

FAROE PETROLEUM PLC

TERMS OF REFERENCE: REMUNERATION COMMITTEE last reviewed 13th December 2018

1. Constitution

IT WAS RESOLVED on 20 June 2003 (pursuant to the powers of the Board set out in Article 126.1 of the Articles of Association of the Company) that a Committee of the Board be and is hereby established and that it is known as the Remuneration Committee.

2. Membership

2.1 The Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Company and shall consist of not less than three members or, if there are less than three Non-Executive Directors at any time, all of the Non-Executive Directors of the Company. The members should be independent of management and free of any business or other relationship (including, without limitation, cross-directorships or day-to-day involvement in the running of the business) which could interfere with the exercise of their independent judgement. The members should have no personal financial interest (other than as shareholders) in the Committee's decisions and should have a good understanding, enhanced as necessary by appropriate training or access to expert advice, of the areas of the Committee's business.

2.2 The Chair of the Board of Directors can only be a member if they were independent on appointment and cannot chair the Committee.

2.3 A quorum shall be any two members of the Committee or as governed by the Company's Articles of Association from time to time.

2.3 The Chair of the Committee shall be appointed by the Board. Before appointment as Chair of the Committee, the appointee should have served on a Remuneration Committee for at least 12 months.

2.4 The members of the Committee shall be re-elected each year by the Board and a member of the Committee can be removed by the Board at any time.

2.5 The Chairman of the Committee shall be available at the Annual General Meeting of the Company to answer questions arising from the Committee's annual report to shareholders and generally on remuneration principles and practice. He should also ensure that the Company maintains good contact with shareholders about remuneration in the same way as for other matters.

3. Attendance at meetings

3.1 The Secretary of the Committee shall be appointed by the Committee.

3.2 Notwithstanding the quorum requirements, all members of the Committee should endeavour to attend all meetings at which matters of general remuneration policy or the contents of the Committee's annual report to shareholders are discussed. Other Board members may be invited to attend meetings of the Committee but no Director may be present when his or her own remuneration is being discussed.

3.3 The Company's Chief Executive shall be invited to attend meetings or parts of meetings of the Committee to discuss the performance of other Executive Directors and make proposals as necessary.

3.4 The Company's Chief Executive will also report to the Committee on significant Group-wide changes in salary structure and terms and conditions affecting other officers at senior management level (being the tier below Executive Directors).

4. Frequency of meetings

4.1 Meetings shall be held not less than twice a year. Meetings shall be held as and when appropriate, normally immediately before or after regular meetings of the full Board but formal meetings (particularly in relation to the formal grant of employee share options) may also be held by telephone.

4.2 A meeting may also be requested at any time by the Chairman of the Board, by any member of the Committee who considers that one is necessary and by any member of the Board if approval is given by the Chairman of the Board.

4.3 At least ten days' notice of any meeting of the Committee shall be given although such notice period may be waived or shortened with the consent of all the members of the Committee for the time being.

5. Authority

5.1 The Committee is authorised by the Board to determine on their behalf and on behalf of the shareholders the Company's policy on the remuneration and terms and conditions of service of the Chair of the Board of Directors, the Executive Directors and senior management. The Committee shall have delegated authority for formulating the Group's remuneration policy, including but not limited to pension rights and any compensation rights, for making awards under any discretionary bonus schemes or share option schemes adopted by the Company. The Committee should review workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for Executive Director remuneration.

5.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

5.3 The Committee is authorised by the Board to investigate any activity within its terms of reference.

5.4 All decisions of the Committee in respect of the remuneration of any Executive Directors shall be referred to the Board of Directors and shall take effect only upon approval thereof by resolution of the Board at a meeting which is properly convened and constituted and in accordance with the Company's Articles of Association, provided that the Board shall only have the power to approve without modification or reject the decisions of the Remuneration Committee, but that no Director shall be entitled to vote or be counted in the quorum in respect of any resolution relating to his own remuneration.

6. Duties

6.1 The duties of the Committee shall be to:

- (a) ensure remuneration packages offered are competitive and are sufficient to attract, retain and motivate Executive Directors and employees of the quality required but to avoid paying more than is necessary for this purpose
- (b) be aware of what comparable companies are paying and to take account of relative performance
- (c) be sensitive to the wider scene, including pay and employment conditions elsewhere in the Group, especially when determining annual salary increases
- (d) ensure that performance-related elements of remuneration are designed to align the interests of Executive Directors, employees and shareholders and to give Executive Directors and employees keen incentives to perform at the highest levels
- (e) ensure that the remuneration of Executive Directors and other senior management directly reflect their responsibilities and contain adequate incentives to deliver the Group's performance objectives
- (f) consider whether the Executive Directors and senior management should be eligible for annual bonuses. If so, performance conditions should be relevant, stretching and designed to enhance the business. Upper limits should always be considered. There may be a case for part-payment in shares to be held for a significant period
- (g) consider whether the Executive Directors and senior management should be eligible for benefits under long-term incentive schemes. Executive Directors should be encouraged to hold their shares for a further period after vesting or exercise subject to the need to finance any costs of acquisition and associated tax liability
- (h) consider any new long-term incentive schemes which are proposed and refer them to shareholders. These should preferably replace existing schemes or at least form part of a well-considered overall plan, incorporating existing schemes. The total rewards potentially available should not be excessive
- (i) consider grants under all incentive schemes, including new grants under existing share schemes, approving the design of and determining measures and targets. Assess pay-outs against such targets and approve payments under schemes
- (j) when considering pay-outs under incentive schemes, assess the reasonableness of incentive outcomes and total rewards with discretion to adjust formulaic outcomes where they do not otherwise align with individual or Company performance, subject to and in accordance with the rules of the plan
- (k) ensure grants under long-term incentive schemes are phased rather than awarded in one large block
- (l) approve the share ownership policy for Executive Directors and regularly monitor compliance
- (l) consider the pension consequences and associated costs to the Company of basic salary increases and other changes in remuneration, especially for Executive Directors and senior management close to retirement

- (m) in general ensure, neither annual bonuses nor benefits in kind are pensionable
- (n) consider what compensation commitments (including pension contributions) the Executive Directors' contracts of service, if any, would entail in the event of early termination, particularly for unsatisfactory performance
- (o) consider setting notice or contract periods at, or reducing them to, one year or less but being sensitive and flexible, especially over timing. In some cases notice of contract periods of up to two years may be acceptable. Longer periods should be avoided wherever possible
- (p) within the legal constraints tailor their approach in individual early termination cases to the wide variety of circumstances. The broad aim should be to avoid rewarding poor performance while dealing fairly with cases where departure is not due to poor performance and to take a robust line on reducing compensation to reflect departing Executive Directors' obligations to mitigate potential claims for damages
- (q) where appropriate and in particular where notice or contract periods exceed one year, to consider paying all or part of compensation in instalments rather than one lump sum and reducing or stopping payment when the former Executive Director takes on new employment
- (r) give full consideration to and follow best practice in relation to the design of performance-related remuneration for Executive Directors and senior management contained in the UK Corporate Governance Code issued by the FRC, giving full consideration to the best practice provisions set out therein in so far as practicable for a Company of its size, including as to disclosure, remuneration policy, service contracts and compensation and to follow the recommendations on corporate governance of the Quoted Companies Alliance
- (t) ensure that remuneration incentives are compatible with risk policies and systems and that any new incentive schemes have appropriate claw back mechanisms
- (u) enter into any contract of employment or related contract on behalf of the Company with Executive Directors and senior management
- (v) determine the terms of any compensation package in the event of early termination of contracts of any Executive Directors and senior management
- (w) perform the same functions in respect of other senior management, where appropriate or requested to do so by the Board
- (x) report and account directly to the shareholders for their decisions, including by way of an annual report to the Company's shareholders forming a separate section within, or annexed to, the Company's annual report and accounts, setting out the information required by the UK Corporate Governance Code, including the Company's policy on Executive Directors' remuneration, details of individual remuneration and other terms and conditions
- (y) make recommendations to the Board on an annual basis as to whether the circumstances are such that shareholders should be invited to approve the policy set out in the Board's remuneration report at the Company's AGM.

6.2 It shall also be the duty of the Committee to consider any other matter referred to it by the Board or the Chairman of the Board.

7. **Reporting procedures**

The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.