

CORPORATE GOVERNANCE REPORT

The Corporate Governance Code (CGC) of the Tallinn Stock Exchange is a set of rules and principles which is designed, above all, for listed companies. Since the provisions of CGC are recommendations by nature, the company need not observe 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 the 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 of 2014, the supervisory council, the Management Board and explains Baltika's governance structure and processes.

CGC Article 1.3.3.

An issuer shall make attendance and participation in the general meeting possible by means of communication equipment (e.g. the 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 shareholders, the currently attendance and participation in general meetings is not possible by means of communication equipment.

CGC Article 2.2.1.

The chairman of the supervisory council shall conclude a contract of service with each member of the Management Board for discharge of their functions.

Contract of service is concluded with four members of the Management Board for chairman or member functions as relevant.

CGC Article 2.2.7.

The basic salary, performance pay, severance package, and other 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 the website of the issuer and in the corporate governance report. Information 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 with taxes to members of the supervisory council and Management Board in the management report section of its interim and annual reports. In 2014, the figure amounted to 0.4 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.

Members of the Management Board, like other employees, are eligible to performance pay in accordance with the Group's bonus scheme, which is based on the performance of profit centres. The maximum bonus level for the chairman of the Management Board/CEO is 2.5% of the Group's net profit for the financial year and 1% for other members of the Management Board. The maximum amount of prepayments of annual bonuses can be 50% of the expected amount; 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 Council. The bonuses of members of the Management Board are determined by the chairman of the Supervisory Council based on a proposal made by the chairman of the Management Board. For the year 2014 there will not be any bonus payments to Members of the Management Board.

Members of the Management Board, similarly to all executives working under a director's contract in the Group, 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. Members of the Management Board participated together with other employees of the Group in the I-Bond (option) program in 2012.

CGC Article 3.2.5.

The remuneration of a member of the supervisory council (amount and disbursement procedure) shall be disclosed in the issuer's corporate governance report. Basic and additional remuneration (severance and other monetary benefits) shall be disclosed separately.

The annual general meeting of 2009 passed the motion that the emoluments of members of the Supervisory Council should remain the same as decided by the extraordinary general meeting of 8 December 2004. The remuneration of the chairman of the supervisory council amounts to 639 euros per month and the remuneration of a member of the supervisory council to 383 euros per month. A member of the supervisory council is not eligible to severance compensation or any other monetary benefits.

CGC Article 3.3.2.

A member of the Supervisory Council shall promptly inform the chairman of the Supervisory Council and the Management Board of any business offer related to the business activity of the issuer made to the member of the Supervisory Council or a person close or connected to the member of the Supervisory Council. All conflicts of interests that have arisen during the reporting year shall be disclosed in the Corporate Governance Report along with their resolutions.

In 2014 nor 2013 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 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 which has been made public, including presentations made at meetings, is available on the Group's website (www.baltikagroup.com), which lists the contacts of persons who can provide further information. Presenting a schedule of meetings on the corporate website is not currently 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 the Baltika's Articles of Association, the auditor(s) is (are) appointed by the general meeting 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. According to the audit agreement, Independent Auditor's Report is signed by Ago Vilu. The audit firm will be chosen based on the received offer with the best quality-price ratio – AS Baltika ensures the auditor's independence by rotating the signing partner in accordance with the rules of Financial Supervision Authority.

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 damage 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 Estonian Auditing Guidelines 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.).

GOVERNANCE PRINCIPLES AND ADDITIONAL INFORMATION

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

General meeting

The general meeting is the 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 council, 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 2014 was held on 28 April at 24 Veerenni in Tallinn, Estonia. A total of 30,023,187 shares were represented i.e. 73.6% 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 and profit allocation proposal for 2013, appointed the auditor and decided the issuance of convertible bonds.

Supervisory Council

The Supervisory Council plans the activities of the AS Baltika, organises the management and supervises the activities of the Management Board. The Supervisory Council meets according to need but not less frequently than once every three months. A meeting of the Supervisory Council has a quorum when more than half of the members participate. A resolution of the Supervisory Council is adopted when more than half of the members of the supervisory council who participate in the meeting vote in favour. Each member of the supervisory council has one vote. In 2014 Supervisory Council members attended most of the meetings of the Supervisory Council.

According to the Articles of Association, Baltika's supervisory council 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 20 April 2012 elected Supervisory Council composition: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin, Valdo Kalm. The Supervisory Board meeting on 23 May 2012 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 several Estonian companies. Reet Saks is an attorney with Law Office Raidla Lejins & Norcous, a long-term partner of Baltika. Reet Saks has been a member of Baltika's Supervisory Council since 1997. Lauri Kustaa Äimä is a managing director of Kaima Capital Oy and a member of the councils of several Baltic 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 Eesti Telekom Management Board and has specialised knowledge in technology and telecommunications industry.

Two council 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 2014.

Supervisory 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.

Four out of the five members of Baltika's Supervisory Council were independent. The dependent member is Reet Saks who has been a member of Baltika's Supervisory Council for more than ten years.

Audit Committee

AS Baltika has an audit committee, with rules of procedure approved by Supervisory Council. 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 inefficiency.

The audit committee reports to the Supervisory Council and its members are appointed and removed by the Supervisory Council. 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 2014 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 2014 audit interim work.

Management Board

The Management Board is a governing body which represents and manages Baltika in its daily activity 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.

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

Baltika's management board has five members: Chairman Meelis Milder and members Andrew Paterson, Kati Kusmin, Maigi Pärnik-Pernik and Maire Milder.

The Chairman of the Management Board Meelis Milder is the company's CEO, Maigi Pärnik-Pernik the CFO, Maire Milder the Branding and Retail Developing Director, Kati Kusmin Sales and Marketing Director and Andrew Patterson Product division Director.

On January 30 2015 the Supervisory Board of AS Baltika decided to suspend Maigi Pärnik-Pernik Management Board contract for the duration of her maternity leave. The Management Board member responsible for the finance function during the leave of Maigi Pärnik-Pernik will be Meelis Milder, who will also temporarily be the one responsible for the disclosure of information on the exchange.

Management board members Meelis and Maire Milder own Baltika's shares also through the holding company OÜ BMIG, which at the end of 2014 held 11.64% of Baltika's share capital. Latter hold 80.5% of OÜ BMIG shares. In addition, Management Board members have their individual shareholdings. Consequently, through their direct and indirect holdings, at the end of 2014 Management Board members, their close family members and entities under their control owned 14.29% 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 2014

	Ordinary shares (listed)	
	No of shares	Holding
OÜ BMIG	4,750,033	11.64%
Meelis Milder	746,331	1.83%
Maire Milder	316,083	0.77%
Andrew Paterson	11,000	0.03%
Close family members of Management Board members	8,100	0.02%
Total OÜ BMIG and Management Board members	5,831,547	14.29%
Baltika share capital	40,794,850	100%