

## CORPORATE GOVERNANCE REPORT

The Corporate Governance Code (CGC) of Nasdaq Tallinn Stock Exchange is a set of rules and principles, which is designed mainly for listed companies. Since the provisions of CGC are recommendations by nature, the company need not follow all of them. However, where the company does not comply, it has to provide an explanation in its corporate governance report. The “comply or explain” approach has been mandatory for listed companies since 1 January 2006.

Baltika adheres to all applicable laws and regulations. As a public company, Baltika also observes the rules of Nasdaq Tallinn Stock Exchange and the requirement to treat investors and shareholders equally. Accordingly, Baltika complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, corporate governance report contains information on the annual General Meeting taken place in 2016, the Supervisory Board, the Management Board and explains Baltika’s governance structure and processes.

### **CGC Article 1.3.2.**

*Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.*

The General Meeting took place on May 2, 2016, which was attended by Meelis Milder, Chairman of the Management Board, Maigi Pärnik-Pernik, member of the Management Board and AS Baltika’s auditors Heili Uustalu and Tiit Raimla from AS PricewaterhouseCoopers. Jaakko Sakari Mikael Salmelin, Chairman of the Supervisory Board did not take part of the meeting, however Reet Saks, member of the Supervisory Board attended and led the meeting.

### **CGC Article 1.3.3.**

*Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.*

Since Baltika does not have the required technical equipment that would allow secure identification of the shareholders, observation of the General Meeting and participation thereof is not possible by means of communication equipment. Since the majority of the shareholders are overseas’ residents, providing secure identification of the participants would be too cost prohibitive.

### **CGC Article 1.3.4.**

*Profit distribution shall be considered in General Meeting as a separate agenda item and a separate resolution shall be passed regarding it*

So far, the profit distribution decision has been approved together with the approval of the Annual Report. Starting from the next General Meeting, Baltika plans to consider the profit distribution as a separate item on the agenda.

### **CGC Article 2.2.7.**

*Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.*

The remuneration and other benefits provided to members of the Management Board are set out in their employment contracts. Owing to the confidentiality of the contracts, Baltika does not disclose the remuneration and benefits provided to each member of the Management Board. However, Baltika discloses the total amount of

remuneration expense to members of the Supervisory Board and Management Board in the management report section of its interim and annual reports. In 2016, the figure amounted to 0.3 million euros. The contractual severance benefits of members of the Management Board range from 3- to 18-fold monthly remuneration depending on the period of service.

Baltika's employees are eligible to performance pay, which in case of markets is based on the fulfilment of profit target of profit centres, in case of Baltika head-office employees, it is based on the fulfilment of Baltika Group profit targets. From 2016 the chairman's and members' of the Management Board performance pay is based on the fulfilment or exceeding of EBITDA target and can be 0-10 months monthly salary accordingly. Baltika can pay up to 50% of the expected bonus amounts in advance during the year; the final amount is calculated and paid out after the financial statements have been audited. The bonus of the chairman of the Management Board/CEO is determined by the Supervisory Board. The bonuses of members of the Management Board are determined by the chairman of the Supervisory Board based on the proposal made by the chairman of the Management Board. Baltika discloses the total amount of remuneration expense to the members of the Management Board in Note 26 of the Annual Report.

Members of the Management Board can receive one funded pension contribution of up to one month's salary per year, provided after they have worked in the director's position for at least three years. Members of the Management Board may use a company car and are eligible to other benefits provided for in the company's internal rules. Share option program that was approved on 27 April 2015 Annual General Meeting of Shareholders was issued to members of the Management Board.

**CGC Article 3.2.5.**

*The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).*

Annual General Meeting of shareholders decided on 27 April 2015 the emoluments of the members of the Supervisory Board. The remuneration of the chairman of the Supervisory Board amounts to 650 euros per month and the remuneration of a member of the Supervisory Board to 400 euros per month. A member of the Supervisory Board is not eligible to severance compensation or any other monetary benefits.

**CGC Article 3.3.2.**

*Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him. All conflicts of interests that have arisen in preceding year shall be indicated in the Corporate Governance Recommendations Report along with their resolutions.*

In 2016 nor 2015 no conflicts of interests occurred.

**CGC Article 5.6.**

*The issuer shall disclose the dates and places of meetings with analysts, and presentations and press conferences organized for analysts, investors or institutional investors on its website. The issuer shall enable shareholders to attend the above meetings and shall make the texts of the presentations available on its website.*

In accordance with the rules of the Nasdaq Tallinn Stock Exchange, Baltika first discloses all material and price sensitive information through the stock exchange system. The information disseminated at meetings and press conferences is limited to previously disclosed data. All information that has been made public, including presentations made at meetings, is available on the Group's website ([www.baltikagroup.com](http://www.baltikagroup.com)), which lists the

contacts of persons who can provide further information. Presenting a schedule of meetings on the corporate website is currently not relevant.

As a rule, the issuer cannot enable other shareholders to attend the meetings held with institutional investors and analysts. To ensure the objectivity and unbiased nature of the meetings, institutional investors observe internal rules which do not allow third parties to attend such meetings.

#### **CGC Article 6.2.**

##### *Election of the auditor and auditing of the annual accounts*

In accordance with Baltika's Articles of Association, the auditor(s) is (are) appointed by the General Meeting of shareholders for the performance of a single audit or for a specific term. The Annual General Meeting which convened on 28 April 2014, appointed AS PricewaterhouseCoopers as the auditor of the annual financial statements for 2014-2016. Independent Auditor's Report of 2016 will be signed by certified auditor in charge Tiit Raimla. The audit firm is chosen based on the received offer with the best quality-price ratio – AS Baltika ensures the auditor's independence by following rotation rules applicable to listed entities in EU.

The audit fee is fixed in an agreement which is concluded by the Management Board. In the notice of the Annual General Meeting, Baltika publishes the information required by the Commercial Code (Section 294 Subsection 4) that does not include the auditor's fee. Baltika does not disclose the auditor's fee because the disclosure of such sensitive information would impair the competitive position of the audit firm (CGC Article 6.2.1.).

Under the law, the agreement entered into by an audit firm is governed by International Standards on Auditing, the Auditors Activities Act and the risk management policies of the audit firm that do not require the auditor to submit a memorandum on the issuer's non-compliance with the Corporate Governance Code. Accordingly, the agreement signed between AS Baltika and its audit firm does not include a corresponding article and the auditor does not submit such a memorandum (CGC Article 6.2.4.).

#### **Subsection §24<sup>2</sup> (4) of the Accounting Act**

*A large undertaking whose securities granting voting rights have been admitted for trading on a regulated securities market of Estonia or another Contracting State shall describe in the corporate governance report the diversity policies carried out in the company's management board and senior management and the results of the implementation thereof during the accounting year. If no diversity policies have been implemented during the accounting year, the reasons for this should be explained in the corporate governance report.*

AS Baltika has not deemed it necessary to implement a diversity policy, as AS Baltika always considers the best interest of Baltika in the recruitment of staff and management members and therefore makes the decisions based on the education, skills and previous experience of the person on a gender neutral and non-discriminatory basis.

## GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

AS Baltika is a public limited company whose governing bodies are the shareholders' General Meeting, the Supervisory Board and the Management Board.

### General meeting

The general meeting is Baltika's highest governing body. General meetings may be annual or extraordinary. The Annual General Meeting convenes once a year within six months after the end of the Baltika's financial year. An extraordinary General Meeting is called by the Management Board when the Baltika's net assets based on audited results have declined below the level required by the law and there is over 2 months to annual General Meeting of shareholders or when calling of a meeting is demanded by the Supervisory Board, the auditor, or shareholders whose voting power represents at least one tenth of the Baltika's share capital. A General Meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a General Meeting is determined at 8 a.m. at the date of the General Meeting.

The Annual General meeting of 2016 was held on 2 May at 24 Veerenni in Tallinn, Estonia. A total of 24,375,743 shares were represented i.e. 59.75% of the voting stock. In accordance with good practise the shareholders had the possibility to ask questions in addition to Management Board members also from the auditor. The meeting approved the company's annual report, loss allocation proposal for 2015 and the amendments to the Articles of Association.

Shareholders with significant share of Baltika's ordinary shares at the end of 2016 were KJK Fund Sicav-SIF (shares on ING Luxembourg S.A. account) (30.86%), Clearstream Banking Luxembourg S.A clients (14,04%) and Meelis Milder together with his immediate family members and entities under his control (14,95%).

No shareholders have shares that grant them a right for specific control. AS Baltika is unaware of any shareholders having concluded any voting agreements.

### Supervisory Board

The Supervisory Board plans the activities of AS Baltika, organises the management and supervises the activities of the Management Board. The Supervisory Board meets according to the need but not less frequently than once every three months. A meeting of the Supervisory Board has a quorum when more than half of the members participate. A resolution of the Supervisory Board is adopted when more than half of the members of the Supervisory Board who participate in the meeting vote in favour. Each member of the Supervisory Board has one vote. There were 5 meetings of the Supervisory Board and Supervisory Board members attended most of the meetings in 2016.

According to the Articles of Association, Baltika's Supervisory Board has three to seven members. The members are elected by the general meeting for a period of three years.

Annual General Meeting of shareholders on 27 April 2015 elected Supervisory Board composition: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin, Valdo Kalm. The Supervisory Board meeting on 13 May 2015 elected Jaakko Sakari Mikael Salmelin as the chairman of the Supervisory Board.

Jaakko Sakari Mikael Salmelin is a partner of KJK Capital Oy; he has managed various Eastern European funds focusing mainly on the Baltic and Balkan markets. Tiina Mõis is the director of the investment firm AS Genteel and a member of the councils of AS LHV Pank and AS LHV Group. Reet Saks is an attorney with Law Office Raidla Ellex, a long-term partner of Baltika. Reet Saks has been a member of Baltika's Supervisory Board since 1997. Lauri Kustaa Äimä is a managing director of Kaima Capital Oy and a chairman or member of the Supervisory Boards of several Baltic and Finnish companies and he has long-term experience in advising potential investors on matters related to investing in the companies of the Baltic countries. Valdo Kalm is the chairman of AS Tallinna Sadam Management

Board and has from previous long-term work experience specialised knowledge in technology and telecommunications industry.

Two Boards members own Baltika's shares: Tiina Mõis owns 977,837 ordinary shares i.e. 2.4% of share capital through the company under her control and Lauri Kustaa Äimä 24,590 ordinary shares i.e. 0.1% as at the end of 2016.

In addition to those indicated in related party disclosure in the financial statements, Supervisory Board members did not have any investments above 5% that is a business partner of Baltika Group.

Three out of the five members of Baltika's Supervisory Board were independent. The dependent members are Reet Saks and Tiina Mõis who hasve been the members of Baltika's Supervisory Board for more than ten years.

### **Audit Committee**

AS Baltika has an audit committee, with rules of procedure approved by Supervisory Board. The audit committee is responsible for monitoring and analysing the processing of financial information, the effectiveness of risk management and internal controls, and the external audit of the consolidated financial statements. The committee is also responsible for making recommendations in relation to the above issues to prevent or eliminate problems and inefficiencies.

The audit committee reports to the Supervisory Board and its members are appointed and removed by the Supervisory Board. The committee has two to five members whose term of office is three years. The members of the audit committee are not remunerated for serving on the committee. Baltika's audit committee is chaired by Reet Saks. Members of the committee are Tiina Mõis and Jaakko Sakari Mikael Salmelin.

In 2016 the audit committee gathered one time. The committee met in December with the representatives of the audit firm AS PricewaterhouseCoopers to obtain overview of the observations made during 2016 audit interim work.

### **Management Board**

The Management Board is a governing body which represents and manages Baltika in its daily activities in accordance with the law and the Articles of Association. The Management Board has to act in the best economic interests of the company. The members of the Management Board elect a chairman from among themselves who organises the activities of the Management Board. Every member of the Management Board may represent the company in all legal acts.

To ensure effective and efficient risk management and internal control, the Management Board:

- analyses the risks related to its business and financial targets;
- prepares relevant internal rules and regulations;
- develops forms and instructions for the preparation of financial statements required for making management decisions;
- ensures operation of the control and reporting systems.

The Management Board does its best to ensure that the Group's parent company and all entities belonging to the Group comply with governing laws and regulations.

According to the Articles of Association, Baltika's Management Board may have two to five members who are elected by the Supervisory Board for a period of three years. The supervisory Board may also remove a member of the Management Board.

Baltika's management board has two members: Chairman Meelis Milder and Maigi Pärnik-Pernik.

The Chairman of the Management Board Meelis Milder is the company's CEO, Maigi Pärnik-Pernik is the CFO.

On 30 January 2015 the Supervisory Board of AS Baltika decided to suspend Maigi Pärnik-Pernik Management Board contract for the duration of her maternity leave and appointed Meelis Milder as the Management Board member responsible for the finance function and for the disclosure of information on the exchange. From 1 February 2016 Management Board member responsible for the finance function and for the disclosure of information on the exchange is again Maigi Pärnik-Pernik.

Supervisory Board of AS Baltika decided to recall Kati Kusmin from the Management Board starting from 17 March 2016.

Management board member Meelis Milder and his immediate family member own Baltika's shares also through the holding company OÜ BMIG, which at the end of 2016 held 11.64% of Baltika's share capital. Latter member of the Management Board and his immediate family member hold 80.1% of OÜ BMIG shares. In addition, Chairman of the Management Board has individual shareholdings. Consequently, through their direct and indirect holdings, at the end of 2016 Chairman of the Management Board, his immediate family members and entities under their control owned 14.95% of AS Baltika share capital.

Management Board members did not have in addition to those indicated in related party disclosure in the financial statements any investments above 5% that is a business partner of Baltika Group.

#### **Shareholdings of members of the Management Board at 31 December 2016**

	<b>No of shares</b>	<b>Holding</b>
OÜ BMIG	4,750,033	11.64%
Meelis Milder	1,013,735	2.48%
Immediate family members of Management Board members	334,183	0.82%
<b>Total OÜ BMIG and Management Board members</b>	<b>6,097,951</b>	<b>14.95%</b>
<b>Baltika share capital</b>	<b>40,794,850</b>	<b>100%</b>