

## 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 2017, 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 16, 2018, which was attended by Meelis Milder, Chairman of the Management Board, Maigi Pärnik-Pernik, member of the Management Board and certified auditor Eva Jansen-Diener and certified auditor in charge Tiit Raimla from AS PricewaterhouseCoopers, who has been auditing AS Baltika. Jaakko Sakari Mikael Salmelin, Chairman of the Supervisory Board participated the meeting, also members of Supervisory Board Lauri Kustaa Äim and Reet Saks, who 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 AS 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 AS Baltika 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.*

At AS Baltika General Meeting held on May 16, 2018 the profit distribution was discussed and decided as a separate item on the agenda.

### **CGC Article 2.2.5.**

*The management board member's bonus system, which is related to the issuer's security, as well as changes in such bonus system, is approved by the general meeting of the issuer. The term of execution of share options issued to the members of the Management Board shall be determined by the general meeting of the issuer. Upon issuance of share options, the issuer proceeds from the rules of the Tallinn Stock Exchange.*

At Baltika's General Meeting on May 16, 2018 share option program for key persons of AS Baltika and companies belonging to the same group, including members of management and managers, was discussed and approved. As part of the share option program, AS Baltika issues up to one million share options. Each share option entitles the holder of the share option to acquire 1 (one) share of the company. The issue price of the shares to be acquired under the share option is 0.10 euros per share. The new shares entitle to dividends from the financial year in which the shares were issued, provided that the list of persons entitled to receive dividends is not determined prior to the issue of the shares.

#### **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, AS Baltika does not disclose the remuneration and benefits provided to each member of the Management Board. However, AS 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 2018, the figure amounted to 0.25 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 Group'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 Group 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 Group 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 Baltika Group's internal rules. Share option program that was approved on 16 May 2018 Annual General Meeting of Shareholders was issued also to the 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 2018 nor 2017 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, AS 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 Baltika Group's website ([www.baltikagroup.com](http://www.baltikagroup.com)).

On AS Baltika website <http://www.baltikagroup.com/faq/> new Q&A webpage is available to all stakeholders, through which all may ask questions and get information about the company's activities between quarterly reports. The questions received and the answers of AS Baltika will be published on AS Baltika's Q&A page in order to allow everyone equal and prompt access to Baltika's strategy, activities, business plan and other information.

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.

Shareholders can participate in web seminars organized by Baltika Group. In 2018, two web seminar took place, Baltika Group introduced the results of the fourth quarter and twelve months of 2017 on March 7<sup>th</sup> 2018 and the results of second quarter and six months of 2018 on July 20<sup>th</sup> 2018.

### **CGC Article 6.2.**

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

In accordance with AS 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 8 May 2017, appointed AS PricewaterhouseCoopers as the auditor of the annual financial statements for 2017–2019. Independent Auditor's Report of 2017 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 –the auditor's independence is ensured 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 Group publishes the information required by the Commercial Code (Section 294 Subsection 4) that does not include the auditor's fee. AS 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**

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 AS 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 2018 was held on 16 May at 24 Veerenni in Tallinn, Estonia. A total of 22,364,183 shares were represented i.e. 54.82% 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 2017 annual report, profit allocation proposal for 2017, amendments to the articles of association, reduction of share capital, approval of the share option program and conditional increase of share capital and extension and remuneration of the members of the supervisory board.

Shareholders with significant share of Baltika's ordinary shares at the end of 2018 were KJK Fund Sicav-SIF (shares on ING Luxembourg S.A. account) (38.90%) and Clearstream Banking Luxembourg S.A clients (26.23%).

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 7 meetings of the Supervisory Board and Supervisory Board members attended most of the meetings in 2017.

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

The General Meeting of Shareholders on May 16, 2018 extended the mandate of the current Supervisory Board for the following 3-year term of office: Tiina Mõis, Reet Saks, Lauri Kustaa Äimä, Jaakko Sakari Mikael Salmelin, Valdo Kalm. On May 13, 2015, the Supervisory Board elected Jaakko Sakari Mikael Salmelin as 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 Group. 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 AS 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 2018.

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 have 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. AS Baltika's audit committee is chaired by Reet Saks. Members of the committee are Tiina Mõis and Jaakko Sakari Mikael Salmelin.

In 2018 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 2018 audit interim work.

#### **Information in public interest entities Management report regarding services from auditor**

During 2018, the auditor of AS Baltika has not provided the Group with a limited assurance engagement for the control of the packaging report, the tax advisory service or any other advisory services permitted under the Republic of Estonia Act on Auditing Activities.

#### **Management Board**

The Management Board is a governing body, which represents and manages AS 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, AS 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.

Amendments of the Articles of Association are made according to Commercial Code, which says that resolution on amendment of the articles of association shall be adopted if at least two-thirds of the votes of the shareholders who participate in the meeting are in favour. A resolution on amendment of the articles of association shall enter into force as of the making of a corresponding entry in the commercial register.

AS Baltika's management board has three members: Chairman Meelis Milder, members Maigi Pärnik-Pernik and Mae Hansen.

The Chairman of the Management Board Meelis Milder is the company's CEO, Maigi Pärnik-Pernik is the CFO and Mae Hansen is responsible for implementing Baltika Group's operational plan for 2019 and 2020.

On August 21, 2018, the Supervisory Board decided to extend the mandate of Meelis Milder as a member of the Management Board from September 9, 2018 for the next three years. On March 14, 2019, the Supervisory Board decided to appoint Mae Hansen as a member of the Management Board of AS Baltika from of 22 March 2019.

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.

On 30 November 2018 AS Baltika informed of following changes in substantial shareholding: with a purchase transaction of new shares on 30 November 2018 E. Miroglio Finance S.A. (on Clearstream Banking Luxembourg S.A. account) shareholding in AS Baltika has increased to 26.13 percentage. With a disposal transaction of shares on 30 November 2018 East Capital Asset Management S.A. (SEB S.A. Client Assets Ucitis) shareholding in AS Baltika decreased to 0 percentage.

#### Shareholdings of members of the Management Board at 31 December 2018

	Ordinary shares (listed)	
	No of shares	Holding
Meelis Milder	1,000,346	2.45%
Close family members of Management Board members	198,583	0.49%
<b>Total Management Board members, close family members and entities under their control</b>	<b>1,228,929</b>	<b>3.01%</b>
<b>AS Baltika share capital</b>	<b>40,794,850</b>	<b>100%</b>