% in societal impact matters (17% in 2018),
- 17% in governance and values (13% in 2018).

There is a clear pattern that BaltCap companies increasingly recognize ESG related challenges and a rising need to tackle these issues. When compared to the last year, biggest change in company responses is related to environmental concerns. It is not surprising when considering the intensified public debate on environmental topics in 2019.

As much as 92% of companies believe they are better positioned to meet the challenges of the market by virtue of proper ESG management (21% are certain, and 71% believe it to some extent). The sentiment confirms significant leap compared to 79% in 2018.

33% of companies consider ESG policies important in today`s business environment – the same rate as in 2018. Additional 63% consider those somewhat important. Shortly, 96% of portfolio companies consider ESG relevant in market competition.





Category Summaries

Category Summary: Workplace Management

Workplace management was one of the two best managed categories with 60% average score (2018: 58%), equal to governance category. Employee health and safety, and training aspects remain the most systematically managed, whilst the conscious approach to employee engagement and satisfaction, and human rights and diversity scored a bit lower. Not many externally recognized management frameworks are applied by the portfolio companies.

Overview of workplace management tools

A total of 96% (2018: 83%) of portfolio companies have written guidelines, a strategy or action plan in at least one of the observed workplace management aspects (health, safety, training, engagement, satisfaction or human rights and diversity). It is a clear improvement in systematic approach compared to previous year. 71% (2018: 63%) of companies have set goals for some of these aspects.

Ecoservice, Eesti Keskkonnateenused and Ygle Pastatu Valdymas have implemented ISO 45001 or OHSAS 18001 standard.

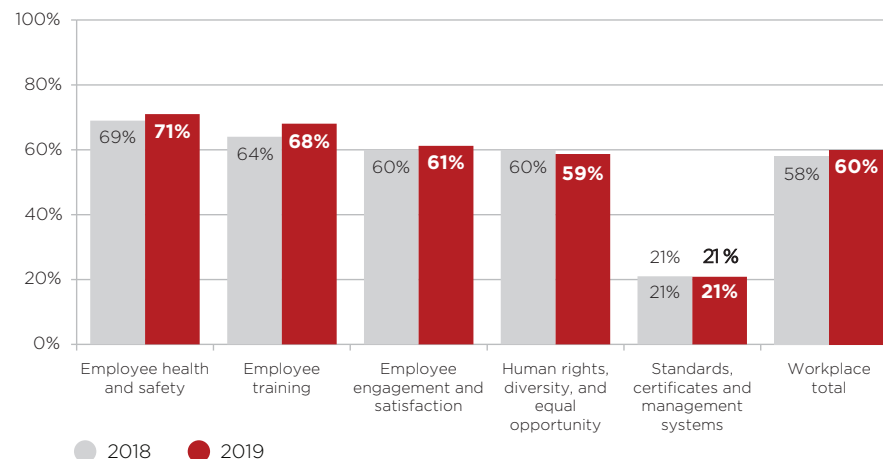


Figure 3. Average Index of all respondents in workplace management aspect



Figure 4. Overview of different workplace management tools in portfolio companies

Employee health and safety

In one sentence: Employee health and safety issues score the highest out of all ESG aspects evaluated in the survey and continue receiving increasing attention among portfolio companies.

In 2019, occupational health and safety (OHS) management has gained higher attention among portfolio companies compared to last year (this does not yet reflect the probable impacts of Covid-19). A total of 92% (2018: 75%) of companies have set written guidelines, a strategy, action plans or targets for health and safety management.

Out of all companies 75% (2018: 67%) have written guidelines, 50% (2018: 33%) have a written strategy or action plan in place, but still only 29% (2018: 25%) have set measurable goals in this aspect. At the same time only three companies (13%) apply ISO 45001, OHSAS 18001 or any other health and safety related standard.

The share of companies implementing any of these conscious management approaches has increased. Only two companies did not have their own OHS management measures in place.

Yet, in self-assessment on adhering to these guidelines, strategies, goals and/or agreements during the reporting year, companies were more critical than a year ago – 4.26 on a 5-point scale. Compared to all other ESG aspects OHS saw the biggest drop in the assessment of implementing the measures. Based on that, portfolio companies may be considered as more demanding of themselves in excellent management of health and safety aspects.

Work-related accidents occurred in five (2018: 4) portfolio companies. In total 32 (2018: 21) accidents happened, including six (2018: 1) severe accidents. This equals 8.4 (2018: 5.3) accidents per 1000

employees. 97% of accidents happened in industrial companies, and only one minor accident among service companies. 26 of the accidents happened in two waste management companies.

A majority of the accidents were caused by falling, slipping or careless handling of equipment. All accidents have been investigated pursuant to legislation. Workers received additional instruction. There were no work-related fatalities in 2019 (2018: 0).

During 2019, almost 16,000 (2018: 16 000) workdays were lost because of health-related incapacities of all kinds, e.g. illnesses, workplace accidents, and occupational diseases. This makes 4.2 workdays in average per each employee (2018: 4.0).

32 work-related accidents in four companies, including zero fatalities

16,000 workdays lost because of health-related incapacities

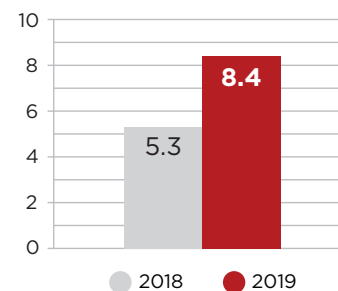


Figure 5. Number of work related accidents per 1000 employees (sum of all portfolio companies).

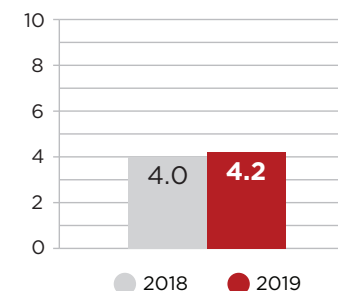
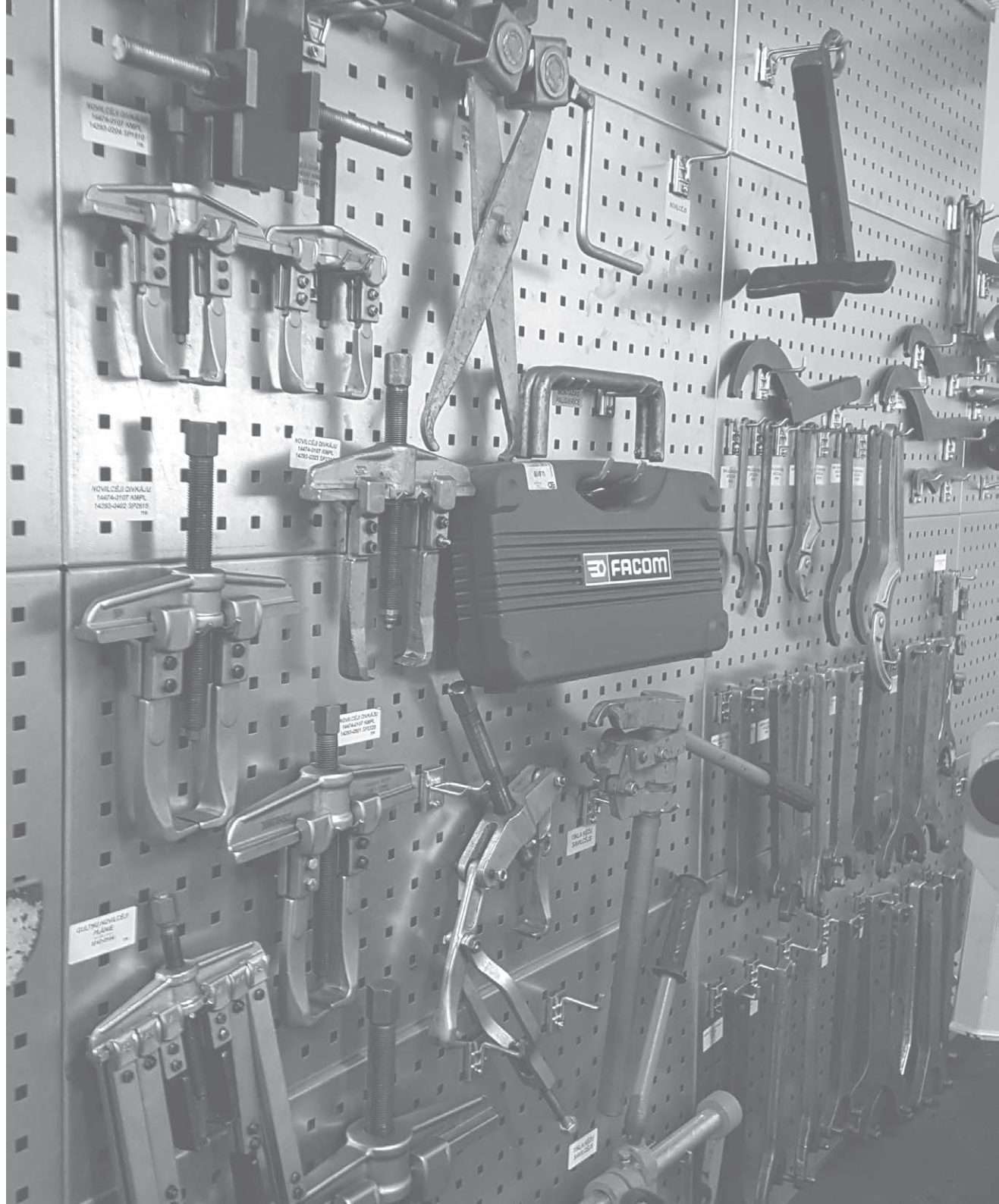


Figure 6. Average number of workdays lost per employee because of health-related incapacities of all kinds, e.g. illnesses, workplace accidents, and occupational diseases.

Everyone`s responsibility in safety and productivity at Intrac Latvia

We introduced a 5S workplace organization method for our service mechanics. It helps us create safer and sanitary working environment and improve both quality and productivity of our services. According to the approach, each person is responsible for the cleanliness and maintenance of the tools of their own working area. 5S principles have supported us in the progress towards increased service turnover and the prevention of workplace accidents in 2019.

*Intrac is a machinery trade
company operating in Estonia,
Latvia and Lithuania*



Human rights, diversity, and equal opportunity

In one sentence: In most companies human rights, diversity and equal opportunity management is based on common sense, and is not systematically managed.

Human rights, diversity and equal opportunity remain the least-systematically managed people-related ESG aspect in BaltCap portfolio. Although the general average slightly increased in 2019, only 33% (2018: 25%) of companies have set their own guidelines for managing human rights, diversity and equal opportunity aspects. Another 29% have made oral agreements within their teams. For most of the companies the aspect gets attention on compliance level only.

To ensure equal opportunities within their organizations mostly gender and age based diversity is addressed – respectively 75% and

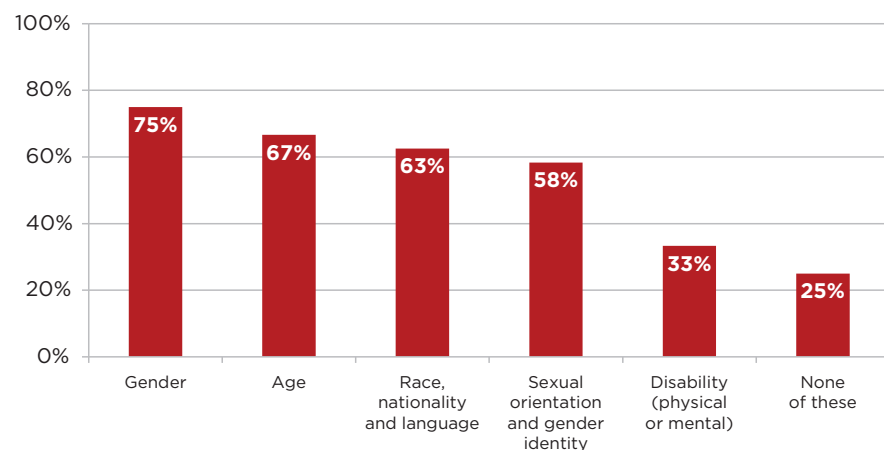


Figure 7. Percentage of companies addressing different aspects of diversity in their management systems to ensure equal opportunities for all.

67% of portfolio companies include these issues either in guidelines, strategy, targets, oral agreements or compliance. Only 33% state to consider mental or physical disabilities as a relevant part of human rights, diversity and equal opportunity.

88% of all portfolio companies believe at least some of their employees (up to 40% of all employees in some portfolio companies) belong to any disadvantaged/vulnerable groups in the labor market.⁷

The ratio of men and women in Management Boards and Supervisory Councils of portfolio companies has remained the same compared to previous year – 7 to 1 or 88% and 12% respectively. Several companies in our portfolio have female CEOs and in a number of companies at least half of the executive management board members are women.

88% of men and 12% of women in Management Boards and Supervisory Councils

There were no officially registered cases of discrimination at work (2018: 0).

Zero registered discrimination cases at work

Human rights issues in supply chain management has also received low attention: 42% of companies have set human resources related criteria for their suppliers, but probably even fewer address human rights issues as a part of human resources criteria for suppliers.

⁷ Estimate was used, because exact data is not available due to the protection of personal data. Persons below age 25, old-age pensioners, disabled persons, single parents, maintainers of a household led by children, refugees, and persons with three or more underaged children were considered as vulnerable groups.

Employee engagement and satisfaction

In one sentence: Every fifth company measures employee engagement and satisfaction annually, yet this is the aspect where portfolio companies see the most potential for further improvement.

A total of 63% (2018: 58%) of companies have set guidelines, a strategy, action plans or targets for employee engagement and satisfaction management.

In self-assessment on adhering to the guidelines, strategies, goals and/or agreements, 4.17 on a 5-point scale average was given. It is the lowest-scored aspect by portfolio companies in the ESG questionnaire. It refers that companies believe they can contribute more in employee engagement and satisfaction management.

In 2019, only 21% (2018: 42%) of all portfolio companies measured employee satisfaction. All those five were service sector companies. An additional 33% have done so in previous years. It turns out that employee surveys are conducted rather every other year.

Adaptation plan and Newbie Book for onboarding new employees at Ygle Pastatu Valdymas

We developed an adaptation plan and a Newbie Book for new employees to facilitate their smoother integration into the team and to ensure familiarity with all internal rules and procedures. It has become a central element for a secure start in our company. It supports both newcomers and their managers in completing all required steps through the onboarding. Newbie Book provides daily reminders on onboarding activities and includes all relevant information in one place (instructions, contacts, and even FAQ).

Ygle Pastatu Valdymas is building technical system maintenance provider in Lithuania



New performance measurement system for employees at EKJU

We established a new measurement system which allows us to get prompter feedback about the production process on a worker-by-worker basis. We aim to keep the approach as clear and simple as possible. In the production process each employee has their own personal target which is evaluated by production managers every morning. Such immediate reflection allows us to notice problems quickly, discuss and apply proper solutions. The system improves the productivity and efficiency of our production process, but also encourages employees to contribute to developing the aspects that matter.

Flexible and trusting working place at LABOCHEMA

Since 2019, around 7% of our employees work from home office. The change was initiated by our employees who live 1-hour drive away from our office. As during the workday they also visit customers, they were able to spend only half of working time at the office. We established secure IT-connections, changed some internal processes, introduced more online-calling solutions, and agreed the schedule of office-days. As a result, our employees drive up to 2 hours less each day, we need less office space and moved to smaller premises. It was a valuable preparation for moving 95% of employees quickly to temporary home offices due to the Covid-19 outbreak in March 2020.

EKJU is one of the largest Latvian garden furniture manufacturers



Monthly all-hands meetings at Vendon

We introduced monthly all-hands meetings where all employees participate. Whole team is updated about the recent developments and upcoming plans, business goals are discussed and company values are reflected upon. Each meeting also includes open session for asking any questions. Such open and transparent management ensures high engagement of the employees and better information flow between teams. The meetings make employees feel more rewarded by providing regular understanding on how their work reflects on other teams' work and on our customers.

Latvian-origin IT company Vendon provides monitoring systems for vending machines



Employee training

In one sentence: Training and development is among TOP3 of the most systematically managed ESG aspects, it is getting increasing attention among portfolio companies.

A total of 71% (2018: 58%) of companies have agreed systematic approach for managing employee training and development issues – it means either specific guidelines, a strategy, action plans or targets. 75% of companies have made oral agreements within the organization (either as a part of systematic approach or instead of that).

Companies see training and development as an ESG aspect with one of the greatest potential for development (their self-assessment to current adherence was 4.22 on 5-point scale).

In total, a combined 38,000 (2018: 32,000) hours of training was offered to the employees of portfolio companies (excluding internal informational meetings, instructions and the like). This equals 10.0 hours in average per each employee (2018: 8.0).

32,000 hours of training offered to employees

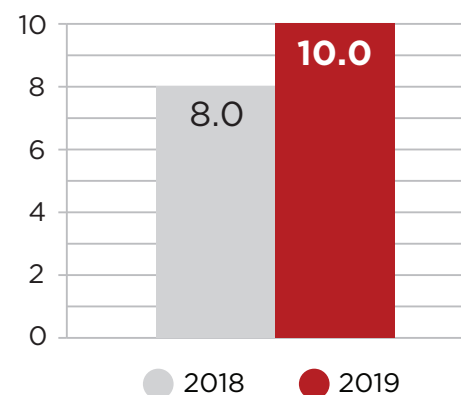


Figure 8. Average number of hours of training offered per employee.

Ecoservice is Lithuanian waste management company



Category Summary: Environmental Management

Environmental impact management among portfolio companies is still lagging behind other major ESG categories (workplace, product/service, governance, and community) – 47% as an average score is similar to previous year (2018: 49%). New progressive examples could be noticed, but no major improvements in systematic management approach occurred. Waste, materials and packaging related topics remain the best managed environmental aspects, most of the other aspects have caught-up a bit. New questions about climate impact were added.

Overview of environmental management tools

A total of 46% (2018: 42%) of portfolio companies have written guidelines, a strategy or an action plan at least in one of the observed environmental aspects (either materials, energy, waste, biodiversity, or climate and emissions). A total of 29% (2018: 29%) of companies have set goals for some of these aspects.

Six companies apply some environmental management certification schemes, standards, or management systems – this equals to 25% (2018: 29%) of all companies. ISO 14001 is the most widely used standard, others include sector-specific environmental frameworks.

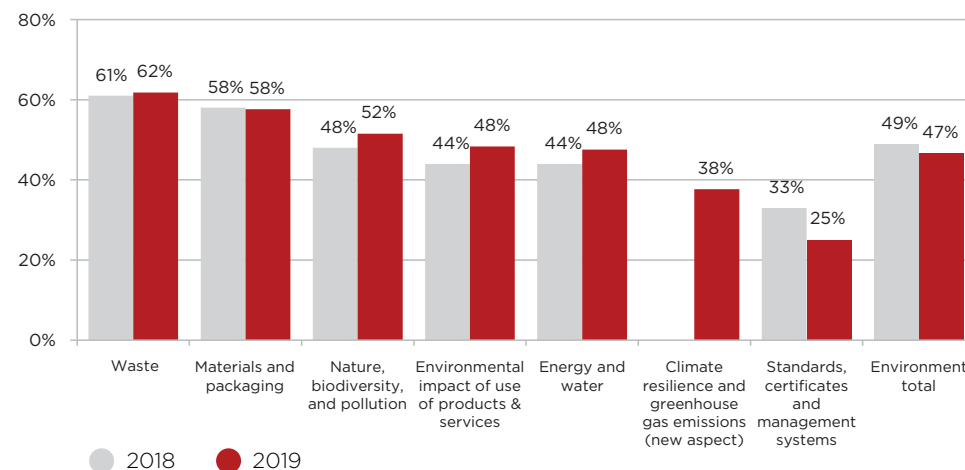


Figure 9. Average Index of all respondents in environmental management aspects

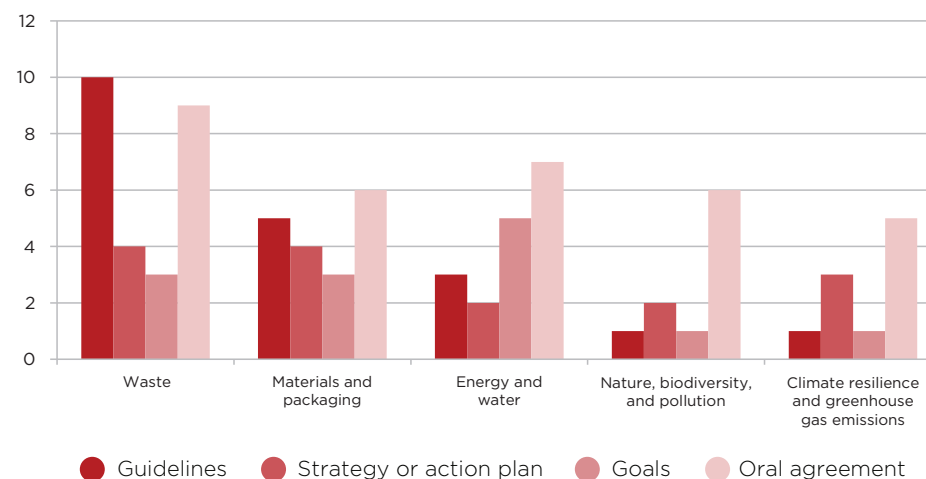


Figure 10. Overview of different environmental management tools in portfolio companies

Ecoservice, Eesti Keskkonnateenused, Intrac and Ygile Pastatu Valdymas have implemented ISO 14001 standard, EKJU follows FSC principles, and Pure Chocolate applies RSPO (Roundtable on Sustainable Palm Oil) and BRC supply chain standards.

Ecoservice is Lithuanian waste management company



Product and service development

In one sentence: In product and service development the usage of materials and optimized transportation get more attention than life span and end of life recyclability.

A total of 88% (2018: 83%) of our portfolio companies consider environmental effects in product and service development and seek opportunities to reduce the impact of the usage period.

If transport efficiency was the most widely practiced approach last year, then in 2019 the usage of environmentally friendly materials was more in focus than before. Besides that, industrial companies still consider improved design to optimize transportation, while service companies focused also on the reduction of lifetime energy consumption.

88% of companies consider environmental impacts in product and service development

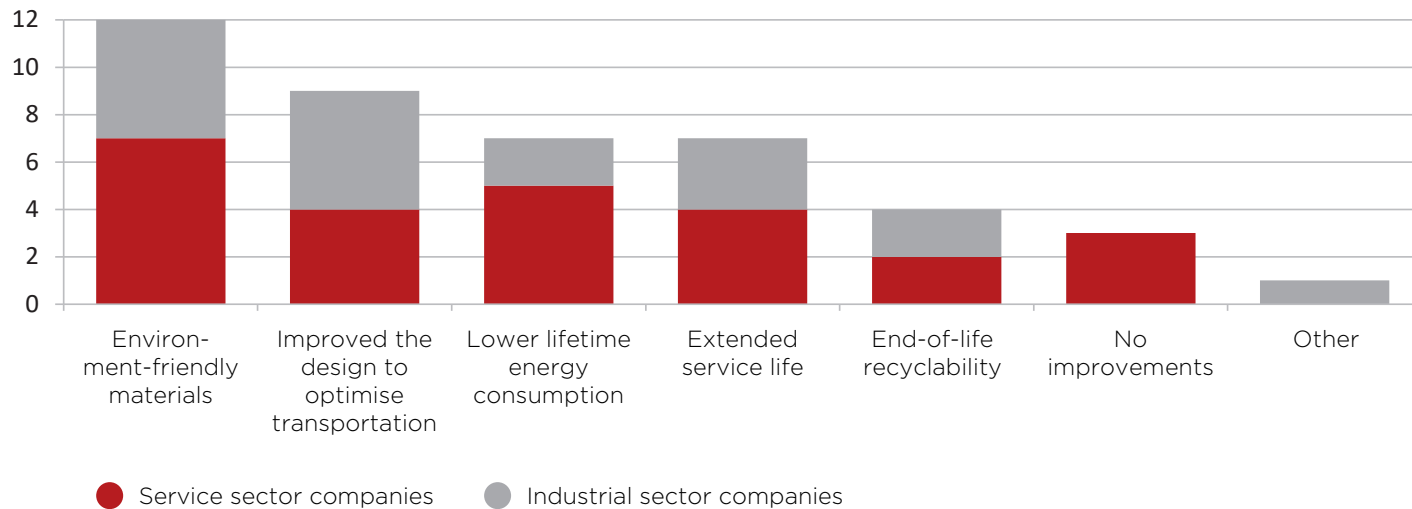


Figure 11. Number of companies that made certain environmental improvements in 2019 in product and service development

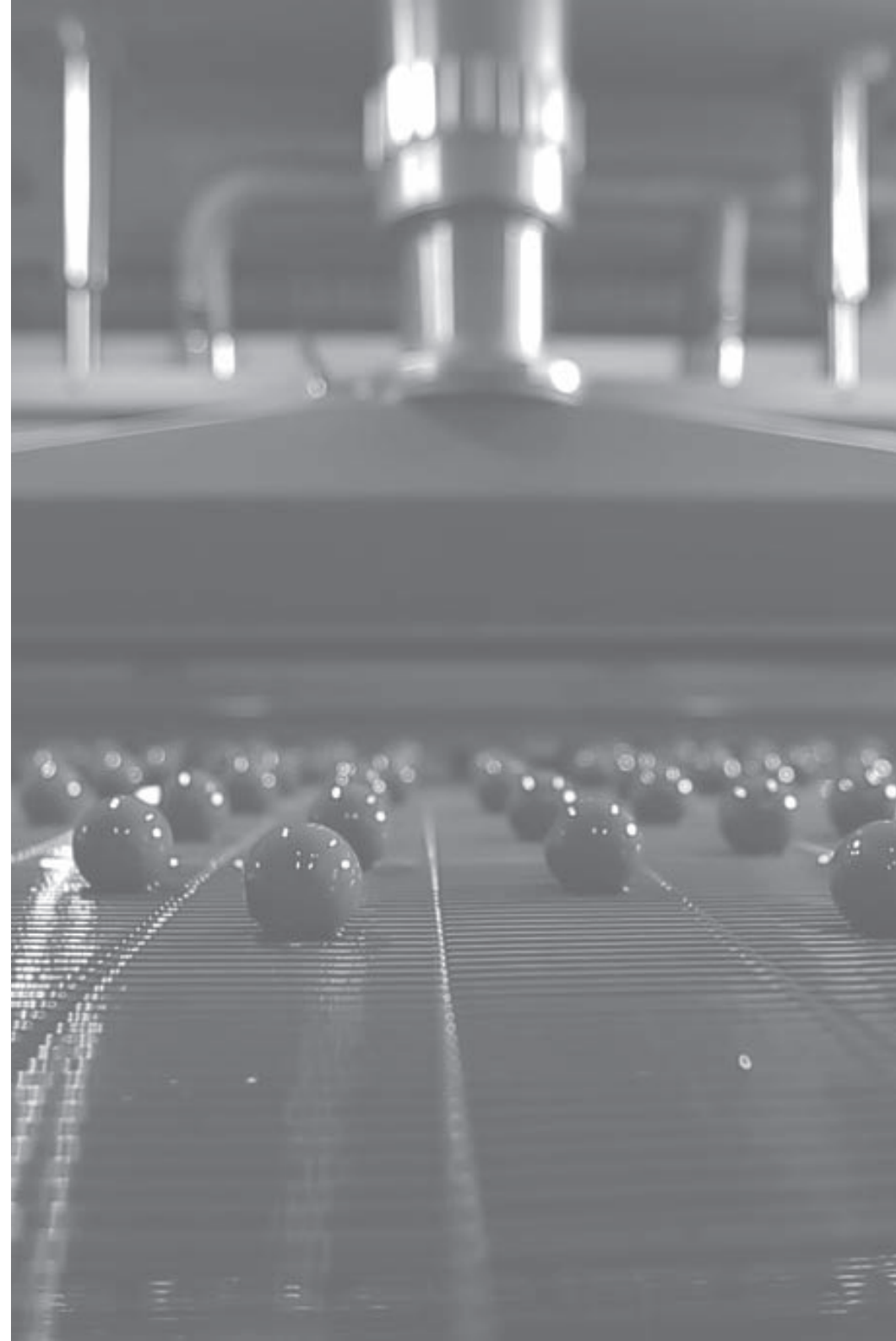
Sustainable palm oil and compostable packaging options at Pure Chocolate

In 2019, we took some serious steps in more sustainable chocolate producing. We started to use only sustainable palm oil that has been certified by Roundtable on Sustainable Palm Oil (RSPO). Additionally, we tested wrapping plastic/foil that would be composted by consumers at home. Instead of biodegradable foil, such home-compostable alternative is the first and only truly compostable foil as it does not require too specific composting process.

Implementing ecological thinking at Ecoservice

One of our main goals is to implement ecological thinking and improvement - be it first three-section waste collection vehicles in Lithuania, fuel-efficient fleet with lower emissions and noise level, or modern sorting lines. In 2019, we invested into a new rainwater collection system at our production site in Vilnius, which ensures safe prevention of rainwater and possible soil contamination. We also built water treatment technology for plastic recycling plant in Akmenė, which supports our activity in safe recycling of heavily chemically contaminated polyethylene films into granules as a new material.

Pure Chocolate is a chocolate manufacturer in Latvia



Materials, packaging and waste

In one sentence: Materials and waste management have received increasing attention and remain the most systematically managed environmental topics.

Although less than half of portfolio companies have agreed systematic approach in materials, packaging, and waste related aspects, then similarly to previous year these remained the most systematically managed topics compared to other environmental topics. 33% (2018: 29%) of companies have set written guidelines, a strategy, action plans or targets for the management of materials or packaging, with 46% (2018: 38%) of companies having them for waste management.

Yet only 13% of the companies have set measureable goals for the consumption of materials and packaging, and another 13% for waste management (amounts, recycling etc.).

On the other hand, all companies claim at least part of their materials and packaging came from environmentally friendly sources (either recycled, eco-labelled, etc.), on average accounting for around 40% (2018: 40%) of all materials and packaging used in the reporting year (based on their estimate).

79% (2018: 71%) of companies claim that at least part of their waste was recycled or reused – on average 60% (2018: 60%) of their waste (based on their estimate).

**79% of companies
recycle or reuse waste**

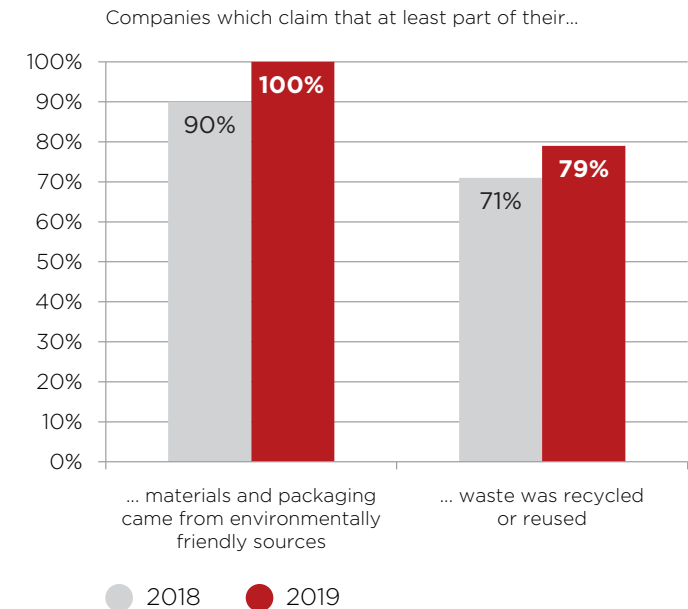


Figure 12. Percentage of companies who claim that at least part of their materials and packaging came from environmentally friendly sources, and at least part of their waste was recycled or reused.

Environmentally friendly building concept at KOOL

Our gas station network offers the most modern fuel, original premises and interior developed by Latvian companies, and authentic food from Latvian producers. In 2019, our gas station in Jūrmala received 2nd place award at the contest of best wooden buildings in Latvia. The gas station was developed by Latvian architects and designers. Mostly wooden elements and furniture were used in the interior. Such innovation is one example how we can take care of the environment.

KOOL is a network of fuel stations and convenience stores in Latvia



Focus on waste management at Workland

In 2019, we focused on sorting and recycling waste in our offices for rent. We installed trash bins with multiple compartments for sorting, added stickers to increase the awareness and support occupants. Even more, we emphasized the relevance of eco-friendly waste management for us and encouraged our landlords to install proper waste containers for the whole building in order to enable such initiative.

Ahead of mass market – removing all plastic bags from the shops at Biosala/Livinn

As an intense usage of plastic in retail business is a large-scale environmental issue, our goal was to reduce it to some realistic extent. In 2019, we removed all plastic bags from our shops. We were ahead of the mainstream market in Latvian society, but our customers welcomed the change. It has already allowed us to avoid using thousands of plastic bags.

BPT Real Estate Group is leading commercial property service provider in the Baltic region



Energy, water, climate resilience, and greenhouse gas emission

In one sentence: In energy and climate impact management, companies mostly undertake steps driven by operational and resource-efficiency (vs addressing fundamental opportunities for climate impact reduction).

Energy and water consumption remain slightly less systematically managed than materials and waste matters. Only 29% (2018: 25%) of companies have agreed on written guidelines, a strategy, action plan or targets for the management of energy and water consumption. Most of them are industrial companies, meaning that 75% of portfolio companies operating in industrial sectors have set such systematic energy or water management approach.

Issues related to climate impact (resilience to climate change and reduction of own impact) got even less conscious attention – 17%

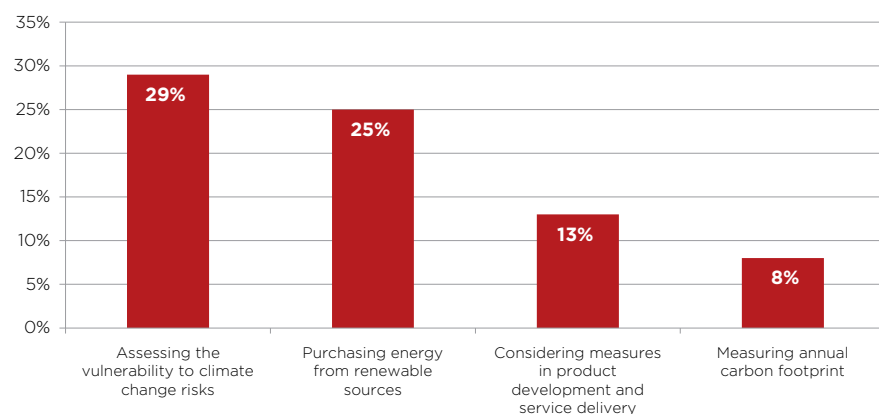


Figure 13. Percentage of companies who have taken certain steps to better manage the reduction of climate impact.

of companies reported about having any written guideline, strategy, action plan or targets in place (3 out of these 4 operate in industrial sectors). Majority of portfolio companies remain on compliance-level in climate related issues. However, this was one of the leading aspects where companies self-assessed that they could do more in following corresponding management frameworks or regulations.

Main measures that portfolio companies have taken to better meet climate related developments:

- For two companies energy production from renewable sources is the primary core business.
- 29% of all companies have conducted an assessment of the vulnerability of their business to risks caused by the climate change.
- Additional 13% have considered specific measures in product development and service delivery.
- 25% (2018: 17%) of companies purchased energy from renewable sources.
- Some companies reported about improved processes or implementation of efficient equipment.
- Two companies measured their annual carbon footprint.

Besides two companies who had calculated their carbon footprint, additional 13 claimed that they had not done it specifically, but were aware of the dynamics. Out of these 15 companies 13% said that compared to the previous year their carbon footprint per output unit reduced, for 13% it increased, and for the rest remained the same.

Greenhouse gas footprint measurement at EKJU

Our ambition is a journey towards carbon neutral production. In 2019, we measured our full greenhouse gas footprint for the first time. We calculated the amounts of CO2 equivalent using cradle-to-gate approach, it means encompassing emissions that occur upstream of the company and within our own activities. The next step is to collect data from our partners and touch-points involved when products leave our gate. We believe that lower greenhouse gas emissions is our major opportunity to minimize our environmental impact, but it also lead to reduced costs for us, and it is expected by our customers, employees and future legislation.

Systematic reduction of environmental footprint at Impuls

Our most recent developments allow us to operate with smaller environmental footprint. We now use outside air to preheat the water for swimming pools and reuse shower water in preheating intake cold water. We also installed ultra-violet water cleaning equipment, which is much safer for health and requires 2-3 times less chlorine to clean water in the swimming pools.

EKJU is one of the largest Latvian garden furniture manufacturers



The approach of BaltCap to mitigate climate impacts

We take our responsibility to the environment seriously and seek to adopt and implement environmentally sound policies in our portfolio companies, and in our own internal operations. All our portfolio companies need to comply with applicable environmental regulations and standards and strive beyond compliance.

Environmental sustainability is and has always been among the key investment criteria of all our investment funds. Our most recent significant contribution to environmental sustainability is the launching of the BaltCap Infrastructure Fund. It is a new investment fund, established in June 2017, with a target size of €100 million, backed by the European Investment Bank, Nordic Environment Finance Corporation (NEFCO) and Baltic pension funds. Infrastructure development is one of the key priority areas for the Baltic region to improve competitiveness, independence and meet environmental targets.

The Infrastructure Fund was established to address the climate change mitigation agenda in the Baltic countries:

- a) BaltCap has completed 3 renewable energy investments in electricity and heat generation from biofuel, which has zero greenhouse gas (GHG) emissions and replaced energy produced from natural gas.
- b) BaltCap invested in an A+ energy efficiency class school development in Vilnius.
- c) Over the next 3.5 years BaltCap will attempt to develop a 70MW wind farm in Lithuania, which should further reduce GHG emission in the region.

It serves the purpose of reducing climate change impacts, measured by GHG emission reduction from new renewable energy capacities.

Living nature, biodiversity, and pollution

Only 13% (2018: 8%) of companies have set guidelines, a strategy, action plans or targets for managing biodiversity, pollution, and air emission concerns. One company reported about two major disturbances of nature during the reporting year (related to wastewater and smell). Additional measurements were taken and are being monitored.

Category Summary: Product, Service and Marketplace

The responsible management of product, service, and marketplace is continuously rather well managed compared to some other ESG categories. Also in 2019 innovation and R&D, quality and customer experience management remained the most consciously managed aspects among portfolio companies. Safety of products/services and supplier ESG management as ESG-specific aspects within the category showed improvement compared to previous year, but are still behind the other topics.

Overview of product, service and marketplace management tools

83% (2018: 58%) of portfolio companies have written guidelines, a strategy or action plans in at least one of the observed aspects in this category (either customer experience, quality management or innovation and R&D), with 67% (2018: 58%) of companies having set goals for some of these aspects.

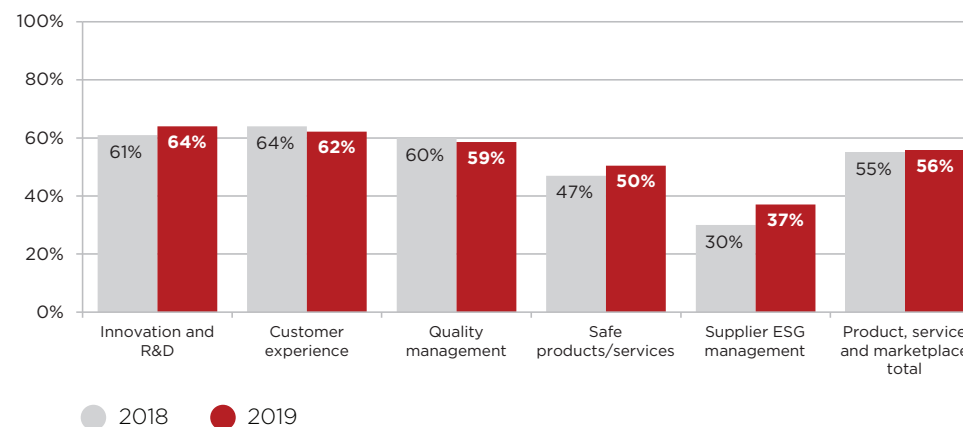


Figure 14. Average Index of all respondents in product, service and marketplace aspects



Figure 15. Overview of different product, service and marketplace tools in portfolio companies

ESG management among suppliers

In one sentence: Every second company has set environmental, social or governance related preconditions for their suppliers and subcontractors.

83% of companies claim that they have set written or unwritten preconditions for their suppliers and subcontractors, including:

- 60% of governance related;
- 50% of workplace and personnel management related;
- 40% of environmental impact related factors.

90% of these portfolio companies who have set written or unwritten preconditions for their suppliers and subcontractors have communicated their ESG related expectations or requirements to suppliers and subcontractors too – half of them have simply informed, fourth have in addition fixed ESG aspects in contracts, and fourth do even more through occasional visits or audits among suppliers and subcontractors.

In 2019, two companies detected in total three (2018: 2) major non-conformities among their suppliers. These products were abandoned hereafter, or suppliers obliged to significantly change the situation.

Safe products and services (consumer safety)

In one sentence: In providing safe products and services, companies mostly contribute to raising customer and consumer awareness about reasonable and safe consumption and usage.

83% (2018: 79%) of companies claim that they consider health and safety factors, and seek opportunities to improve customer/consumer health and safety when developing new products and services. 71% (2018: 63%) of portfolio companies made improvements in 2019 to increase service-life safety for consumers.

83% of companies consider health and safety factors in product and service development

Service sector companies focused on improving the communication of user instructions, and promoting reasonable consumption or use of the service. Companies operating in industrial sectors mostly introduced safer or more health-friendly input materials.

In total six (2018: 23⁸) incidents that affected customer health were reported. These were all cases which did not have significant and lasting consequences to the customers.

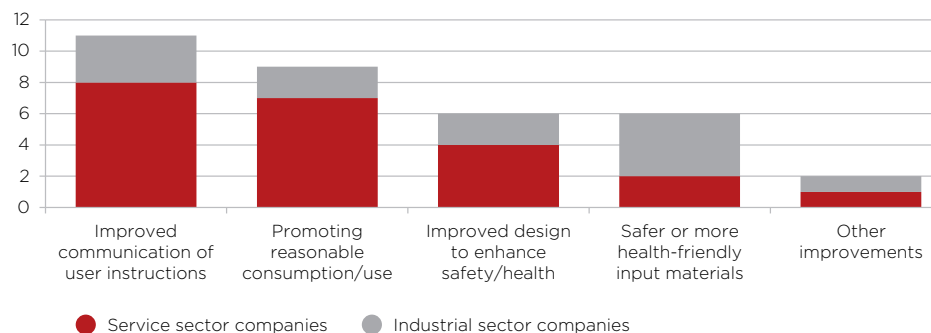


Figure 16. Number of companies that made certain improvements in 2018 to increase health and safety for consumers

⁸ In 2018, vast majority of the incidents (all without serious consequences) happened in the sports clubs of the fitness center, a portfolio company which did not submit the questionnaire this year.

Quality management, innovation and R&D

In one sentence: Quality, innovation and R&D are among the most systematically managed aspects in portfolio companies, also widely and well recognized quality management guidelines are used systematically.

Quality management remains one of the most systematically managed aspect among portfolio companies, and increasing number of companies have paid systematic approach to it in 2019. A total of 83% (2018: 67%) of companies have agreed written guidelines, a strategy, action plans or targets for quality management. 2/5 of them have agreed annual quality goals to be achieved.

42% (2018: 42%) of portfolio companies have built their quality management system on some external standard, management system or widely recognized approach. ISO 9001 standard is used by six companies, Lean Six Sigma is used in two companies, and 5S method in two companies.

50% (2018: 46%) of companies have agreed their own guidelines, strategy, action plan or targets for innovation and R&D management. 88% (2018: 79%) of all portfolio companies reported at least some product, service or process innovation in 2019.

Customer experience

In one sentence: Around half of companies measured customer satisfaction in 2019, but only every fourth company has set annual targets for the desirable level of customer experience.

63% (2018: 63%) of companies have written guidelines, a strategy, action plans or targets in place for conscious management of the customer experience. Yet only 2/5 of them have set annual targets in this matter.

At the same time, 46% of all portfolio companies measured customer satisfaction in 2019 (2018: 46%). 82% (2018: 73%) of them witnessed an increase in customer satisfaction, for others the level remained the same.

46% of companies measured customer satisfaction

More instant customer feedback at Impuls

Some of our recent developments include progress in collecting customer feedback about their experience in our fitness clubs. We started conducting Net Promoter Score (NPS) research on weekly basis instead of annual measurement practiced before. Additionally, we introduced new reporting feature in our mobile application to allow visitors give real time feedback about the quality of our clubs.

Return policy in excess of the regulatory requirements at Biosala/Livinn

As a leading retail chain of organic and healthy food and non-food products in Lithuania, we put much effort into keeping our customers satisfied. We have introduced a practice allowing flexible returning of already purchased goods. An alternative would be to save 10 euros per each such case and risk losing a customer. Such approach does not cost much for us, but really pays off helping us keep our customers happy.

Category Summary: Governance and Company Values

Governance and Company Values was one of the two best managed categories, with its 60% (2018: 62%) average score, equal to workplace category. In this category, all substantive aspects received quite equal average scores.

Overview of governance management tools

58% of portfolio companies have written guidelines, a strategy or action plans in at least one of the observed governance aspects (either ethics and anti-corruption, or compliance and fair competition). At the same time, only 8% have set goals for some of these aspects.

The BaltCap Code of Responsible Behaviour is accepted by all of the portfolio companies. Ca 2/5 (2018: 1/3) of all portfolio companies claim that they follow BaltCap`s code in reality. 13% (2018: 17%) of companies follow also some other external corporate governance standard, code or guideline.

2/5 of companies follow BaltCap`s Code of Responsible Behaviour

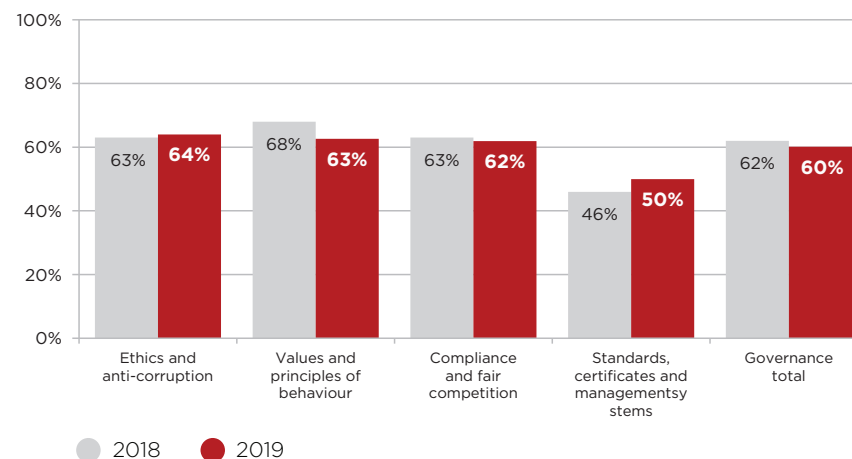


Figure 17. Average Index of all respondents in aspects of values and governance

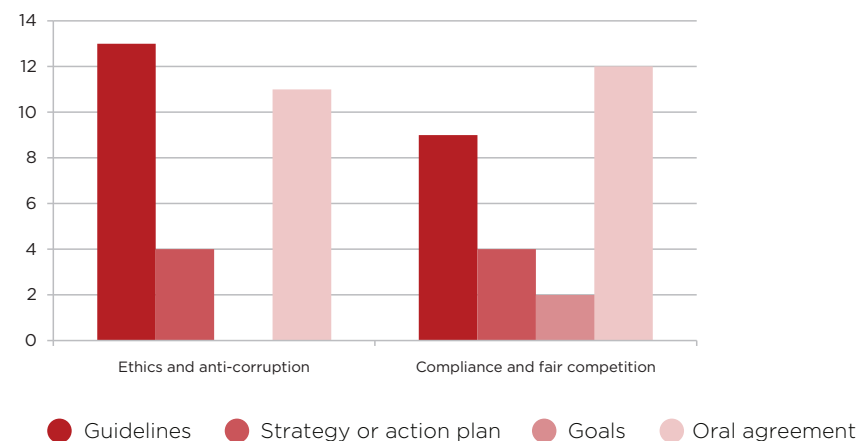


Figure 18. Overview of values and governance management tools in portfolio companies values and governance

Ethics, anti-corruption, compliance and fair competition

In one sentence: Ethics, anti-corruption, compliance and fair competition is one of the most systematically led ESG aspect, the average score has increased compared to previous year.

54% (2018: 42%) of companies have set guidelines, a strategy, action plans or targets to regulate ethics and anti-corruption behaviour. 42% (2018: 29%) of all portfolio companies have done the same for compliance and fair competition issues.

46% of companies have orally agreed principles within the organization about ethics and anti-corruption, 50% about regulatory compliance.

Similarly to previous year, these were also the aspects where, based on their self-assessment companies consider the actual adherence level of their management approach the highest across the whole questionnaire – 4.69 for the ethics and anti-corruption and 4.77 for compliance topics (on 5-point scale).

Among portfolio companies there were 0 major cases (2018: 0) of either monetary or non-monetary sanctions imposed by regulatory or other authorities for non-compliance with laws and regulations or because of any other incidents in 2018. Six (2018: 6) minor cases of such non-compliances took place. These were related to waste management, and safety of some sold products – all could be considered as very minor cases.

Zero major non-compliances with laws and regulations

Harmonization of data protection processes at Unimed group clinics

Ensuring that patient data including sensitive personal information is well protected is a critical aspect for us as a health care company. Although the law allows different interpretations, it is crucial that all the clinics follow the same rules. As a way to introduce and harmonize data protection principles, we have organized small group trainings and workshops to our team to facilitate discussion about how to implement these principles in everyday work. This way data breach risks can be addressed based on job roles.

Unimed is the largest dental care provider in Estonia



Values and principles of behaviour

In one sentence: Code of behaviour is set in place in more companies than previous year, but fewer inform stakeholders about the main principles of the code.

38% (2018: 42%) of companies have clearly defined values, 21% (2018: 4%) own conduct code, and additional 29% (2018: 38%) both – 88% in total have at least one of these (2018: 83%). Yet the actual adherence received relatively low self-assessment score – 4.21 on 5-point scale.

88% of companies have set values or code of behavior

Although company values or rules of conduct are slightly more often implemented compared to previous year, the communication of these principles to company stakeholders has decreased.

58% (2018: 70%) of companies who had a code of conduct have communicated these principles to their stakeholders too. While external communication indicates a decrease throughout recent year, introducing the rules of conduct to employees remains popular – almost all companies that had such rules in place, with one exception, have also provided appropriate training for their employees, making 92% (2018: 100%).

Engaging employees in implementing changes and introducing company values in new clinics at Unimed

Two new clinics joined Unimed in 2019. We engaged their well-functioning teams when carrying out various changes in the clinics. We also introduced Unimed company values to our new teams by linking the company values to their personal values and discussing how to put the values in action on daily basis. Our company values are positive work attitude, care and consideration for everyone and constant drive for development.

Engaging employees in creating the values, vision, and mission of Workland

We engaged all our employees in the process of defining the values of our brand. A joint strategy day gave us an opportunity to collaborate, reflect and learn from each other's perspective, but above all, to make sure and reaffirm that all team members perceive the brand and its vision the same way. We also created our company's mission statements which support the vision, and plan to engage the whole team again to look for ways to ensure the implementation of our mission statements.

Category Summary: Societal Impact

Management of a company's broader societal impact is continuously one of the less systematically managed categories, with the average result being 52% (2018: 49%). At the same time it was the only major category out of five, where all analyzed aspects improved compared to previous year.

Overview of societal impact management tools

33% (2018: 29%) of portfolio companies have written guidelines, a strategy or action plans for at least one of the observed societal aspects, while only 13 (2018: 17%) have set goals for one of these aspects.

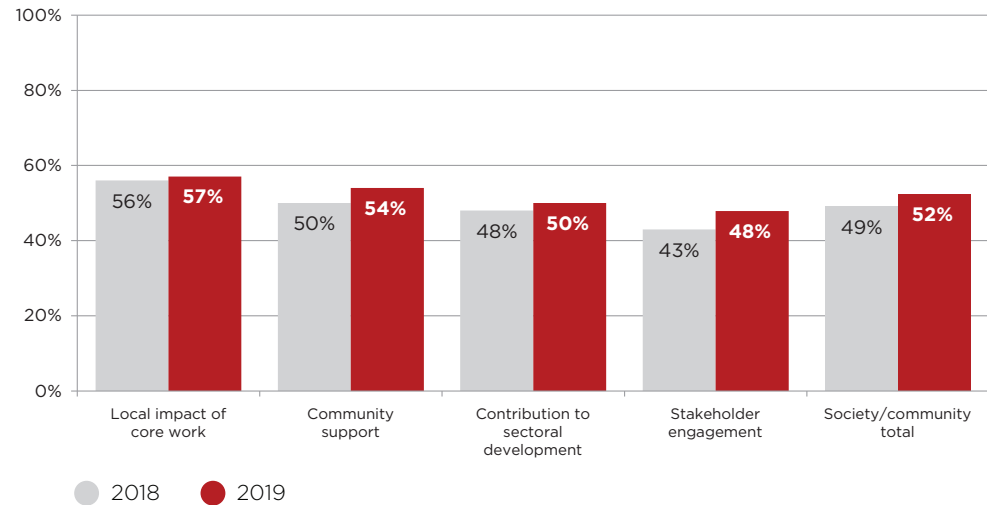


Figure 19. Average Index of all respondents in societal and community aspects

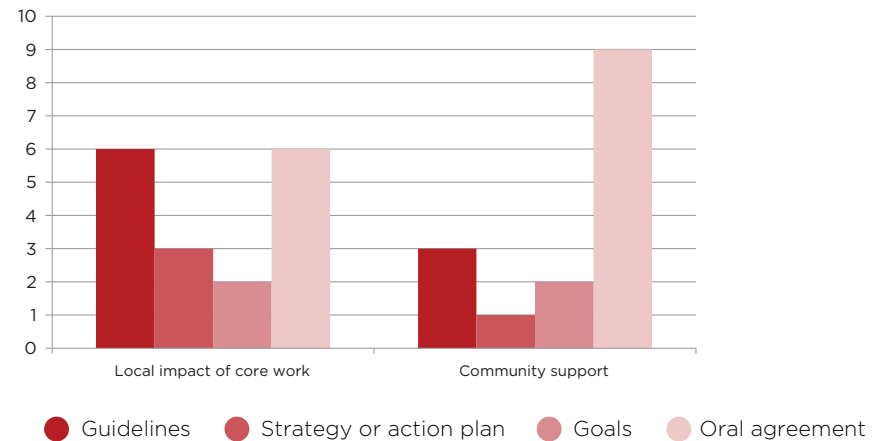


Figure 20. Overview of different workplace management tools in portfolio companies

Local impact of core activities and stakeholder engagement

In one sentence: Around half of companies hold open dialogue with local residents, and a bit more with other external stakeholders.

29% (2018: 25%) of portfolio companies have set specific guidelines, a strategy, action plans or goals for managing their impact in local neighborhoods – health, safety, noise, vibration, odors, or transportation issues caused by its business activities. With some exceptions, industrial companies are more likely to pay conscious attention to that aspect compared to service companies.

50% (2018: 50%) of companies have held an open dialogue with local residents regarding adverse impacts, controversial matters, or sensitive issues reported during 2018. 33% (2018: 25%) of them did it at their own initiative proactively, and 67% (2018: 75%) reactively, in response to signals from stakeholders.

63% (2018: 63%) of portfolio companies engaged other major stakeholder groups (e.g. consumers, suppliers, regulators, media entities, and academia) during 2018 for the purposes of discussing their expectations regarding responsible social, environmental, and business behaviour. 75% (2018: 71%) of them did so proactively, on their own initiative proactively, and 25% (2018: 29%) reactively, in response to signals from stakeholders.

—
Every second
company engages
actively with external
stakeholders

79% of companies had established mechanisms for expressing grievances or concerns about the company's activities for at least some stakeholder groups:

- 75% for employees,
- 63% for clients and customers,
- 42% for suppliers,
- 13% for local residents and wider public.

All portfolio companies in total received few official complaints or grievances expressed by local residents in 2018. The cases were related to odor and light pollution, and could be therefore considered minor disturbances.

Reducing outdoor ad-board brightness based on community feedback at KOOL

We received feedback from our customers and community that our outdoor ad-boards and displays of our gas stations are too bright at night. As a response, we initiated a discussion with Latvian State Road organization to learn about the appropriate brightness levels on streets, and adjusted our ad-boards accordingly. This kind of debate and action is not required by legislation, but what we consider a proper action to respond to the community reaching and find the best solutions for everyone.

Initiating dialogue with local residents at Eesti Keskkonnateenus

We initiated preparatory dialogue with property owners and local municipalities on our plans to develop new facilities in areas located close to both stakeholders. We believe open discussions that take place before the formal procedures, allow considering crucial issues in advance, and avoiding unexpected obstacles that might come up during the official procedure. If such dialogue reveals that local residents prefer not to have a waste recycling facility to be developed nearby, alternative locations will be considered where possible. It allows us to avoid later complains and inconveniences for all parties involved.

KOOL is a network of fuel stations and convenience stores in Latvia



Support for community initiatives and development of the sector

In one sentence: More than half of companies contribute to giving back to the society with financial support and voluntary work.

21% (2018: 17%) of companies have defined any guidelines, a strategy, action plans or target for their community support activities. 58% (2018: 50%) of all portfolio companies gave financial support to the local community or to projects relevant for society. The average sum among those who did it was €9,000 (2018: €11,000), ca €115,000 (2018: €132,000) in total.

67% (2018: 63%) of portfolio companies worked in collaboration with other organizations during the reporting year to address ESG, sustainability, or responsible-entrepreneurship issues. 63% (2018: 60%) of them claimed they took an active role in doing so.

63% of companies cooperate with others on ESG and sustainability issues

Contributing to the development of Estonian health sector at Qvalitas

We have been a long-time partner for the Estonian Ministry of Social Affairs. Our experience as a leading occupational healthcare provider has allowed us to take an important role in shaping the health care sector in Estonia. We take part in discussion groups about the future of occupational healthcare; contribute to various R&D and cooperation projects, e.g. helping Estonian Genome Project in finding gene donors and participating in initiatives promoting healthy lifestyle of men.

Qvalitas is the largest occupational health care service provider in Estonia



Contributing to raising Estonians' awareness of oral health at Unimed

Our staff members contribute to raising the awareness of oral health every day. We truly believe that it is better to prevent serious dental illnesses than cure them afterwards. Part of our consultation is always advice on how to take better care of patients' dental hygiene - how to brush teeth, how to floss, clean the tongue etc. We also give dietary consultations about how to improve oral health by making right dietary choices as well as keeping breaks between meal times.

Our marketing team raises awareness of various dental problems and shares information on how to prevent them. We use social media (Facebook, Instagram, Youtube), our home page and various mainstream media platforms. In 2019 we have addressed oral health and prevention issues in all the biggest news portals in Estonia and several TV and radio channels (21 publications).

We have our own magazine "Sära" where our specialists discuss on various oral health topics. "Sära" (around 12 000 magazines yearly) is distributed mainly to our clinics, but also using direct mailing service, together with well-known magazines (Eesti Naine) and through our partners (pharmacies, hotel SPAs, beauty salons, etc.). Many kindergartens have visited our clinics to understand the importance of clean and healthy teeth and our doctors have also visited various educational institutes to reach different audiences.

Unimed is the largest dental care provider in Estonia



Examples of business networks and other organizations where portfolio companies act as members:

- **Anaerobic Holding** in a biogas association;
- **Bluebridge Technologies** in Latvian Healthcare Employers' Association;
- **BPT Real Estate** in electric vehicle charging station providers network;
- **Ecoservice** in Latvian packaging management organization; and Latvian Green Dot
- **EKJU** in Latvian Chamber of Commerce and Industry
- **Eesti Keskkonnateenused** in Estonian Association of Environmental Management, Estonian Association of Circular Economy Companies, and The Estonian Employers' Confederation
- **FCR Media** in SIINDA (international association for local search, digital advertising, media, mobile and "on demand" industries).
- **Forest Investment** in association of independent heat producers;
- **Intrac** in Estonian Forest and Wood Industries Association, Latvian Tractor Trade Association, Latvian Chamber of Commerce and Industry, Lithuanian Quarry Association, and Lithuanian Biomass Producer's Association
- **Labochema** in laboratory suppliers business network
- **Pure Chocolate** in Latvian Chamber of Commerce and Industry
- **Qvalitas** in the Union of Estonian Private Medical Organizations, the Network of Estonian Rehabilitation Doctors, Estonian Employers' Confederation; Estonian Chamber of Commerce and Industry;
- **Unimed** in Estonian Dental Association;
- **Workland** in local chambers of commerce, StartupEstonia, and Invest Lithuania.

Category Summary: ESG Leadership

In BaltCap, above all we value the practical contributions of portfolio companies in avoiding negative ESG effects and impacts, and maximizing opportunities from social and environmental aspects and good corporate governance. Paying increasing attention to directed sustainability management and ESG leadership gains higher relevance each year, but should depend on the specificity of the sector, market and value chain, and also on the possible added value it could give.

Purposeful ESG improvements at Qvalitas

Demand from our clients to pay more attention to ESG topics has increased significantly. Such issues have become a vital part in building good relations with our clients. Several partners and clients expect conscious management of ESG issues from us. We see many opportunities arising when having certain values and sustainability standards in place in order to contribute to society and environment. We believe it gives us a competitive advantage to be a better and responsible partner for our customers.

Qvalitas is the largest occupational health care service provider in Estonia



ESG leadership could be expressed through:

Learning and contributing in sustainability and responsible business related networks

- BaltCap itself is one of the founding members of Responsible Business Forum in Estonia, and Martin Kõdar has served as a Board Member since 2013. None of portfolio companies participated in such networks, except Eesti Keskkonnateenus in Estonian Association of Environmental Management (founding member since 2003).

Seeing bigger picture of own impacts, e.g. in relation to the framework of UN Sustainable Development Goals (SDG)

- Elaborating business strategies and explaining their societal impact through SDGs would be an opportunity for businesses to put their core work into a wider context.

According to the ESG survey, portfolio companies consider SDGs number 3, 4, 8, 9, 12 and 13 the most relevant for them (the ones for which either they have the greatest influence through core business, products or services, or in relation to which they are influenced most).

Similarly to previous year, the major connection is seen in health (SDG3), education (SDG 4), economic and employment growth (SDG 8), industrial development and innovation (SDG9) and responsible production and consumption (SDG12).

Climate impact (SDG13) was added to TOP6 as a new SDG. Compared to previous year, SDG-s 12 and 13 increased the most in the relevance for portfolio companies - both related clearly to environmental impacts.

Environmental SDG-s number 12 and 13 gained the most relevance compared to previous year

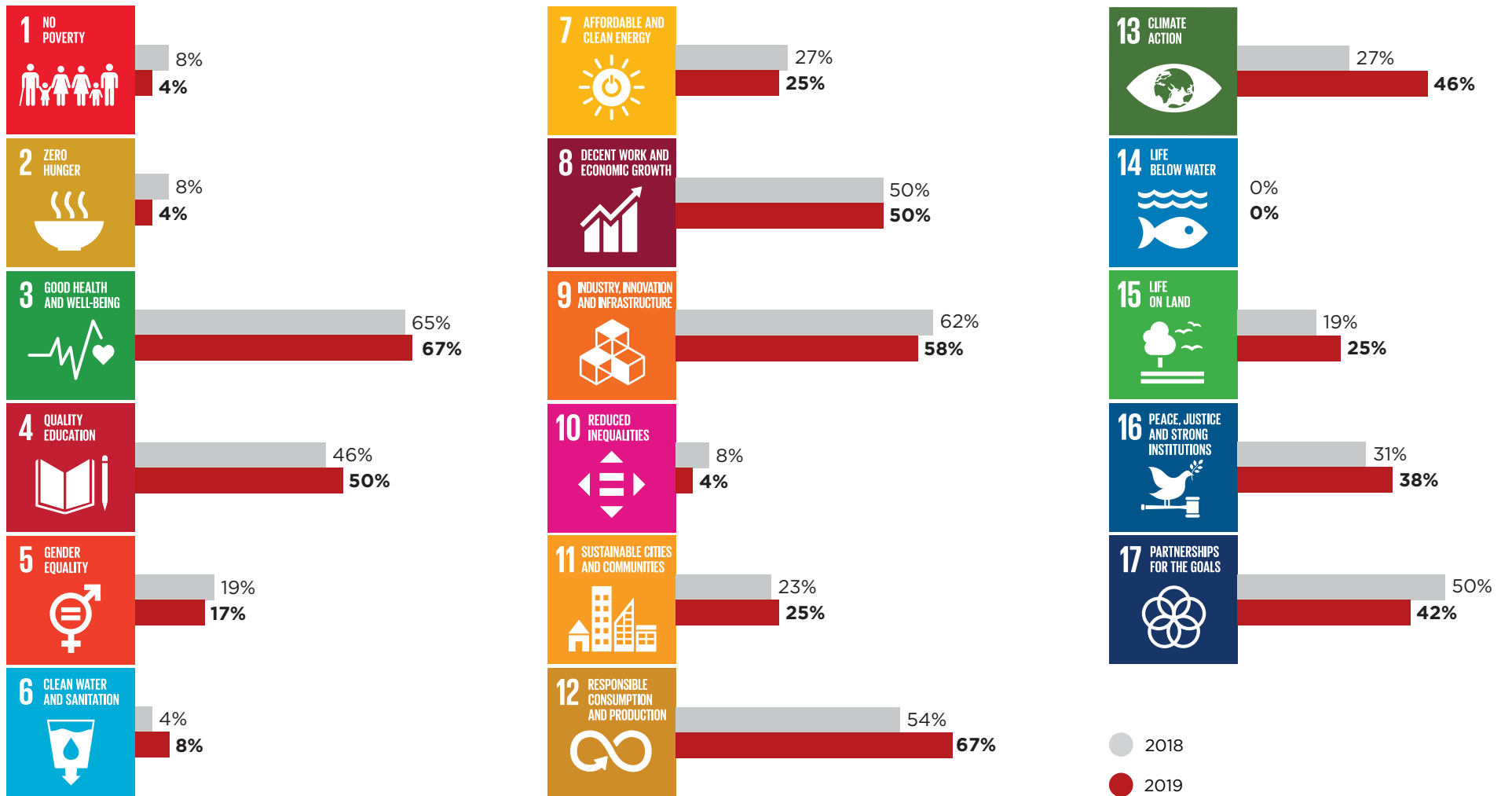


Figure 21. Percentage of companies that consider each SDG among five most relevant for them

Engaging employees in ESG matters and communicating meaningful progress to relevant stakeholders:

- 83% (2018: 79%) of companies engaged their employees with regard to ESG in 2019. Most often the following measures were taken:
 - 11 companies integrated ESG aspects into individual development talks,
 - 10 companies informed employees as a part of usual internal communication, and
 - 8 companies involved employees in development of the ESG approach.

- 50% (2018: 50%) of the portfolio companies covered ESG related topics in their external communication. Most tackled issues included:
 - human resources and workplace – 29%
 - environmental topics – 25%
 - product or service-related responsibility – 25% of all portfolio companies.

None of the portfolio companies disclose ESG progress and performance in their own public annual reports.

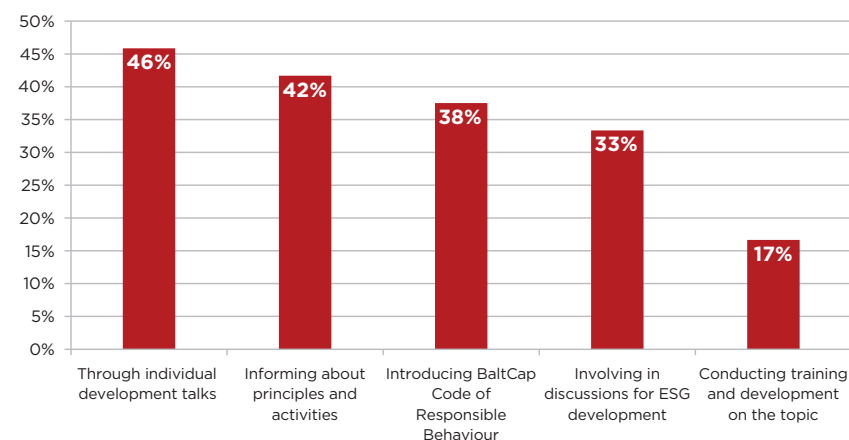


Figure 22. Percentage of companies who engage employees with regard to ESG topics in certain ways

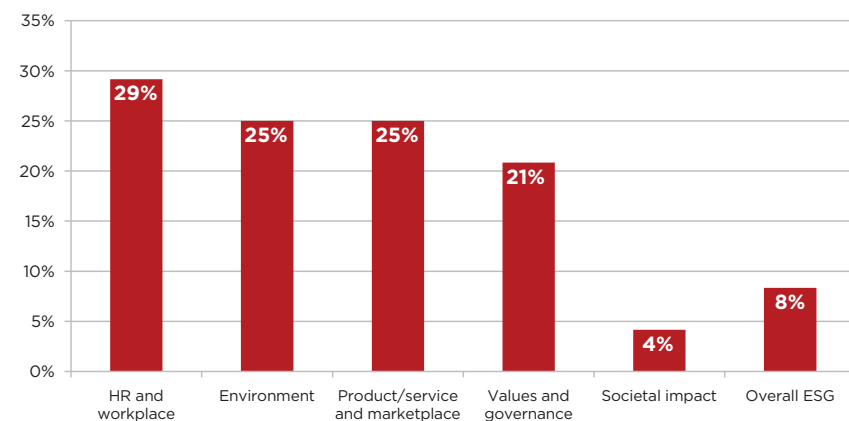



Figure 23. Percentage of companies who cover certain ESG aspects in external communication



Appendix 1. BaltCap 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 interest
- 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



BALTCAP