

## **PROPOSALS OF THE BOARD OF DIRECTORS OF FARON PHARMACEUTICALS LTD TO THE ANNUAL GENERAL MEETING CONVENING ON 16 MAY 2017**

### **Resolution on the use of the profit shown on the balance sheet and the payment of dividend**

The Board of Directors proposes that no dividend for the financial year 2016 will be paid and that the losses of the Company for the financial year, amounting to EUR 9,293,930.28 (IFRS), will be carried forward to the reserve for invested unrestricted equity.

### **Resolution on the remuneration of the members of the Board of Directors**

The Board of Directors proposes, on the basis of the proposal of the Remuneration Committee, that an annual remuneration of EUR 32,000 will be paid to the Board members, in addition to which an annual remuneration of EUR 33,000 will be paid to the Chairman of the Board of Directors. In addition, a further annual remuneration of EUR 5,000 will be paid to the Chairman of each of the Audit Committee, the Nomination Committee and the Remuneration Committee, respectively.

The Board of Directors furthermore proposes that meeting fees will be paid to the Board members as follows:

- Board members who are resident outside of the European Union or the European Economic Area: EUR 2,000 per Board meeting where the Board member was physically present;
- Board members who are resident within the European Union or the European Economic Area: EUR 1,000 per Board meeting where the Board member was physically present;
- The meeting fees will be reduced by 50 per cent per Board meeting where the Board member was attending but not physically present.

In addition, it is proposed that all reasonable and properly documented expenses incurred in the performance of duties of the members of the Board of Directors would be compensated.

The Board of Directors also proposes, on the basis of the proposal of the Remuneration Committee, that no remuneration will be paid based on the Board membership of the CEO of the Company or a person serving the Company under a full-time employment or service agreement.

### **Resolution on the number of members of the Board of Directors**

The Board of Directors proposes on the basis of the proposal of the Nomination Committee that nine (9) members be elected to the Board of Directors.

### **Election of members of the Board of Directors**

The Board of Directors proposes, on the basis of the proposal of the Nomination Committee, that Frank Armstrong, Markku Jalkanen, Jonathan Knowles, Matti Manner, Huaizheng Peng, Yrjö Wichmann and Leopoldo Zambelletti will be re-elected and that Gregory Brown and John Poulos will be elected as new members to the Board of Directors for a term that ends at the end of the next Annual General Meeting.

Descriptions of the Board member candidates are available on the Company's website at [www.faron.com](http://www.faron.com).

The proposed Board members have informed the Company that in the event they are elected, they intend to elect Frank Armstrong as Chairman of the Board and Matti Manner as Deputy Chairman of the Board.

### **Resolution on the amendment of the Articles of Association**

The Board of Directors proposes that the following article will be added as the new Article 11 of the Company's Articles of Association and that the numbering of the Articles following said Article and the references to such Articles will be amended accordingly:

*"11. Meeting venue*

*A General Meeting may in addition to the Company's domicile be held in the city of London, United Kingdom on the basis of a resolution by the Board of Directors."*

Furthermore, the Board of Directors proposes that Article 15 (previously Article 14) of the Company's Articles of Association will be amended to read as follows:

*"15. Auditor*

*The Company shall have one (1) auditor, which shall be an auditing entity approved by the Finnish Patent and Registration Office. The term of office of the auditor shall expire upon the closing of the next Annual General Meeting following the election of the auditor."*

The rationale for the first amendment is that the shares of the Company are listed on the AIM market operated by the London Stock Exchange, due to which a significant portion of the Company's shares and depositary interests are held by non-Finnish parties. The second amendment is a technical change relating to a change in applicable audit legislation.

### **Resolution on the remuneration of the Auditor**

The Board of Directors proposes, on the basis of the proposal of the Audit Committee, that the Auditor be remunerated in accordance with the invoice presented.

### **Election of the Auditor**

The Board of Directors proposes, on the basis of the proposal of the Audit Committee, that PricewaterhouseCoopers Oy, Authorised Public Accountants, continue to act as the Company's auditor.

PricewaterhouseCoopers Oy has informed the Company that it will appoint Kalle Laaksonen, Authorised Public Accountant, as the Auditor with principal responsibility for the completion of the Audit.

### **Resolution on the amendment of the option programme**

The Board of Directors proposes, on the basis of the proposal of the Remuneration Committee, that the Annual General Meeting would resolve to amend, due to the increase in the number of employees in the Company and the increase in the number of Board members, the terms and conditions of the option programme adopted by the Extraordinary General Meeting of the Company on 15 September 2015, so that a maximum total of 500,000 C options and a maximum total of 500,000 D options would be offered under said terms and conditions as follows:

- to the Chairman of the Board: 40,000 C options and 40,000 D options;
- to each member of the Board (excluding the Chairman of the Board and the CEO and the CFO if they would be considered members of the Company's Board): 20,000 C options and 20,000 D options (a maximum total of 120,000 C options and a maximum total of 120,000 D options);
- to the CEO: 80,000 C options and 80,000 D options;

- to the CFO: 30,000 C options and 30,000 D options;
- to management, officers and employees to be nominated by the Board: a maximum total of 230,000 C options and a maximum total of 230,000 D options.

The terms and conditions of the option programme would remain otherwise unchanged.

The proposed amendment would increase the maximum total number of each of C options and D options by 100,000 options, representing a 25 per cent increase over the current maximum total of 400,000 of each of C and D options. This would increase the aggregate percentage of shares that can be subscribed for based on C and D options from 2.9 per cent to 3.6 per cent of all existing shares. The maximum number of C and D options granted to each individual Board member, the CEO and the CFO would remain unchanged.

### **Authorising the Board of Directors to decide on the issuance of shares**

The Board of Directors proposes that the Annual General Meeting would authorise the Board of Directors to resolve by one or several decisions on issuances of shares which authorisation contains the right to issue new shares or dispose of the shares in the possession of the Company. The authorisation would consist of up to 5,577,000 shares in the aggregate, which corresponds to approximately 20 per cent of the existing shares and votes in the Company.

The authorisation would not exclude the Board of Directors' right to decide on the issuance of shares in deviation from the shareholders' pre-emptive rights. The authorisation is proposed to be used for material arrangements from the Company's point of view, such as financing or implementing business arrangements, investments or for other such purposes determined by the Board of Directors in which case a weighty financial reason for issuing shares, and possibly deviating from the shareholders' pre-emptive rights would exist.

The Board of Directors would be authorised to resolve on all other terms and conditions of the issuance of shares.

The authorisation will be effective until 30 June 2018.

Turku, 18 April 2017

Board of Directors