

CODE OF ETHICS

PREAMBLE

1. This preamble sets out the purpose of the Baltic franchising association Code of Ethics for Franchising and the principles under which Members of the Baltic franchising association will apply the Code in their companies.
2. The Baltic franchising association Code of Ethics is a practical ensemble of essential provisions for the governance of the relations between a franchisor and each of its franchisees, operating together in the framework of the franchise network. The overarching principles of ethics that underline this set of provisions are good faith & fair dealings, which translate as franchisor-franchisee relations based on fairness, transparency and loyalty each of which contribute to founding confidence in the relationship.
3. The principles of the CODE are applicable at all stages of the franchise relationship; pre-contractual, contractual and post-contractual stages.
4. The Baltic franchising association Code of Ethics constitutes the franchising industry's Self-Regulatory Code and is there for all stakeholders in the franchise industry in Baltics to look to for guidance on franchising generally.
5. The Code's clear and unambiguous principles are not in contradiction with company laws and fundamental rights in the Baltic with the continuing objective of setting up a more efficient framework for franchising.
6. In particular, the Code is the foundation stone of the action of the Baltic franchising association's Members. Their respective membership rules, accreditation as well as disciplinary schemes must comply with the standards set in the Code. The Code, in its entirety, is binding for all BFA Members as well as their respective memberships. The Code is endorsed by all BFA Member companies each of which is committed to its promotion, interpretation and implementation in their own company. Each Member is responsible for ensuring that the Code is publicly available, in particular to all those entering the franchise industry.

7. Members of the BFA have the opportunity to add to the BFA Code of Ethics a Companies Extension and/or Interpretation provided that it does not derogate from or misinterpret the Code.
8. The BFA represents the franchise industry as a whole which, in a multi-stakeholder approach, means the interests of the franchise networks, inclusive of franchisors and franchisees towards public authorities, civil society, and consumers.
9. BFA is a not-for-profit international association constituted in 2005. It is registered in Riga, Latvia. The Federation's members are franchisees, franchisors and suppliers located in Latvia, Lithuania and Estonia.
10. The most important of the BFA's roles is to promote the adoption of the Code of Ethics so as to secure the development in the Baltics of proper and ethical franchising.

BALTIC FRANCHISING ASSOCIATION CODE OF ETHICS

1. DEFINITION OF FRANCHISING

Franchising is a system of marketing goods and/or services and/or technology, which is based upon a close and ongoing collaboration between legally and financially separate and independent undertakings, the Franchisor and its individual Franchisees, whereby the Franchisor grants its individual Franchisee the right, and imposes the obligation, to conduct a business in accordance with the Franchisor's concept.

The right entitles and compels the individual Franchisee, in exchange for a direct or indirect financial consideration, to use the Franchisor's trade name, and/or trade mark and /or service mark, know-how, business and technical methods, procedural system, and other industrial and /or intellectual property rights, supported by continuing provision of commercial and technical assistance, within the framework and for the term of a written franchise agreement, concluded between parties for this purpose.

- "know-how" means a package of non-patented practical information, resulting from experience and testing by the Franchisor, which is secret, substantial and identified.

- "secret" means that the know-how is not generally known or easily accessible; it is not limited in the narrow sense that each individual component of the know-how should be totally unknown or unobtainable outside the Franchisor's business;

- "substantial" means that the know-how is significant and useful to the buyer for the use, sale or resale of the contract goods or services;

- "identified" means that the know-how must be described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfills the criteria of secrecy and substantiality;

2. GUIDING PRINCIPLES

2.1 The Franchisor is the initiator and long-term guardian, in a market, of a franchise network, composed of the Franchisor and its individual Franchisees.

2.2 The commitments of the Franchisor:

The Franchisor

- i. shall have operated a business concept with success in the relevant market, for at least one year and in at least one pilot unit before starting its franchise network in that market;
- ii. shall be the owner, or have the legal rights to the use of its network's trade name, trade mark or other distinguishing identification;
- iii. shall recognize their franchisees as independent entrepreneurs and shall not directly or indirectly subordinate them as employees;
- iv. shall provide the Individual Franchisee with initial training and continuing commercial and/or technical assistance during the entire life of the agreement;
- v. shall grant the right to use the know-how transferred and/or made available to the Franchisee, which know-how it is the franchisor's responsibility to maintain and develop;

- vi. shall transfer and/or make available the know-how to the Franchisee through adequate means of information and training and shall monitor and control the proper use of that know-how;
- vii. shall encourage feedback of information from Franchisees in order to maintain and develop the know-how transferred and/or made available to them;
- viii. shall, in the pre-contractual, contractual and post-contractual phases of their relationship with Franchisees, seek to prevent any wrongful usage of or, in particular, the transmission of know-how to, competing networks so as to avoid prejudice to the interests of the network;
- ix. shall invest as appropriate the means, financial and human, to promote his brand and to engage in the research and innovation that will ensure the long-term development and continuity of his concept;
- x. shall inform prospective and individual franchisees of his internet commercial and/or sales policy;
- xi. shall seek to safeguard the interests of the network in the development of its (the Franchisor's) on-line commercial and/or sales policy;

2.3 The commitments of each Franchisee:

The Franchisee

- i. shall accept the obligation to collaborate loyally with the Franchisor in ensuring the success of the network which the franchisee has joined as an informed and fully independent entrepreneur;
- ii. shall devote its best endeavors to the growth of the franchise business and to the maintenance of the common identity and reputation of the franchise network;
- iii. shall be responsible for the human and financial means that it engages in its franchise business and is responsible as an independent entrepreneur, with regard to third parties, for his acts within the framework of the franchise;
- iv. shall act loyally with regard to each of the other Franchisees of the network as well as with regard to the network itself;
- v. shall supply the Franchisor with verifiable operating data to facilitate the determination of performance and the financial statements necessary for effective management guidance;
- vi. shall allow the Franchisor to ensure that the quality and image of the concept is properly maintained in the products and services provided by the Franchisee to the customer/consumer;

vii. shall recognize his responsibilities as a fully independent entrepreneur with regard to the customer/consumer;

viii. shall not disclose to third parties the know-how and other information material to the operation of the franchise provided by the Franchisor, neither during no rafter termination of the franchise agreement.

2.4 The ongoing commitments of both parties:

The Parties

i. shall seek to safeguard the image and reputation of the network in the running of their respective businesses;

ii. shall exercise good faith and fairness in their dealings with each other. The parties shall give written notice of any contractual breach and, unless inappropriate, grant reasonable time to the other party to remedy default;

iii. shall respect the confidentiality of information material to the franchise concept provided by the one to the other;

iv. shall resolve complaints, grievances and disputes with good faith and goodwill through fair and reasonable direct communication and negotiation;

v. shall where appropriate and where parties have failed to resolve a dispute through direct negotiation, seek in good faith mediation before litigation and/or arbitration organized or approved by an BFA;

3. RECRUITMENT, ADVERTISING AND DISCLOSURE

3.1 Advertising for the recruitment of Individual Franchisees shall be free- of ambiguity and misleading statements.

3.2 Any recruitment, advertising and publicity material, containing direct or indirect references to future possible results, figures or earnings to be expected by Individual Franchisees, shall be objective and shall not be misleading.

3.3 In order to allow prospective Individual Franchisees to enter into any binding document with full knowledge, they shall be given a copy of the present Code of Ethics, or a public access to it,

as well as full and accurate written disclosure of all information material to the franchise relationship, within a reasonable time prior to the execution of these binding documents.

3.4 The prospective Franchisee is responsible for carefully analyzing the information material to the franchise relationship, including choosing to take appropriate professional advice, before signing the franchise agreement.

3.5 The prospective Franchisee must be truthful and transparent in the information about his experience, his financial capacities, his training, background and any other information material to the franchise relationship he provides for the purpose of his selection by the Franchisor.

3.6 If a Franchisor imposes a pre-contract on a candidate individual Franchisee, the following principles should be respected:

- i. prior to the signing of any pre-contract, the candidate Individual Franchisee should be given written information on its purpose and on any consideration he may be required to pay to the Franchisor to cover the latter's actual expenses, incurred during and with respect to the pre-contract phase; if the franchise agreement is executed, the said consideration should be reimbursed by the Franchisor or set off against a possible entry fee to be paid by the Individual Franchisee;
- ii. the pre-contract shall define its term and include a termination clause;
- iii. the Franchisor can impose non-competition and/or confidentiality clauses to protect its know-how and identity.

4. SELECTION OF INDIVIDUAL FRANCHISEES

A Franchisor should select and accept as Individual Franchisees only those who, upon reasonable investigation, appear to possess the basic skills, education, personal qualities and financial resources sufficient to carry on the franchised business.

5. THE FRANCHISE AGREEMENT

5.1 The Franchise agreement shall comply with the National law, European community law and this Code of Ethics and any National Extensions there to.

5.2 The agreement shall protect the Franchisor's industrial and intellectual property rights so as to secure the common identity, reputation and interests of the franchise network.

5.3 Franchisors shall offer to franchisees all agreements and all contractual arrangements in connection with the franchise relationship, in writing, in the official language of the country the Individual Franchisee is established in or in a language in which the franchisee formally declares itself competent. Signed agreements shall be given immediately to the Individual Franchisee.

5.4 The Franchise agreement shall set forth without ambiguity, the respective rights and obligations of the parties and all other material terms of the relationship.

5.5 The essential minimum terms of the agreement shall include at least the following:

- i. the rights granted to the Franchisor
- ii. the rights granted to the Individual Franchisee
- iii. the Franchisor's intellectual property rights on the brands, signs, etc. which should be established for a term at least as long as the term of the franchise agreement
- iv. the goods and/or services to be provided to the Individual Franchisee
- v. the obligations of the Franchisor
- vi. the obligations of the Individual Franchisee
- vii. the terms of payment by the Individual Franchisee
- viii. the duration of the agreement which should be long enough to allow Individual Franchisees to amortize their initial and subsequent investments specific to the franchise
- ix. the basis, including the notice which both parties must give, for any renewal of the agreement
- x. the terms upon which the Individual Franchisee has the right to sell or transfer the franchised business as a going concern and the Franchisor's possible pre-emption rights in this respect
- xi. provisions relevant to the use by the Individual Franchisee of the Franchisor's distinctive signs, trade name, trademark, service mark, store sign, logo or other distinguishing identification
- xii. the Franchisor's right to adapt the franchise system to new or changed methods
- xiii. provisions for termination of the agreement
- xiv. provisions for surrendering promptly upon termination of the franchise agreement any tangible and intangible property belonging to the Franchisor or other owner thereof.

6. THE CODE OF ETHICS AND MASTER-FRANCHISE SYSTEMS

This Code of Ethics shall apply to the relationship between the Franchisor and its Individual

Franchisees and equally between the Master Franchisee and its Individual Franchisees. It shall not apply to the relationship between the Franchisor and its Master Franchisees.