

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 2019.

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 2019 were Dr Jelena Manojlovic (Chair) and Thorstein Abrahamsen and Guy Konsbruck.

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 has an annual salary of EUR360,000. He shall also receive 500,000 Company shares as an incentive for each completed year of service acting as CEO. Mr. Guy Konsbruck received one share transfer in 2018 and another in 2019. In 2019 it was agreed that his package will decrease by 20% until the market recovers and results improve.

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 June 25, 2019 resolved that all Board members will receive EUR 3,500 a month and will receive additional EUR 1,500 for the committee work. Chairman of the audit committee will receive in addition EUR 500 a month while Chairman of the Board will receive additional EUR 2,000 a month.

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		2019			2018		
		Salaries	Fees	Share-based remuneration	Salaries	Fees	Share-based remuneration
CEO							
Konsbruck Guy	Board member 05.2.2018 onwards, CEO 15.1.2017 onwards		294	605		360	219
BOARD MEMBERS							
Abrahamsen Thorstein	Board member 23.5.2017 onwards, Chairman 11.11.2019 onwards		63			60	
Hoyer Thomas	Board member 23.5.2017 - 05.2.2018		0			6	
Jakovcic Ivan	Board member 8.5.2015 - 31.07.2018, Chairman 12.5.2016 - 23.5.2017		0			34	
Manojlovic Jelena	Board member 11.7.2008 onwards, Chairperson 23.5.2017 - 25.6.2019		66			72	
Rourke Barry	Board member 8.5.2015 - 11.11.2019, Chairman 25.06.2019 - 11.11.2019		73			85	
Bolleurs Yolanda	Board member 25.6.2019 - 11.11.2019		25			0	
Total		0	521	605	0	617	219

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	2019	2018
Fixed salaries and fees	591	564
Provision for variable performance related compensation	0	-14
Total	591	550

SHARE-BASED COMPENSATION**SHARE OPTIONS**

As part of the remuneration packages of its CEOs, Afarak pays a share-based compensation of 500,000 shares for every completed year. Guy Konsbruck, after completing his first year as CEO in 2018 received 500,000 in share-based

compensation, after completing his second year as CEO in 2019 received another 500,000 in share-based compensation, and he is due to receive another 400,000 for his third year of service. These shares have a lock-up period of two years from subscription date.

DIRECTORS' AND EMT MEMBERS' SHAREHOLDINGS AND OPTIONS AT 31 DECEMBER 2019

	Title	Shares	Related Party Shares	Options
Members of the Board				
Thorstein Abrahamsen	Chairman	0		0
Jelena Manojlovic	Non-Executive Director	150,000		
Guy Konsbruck*	Chief Executive Officer, Executive Director	1,000,000		
Auditors				
Erkka Talvinko	Auditor	0	0	0
Other Insiders				
Danko Koncar	Executive	0	0	0
Melvin Grima	Chief financial Officer	0	0	0
		800,000	0	0

* The CEO was due to receive an additional 500,000 shares in January 2020 after completing his third year of service. These will be granted after the AGM when a new board is formed, however these were self-reduced by 20% to 400,000 Company shares in 2020.

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