

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 2016.

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 2016 were Dr Jelena Manojlovic (Chairman), Mr Markku Kankaala and Mr Ivan Jakovcic.

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. Dr Alistair Ruiters received one share transfer in 2016, and the shares were paid on 14th September 2016.

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

Dr Alistair Ruiters resigned from his post on December 8, and the new CEO's agreement is the same as above.

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 11 May 2016 approved that the Chairman of the Board would be paid EUR 4,500 per month, the Chairman of the Audit and Risk Management Committee would 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. The executive Board members shall not be paid remuneration for their work on the Board of Directors.

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 TRANSACTION WITH PERSONS BELONGING TO GROUP BOARD AND MANAGEMENT

EUR '000		2016			2015		
		Salaries	Fees	Share-based remuneration	Salaries	Fees	Share-based remuneration
Jakovcic Ivan	Board member 8.5.2015 onwards, Chairman 12.5.2016 onwards		68			39	0
Ruiters Alistair	Board member 8.5.2015 onwards, CEO 21.5.2015 - 9.12.2016	360	0	178	242	0	183
Rourke Barry	Board member 8.5.2015 onwards		80			47	0
'Manojlovic Jelena	Board member 11.7.2008 onwards, Chairperson 17.6.2009 - 7.5.2015		60			58	0
Djakov Milan	Board member 12.5.2016 onwards		35				
Scott Keith	Board member 12.5.2016 - 9.12.2016		35				
'Kankaala Markku	Board member 30.6.2003 - 17.03.2016		60			58	0
'Koncar Danko	CEO 11.2.2013 - 20.5.2015, Board member 11.8.2010 - 7.5.2015	0			86		
'Lillja Michael	Board member 11.2.2013 - 12.5.2016	54			120		
'Parodi Afredo	Board member 11.2.2013 - 12.5.2016, Chairman 8.5.2015 - 12.5.2016		26			66	
Smart Bernice	Board member 11.2.2013 - 7.5.2015					19	0
Total		414	363	178	448	286	183

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, traveler'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	2016	2015
Short-term employee benefits	366	258
Total	366	258

SHARE-BASED COMPENSATION

Share options

The Company has three incentive-related option schemes, known as I/2003, 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 totaling 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 outgoing CEO, Alistair Ruiters 1,000,000 shares in the Company. The agreement provided that these would be awarded in two tranches and vested based on completed year of service. The first 500,000 Company shares have effectively been received on 14 September 2016. The second 500,000 Company shares had to be received by the employee on 22 May 2017 after completing his second year as CEO. As the full term was not completed the second 500,000 will be given prorated over the second year which results to 322,581 shares. 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 of the unvested portion EUR 121,505.

DIRECTORS' AND EMT MEMBERS' SHAREHOLDINGS AND OPTIONS AT 31 DECEMBER 2016

Members of the Board	Title	Shares	Related Party Shares	Options
Ivan Jakovcic	Chairman	0	0	0
Alistair Ruiters	Executive Director	900,000	0	600,000
Jelena Manojlovic	Non-Executive Director	150,000	0	0
Markku Kankaala	Non-Executive Director	7,066,116	0	0
Barry Rourke	Non-Executive Director	150,000	0	0
Milan Djakov	Non-Executive Director	0	0	0
Auditors				
Erkka Talvinko	Auditor	0	0	0
Other Insiders				
Danko Koncar	Executive	0	70,945,967	800,000

