

BALTCAP ENVIRONMENTAL, SOCIAL AND
GOVERNANCE (“ESG”) REPORT 2011

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BALTCAP

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BaltCap Environmental, Social and Governance (ESG) Principles

As a signatory of the United Nations Principles for Responsible Investment (UNPRI), an investor initiative in partnership with UNEP Finance and the UN Global Compact, BaltCap follows the policies and practices of responsible investment and believes that environmental, social and governance (“ESG”) issues play an increasingly important role in today’s business environment.

BaltCap is committed to the following:

- Participating actively in the strategic management of portfolio companies through Council and Board memberships;
- Identification, credit analysis and supervision of portfolio investments will be carried out with due regard to ecological and environmental factors;
- Not to invest in companies which are engaged in arms manufacturing, manufacture of tobacco, hard spirits, gambling, human cloning and genetically modified organisms;
- Not to be involved in hostile bids;
- Carry out environmental due diligence in all the investment cases with potential environmental risks and issue annual environmental report on the portfolio companies;
- Ensure that appropriate standards of corporate governance are in place or will be implemented within a reasonable time period in all portfolio companies, including regular board meetings, an audit committee, a code of ethical business behaviour and compliance with the OECD Corporate Governance Principles;
- Ensure that all Portfolio Companies comply with the health, safety, worker protection and environmental regulations and standards applicable in the country where the investment is situated.

The Responsible Investment Policy¹ has been adopted by the management and supervisory board of BaltCap in June 2011.

¹ <http://www.baltcap.com/en/focus/responsible-investment>

Participation in 4th Corporate Responsibility Index in Estonia

In 2011 BaltCap participated in 4th Corporate Responsibility Index in Estonia organised by Responsible Business Forum of Estonia in cooperation with Estonian Business School and Business Newspaper Äripäev.

BaltCap was the only investment firm to participate in this index in 2011. BaltCap gained 83.1 points of the possible 100 and took 6th place in general standings, yet winning in the category of local small businesses.



ESG Survey among BaltCap Portfolio Companies

To help portfolio companies think about overall efforts towards responsible entrepreneurship and the possible ways to improve their business in a profitable and sensible manner, BaltCap has asked its portfolio companies to complete an awareness-raising questionnaire on the ESG issues². BaltCap hopes the questionnaire also helps companies to identify further actions they can take to strengthen the business, its reputation and performance. The questionnaire was divided to five sections (Workplace-, Marketplace-, Community-, Environmental Policies and Company Values). A short description and tips were also given for each category.

Survey Methodology & Responses

This survey was carried out at the end of 2011. Fifteen (out of total 20) currently active portfolio companies of different size and sectors responded to the questionnaire.

The respondents were the following:

- Contact Holding (directional media company, pan-Baltic)
- Energate (natural gas distribution networks operator and wind park developer, Estonia)
- MediCap Holding (clinical laboratory services provider, Estonia, Lithuania)
- Air Maintenance Estonia (aircraft maintenance, repair and overhaul, Estonia)
- TREV-2 Grupp (road and environmental construction, Estonia, Latvia)
- Kelprojektas (transport infrastructure engineering, Lithuania)
- Intrac Group (machinery trade, pan-Baltic)
- Papermill Ligatne (papermill, Latvia)
- NeoQi (spa equipment producer, Estonia)
- Hanzas Elektronika (electronics contract manufacturing services, Latvia)
- Oobelisk (corporate media production, Latvia)
- EUROLCDs (LCD manufacturing, Latvia)
- Agroup (software development, Latvia)
- Ygle (building management systems installation, Lithuania)
- Impuls (gym and health clubs operator, Lithuania)

² http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/campaign/documentation/download/questionnaire_en.pdf

Grading of the received responses was carried out as follows:

1. Each answer received points
 - Yes answers – 3 points
 - No answers – 0 points
 - In part – 1 point
 - Not applicable – 0 points, causing the question to be removed from the grading pool for that specific company
 - Don't know – (minus 1) point
2. The points were converted to percentages by dividing each company's result in points with the maximum possible point score. There being 30 questions in total, the maximum possible point score is 90.

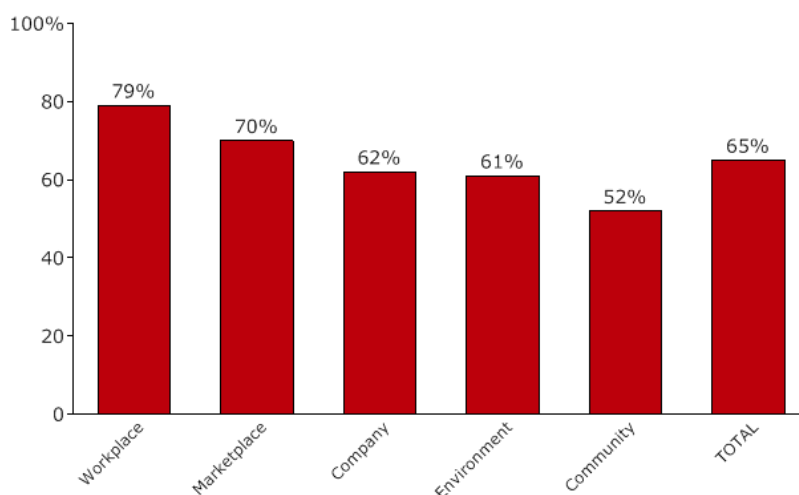
Overview of the Findings

The overall average performance score across all respondents and all ESG categories was 65% with the scores ranging between 83% for the best performer and 38% for the worst. As a positive finding it is worth to mention that the companies involved in production and being larger in size (therefore having a higher ESG impact) showed better scores than smaller companies operating in sectors where the ESG impact is lower.

The average score was highest (79%) for Workplace category, reflecting that the companies' place emphasises effectiveness of daily operations, motivation of employees and company reputation.

The average grade was lowest (52%) for Community category, which shows that the overall engagement in matters may not always be directly related to the everyday business.

Figure 1: Overall score for all respondents and categories

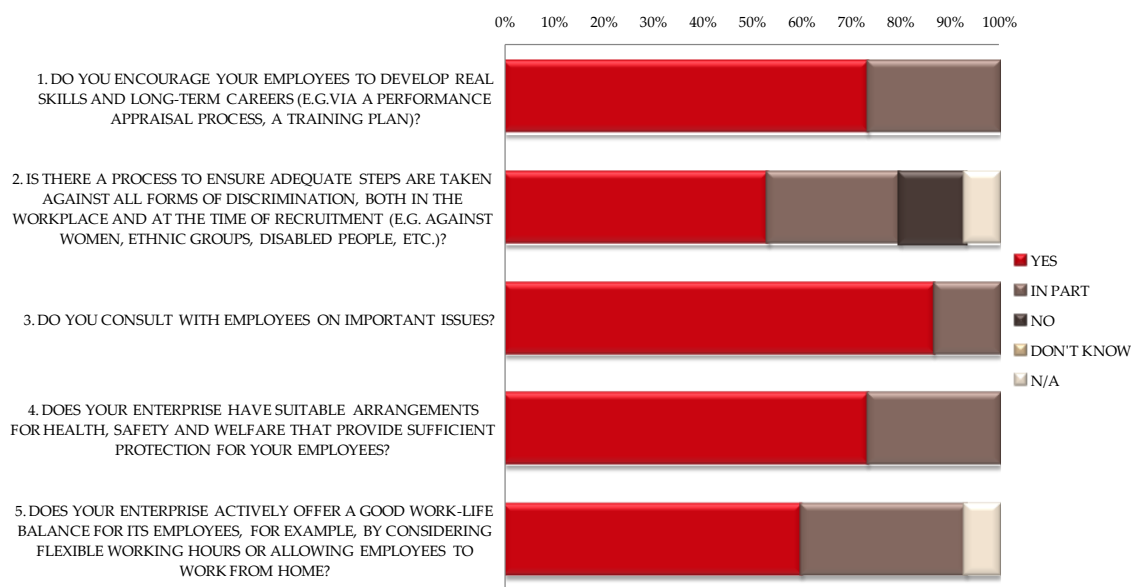


Description of Findings by Categories

Workplace Policies

- All companies responded that they are consulting with their employees on important issues and developments.
- The health and safety of their employees are important for all companies as well as training and career development.
- The processes against discrimination received the lowest score. This can be explained by discrimination not being a serious issue in the Baltic countries in general.

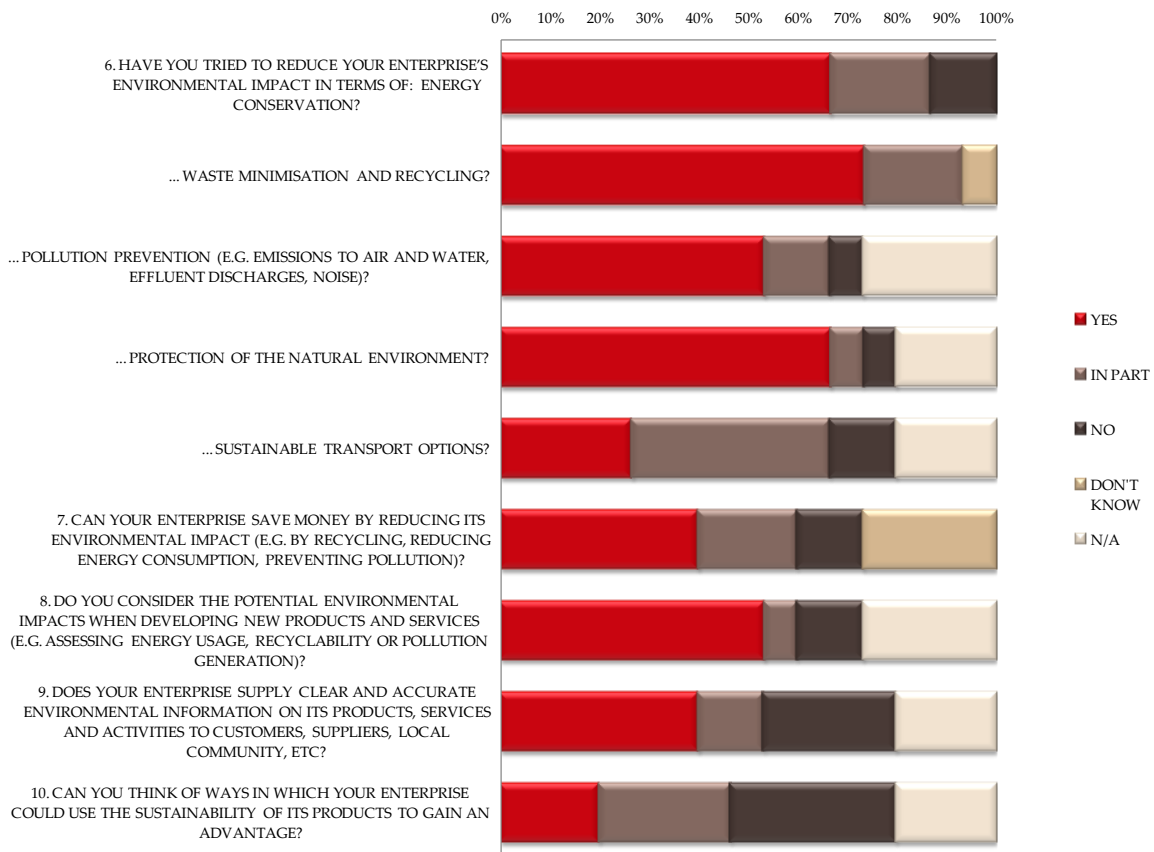
Figure 2: Questions and responses for Workplace Policies category



Environmental Policies

- Majority of the responded companies are making efforts to improve energy conservation, increase recycling and reduce waste.
- Also protection of the natural environment is high up in the agenda for most companies.
- At the same time many companies are not yet thinking of how to turn sustainability efforts to their advantage and measure the reduced environmental impact in terms of money.

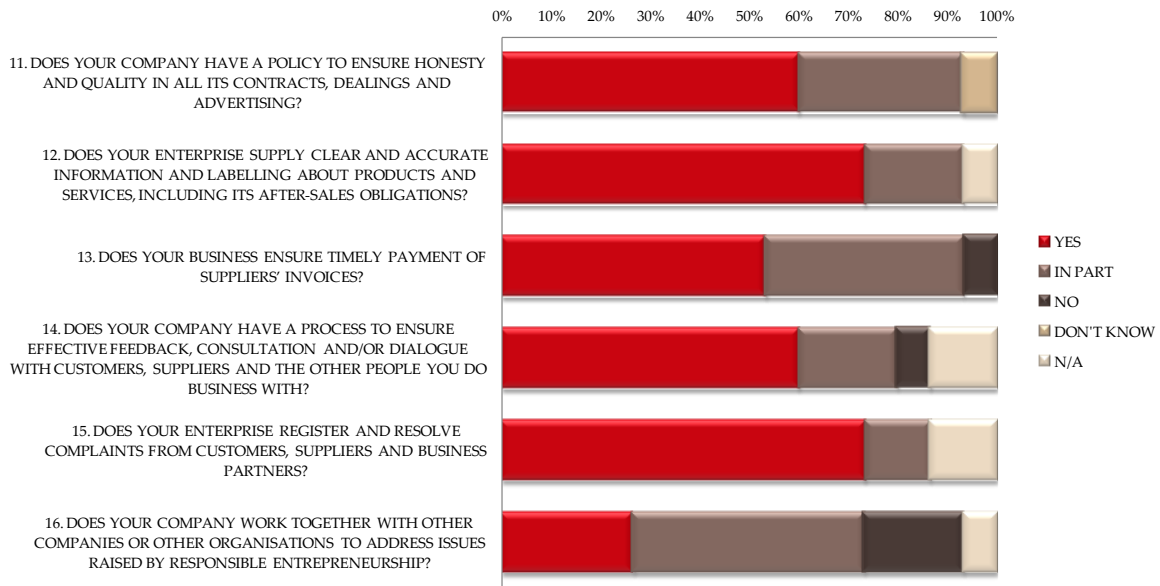
Figure 3: Questions and responses for Environmental Policies category



Marketplace Policies

- Honesty and quality in dealings and contracts are important for basically all companies
- Most companies also confirm that communication with customers is important to them.
- As we expected, due to the after-effect of the economic crisis in the Baltics, the timely payment of suppliers' invoices received somewhat lower score.
- The area that needs most improvement in the marketplace section is the collaboration with other organisations on ESG issues.

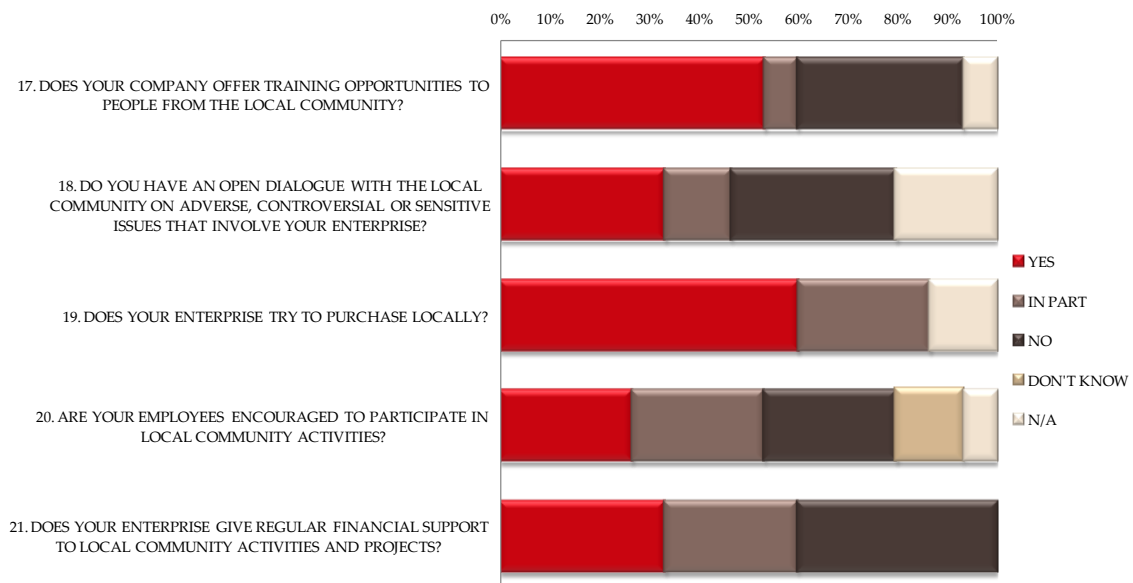
Figure 4: Questions and responses for Marketplace Policies category



Community Policies

- Most of BaltCap portfolio companies try to purchase the goods locally.
- More than half of the companies offer training opportunities to people from the local community.
- At the same time, the dialogue and overall involvement in local communities is still fairly weak. The likely reason for that is the relatively small size of the companies and the lack of resources.

Figure 5: Questions and responses for Community Policies category



Company Values

- Most companies have, at least in some level, defined the company values and rules.
- The company values and rules are communicated internally and the employees have received training for that.
- The communication of the values outside the organisation still remains a challenge as many companies believe that their customers are not well aware of their values.

Figure 6: Questions and responses for Company Values category

