

AS BALTIKA

CORPORATE GOVERNANCE RECOMMENDATIONS REPORT, 2006

Corporate Governance Recommendations (CGR) is a collection of rules and principles that are recommended to be followed by companies whose shares have been admitted to trading on a regulated market in Estonia. As the principles described in the Corporate Governance Recommendations are not compulsory, each company shall decide whether or not it adopts these and shall confirm in a Corporate Governance Recommendations Report its compliance or not with the set recommendations. The “Comply or Explain” principle applies to publicly traded companies starting from 1 January 2006. AS Baltika follows most of the rules enclosed in the Corporate Governance Recommendations. The following report describes Baltika’s management practices and explains the reasons for non-compliance of some principles.

AS Baltika is a joint-stock company; the management bodies of AS Baltika are the general meeting of shareholders, supervisory council and management board.

GENERAL MEETING

The General Meeting of shareholders is the highest managing body of the Company. The General Meetings are ordinary and extraordinary. The ordinary General Meeting is held once a year within six months after the end of the financial year. The Management Board will call an extraordinary General Meeting if the net assets of the Company are less than the amount permitted by law or this is demanded by the Council, the auditor or the shareholders whose shares represent at least 1/10 of the share capital. The General Meeting is competent to adopt decisions if at least half of the votes represented by shares are present. The persons authorized to participate at the General Meeting are determined at 08.00 a.m. on the day of the General Meeting.

The 2006 Annual General Meeting of Shareholders of AS Baltika was held on 3 May 2006. A total of 3,394,855 votes that represented 56.44% of the share capital of Baltika were present and the Annual General Meeting was competent to pass resolutions. The 2006 Annual General Meeting approved the 2005 annual report, profit distribution and the new wording of the Articles of Association. It also elected a new Council. The Management Board presented to shareholders the 2006-2008 strategy of Baltika Group.

SUPERVISORY COUNCIL

According to the Articles of Association, the Council may have three to five members. The 2006 Annual General Meeting elected a new Council consisting of five members. The previous Council had four members (Miles Burger, Joakim Helenius, Claire Chabrier, Reet Saks) and one of them was re-elected into the new Council (Reet Saks). The previous Council was recalled due to the change in the Company’s ownership structure. In connection with the closure of the fund, Baltika’s long-term strategic investor the Baltic Republics Fund sold its holding in September 2005. Two members of the previous Council, Joakim Helenius and Claire Chabrier, represented the interests of the Baltic Republics Fund at the Council.

The Baltic Republics Fund’s 34.6% holding was sold through an international bid to institutional investors. During the bidding, the Management Board of Baltika increased its participation through the holding company OÜ BMIG, which became the largest shareholder after the bidding (20.84% holding as of the end of 2006). The second largest shareholder is East Capital (ca 6% holding as of the end of 2006), a leading independent asset manager specialising in Eastern European financial markets.

The new Council includes Tiina Mõis, the Chairman of the Council, and the members of the Council Reet Saks, Gert Tiivas, Allan Remmelkoor and Andres Erm. Mr. Gert Tiivas is the Managing Director of East Capital Estonian branch and represents East Capital at the Council, the rest of the members are independent. Mrs. Reet Saks is an attorney at Raidla & Partners Law Office, a long-term partner of Baltika, and has belonged to the Council since 1997. Mr. Allan Remmelkoor who is the Managing Director of Kristiine Shopping Centre in Tallinn, Estonia, contributes valuable retail experience to the Council. Mr. Andres Erm is the Chairman of the Management Board of OÜ Eurocon, the Ukrainian subsidiary of an Estonian construction company AS Eesti Ehitus, and has gained vast business experience in Eastern Europe, which is the operating region of Baltika. Mrs. Tiina Mõis is the Chairman of the Management Board of AS Genteel and belongs to the councils of several Estonian companies. One Council member, Andres Erm, owns Baltika shares (36,000 shares or 0.58% of the share capital of Baltika as of the end of 2006).

The members of the Council are elected by the General Meeting for three years. The Council plans the activities of the Company, organizes the management of the Company and supervises the activities of the Management

Board. Meetings of the Council are held when necessary but not less frequently than once every three months. There were six Council meetings held in 2006, including four meetings with the new Council. A meeting of the Council has a quorum if more than half of the members of the Council are present. A resolution of the Council is adopted if more than half of the members of the Council who participate in the meeting vote in favour. Each member of the Council has one vote.

The 2006 Annual General Meeting resolved to continue the remuneration of the members of the Council in accordance with the resolution adopted by the Extraordinary General Meeting of Shareholders of AS Baltika on 8 December 2004. The fee payable to the Chairman of the Council is ten thousand kroons (639 euros) per month and to the members of the Council six thousand kroons (383 euros) per month. There are no compensation for termination of contract and other payable benefits for the members of the Council.

MANAGEMENT BOARD

According to the Articles of Association, the Management Board may consist of three to seven members who are elected by the Council for three years. The Management Board of Baltika comprises four members: the Chairman of the Board Meelis Milder and the members of the Board Ülle Järv, Maire Milder and Boriss Loifenfeld. At the meeting held on 28 August 2006, the Council of Baltika decided to extend the term of Management Board members for the next three years. The employment history of the members of the Board reaches 7-22 years.

The Management Board is the largest shareholder of Baltika via a holding company OÜ BMIG. As of the end of 2006, OÜ BMIG held 20.84% of the share capital of Baltika. As of the same date, the members of the Management Board owned 27.85% of Baltika, both directly and through companies controlled by them.

Management shareholdings as of 31.12.2006

	Number of shares	Holding
Baltika share capital	6,214,950	100.00%
OÜ BMIG	1,295,072	20.84%
Meelis Milder	247,183	3.98%
Maire Milder	115,361	1.86%
Boriss Loifenfeld	50,122	0.81%
Ülle Järv	23,158	0.37%
Total OÜ BMIG and Management Board	1,730,896	27.85%

The members of the Management Board are heading strategic divisions of the Company and thus, their tasks are not limited solely to the responsibilities of a Management Board member (supervising and representing the Company). As a result, the members of the Management Board have employment contracts with the Company and not the contract of service concluded with the Chairman of the Supervisory Council (CGR Article 2.2.1.). Mr. Meelis Milder, the Chairman of the Management Board, is the CEO of the Baltika Group and the members Mrs. Ülle Järv is the CFO, Mrs. Maire Milder the Director of Retail Division and Mr. Boriss Loifenfeld the Director of Wholesale and CIS Market Projects.

The remuneration and compensation of the Management Board members is determined by the employment contracts concluded with them. The compensation for termination of the contract of a Board member reaches 6-12 monthly salaries.

The Board members as well as other employees of the Company receive bonuses in accordance with the Company's bonus scheme, which is based on the profits generated by different profit centres. The maximum amount of the bonus payment of the Chairman of the Management Board/Group CEO is 1.5% of the net profit of the Company whereby the actual payout is limited to one year's salary. The bonus amount of the members of the Board/directors is based on the results of specific profit centres and the actual payouts are limited to 1/2 or 2/3 of annual salary. The bonuses are paid twice in advance during a financial year and the final amount is determined and paid out after the completion of the audited annual results. The bonus payment of the Chairman of the Board is approved by the Supervisory Council. The bonus payments of the members of the Board are approved by the Chairman of the Council based on the proposal of the Chairman of the Board.

The members of the Management Board, as well as all the managers who have a director's employment contract with the Company, are entitled to one insurance or pension fund payment a year in the amount of one month's salary after working three years on the respective position. The members of the Board are entitled to a company

car and other benefits as per the Company's internal rules. The members of the Board have participated and may participate in the future in the convertible bond or option programs of Baltika.

Due to the confidential nature of the employment contracts, Baltika does not disclose remuneration payments to each Board member separately (CGR Article 2.2.7.), however, the total amount of remuneration paid to the members of the Management Board and Supervisory Council during a specific period is disclosed in management reports of Baltika's interim and annual reports. In 2006, the remuneration paid to the members of the Management Board and Supervisory Council totalled 6.1 million kroons (0.4 million euros).

In 2006, the members of the Board also participated in convertible bond schemes for the top and middle management. The change in the shareholdings of the Board members can be followed in Baltika's shareholder list available at the website of Estonian Central Register of Securities (www.e-register.ee) and in the Company's interim and annual reports. As of the end of 2006, all the convertible bond programs of Baltika were completed.

AUDITOR

An auditor or auditors are elected by the General Meeting for a one-time audit or for a definite term. The Annual General Meeting held on 18 May 2005 elected AS PricewaterhouseCoopers as the auditing company in 2005 and 2006. According to the agreement, the leading auditor of Baltika is Urmas Kaarlep and the executive auditor Relika Mell. The auditors' fee is set in the agreement, which is concluded by the Management Board. Baltika assures the independence of the auditors by rotating the leading and executive auditors in every five years.

CGR 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.

According to the rules of the Tallinn Stock Exchange, Baltika discloses all the material and price sensitive information at first via the stock exchange information system. During the meetings and press conferences the previously disclosed information is presented. All the disclosed information is available at the website of Baltika, which also includes contacts for obtaining additional information. Baltika's website also includes the Company's corporative and financial results presentations, which are used during the meetings with analysts and investors. At present, the Company does not consider it important to disclose the schedule of different meetings held.