

Governance Review







Chairman's Introduction

Dear Shareholders,

In the past year Afarak has navigated a challenging operational environment.

In 2018, we made some encouraging progress in certain areas of our business but overall it was a tough year and our financial performance reflects the challenges. Improved commercial execution, cost discipline and technical excellence are the areas of focus for ensuring the delivery of our strategy.

Throughout 2018, your Board empowered the management and the different units around the world to focus on implementing initiatives that would further strengthen our operations. A turn-around strategy in our South African operations is being implemented led by a new and experienced management team.

Looking ahead, we are confident that the investments that are underway such as additional beneficiation plants and the PGM plant will further build our resilience to volatile markets. Afarak's unique position as a vertically-integrated producer of speciality alloys; acting as a miner, producer and marketer of commodities, enables it to extract value at every stage of the commodity chain. Our ability to be specialist producers as well as volume miners, will further support our resilience and adaptability.

We are also mindful of our commitment to sustainability. Our focus remains on ensuring a "Zero Harm" policy and we are proud and thankful that no fatalities happened in 2018 and improvements in health & safety performance were registered across our unit. Throughout the year, we have invested heavily in ensuring the safety of our employees is prioritised across all our units. We have also supported health promotion.

We face many challenging situations at our operations, as we work to extract resources safely, profitably and responsibly, to mitigate our environmental impact and support our host communities. We recognize the value of multi-stakeholder engagement and we continue to tackle these challenges with Management, our employees, unions and also the host communities.

This year we have participated in a number of such initiatives across a number of areas including our host communities in South Africa and Turkey. Our support has extended beyond charitable donations towards assisting NGOs and educational services. This year, I am satisfied with our efforts to invest in much needed infrastructure that will benefit our host communities.

Afarak's return to growth can only be achieved if it is underpinned by sound corporate governance. Afarak Group follows the Finnish Corporate Governance Code. As a Board, we are committed to our obligations as a publicly listed company and management is focused on strengthening the Company's structure.

Afarak is privileged to have a diverse, skilled and experienced Board. The Board is substantially smaller than in previous years which affords cost savings, improved information flows changes and a stable environment for long-term strategic thinking and active oversight of the business, but also places considerable pressure on members. We will continue to review whether the size of the Board is optimal for both efficiency and effectiveness.

I thank all for their continuing commitment and contribution.

I am also grateful to those Directors who chair and are members of the Committees of the Board, which are set out later in this report. The diligent way in which they carry out their Committee duties enables us to discharge our responsibilities efficiently and effectively.

We are always mindful of the trust shareholders place in us as your elected Directors and of our wider responsibilities to all of Afarak's stakeholders. We seek to apply rigorous governance standards in our work for you and other stakeholders, which you can read about in this Governance Review.

As instructed by the Extraordinary General Meeting held in November 2018, management is currently working on the repurchase of Afarak's own shares and plans are underway to present the proposals and documentation to the shareholders as soon as practicable.

I am confident that we have a leadership team with the resolve and commitment to ensure that Afarak returns to growth. I share our CEO's enthusiasm for the future prospects of Afarak as an innovator of value-added ferrochrome products and its ability to deliver value for customers and shareholders.

As I talk to our employees around the world, I am constantly reminded that our achievements are only made possible by a skilled and talented team. I am grateful for their efforts over the past year and look forward to working with them to deliver a return to growth.

DR JELENA MANOJLOVIC
Chairman

Information Presented by Reference

The Group's key financial figures, related party disclosures, information on share capital and option rights are presented in the notes to the consolidated financial statements. The share ownership of the parent company's Board members and Chief Executive Officer is presented in the notes to the parent company's financial statements.

The Corporate Governance Statement and the Remuneration Report are presented as separate reports in this Annual Report.

For the purposes of United Kingdom Listing Authority listing rules ("LR") 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following locations:

SECTOR	TOPIC	LOCATION
1	Interest capitalised	1.7. Notes to the statement of financial position, 10. Property, plant and equipment.
2	Publication of unaudited financial information	Not applicable
4	Details of long-term incentive schemes	1.7. Notes to the statement of financial position, 19. Share-based payments
5	Waiver of emoluments by a director	Not applicable
6	Waiver of future emoluments by a director	Not applicable
7	Non pre-emptive issues of equity for cash	Not applicable
8	Item (7) in relation to major subsidiary undertakings	Not applicable
9	Parent participation in a placing by a listed subsidiary	Not applicable
10	Contracts of significance	1.7. Notes to the statement of financial position, 1.8.2 Related party transactions
11	Provision of services by a controlling shareholder	Not applicable
12	Shareholder waivers of dividends	Not applicable
13	Shareholder waivers of future dividends	Not applicable
14	Agreements with controlling shareholders	Not applicable

All the information cross-referenced above is hereby incorporated by reference into this Board of Directors report.



Our People

The Board of Directors

CHAIRMAN



Dr Jelena Manojlovic

Chairman and Dependent Non-Executive Director
Ph.D. (Medicine), Clin. D. (Psychology), MA (Psychotherapy)
Born 1950

Jelena Manojlovic has been a member of the Board since July 11, 2008. She has acted as Chairman of the Board during 2009 and 2015 and again since 2017. She is also a member of the Remuneration and Nomination Committee. She is an established university lecturer and organizational consultant and has 35 years' experience in the human resources field and 20 years' in management positions in a diverse range of organisations, including the UK's National Health Service, universities and other companies. Dr Manojlovic is independent of the Company but is dependent on a major shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS



Barry Rourke

Independent Non-Executive Director
FCA
Born 1950

Barry Rourke was a member of the Afarak Board, the Chairman of the Audit Committee and a member of the Remuneration Committee from April 2010 to February 2013 and rejoined the Board in 2015. He was an Audit Partner at PWC for 17 years from 1984 to 2001 where he specialised in the Oil & Gas and Mining sectors. He currently holds a number of non-executive directorships and positions on the audit committees in other companies.



Thorstein Abrahamsen

Independent Non-Executive Director
M.Sc. (Electrochemical Engineering)
Born 1948

Thorstein Abrahamsen is an internationally respected stainless steel and ferro-alloy industry professional. He has served as Chief Executive Officer of various manufacturing companies within stainless steel, ferro-alloy, construction equipment and mining industries. He also served as Vice- President Sales & Distribution of a global stainless steel production company. Throughout his career he has served on over 30 boards including chairmanships of ferro- alloy and steel trading & marketing companies around the world. He is currently chairman of a construction industry company, a board member and partner of a management consultancy company and two investment companies.

EXECUTIVE DIRECTOR



Guy Konsbruck

CEO and Executive Director
BA; MBA (SHU Fairfield)
Born 1965

Guy Konsbruck was appointed Chief Executive Officer of Afarak on 15 January 2017. He has previously served as an Executive Vice-President of MFC Industrial since 2014. Before that he served as CEO of FESIL's global sales companies and was also the co-founder of Luxalloys. Mr Konsbruck was appointed to the Board during the Extraordinary General Meeting held on 5th February 2018.



Our People

The Executive Management Team

The Group's Executive Management Team ("EMT") assists the Group CEO in effectively accomplishing his duties. The EMT is an advisory body which was set up by the Board of Directors in November 2009. It has neither authority, based on laws or the Articles of Association, nor any independent decision-making rights. Decisions on matters discussed by the EMT are taken by the CEO, the EMT member responsible for the matter in question or the Group's Board of Directors, as appropriate.



Guy Konsbruck

CEO
BA; MBA (SHU Fairfield)
Born 1965

Guy Konsbruck was appointed Chief Executive Officer of Afarak on 15 January 2017. He has previously served as an Executive Vice-President of MFC Industrial since 2014. Before that he served as CEO of FESIL's global sales companies and was also the co-founder of Luxalloys.



Dr Danko Koncar

COO
B.Sc. (Engineering), M.Sc. (Engineering), Ph.D. (Engineering)
Born 1942

Dr Danko Koncar was appointed as Chief Operating Officer on December 9, 2016. He has extensive experience in minerals processing and trading, more than 20 years in ferrochrome industry with six years of experience in application of direct current technology to ferrochrome processing. Before joining Afarak, he served in different management positions in chrome industry and was the Chairman of Samancor Chrome from 2005 - 2009.



Our People

The Corporate Management Team

The Company's Corporate Management includes, in addition to the Executive Management Team, the following personnel responsible for corporate functions:

Melvin Grima

Finance Director
ACCA, MIA, CPA
Born 1982

Melvin Grima joined Afarak in 2013 as Group Finance Manager. He was responsible of the relocation of the Group's corporate finance function to Malta and its setup. He was promoted to Finance Director in 2015 and appointed to the role of Chief Financial Officer on January 11, 2019. Prior to joining Afarak, he held a number of management positions including Group Accountant of a hotel Group and Finance Manager of a Group trading in the petroleum industry.

Bertus van der Merwe

CEO Afarak South Africa
B Eng (Metallurgy), MBA (Heriot Watt Scotland)
Born 1972

Bertus van der Merwe is a metallurgical engineer with extensive industry experience. He was a Gold Fields bursar and worked at Billiton's Samancor Manganese from 1996-2001 and then joined Samancor Cr in 2001 as manager of the low carbon production and eventually became the COO of Samancor Cr. In 2012 he left to do consulting in the Ferroalloy and steel industry. He also gained extensive experience with reductant technology in Portnex. In June 2017 he joined Afarak SA.

Seyda Caglayan

Managing Director, Afarak TMS
MSc Mining Engineering
Born 1958

Seyda Caglayan joined Afarak TMS in December 2007. Prior to joining Afarak, she held a number of senior management and directorate positions in the mining and chrome industry including the Istanbul Mineral Exporters' Association and the International Chromium Development Association (ICDA). Seyda currently serves as Member of the Board of Turkish Miners Association, Member of Chrome Committee of ICDA and Member of the Board of Trustees of the Turkish Mining Development Foundation.



Christoph Schneider

Managing Director, Afarak EWW
MA Economics
Born 1964

Christoph Schneider is currently the Managing Director of Afarak EWW. He joined EWW in 1992 as Sales Manager and was appointed as Managing Director in December 2003.

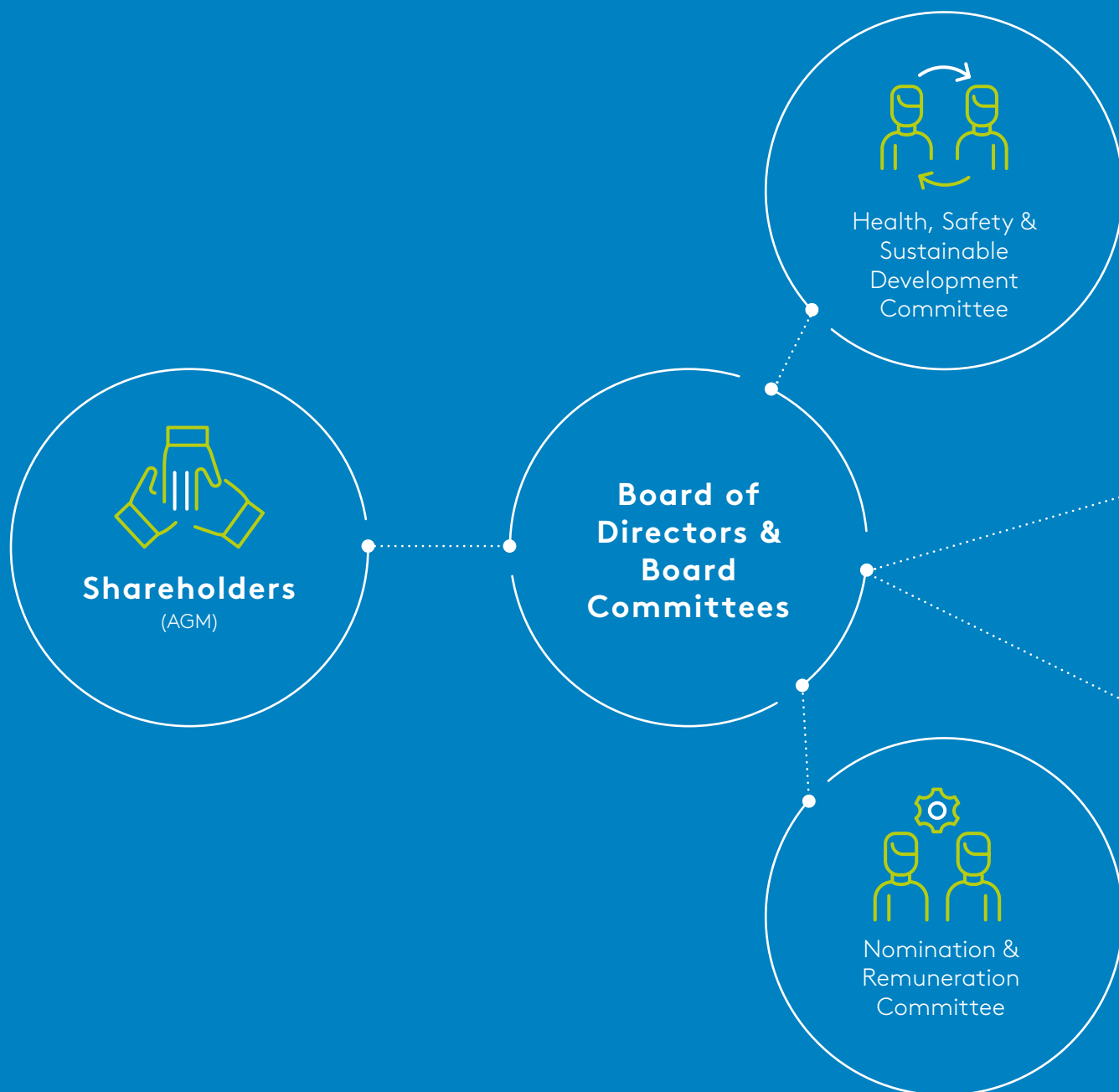
Dr Kurt Maske

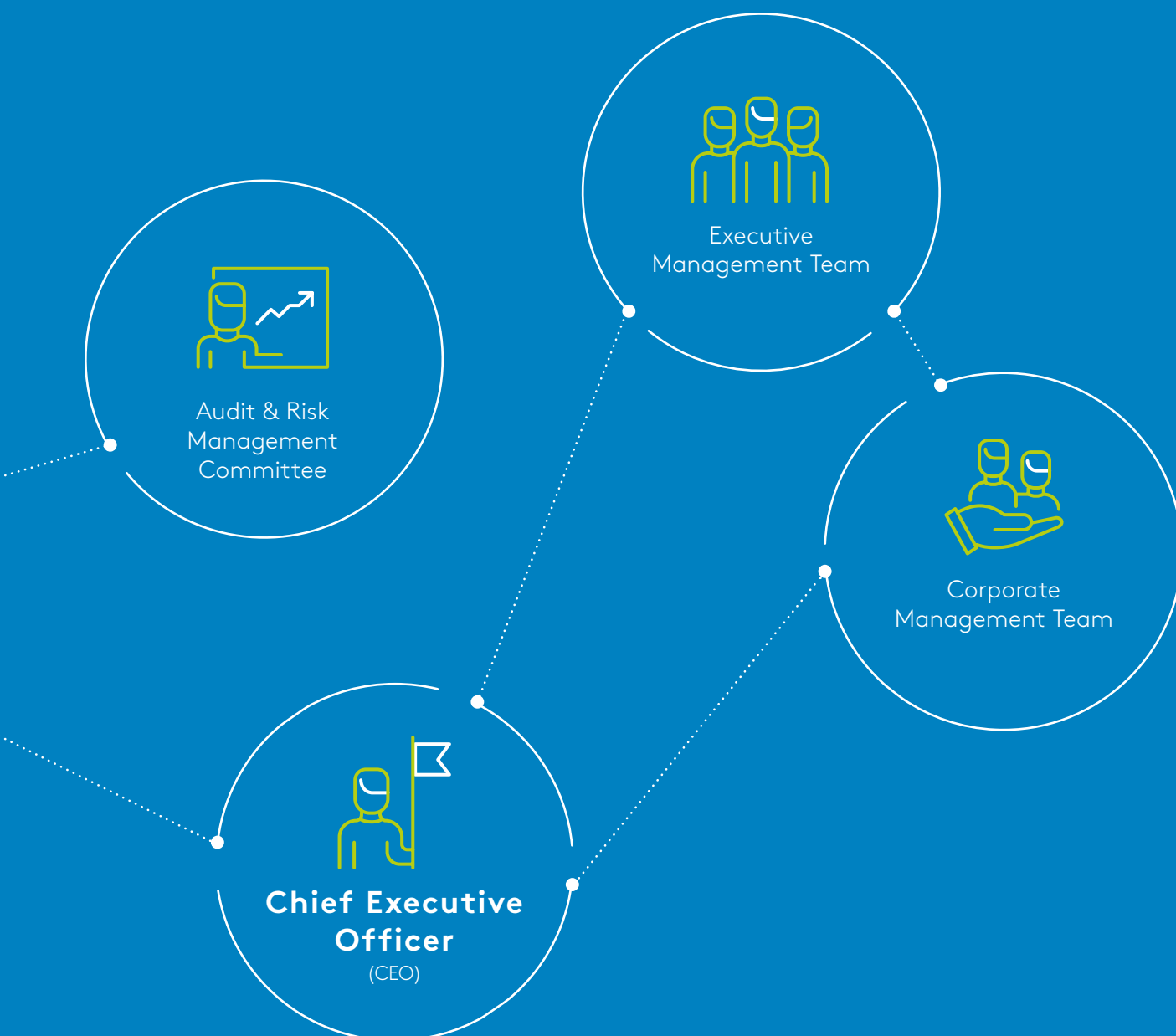
Managing Director, Afarak SA Mining
PhD (Minerals Engineering)
Born 1955

Kurt Maske is the acting General Manager for the SA Mining Operations and manages the South African marketing and logistics processes. Prior to joining Afarak in 2011, Kurt was with BHP Billiton for nearly 25 years where he started his career as a Process Engineer responsible for developing the DC arc furnace technology for FeCr production at what is now Mogale Alloys. After serving as Works Manager he was transferred to Samancor's marketing team to globally manage the sale of the group's low and medium carbon ferrochrome products.

Governance Structure

The management and control of Afarak Group Plc and its subsidiaries ("Group") is divided between the shareholders, the Board of Directors ("Board"), supported by the Board's audit and risk management committee, nomination and remuneration committee and the Chief Executive Officer.





GENERAL MEETING

Afarak's ultimate decision-making body is the shareholders' General Meeting which convenes once a year and is held within six months of the end of the financial year. Pursuant to the Company's Articles of Association, the convening notice for a General Meeting will be published on the Group's website and in a stock exchange release no earlier than two months, and no later than 21 days, prior to the General Meeting or nine days prior to the record date of the General Meeting.

The notice of a General Meeting, the proposals for resolutions, and the documents to be submitted to the General Meeting, such as the financial statements, the annual report and the auditor's report, will be available on the Group's website and at the Group's office in Helsinki at least three weeks before the meeting. The resolutions passed by the General Meeting will be published as a stock exchange release without undue delay and will be available on the Group's website, along with the minutes of the General Meeting, no later than two weeks after the meeting.

Shareholders have the right to add items falling within the scope of the Annual General Meeting to the meeting's agenda. The request must be submitted to the Board of Directors in advance so that the item can be included to the notice. Afarak publishes the details of how and when to submit the requests to the Board on its website.

The Company uses the Annual General Meeting to develop an understanding of the views of its shareholders about the Company.

An Extraordinary General Meeting can be convened if the Board of Directors deems it necessary or if the auditor of the Company or the shareholders owning at least 10 percent of the shares demand one in writing in order to deal with a specific matter, or if it is required by law or other regulations.

The most significant items on the Annual General Meeting's agenda include:

- Approving the year's financial statements;
- Confirming the financial year's profit or loss, the dividend distribution or other distribution, such as capital redemption;
- Determining the number of directors on the Board of Directors, their remuneration and electing those directors to the Board; and
- Electing the auditor or auditors and approving their fees.

In addition, certain significant matters (such as amending the Articles of Association or deciding on a capital increase) require a resolution by the shareholders in a

General Meeting.

General Meetings are organised in a manner that permits shareholders to exercise their ownership rights effectively. A shareholder wishing to exercise his or her ownership rights shall register for a General Meeting in the manner stated in the notice of meeting. All the shareholders who have been registered in the Company's shareholder register, maintained by Euroclear Finland Ltd, on the record date of the meeting have the right to attend a General Meeting, provided they have delivered a proper notice to attend the meeting. Holders of nominee registered shares may be registered temporarily on the shareholder register, and they are advised to request further instructions from their custodian bank regarding the temporary registration and issuing of a proxy document.

Resolutions by a General Meeting usually require a simple majority. Certain resolutions, however, such as amending the Articles of Association and directed share issues require a qualified majority represented by shares, and the votes conferred by the shares, at the General Meeting.

The majority of the Board members, if not all, attend General Meetings together with the CEO and the auditor. In addition, if a person is proposed for election as a director for the first time, he or she will also attend the General Meeting.

GENERAL MEETINGS IN 2018

The Annual General Meeting was held on May 29, 2018 at Union Square Auditorium, Helsinki, Finland.

All the resolutions of the above-mentioned General Meeting can be found at:

<http://www.afarak.com/en/investors/shareholder-meetings/2018/>

EXTRAORDINARY GENERAL MEETINGS

An Extraordinary General Meeting was held on February 5, 2018 at Union Square Auditorium, Helsinki, Finland.

Another Extraordinary General Meeting was also held on November 12, 2018 at Union Square Auditorium, Helsinki, Finland.

All the resolutions of the above-mentioned General Meeting can be found at:

<http://www.afarak.com/en/investors/shareholder-meetings/2018/>

The Board of Directors

TASKS AND RESPONSIBILITIES

The Board of Directors is composed of between three and nine members who are elected by the General Meeting of shareholders, which also approves their remuneration. The tenure of each Board member is for one year and expires at the end of the next annual General Meeting immediately following their election. The Board elects a chairman from among its members. None of the non-executive directors has a service contract with the Company and none of the directors has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking.

The duties of a Board member are specified in the Finnish Companies Act. The Afarak Board also has a written charter governing its functions.

The Board of Directors oversees the administration of the Group and is responsible for the internal control of its assets, finances and accounts on behalf of shareholders. Its specific responsibilities include:

- Formulating the Group's business strategy and overseeing its implementation;
- Deciding on the Group's capital structure;
- Making decisions on significant investments, divestments, credits and collaterals, guarantees and other commitments;
- Approving the quarterly interim reports, the Board of Directors Report, the annual financial results and future forecasts and/or outlook;
- Deciding on the Group's organisational structure;
- Appointing the CEO and approving his or her service agreement and remuneration; and
- Convening and submitting proposals to the shareholders' General Meeting.

Key elements of the Board's charter and operations are:

- It convenes on prearranged dates, with a view to meeting approximately once a month, or more often if necessary. Meetings can be arranged as conference calls;
- Matters to be dealt with by the Board are presented by the Chairman, the CEO or another person who has participated directly in assessing and preparing the issue for consideration;
- It aims to make unanimous decisions;
- It prepares an annual plan for its operation; and
- It acts at all times in the interest of the Group and all of its shareholders.

The Board oversees all communications and other requirements stipulated by the rules of the relevant stock exchanges and financial supervision authorities and conducts regular self-assessments to ensure these requirements continue to be fulfilled. The Group has established specific targets for the development of its administrative functions and processes, and continues to implement these.

The Board also evaluates and decides on acquisitions and disposals of subsidiaries and associated companies. To ensure the efficiency of board and committee work, the Board regularly evaluates the operations and working methods of each committee and the Board. The evaluation is conducted as internal self-evaluation. The Board is also regularly in contact with the major shareholders of the Company to ensure that the Board is aware of their views.

The 2018 Annual General Meeting elected five members to the Board. Dr Jelena Manojlovic, Mr Barry Rourke, Mr Ivan Jakovcic and Mr Thorstein Abrahamsen were re-elected. Mr Ivan Jakovcic resigned from the Board in July 2018.

DIVERSITY OF THE BOARD OF DIRECTORS - SKILLS, EXPERIENCE AND ATTRIBUTES

The Board considers that a diversity of skills, backgrounds, knowledge, experience, geographic location, nationalities and gender is required to effectively govern the business. The Board and its Nomination and Remuneration Committee work to ensure that the Board continues to have the right balance of skills, experience, independence and Group knowledge necessary to discharge its responsibilities in accordance with the highest standards of governance.

To govern the Group effectively, Non-Executive Directors must have a clear understanding of the Group's overall strategy, together with knowledge about the Group and the industries in which it operates. Non-Executive Directors must be sufficiently familiar with the Group's core business to be effective contributors to the development of strategy and to monitor performance.

The Board requires that Directors commit to the collective decision-making processes of the Board. Individual Directors are required to debate issues openly and are free to question or challenge the opinions of others. Each Director must ensure that no decision or action is taken that places his or her interests in front of the interests of the Company.

Current Board profile

The Board considers that each of the Non-Executive Directors has the following attributes:

time to undertake the responsibilities of the role;

- unquestioned honesty and integrity;
- a willingness to understand and commit to the highest standards of governance;
- knowledge of commodity markets and mining
- an ability to think strategically
- a preparedness to question, challenge and critique
- experience of managing in the context of uncertainty, and an
- understanding of the risk environment of the Group, including the potential for risk to impact our health and safety, environment, community, reputation, regulatory, market and financial performance;
- knowledge of world capital markets.



SENIOR INDEPENDENT DIRECTOR

During the year under review, Barry Rourke held the role of Senior Independent Director of Afarak Group in accordance with the UK Corporate Governance Code. He acted independently in the best interests of the Group. His expertise and broad international experience materially enhanced the skills and experience profile of the Board. He is available to shareholders who have concerns that cannot be addressed through the Chairman, CEO or CFO. As Senior Independent Director, he also provides a sounding board for the Chairman and serves as an intermediary for other Directors if necessary.

BOARD INDEPENDENCE

The Finnish Corporate Governance Code requires that the majority of the directors are independent of the Company. In addition, at least two of the directors representing this majority must be independent of the significant shareholders of the Company. The Company believes that Mr Barry Rourke and Mr Thorstein Abrahamsen are independent of the Company and significant shareholders whilst Dr Jelena Manojlovic is independent of the Company.

	Current Position	Appointed to the Board	Status	Audit & Risk Management Committee	Nomination & Remuneration Committee	Health & Safety Committee
Jelena Manojlovic	Chairman	11 July 2008	Dependent	-	Chair	
Barry Rourke	NED	08 May 2015	Independent	Chair	Member	
Thorstein Abrahamsen	NED	23 May 2017	Independent	Member	Member	Chair
Guy Konsbruck	ED	05 February 2018	N/A			

The Board in 2018

The new Board of Directors made it a priority to review various elements relating to the operation and corporate governance of Afarak. Highlights of the main discussions and decisions are presented below. A strategic workshop was held by the Board soon after election and various elements relating to Afarak's core business were reviewed.

COMPANY PERFORMANCE

The Board supported various initiatives to make the Company more resilient and responsive to the market. Throughout the year, the Board agreed on various projects, especially in South Africa, Germany and Serbia, which made the units able to respond to changing market conditions. The Board also supported various capital investments and restructuring processes especially in South Africa.

RISK MANAGEMENT

The Board continued enhancing the Group's risk management function across the Group. Key factors were identified and various mitigating measures were applied, including reducing the exposure to currency fluctuations. In addition, the Board has overseen measures to improve liquidity and in particular to manage its working capital effectively.

SUSTAINABILITY

The Board highlighted Health & Safety as a key priority. The Board is working closely with the respective units to strengthen the health & safety culture within the Company. The Board remains committed to continue investing in training, equipment and reporting to ensure that its policy of 'Zero Harm' is practiced throughout the Company. In addition, the Board supported further environmental initiatives and investments within the Group including the investment and installation of a heat recovery pump at Mogale. The Board continued the Company's support towards host communities in South Africa.

A total of 9 meetings of the Board were held during the reporting period and the attendance of the directors is tabled below.

Meetings attended	
Jelena Manojlovic	9/9
Barry Rourke	9/9
Thorstein Abrahamsen	9/9
Guy Konsbruck	9/9
Ivan Jakovic	5/5

A total of 9 meetings were held during the reporting period.

The differences in the meetings attended, related to the changes in Board composition.

REMUNERATION

The AGM resolved the Chairman of the Board shall be paid EUR 4,500 per month, the Chairman of the Audit and Risk Management Committee shall be paid EUR 5,550 and all Board Members are paid EUR 3,500 per month. Non-executive Board Members who serve on the Board's Committees shall be paid additional EUR 1,500 per month for committee work.

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

During the financial year 2018, the Board members received a total of EUR257,000 and Committee membership fees.

Board Committees

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee is composed of two members: Barry Rourke (Chairman), and Thorstein Abrahamsen.

The Board has defined the Committee's duties in accordance with the recommendations of the Finnish and the UK Corporate Governance Codes. The Audit and Risk Management Committee reviews the auditors' work and monitors the Group's financial position and the appropriateness of its financial reporting. The Committee oversees risk management procedures and internal controls, maintaining constant contact with auditors and evaluating their reports. The Committee reports regularly to the Board.

In 2018, the Committee continued to oversee the Group's financial performance and reporting. The Committee also worked with management to improve the reporting function of the Group, both internally and externally. Regular scrutiny of the Group's compliance with laws, regulations and best practice continued being an area of focus during the year.

The Committee assessed various growth options, strategies and investments. It worked with Management on finalising the acquisition of the Zeerust Chrome Mine and concluding the purchase agreement of the Magnohrom plant in Serbia. The Committee also assessed various external financing facilities. Throughout the year, the Committee worked on improving the internal budgeting and forecasting models and processes.

The Committee also reviewed each quarterly report before release and recommended changes where necessary, before recommending the reports to the Board.

NOMINATION AND REMUNERATION COMMITTEE

The combined Nomination and Remuneration Committee of the Company currently has three members: Ivan Jakovic (Committee Chairman), Dr Jelena Manojlovic and Barry Rourke. Mr Ivan Jakovic resigned from the Board in July 2018.

The Committee leads the process for making appointments to the Board and the executive management and submits recommendations to the Board in this regard. The Committee also leads the process relating to the remuneration of the executive management and the Board and makes recommendations to the Board and to the General Meeting in relation to the Board's remuneration.

THE COMMITTEE FOR HEALTH, SAFETY AND SUSTAINABLE DEVELOPMENT

The Committee is currently led by Thorstein Abrahamsen and includes management members from the respective Units.

The Committee's stated mission is to ensure that Afarak conducts its business in a responsible and ethical manner for the benefit of all its stakeholders. Throughout 2018, the Committee continued to monitor safety improvement progress and initiatives across various Units of the Company

Afarak is continuously investing in environmental initiatives and projects. It supported investments that will allow the Group to rehabilitate its mines and to invest in alternative energy sources. It continued supporting the business units in their efforts to improve water management and dust reduction. The Committee also continued to monitor Afarak's work and social investment programmes with local communities, particularly in South Africa.



Corporate Governance Statement

Afarak Group Plc ("Afarak", the "Company" or the "Group") is a Finnish public limited company listed on the NASDAQ Helsinki Stock Exchange (AFAGR) and the Main Market of the London Stock Exchange (AFRK).

Afarak's corporate governance is based on, and complies with, the laws of Finland, the Articles of Association of the Company, the Finnish Corporate Governance Code and the regulations of the Finnish Financial Supervisory Authority,

the UK Listing, Disclosure and Transparency Rules, the NASDAQ Helsinki Stock Exchange and the London Stock Exchange. As Afarak primarily follows the Finnish Corporate Governance Code, certain sections of the UK Corporate Governance Code issued in September 2012 ("UK CG") are not strictly complied with. However, in the areas that the Company diverges from the UK CG the Company believes that its policies are acceptable for the reasons which are set out below.

UK CG Section	Description	The Reason for Non-Compliance
C.3.8	A separate section of the annual report should describe the work of the Audit committee in discharging its responsibilities	While this report includes a description of the work of the audit and risk management committee, the contents requirements of this section under the UK GC are not the same as those under the Finnish CG and, therefore some information required under the UK GC may not be included.
E.2.1	For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote.	The Company's AGM is arranged in accordance with the Finnish Companies Act so certain procedural and other matters differ from the UK CG recommendation. The Company does not provide proxy voting forms.
E.2.2	Miscellaneous general meeting procedures	The Company's AGM is arranged in accordance with the Finnish Companies Act so certain procedural and other matters differ from the UK CG recommendation.

Afarak's foreign subsidiaries operate under the local laws and regulations of the countries in which they are located, including but not limited to local accounting and tax legislation as well as exchange controls. This Corporate Governance Statement for the financial period 1 January to 31 December 2018 is issued as a separate report to the Board of Directors' Report and is available on the Group's website at www.afarak.com. It has been prepared pursuant to the Finnish Corporate Governance Code 2015 and the

guideline of the Securities Market Association dated 1 December 2010. Afarak complies with the Finnish Corporate Governance Code which can be found on the Securities Market Association's website at www.cgfinland.fi. Afarak has made no exceptions in its Finnish Corporate Governance Code compliance.

Internal Control

The principles of internal control are confirmed by the Board. The Group's EMT members oversee the day-to-day business management and administrative control in their respective responsibility areas.

MAIN PRINCIPLES OF RISK MANAGEMENT AND INTERNAL CONTROL

The purpose of risk management is to identify, evaluate and mitigate the potential risks that could impact the Group's business and the implementation of its strategy, and to ensure that risks are proportional to the Group's risk-bearing capacity.

The Group's risk management policy is approved by the Board of Directors and defines the objectives, approaches and areas of responsibility of risk management activities. The Group's key risks are reviewed and assessed by the Board on a regular basis. The Group's business segments, and the business units within those segments, are primarily responsible for managing their risks, their financial performance and their compliance with the Group's risk management policies and internal control procedures.

The Board of Directors is responsible for organising and maintaining adequate and effective internal control performed by the senior and executive management as well as other Afarak personnel and assisted by third-party experts when appropriate.

The Board of Directors decides on the Group's management system and the corporate and organisational structure required by each business unit with a view to providing solid foundations for effective internal control. Internal control and risk management related to financial reporting at the Group level are performed in a coordinated way by a function independent of the business areas. Each subsidiary's executive management is responsible for the implementation of internal control and risk management to the agreed Group principles and guidelines.

The system of internal control provides reasonable rather than absolute assurance that Afarak's business objectives will be achieved within the risk tolerance levels defined by the Board.

Internal control refers to elements of financial and operational management which are designed to ensure:

- Achievement of defined performance targets;
- Efficient use of resources and protection of assets;
- Effective management of risks;
- Accurate, timely and continuous delivery of financial and operational information;
- Full compliance with laws and regulations as well as internal policies; and
- Business continuity through secure systems and stable operating procedures.

THE STRUCTURE OF INTERNAL CONTROL SYSTEMS

The main structural elements of the Group's internal control system are:

- The risk management and internal control policies and principles defined by the Board;
- Implementation of the policies and principles under the supervision of Group management;
- Supervision of the efficiency and functionality of the business operations by Group management;
- Supervision of the quality and compliance of the financial reporting by the Group finance department;
- An effective control environment within all organisational levels and business units, including tailored controls for each business process; and
- Internal audits conducted as and when needed.

THE INTERNAL CONTROL OF THE FINANCIAL REPORTING PROCESS

The Group's financial organisation is structured so that each business unit has its own finance function, but overall financial management including accounting, taxation and financing is centralised within the Group's parent company.

The Group finance department is responsible for ensuring the compliance, quality and timeliness of the Group's external and internal financial reporting. The internal control mechanisms are based on the policies, procedures and authorisations established and approved by the Board. In addition to control mechanisms, training and sharing of knowledge are also significant tools of internal control.

Each business unit has its own finance function which reports to the Group Finance. The business unit's finance function is responsible for the unit's accounting and daily financial operations and internal reporting. The finance function and administration is overseen by the unit's management team and reports to the head of the business unit's segment.

The tasks of the Group Finance consist, among other things, of monthly consolidation of the Group's accounts, preparation of the quarterly interim reports and consolidated financial statements, financing of the Group, and tax planning.

Consolidated financial statements are prepared by using consolidation software. The accounting of the Company's subsidiaries is carried out by accounting systems and the accountants within each subsidiary enter the accounting information directly into the consolidation system, or in some cases send the information in a predefined format to the Group's financial administration to be consolidated.

ROLES AND RESPONSIBILITIES REGARDING RISK MANAGEMENT AND INTERNAL CONTROL

BOARD OF DIRECTORS

The Board of Directors is ultimately responsible for the administration and the proper organisation of the Group's operations and approves all internal control, risk management and corporate governance policies. The Board establishes the risk-taking level and risk-bearing capacity of the Group, monitor and reassess them on a regular basis as part of the Group's strategy and goal-setting process. The Board reports to the shareholders of the Company.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee is responsible for the following internal control related activities:

- Monitoring the reporting process of the financial statements;
- Supervising the financial reporting process;
- Monitoring the efficiency of the Group's internal control, internal audit and risk management systems; and
- Monitoring the statutory audit of the financial statements and consolidated financial statements.

GROUP MANAGEMENT

The Group's management oversees day-to-day management of the Group in accordance with the instructions and orders given by the Board. It sets the

framework of the internal control environment and is in charge of the Group's risk management process and its continuous development. This includes allocation of resources to the work and continuous review of the risk management policies, as well as defining the principles of operation and overall processes.

EXTERNAL AUDIT

According to the Articles of Association, the Annual General Meeting of shareholders elects the Company's auditor, which must be a firm authorised by the Finnish Central Chamber of Commerce; otherwise the Company will have one main auditor and one deputy auditor. The auditor's term is for one year and finishes at the end of the first General Meeting following election.

During Afarak's General Meeting held in May 2018, Authorised Public Accountant Ernst & Young Oy ("EY") was elected as auditor, with Authorised Public Accountant Erkka Talvinko having the principal responsibility. EY is also the local auditor of all of the Group companies.

In 2018, the Company paid EUR 504,000 for audit fees (348,000) and EUR 36,000 for non-audit services (4,000) to EY.



Insider Administration

The Company complies with the legal provisions applying to the management of insiders as defined by the Market Abuse Regulations (EU) No. 596/2014, the Guidelines for Insiders issued by the NASDAQ Helsinki Stock Exchange and the stipulations and guidelines of the Finnish Financial Supervision Authority.

PUBLIC INSIDER REGISTER

The Company's permanent public insiders comprise the Board members, the CEO, the Executive Management Team and the auditors. All permanent public insiders and the statutory information about them, their related parties and the entities controlled by them or in which they exercise influence, have been entered into the Company's public insider register which is published on the Group's website.

Afarak imposes a restriction on trading for insiders which forbids trading in the Company's shares for 30 days before the publication of financial reports. Prior to the preliminary announcement of the Company's annual results and the publication of its annual financial report the closed period is 60 days or, if shorter, the period from the end of the

relevant financial year up to and including the time of the announcement.

Compliance with the insider regulations is monitored by taking samples at certain intervals of trading by insiders in the Company's shares.

COMPANY-SPECIFIC INSIDER REGISTER

In addition to the public insider register, the Company holds a company-specific insider register of persons who regularly receive information that can have material impact on the value of its securities. These persons include all Afarak Group Plc employees, corporate management and subsidiary and other third-party service providers who regularly obtain insider information.

When necessary, the Company sets up a separate project-specific insider register. Project-specific insiders are those who, in connection with the insider project receive information that might have material impact on the value of the Company's shares. The establishment of a project is decided by the Board or the CEO.

Shareholdings of the Public Insiders at 31 December 2018

	Title	Shares	Related Party Shares	Options
Members of the Board				
Jelena Manojlovic	Chairman	150,000		0
Guy Konsbruck*	Chief Executive Officer, Executive Director	500,000		
Barry Rourke	Non-Executive Director	150,000		
Thorstein Abrahamsen	Non-Executive Director	0		
Auditors				
Erkka Talvinko	Auditor	0	0	0
Other Insiders				
Danko Koncar**	Executive	0		
Pedrag Kovacevic	Chief financial Officer	0		

* The CEO received an additional 500,000 shares in January 2019 after completing his second year of service.

** Dr Koncar has sold his shareholding in LNS (formerly Kermas Ltd) on January 20, 2018.

Resolutions of the Annual General Meeting

The Company's Annual General Meeting ("AGM") was held on May 29, 2018. The AGM adopted the financial statements and the consolidated financial statements and discharged the members of the Board of Directors and the CEO from liability for the financial period 2017.

The AGM resolved that no dividend would be paid for 2017. The AGM resolved that the Board would decide in quarter four 2018 whether a capital redemption of a maximum of EUR 0.02 per share would be paid.

The AGM resolved the Chairman of the Board shall be paid EUR 4,500 per month, the Chairman of the Audit and Risk Management Committee shall be paid EUR 5,550 and all Board Members are paid EUR 3,500 per month. Non-executive Board Members who serve on the Board's Committees shall be paid additional EUR 1,500 per month for committee work. Those members of the Board of Directors that are executives of the Company are not entitled to receive any remuneration for Board membership.

The AGM resolved that the Board of Directors would comprise of five (5) members: Dr Jelena Manojlovic (UK citizen), Mr Barry Rourke (UK citizen), Mr Ivan Jakovcic (Croatian citizen), Mr Thorstein Abrahamsen (Norwegian citizen) and Mr Guy Konsbruck (Luxembourg citizen) were re-elected. Mr Jakovcic resigned from the Board in July 2018. The Board appointed from among its members the following members to the Committees:

AUDIT AND RISK MANAGEMENT COMMITTEE

Barry Rourke, (Chair), Thorstein Abrahamsen

NOMINATION AND REMUNERATION COMMITTEE

Ivan Jakovcic (Chair), Dr Jelena Manojlovic and Barry Rourke. Mr Jakovcic resigned in July 2018 and Dr Manojlovic took over the Chairmanship of the Committee and Thorstein Abrahamsen joined too.

SAFETY, HEALTH AND ENVIRONMENT COMMITTEE

Thorstein Abrahamsen (Chair) and members of management

The AGM resolved that authorised public accountant firm Ernst & Young Oy was re-elected as the Auditor of the Group for the year 2018.

The AGM authorised the Board of Directors to resolve upon acquiring a maximum of 25,000,000 of the Company's own shares. The authorisation replaces all previous authorisations and it is valid for 18 months from the decision of the Annual General Meeting.

2018 ANNUAL GENERAL MEETING

Afarak's 2018 Annual General Meeting will be held on June 25, 2019.

Additional Information

SHARE INFORMATION

Afarak Group Plc's shares are listed on NASDAQ Helsinki (AFAGR) and on the Main Market of the London Stock Exchange (AFRK).

On 31 December 2018, the registered number of Afarak Group Plc shares was 263,040,695 (263,040,695) and the share capital was EUR 23,642,049.60 (23,642,049.60).

On 31 December 2018, the Company had 2,387,494 (3,354,161) own shares in treasury, which was equivalent to 0.91% (1.28%) of the issued share capital. The total number of shares outstanding, excluding the treasury shares held by the Company on 31 December 2018, was 260,653,201 (259,686,534).

At the beginning of the period under review, the Company's share price was EUR 0.86 on NASDAQ Helsinki and GBP 0.87 on the London Stock Exchange. At the end of the review period, the share price was EUR 0.73 and GBP 0.73 respectively. During the fourth quarter of 2018, the

Company's share price on NASDAQ Helsinki ranged from EUR 0.67 to 0.92 per share and the market capitalisation, as at 31 December 2018, was EUR 191.0 (1 January 2018: 222.3) million. For the same period on the London Stock Exchange, the share ranged from GBP 0.73 to 0.78 per share and the market capitalisation was GBP 190.7 (1 January 2018: 190.7) million, as at 31 December 2018.

Based on the resolution at the AGM on 29 May 2018, the Board is authorised to buy-back up to a maximum of 15,000,000 of its own shares. This authorisation is valid until 29 November 2019. The Company did not carry out any share buy-backs during the fourth quarter of 2018.

Furthermore, based on the resolution at the EGM on 12 November 2018, the Board is authorised to decide on the acquisition of a maximum of 31,500,000 own shares by a voluntary takeover bid made to Afarak's shareholders at a price of EUR 1.015 per share. This authorisation is valid until 31 May 2019. The Company did not carry out any share buy-backs during the fourth quarter of 2018.



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 2018.

REMUNERATION POLICY

Afarak operates in a very competitive sector in terms of human capital with a shortage of highly qualified and 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 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 2018 were Mr Ivan Jakovic (Chairman), Dr Jelena Manojlovic and Mr Barry Rourke. Mr Jakovic resigned on July 31, 2018, and Mr Thorstein Abrahamsen assumed the vacant position in the committee.

CEO SERVICE AGREEMENT

The Board appoints the Chief Executive Officer (CEO) to manage, develop, guide and supervise the Group's activities and leads the EMT. The Board decides upon the CEO's remuneration based on the recommendations made by the 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 CEO. Mr Guy Konsbruck received two share transfers since his appointment.

The Group makes no pension arrangements for the CEO beyond the statutory pension coverage and there is no set retirement age.

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Non-executive directors do not have service contracts with the company.

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 May 29, 2018 resolved the Chairman of the Board shall be paid EUR 4,500 per month, the Chairman of the Audit and Risk Management Committee shall be paid EUR 5,550 and all Board Members are paid EUR 3,500 per month. Non-executive Board Members who serve on the Board's Committees shall be paid additional EUR 1,500 per month for committee work.

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

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

RELATED PARTY TRANSACTIONS WITH PERSONS BELONGING TO THE GROUP'S BOARD AND MANAGEMENT

EUR '000		2018			2017		
		Salaries	Fees	Share-based remuneration	Salaries	Fees	Share-based remuneration
CEO							
Ruiters Alistair	Board member 8.5.2015 - 23.5.2017, CEO 21.5.2015 - 15.1.2017	0		0	14		145
Konsbruck Guy	Board member 05.2.2018 onwards, CEO 15.1.2017 onwards		360	219		415	583
BOARD MEMBERS							
Abrahamsen Thorstein	Board member 23.5.2017 onwards		60			36	
Djakov Milan	Board member 12.5.2016 - 23.5.2017		0			24	
Hoyer Thomas	Board member 23.5.2017 - 05.2.2018		6			36	
Jakovcic Ivan	Board member 8.5.2015 - 31.07.2018, Chairman 12.5.2016 - 23.05.2017		34			65	
Kankaala Markku	Board member 30.6.2003 -17.3.2017		0			15	
Manojlovic Jelena	Board member 11.7.2008 onwards, Chairman 23.5.2017 onwards		72			67	
Rourke Barry	Board member 8.5.2015 onwards		85			85	
Total		0	617	219	14	743	728

OTHER EMT MEMBERS' SERVICE CONTRACTS

As Afarak operates within 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 based incentives, fringe benefits include liability insurance, traveller's insurance and telephony services.

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 otherwise agreed.

The table below includes the EMT but excludes the CEO since the compensation for Board members and CEO 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	2018	2017
Fixed salaries and fees	564	482
Provision for variable performance related compensation	-14	195
Total	550	677

SHARE-BASED COMPENSATION

SHARE OPTIONS

As part of the remuneration package of its CEO, Afarak pays a share-based compensation of 500,000 shares for every completed year. As at December 2018, Alistair Ruiters had received a total of 1,466,667 shares over his span as both CEO and Consultant.

Guy Konsbruck has received in total 1,000,000 shares after completing his second year as CEO in January 2019. These shares have a lock-up period of two years from subscription date.

DIRECTORS' AND EMT MEMBERS' SHAREHOLDINGS AND OPTIONS AT 31 DECEMBER 2018

	Title	Shares	Related Party Shares	Options
Members of the Board				
Guy Konsbruck	Chief Executive Officer, Executive Director	500,000	0	0
Barry Rourke	Non-Executive Director	150,000	0	0
Jelena Manojlovic	Chairperson & Dependent Non- Executive Director	150,000	0	0
Thorstein Abrahamsen	Non-Executive Director	0	0	0
Auditors				
Erkka Talvinko	Auditor	0	0	0
Other Insiders				
Danko Koncar**	Chief Operating Officer	0	0	0
Predrag Kovacevic	Chief financial Officer	0	0	0
		800,000	0	0

* The CEO received an additional 500,000 shares in January 2019 after completing his second year of service.

** Dr Koncar has sold his shareholding in LNS (formerly Kermas Ltd) on January 20, 2018.