



HÖEGH LNG

## Höegh LNG Holdings Ltd.

### Corporate Governance Report

Höegh LNG Holdings Ltd. ("HLNG" or the "Company") is a Bermuda company stock-listed on Oslo Børs (Oslo Stock Exchange).

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, a corporate social responsibility policy, an anti-corruption manual and a competition compliance manual (together the "**HLNG Corporate Governance Policy**").

Through compliance with the HLNG Corporate Governance Policy as 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 the affairs of the Company, which are of importance for assessing the Company's development and 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:** Equal treatment of all shareholders.

**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 to regasification. 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, succeed with the Group's strategy and be 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.

### 3 Equity and dividends

The issued share capital in the Company at year-end 2013 was USD 698,930.55 consisting of 69,893,055 fully paid common shares, each with a nominal value of USD 0.01. In addition, as of end February 2014 a total of 2,272,000 options have been granted to top management and key employees (for further details please see the Directors' Report).

The total book equity per 31 December 2013 was USD 389.1 million. The Board regards the current 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 is unlikely to pay dividends before 2015 due to its expansion strategy and the terms of the NOK 750 million bond agreement. Höegh LNG's objective is to start paying dividends from 2015, in order to maximise shareholder return as well as to make the Höegh LNG share an attractive investment.

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 save as set out below:

- 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.
- The 2013 AGM approved to amend the Bye-laws to include a right for the Company to request a holder of nominee shares to disclose the actual shareholder. The Board may decline to register any transfer where a holder of nominee shares does not comply with its obligations to disclose the actual shareholder as further set out in the Bye-laws, where the default shares represent at least 0.25% (in nominal value) of the issued shares of their class.

## **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 to be held 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**

At the 2013 annual general meeting, the members of the nomination committee composing of three (3) members was re-elected. The members are Stephen Knudtzon (chairman), Barry Norris (member) and Morten W. Høegh (member). Stephen Knudtzon and Barry Norris are independent of the Board and the executive personnel of the Company. Barry Norris represents Argonaut Capital, which was the second largest shareholder at the time of the 2013 Annual General Meeting. Morten W. Høegh, Chairman of the Board of Directors, is independent of the executive personnel of the Company. He represents the largest shareholder of the Company, Leif Høegh & Co Ltd.

## **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 the Company's web pages.

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. being the majority shareholder in the Company, and Morten W. Høegh, who is the primary beneficiary under a family trust that is an indirect shareholder of Leif Høegh & Co. Ltd. In addition Guy D. Lafferty is employed by Høegh Capital Partners and is an advisor to the Høegh family.

In 2013, the Board had four regular board meetings, where all directors were present (save for absence by Timothy Counsell in one meeting). The Board had also seven interim board meetings, with Timothy Counsell attending all, Cameron Adderley attending three meetings and his alternate directors Tammy Richardson-Augustus attending three meetings and James A. Bodi one meeting. In addition, the Board had an information meeting, where all Directors save for Timothy Counsell participated.

The Company has appointed two board committees; an audit committee ("**Audit Committee**") and a 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: Andrew Jamieson (Chairman), Morten W. Høegh, Guy D. Lafferty and Ditlev Wedell-Wedellsborg, each member being elected for a period in office of one year. The 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, each member being elected for a period in office of one year. The 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.

Morten W. Høegh, Leif O. Høegh, Guy D. Lafferty, Jon Erik Reinhardsen, Andrew Jamieson and Ditlev Wedell-Wedellsborg each 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, employ the CEO and President of the Company, 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 conducts on an annual basis a self-evaluation of its own performance and expertise, which includes an evaluation of the composition of the Board and the manner in which its members function, both individually and as a group, in relation to the objectives set out for the Board's work. Such report is made available to the Nomination Committee.

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 the authorities and extent of decisions to be resolved by each business unit, the president and the Board through the Company's Decision Guides.

### **The work of the 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, and 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 are all 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 Audit Committee has the responsibility to oversee and assess the internal control and external audit activities and reports to the Board. Further, the Audit Committee's responsibilities include:

- Reviewing the financial statements of the Company and the Group.
- Discussing with management and the external auditor the quality and adequacy of the Group's internal controls for managing business, financial and regulatory risk.
- Discussing with management the status of pending litigation, taxation matters and other areas related to the legal and compliance area as may be appropriate related to financial issues.
- Reviewing annually the Audit Committee's charter.

In discharging its responsibilities the Audit Committee shall have full access to all books, records and personnel of the Company and the Group.

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 (including the Group's policies on ethics, conflicts of interest and competition law compliance and the committee charter) and recommend improvements.
- Conducting a formal evaluation of the executive personnel annually and assessing the Company's and the Group's compensation and benefits strategy for its executive personnel and the Group's succession plan.
- Reviewing annually the Board of Directors, including its performance, working methods and practices.
- Arranging an annual assessment of the decision making process in the Company and the Group.
- Reviewing annually the Governance and Compensation Committee's charter.



## **11 Remuneration of the Board of Directors**

The remuneration of the Board in 2013 was a total of USD 180,000 including the granting of shares (issuance of 1,256 shares to each Director, equivalent to USD 10,000 to each) and USD 20,000 to each of Morten W. Høegh, Leif O. Høegh, Guy D. Lafferty, Jon Erik Reinhardsen, Andrew Jamieson and Ditlev Wedell-Wedellsborg.

Appleby Services (Bermuda) Ltd. received an annual fee of USD 40,000 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 received USD 5,000 as member of the Company's Nomination Committee and he also receives an annual salary of GBP 36,000 from Leif Høegh (U.K.) Limited (a subsidiary of the Company) for his part-time employment with Leif Høegh (U.K.) Limited.

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 a bonus scheme and membership in stock options. The purpose of the bonus scheme is to (a) drive performance and motivation; (b) offer a variable pay element based on achievement of goals and results in addition to maintaining a "median" basic salary 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 performance in view of corporate objectives and results which reflect the Company's long term strategy. The purpose of the stock option membership is to further strengthen performance, motivation and retention as well as ensuring alignment of interests between the shareholders and management. In addition, the Company has a co-investment vehicle for key personnel.

Further details on executive remunerations are provided in Note 31 to the 2013 Full Year Financials.

## **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.

Outside of the general meeting, contact with the shareholders is handled by the Company's management, mainly the CEO, CFO and Head of IR, which aims at maintaining an active dialogue with the investor market and other relevant interested parties. In 2013, the Company conducted 234 meetings with investors, held 9 conference presentations and 6 broker presentations.

The Company complies with the Oslo Børs Code of Practice for Reporting IR Information, with the following comments:



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- The Company discloses information in the English language only.
- The Company publishes interim reports as soon as possible, and aims to publish the reports no later than on the 15<sup>th</sup> day of the second month after the end of the quarter. The Company publishes a list of the 20 largest shareholders. The Company does not publish a list of beneficial owners based on the 20 largest shareholders.
- Save for primary insiders, employees are not entitled to trade in the Company's shares in advance of financial reporting dates (from the period from and including the last 10 days in the last calendar month in a quarter and up to the day following the presentation of the financial report for the relevant quarter). Primary insiders are required to obtain prior written approval from the Company before any trading in the Company's share is executed.

#### 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.

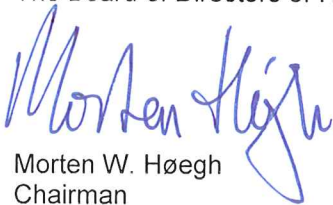
In order to safeguard the Board's access and control of the auditor's work, the auditor meets with the Audit Committee. The auditor is also given copies of agenda and documentation for and minutes from board meetings.

Information of the fee paid to the auditor can be reviewed in the Company's 2013 Full Year Financials.

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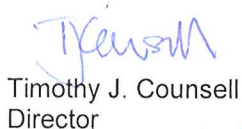
Hamilton/Copenhagen, 27 March 2014

The Board of Directors of Höegh LNG Holdings Ltd.

  
Morten W. Høegh  
Chairman

  
Leif O. Høegh  
Deputy Chairman

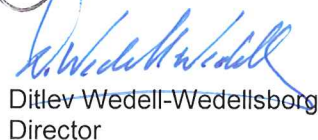
  
Cameron E. Adderley  
Director

  
Timothy J. Counsell  
Director

  
Andrew Jamieson  
Director

  
Guy D. Lafferty  
Director

  
Jon Erik Reinhardsen  
Director

  
Ditlev Wedell-Wedellsborg  
Director