

Remuneration Report



Remuneration Report

This report sets out the remuneration policy and practices for Afarak's Board and Executive Management Team ("EMT"), and provides details of their remuneration and share interests for the year ended 31 December 2014.

Remuneration Policy

Afarak operates in a very competitive sector where there is a shortage of highly qualified, experienced executives. The Group's remuneration policy is designed to attract, retain and incentivise high-calibre executives to implement its business strategy and enhance shareholder value.

The policy seeks to align the interests of the business and shareholders by rewarding executives appropriately for achieving individual and group targets and thereby ensuring long-term value creation for the benefit of all the shareholders.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee makes recommendations to the Board regarding executive remuneration, and submits proposals to the Annual General Meeting of shareholders regarding the Board's remuneration.

The committee is responsible for the overall direction of the remuneration policy, as well as determining, within agreed terms of reference, the specific remuneration packages of the EMT. This includes pension rights, executive incentive schemes and any compensation payments. To ensure that the Group's remuneration packages are both appropriate and competitive, the committee evaluates information on market-based remuneration levels for comparable companies.

The members of the committee in 2014 were Dr Jelena Manojlovic (Chairman), Mr Markku Kankaala and Ms Bernice Smart.

CEO Service Agreement

The Board appoints the Chief Executive Officer (CEO), who manages, develops, guides and supervises the Group's activities and leads the EMT. The Board decides upon the CEO's remuneration based on the recommendations made by the Remuneration Committee.

The CEO receives an annual salary of EUR 240,000. The CEO is not entitled to any bonus plans or share-based incentives. The Company's view is that as the CEO's related parties include a major shareholder of the Company the CEO has sufficient incentive performance in spite of the lack of any share or bonus plans.

The Group makes no pension arrangements for the CEO beyond the statutory pension coverage, and there is no set retirement age. The notice period in the event of termination of the CEO's Service Agreement is six months. The CEO is not entitled to any other severance pay in addition to the salary for the notice period.

Non-Executive Directors' Service Contracts

The remuneration of members of the Board of Directors is agreed at the Company's General Meetings. Directors' remuneration consists of monthly fixed fees. The Extraordinary General Meeting held on 11 February 2013 and later the Annual General Meeting held on 8 May 2013 approved that all Board Members are paid EUR 3,000 per month. The Extraordinary General Meeting held on 5 July 2013 resolved that the non-executive Board Members who serve on the Board's Committees shall be paid additional EUR 1,500 per month for the committee work. Directors' monthly remuneration fee of EUR 3,000 remained unchanged.

Those members of the Board of Directors that are executives of the Company are not entitled to receive any remuneration for the Board or Committee memberships.

EUR '000		2014			2013		
		Salaries	Fees	Share-based remuneration	Salaries	Fees	Share-based remuneration
Everard Paul	Board member 21.4.2010 – 11.2.2013				16	97	
Hoyer Thomas	CEO 4.5.2011 – 11.2.2013, Board member 11.5.2011 – 11.2.2013	386				548	
Kankaala Markku	Board member 30.6.2003 onwards		54		56	64	
Koncar Danko	CEO since 11.2.2013, Board member 11.8.2010 onwards	240			240		
	Acting Managing Director from 14.10.2010 to 3.5.2011						
Lillja Michael	Board member 11.2.2013 onwards	120			212		
Manojlovic Jelena	Board member 11.7.2008 onwards, Chairperson 17.6.2009 onwards		54		59	97	
Parodi Afredo	Board member 11.2.2013 onwards		54		41		
Pointon Christopher	Board member 21.4.2010 – 11.2.2013				19	97	
Rourke Barry	Board member 21.4.2010 – 11.2.2013				19	97	
Smart Bernice	Board member 11.2.2013 onwards		54		41		
Total		360	216	0	838	999	

The 2014 share based remuneration of the directors relates entirely to the 2010 share scheme in relation to which the directors received shares in 2010 and the expiry of the lock-up period of those shares.

Other EMT Members' Service Contracts

As Afarak operates within a highly competitive environment, its performance depends on the individual contributions of the executive directors and other senior employees. The remuneration packages are designed to attract, motivate and retain executives to manage the Group's operations effectively and to reward them for enhancing shareholder value.

The EMT remuneration package is a combination of a base salary and long-term share-based incentives. Fringe benefits include liability insurance, traveller's insurance and mobile phones.

There are no early retirement options in the EMT's employment contracts, and the notice period and/or non-compete period is normally six months, unless agreed otherwise.

Executive Management Team Remuneration

EUR '000	2014	2013
Short-term employee benefits	185	505
Post-employment benefits	0	72
Termination benefits	0	192
Share-based payments	42	333
Total	227	1 057

The table includes the Executive Management Team remuneration excluding the CEO. The CEO and Board members compensation has been presented separately.

None of Afarak's executive directors have received any compensation for serving as a NED in other companies.

Share-based Compensation

Share Options

The Company has three incentive-related option schemes, known as I/2005, I/2008 and I/2011.

Option rights relating to the I/2005 scheme were granted to the EMT and other key employees and to non-executive directors, as recommended by the Board. The scheme entitles option holders to subscribe for a maximum of 2,700,000 shares in the Company. The share subscription period is from 1 July 2007 to 30 June 2015 for various options series denoted with different letters, and the subscription price range is EUR 0.32 - 0.82 (with dividend and capital redemption adjustment). To date, options on A, B, C, D, E and F series of the I/2005 scheme have been issued totalling 1,175,000 option rights.

Option rights relating to the I/2008 scheme were granted to the Company's previous CEO, Alwyn Smit, in October 2008. The scheme entitled the option holder to subscribe for a maximum of 2,900,000 shares in the Company for a subscription price of EUR 2.18 per share (with dividend and capital redemption adjustment). The share subscription period for 1,450,000 share options commenced on 1 October 2009 and on 1 October

2010 for the remaining 1,450,000 options. The subscription period matures on 31 December 2015, and the maximum number of 2,900,000 options have been issued.

Option rights relating to the I/2011 scheme are granted to the key personnel of the Company, as recommended by the Board. The scheme entitles the option holders to subscribe for a maximum of 6,900,000 shares in the Company. To date, the total of 6,291,997 options have been issued. The vesting period is 1 July 2014 to 1 August 2017 for various option series denoted with different letters and years. The share subscription price is calculated by a formula based on the Volume Weighted Average Price of the Company's share and varies between the option series.

Directors' and EMT members' Shareholdings and Options at 31 December 2014

Members of the Board	Title	Shares	Related Party Shares	Options
Jelena Manojlovic	Chairman	150,000	19,672*	0
Markku Kankaala	Non-executive Director	7,066,116	24,500	0
Danko Koncar	Executive Director, CEO	19,672	70,945,967**	0
Michael Lillja	Executive Director	0	71	200,000
Alfredo Parodi	Non-executive Director	22,600	0	0
Bernice Smart	Non-executive Director	0	0	0
Auditors				
Erkka Talvinko	Auditor	0	0	0
Other insiders				
Alistair Ruiters	Executive Chairman, Afarak South Africa	418,211	0	600,000

*Includes the personal shares of Danko Koncar.

**Includes the total number of shares of Jelena Manojlovic.