

# 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 2015.

## 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 2015 were Dr Jelena Manojlovic (Chairman), Mr Markku Kankaala and Mr Ivan Jakovic.

## 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 360,000. He shall also receive 500,000 Company Shares as an incentive for each completed year of service acting as the Chief Executive Officer, the first 500,000 Company shares shall be received on 22 May 2016 and the second 500,000 shares shall be received on 22 May 2017 if he is still acting as CEO at that time.

The Group makes no pension arrangements for the CEO beyond the statutory pension coverage, and there is no set retirement age. CEO's agreement is a definite agreement for 2 years until 30th June 2017.

## 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 Annual General Meeting held on 8 May 2014 approved that all Board Members are paid EUR 3,500 per month and the Chairman of the Board and the Chairman of the Audit and Risk Committee are paid 4,500 per month. 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.

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.

As some of the Board members have also had executive management roles, both the Board fees and the salaries in relation to the executive role have been presented below.

EUR '000		2015			2014		
		Salaries	Fees	Share-based remuneration	Salaries	Fees	Share-based remuneration
	Kankaala Markku		58			54	
	Koncar Danko	86			240	0	
	Lillja Michael	120			120	0	
	Manojlovic Jelena		58		0	54	
	Parodi Afredo		66		0	54	
	Smart Bernice		19			54	
	Alistair Ruiters	242		183			
	Rourke Barry		47				
	Ivan Jakovcic		39		0		
<b>Total</b>		<b>448</b>	<b>287</b>	<b>183</b>	<b>360</b>	<b>216</b>	<b>0</b>

## 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.

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.

### Management remuneration

EUR '000	2015	2014
Short-term employee benefits	258	185
Post-employment benefits	0	0
Termination benefits	0	0
Share-based payments	0	42
<b>Total</b>	<b>258</b>	<b>227</b>

## 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 are 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 matured on 31 December 2015, and the maximum number of 2,900,000 options has 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.

In May 2015 the Group has granted the CEO, Alistair Ruiters 1,000,000 shares in the Company. These will be awarded in two tranches and vested based on completed year of service. The first 500,000 Company shares shall be received once the first vesting period has lapsed, on 22 May 2016. The second 500,000 Company shares shall be

received by the employee on 22 May 2017. These shares have a lock-up period of two years from subscription date. The fair value of the granted shares is determined based on the market price of Afarak Group share at the grant date which was EUR 0.40 per share. The value at year end was EUR 182,870.24

### Directors' and EMT members' Shareholdings and Options at 31 December 2015

Members of the Board	Title	Shares	Related Party Shares	Options
Jelena Manojlovic	Chairman	150,000	0	0
Markku Kankaala	Non-executive Director	7,066,116	24,500	0
Michael Lillja	Executive Director	0	71	200,000
Alfredo Parodi	Chairman	22,600	0	0
Alistair Ruiters	Executive Director	400,000	0	600,000
Ivan Jakovčić	Non-executive Director	0	0	0
Barry Rourke	Non-executive Director	150,000	0	0
<b>Auditors</b>				
Erkka Talvinko	Auditor	0	0	0
<b>Other Insiders</b>				
Danko Koncar	Executive	0	70,459,254	800,000

