

## Corporate Governance Report

Höegh LNG Holdings Limited (“**HLNG**” or the “**Company**”) is a Bermuda company stock-listed on Oslo Børs.

As a company incorporated in Bermuda, the Company is subject to Bermuda law regarding corporate governance. In addition, as a listed company on Oslo Stock Exchange, the Company is subject to Oslo Stock Exchange’s “Continuing obligations of stock exchange listed companies” section 7 “Corporate Governance Report” (the “**Continuing Obligations**”).

The Company has adopted and implemented a corporate governance regime which, in all material respects, complies with the Norwegian Code of Practice for Corporate Governance Code (the “**Corporate Governance Code**”) referred to in the Continuing Obligations section 7. The Corporate Governance Code and the Continuing Obligations are published on Oslo Stock Exchange’s web site – [www.oslobors.no](http://www.oslobors.no)). The Corporate Governance Code is also available at the web pages of the Norwegian Corporate Governance Board - NUES - [www.nues.no](http://www.nues.no).

The board of directors of the Company (the “**Board**”) has prepared the following report on the Company’s compliance with the Corporate Governance Code and the Continuing Obligations section 7.

### 1 Implementation and reporting on corporate governance

The Board has adopted a corporate governance policy (the “**Corporate Governance Policy**”) to reflect the Company’s commitment to good corporate governance. In furtherance of this goal, the Board has also adopted a code on board proceedings (“**Rules of Procedure for the Board of Directors**”), an insider trading policy, ethical rules, an anti-corruption manual and a competition compliance manual (together “**HLNG Corporate Governance Policy**”).

Through compliance with the HLNG Corporate Governance Policy adopted by the Board, the Board and management shall contribute to achieving the following objectives:

**Trust:** Good corporate governance shall establish a basis for trust in the Board and the management by the shareholders and other stakeholders. Trust shall also be built by ensuring that the Company’s behaviour is in accordance with the stated policy.

**Transparency:** Communication with HLNG’s shareholders shall be based on transparency in relation to affairs of the Company which are of importance for assessing the Company’s development and its financial position.

**Independency:** The relation between the Board, the management and the shareholders shall be on an independent basis. This will ensure that decisions are made on the basis of qualified and neutral reasons.

**Equality:** HLNG aims to give all its shareholders equal treatment and rights.

**Control and management:** Good control and governance mechanisms shall contribute to predictability and reduction of risk.

### 2 Business

In accordance with common practice for Bermuda registered companies, the Company’s objectives and powers as set out in its Memorandum of Association are broad and are therefore wider and more extensive than recommended in the Corporate Governance Code. The Memorandum of Association is available on the Company’s web pages (Investor – Corporate Governance).

The Group’s strategy is to offer the complete chain of floating LNG services, from production, maritime transportation and regasification to market access. The Group shall own, operate and develop floating LNG services and participate in developing projects related to the LNG sector based on the following vision, mission and core values:

<b>Vision</b> .....	To become a market leader in floating LNG Services.
<b>Mission</b> .....	To develop, manage and operate the Group's assets to the highest technical and commercial standards, thereby maximizing the benefits to its customers, shareholders and employees.
<b>Core values</b> .....	Innovative, Competent, Committed and Reliable.

In order to meet the Group's goals and succeed with the Group's strategy and being able to adapt to market changes, the importance of being innovative and creative with respect to the technical, operational, financial and commercial aspects of the Group's activities are central. A further description of the Company's business is given in the Company's Annual Report.

### **3 Equity and dividends**

The issued share capital in the Company at year-end 2011 was USD 470,091.70 consisting of 47,009,170 fully paid common shares, each with a nominal value of USD 0.01.

As stated in the Company's annual report, the total book equity per 31 December 2011 was USD 133.3 million. The Board subsequently increased the equity in a private placement with gross issue proceeds of approximately USD 206 million. The Board regards the increased equity as an appropriate level considering HLNG's objectives, strategy and risk profile.

The Company has not paid any dividends since its incorporation in 2006, and does not expect to pay dividends in the short-term perspective due to its expansion strategy. HLNG's long-term objective is however to pay dividends in order to maximize shareholder return as well as to make the HLNG share an attractive investment for investors. The timing and amount of dividends will depend on the earnings of its subsidiaries, financial and borrowing conditions, capital expenditure, market prospects, investment opportunities and is subject to Bye-law 37 and Bermuda law.

Pursuant to Bermuda law and as is common practice for Bermuda registered companies, the Board has wide powers to issue any authorized but unissued shares in the Company on such terms and conditions as it may decide, and may, subject to any resolution of the shareholders in general meeting, and to the rights of any issued shares, attach such rights and restrictions as the Board may determine. Likewise, the Board may, without approval from the shareholders in a general meeting, acquire the Company's own shares to be cancelled or held as treasury shares. These Bye-law provisions (items 3.3, 3.4 and 5) are neither limited to specific purposes nor to a specified period as recommended in the Corporate Governance Code.

### **4 Equal treatment of shareholders and transactions with close associates**

The Company has only one class of shares.

A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or proposed contract, transaction or arrangement with the Company and has complied with the provisions of the Bermuda Companies Act and the Bye-Laws with regard to disclosure of his interest shall be entitled to vote in respect of any contract, transaction or arrangement in which he is so interested, his vote will be counted, and he will be taken into account in ascertaining whether a quorum is present.

According to the Company's Ethical Rules, executive personnel (and any other employees) cannot take part in any dealings or decision-making in matters of special importance to him/her or related party so that they may be considered to have a strong personal or financial interest in the matter. An Employee shall immediately notify the CEO, business area leader, or Head of HR when he/she realises that a conflict of interest may arise. If a conflict of interest exists, the Employee shall immediately withdraw from further dealings with the relevant matter.

## 5 Freely negotiable shares

The common shares of the Company are freely transferable and the Company's constitutional documents do not impose any transfer restrictions on the Company's common shares. However, the Bye-law 14.3 includes a right for the Board of Directors to decline to register a transfer of any common share registered in the share register, or if required, refuse to direct any registrar appointed by the Company the transfer of any interest in a share, where such transfer would result in 50% or more of the shares or votes being held, controlled or owned directly or indirectly by individuals or legal persons resident for tax purposes in Norway or, alternatively, such shares or votes being effectively connected to a Norwegian business activity. The purpose of this provision is to avoid that the Company is being deemed a Controlled Foreign Company pursuant to Norwegian tax rules.

## 6 General meetings

The general meeting is the Company's highest decision-making body. The annual general meeting resolves among other things the approval of the Company's annual report and financial statements, appoints the auditor and elects the board of directors. The Bye-laws 19 to 24 sets out extensive rules of procedures with regard to notices, general meetings at more than one place, proceedings, voting, proxies and corporate representatives.

According to Bye-law 22.8, the Board may choose one of its numbers to preside as chairman at a general meeting.

## 7 Nomination committee

The Bye-law 19.7 provides that from the close of the 2012 annual general meeting of the Company, the Company shall have a nomination committee composed of three (3) members elected by the shareholders in a general meeting, and the first nomination committee will be elected at the annual general meeting in 2012. The reason for the late implementation is that the Company held its 2011 annual general meeting before the stock exchange listing and it was the opinion of the then shareholders that the post listing shareholders should have influence on the composition of the nomination committee. The general meeting adopted further guidelines for the nomination committee at the 2011 annual general meeting.

## 8 Corporate assembly and board of directors: composition and independence

The Company does not have a corporate assembly.

A presentation of the directors of the Board is given on pages 16 and 17 of the Annual Report.

All Directors are independent of the Company's significant business relations and large shareholders (shareholders holding more than 10% of the Shares in the Company), except for Leif O. Høegh who is an indirect shareholder in Leif Høegh & Co Ltd. which is the majority shareholder in the Company, and for Morten W. Høegh who is the primary beneficiary under a family trust that is an indirect shareholder of Leif Høegh & Co. Ltd.

In 2011, the Board had three board meetings, where all directors were present (save for absence by Cameron Adderley and Timothy Counsell in one meeting each). The Board had also four interim board meetings, with Cameron Adderley and Timothy Counsell attending. In addition, the Board had one information meeting and a strategy seminar.

The Company has appointed two board committees; the audit committee ("**Audit Committee**") and the governance and compensation committee (the "**Governance and Compensation Committee**"). The members of the committees are appointed among the members of the Board.

The Audit Committee consists of the following Board members: Guy D. Lafferty (Chairman), Andrew Jamieson, Morten W. Høegh and Ditlev Wedell-Wedellsborg, which are elected for a period in office of one year. All members are independent of the executive personnel of the Company and the Group.

Andrew Jamieson and Ditlev Wedell-Wedellsborg are considered to be independent of the major shareholder of the Company.

The Governance and Compensation Committee consists of Jon Erik Reinhardsen (Chairman), Leif O. Høegh and Cameron E. Adderley which are elected for a period in office of one year. All members are independent of the executive personnel of the Company and the Group. Jon Erik Reinhardsen and Cameron E. Adderley are considered to be independent of the major shareholder of the Company.

During the process of listing the Company at Oslo Stock Exchange, the Board appointed a Listing Committee. The members of the Listing Committee were Morten W. Høegh, Ditlev Wedell-Wedellsborg, Cameron Adderley, Timothy Counsell and Alison Dyer-Fagundo. The Listing Committee had six meetings.

Morten W. Høegh, Leif O. Høegh, Guy D. Lafferty and Jon Erik Reinhardsen own directly or indirectly shares in the Company.

Bye-law 25 regulates the appointment and removal of directors.

## **9 The work of the board of directors**

The Board has among its tasks to establish the group's overall objectives and strategies, resolve budget and business plans, consider and approve financial statements and quarterly financial reports, monitor the financial development, establish policies and resolve issues with strategic implications and material consequences. The work of the Board is scheduled in an annual plan with fixed information- and decision points. If required, interim board meetings are arranged in accordance with the Rules of Procedure for the Board of Directors.

The Board has authorised Høegh LNG AS to carry out the day-to-day management of the assets under a Management Agreement comprising administrative-, commercial- and technical activities. The Board establishes and defines authorities and extent of decisions to be resolved by each business unit, the president and the Board through the Company's Decision Guides.

### **Board Committees**

The Audit Committee's and the Governance and Compensation Committee's tasks are defined in committee charters, which are reviewed annually. The committees' work is of a preparatory nature in order to increase the efficiency of the work of the Board and does not imply any delegation of the Board's legal responsibilities. The committees report to the Board.

## **10 Risk management and internal control**

The Board appreciates the importance of internal control and systems for risk management.

The Board is kept updated on management and Group activities through reporting systems, including monthly and quarterly financial statements. The Audit Committee pays special attention to financial risk management.

The Group is also subject to extensive external control by its auditors, external owners in joint ventures and charterers.

The management monitors that the Group acts in accordance to applicable law and regulations.

The Company has implemented a Quality Management System ("QMS") specified to demonstrate capability to plan, operate and control the processes involved in the services rendered. HLNG has implemented a QMS that is integrated, meaning that health (including occupational health), safety and environment management and project risk management all are included in the QMS.

The CEO reports monthly to the Board in a Monthly Report on HSE issues, quality assurance issues, financials, on-going business and business developments, ship management and key performance indicators.

The Governance and Compensation Committee's primary responsibilities in providing assistance and facilitating the decision making in the Board include:

- Evaluating the procedures and strategies for corporate governance in the Company and the Group and recommend improvements.
- Conducting a formal evaluation of the executive personnel annually, applying firmly established performance objectives tied to, impact on business performance, ability to select and develop the right people for the management team, scope of influence on outcomes, fulfilment of shareholders expectations, vision and strategy for the Group's future, succession plan and effectiveness in managing external relations.
- Assessing the Company's and the Group's compensation and benefits strategy for its executive personnel by an annual review of the organisation's overall compensation plan (or practices).
- Overseeing the President's efforts to identify and develop potential successors for key executive personnel.
- Reviewing annually the Board of Directors including performance, working methods and practices.
- Reviewing and assessing the Group's policies on ethics, conflicts of interest and competition law compliance.
- Arranging annually an assessment of the decision making process in the Company and the Group and reviewing and reporting in respect of same.
- Reporting the committee activities and actions to the Board of Directors through written minutes of meetings and making ad hoc presentations at Board meetings.
- Reviewing and reassessing the adequacy of the Governance and Compensation Committee's own charter annually and recommending any proposed changes to for approval by the Board of Directors.

## **11 Remuneration of the board of directors**

The remuneration of the Board in 2011 was at total of USD 150,000.

Appleby Services (Bermuda) Ltd. receives fees for the provision of Cameron E. Adderley and Timothy J. Counsell's services as Directors of the Company. Both are partners of Appleby and thereby each an owner of Appleby Services (Bermuda) Ltd.

Andrew Jamieson also provides certain consultancy services to the Company and is remunerated USD 30,000 annually for these services.

Morten W. Høegh also receives an annual salary of GBP 36,000 from Leif Høegh (UK) Ltd. (a subsidiary of the Company) for his part-time employment with the company.

The Company has no pension or retirement benefits for the members of the Board.

No member of the Board has service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment.

## **12 Remuneration of executive personnel**

HLNG is offering its executive personnel a remuneration package comprising a fixed and a variable element. The fixed element comprises salary, benefits and pension, whereas the variable element comprises membership in a bonus scheme. The purpose of the bonus scheme is to (a) drive performance and motivation; (b) maintain an “median” basic salary, with the opportunity to earn additional variable pay, in-line with the achievement of goals and results and (c) remain a competitive employer within the LNG market. The bonus scheme takes into consideration the long lead time from business development activity to materialization of a new project, as a minor part of the bonus potential is subject to individual performance only, and the remaining and lion’s share of the bonus potential is subject to share price development and individual performance.

Further details on executive remunerations are provided in Note 36 on page 65 of the Annual Report.

## **13 Information and communications**

HLNG has a policy of openness when it comes to reporting information to stakeholders. Periodical reports include quarterly reports and the Annual Report. All reports are published through stock exchange releases and at the Company’s web page. Main events are also reported through press and stock exchange releases.

The Rules of Procedure for the Board of Directors includes guidelines in order to secure disclosure in accordance with the financial calendar adopted by the Board.

The board of directors is in the process of establishing guidelines for the company’s reporting of financial and other information and the company’s contact with shareholders other than through general meetings.

## **14 Take-overs**

The company endorses the principles concerning equal treatment of all shareholders. It is obliged to act professionally and in accordance with the applicable principles for good corporate governance set out in the Corporate Governance Code in the event of a take-over bid.

## **15 Auditor**

The auditor is appointed at the general meeting and has the duty to audit the Company’s financial reporting. The Company’s auditor is currently Ernst & Young.

In order to safeguard the Board’s access and control of the auditor’s work, the auditor meets with the Audit Committee. The auditor is also given copies of agenda and documentation for and minutes from board meetings.

Information of the fee paid to the auditor can be reviewed in the Company’s Annual Report.