

Corporate governance

Pursuant to section 3, sub-section 3b of the Norwegian Accounting Act, North Energy is required to include a description of its principles for good corporate governance in the directors' report of its annual report or alternatively refer to where this information can be found. The Norwegian Corporate Governance Board (NCGB) has issued the Norwegian code of practice for

corporate governance (the code), which can be found at www.nues.no. Observance of the code is based on the "comply or explain" principle, which means that companies must explain either how they comply with each of the recommendations in the code or why they have chosen an alternative approach.

The Oslo Stock Exchange requires that listed companies provide an annual explanation of their corporate governance policy in line with the applicable code. Current requirements for companies listed on the Oslo Stock Exchange can be found at www.oslobors.no.

The following presentation of corporate governance has the same structure as the code, and follows the code's structure with 15 main subjects.

1. Implementation and reporting on corporate governance

North Energy's decisions and actions will be based on its core values:

- ☐ at the forefront
- ☐ competent
- ☐ bridge-builder
- ☐ a fearless voice in the north.

It is the executive management's job to ensure that the areas of responsibility, individually and collectively, are prioritised on the basis of these core values and in accordance with the code. The company has drawn up guidelines on ethics and corporate social responsibility, which are available on the company's website at www.northenergy.no.

2. The business

North Energy's business purpose is to pursue exploration for as well as development and production of oil and gas on the NCS and in the Russian sector of the Barents Sea, and to be able to own or participate in companies which conduct similar activities, including through subsidiaries. The company's vision is to develop a leading and profitable oil and gas company which contributes actively to industrial value creation in the far north. This will be achieved through the following main strategies:

- ☐ acquiring and being awarded the best licences in the northern part of the Norwegian North Sea and the Barents Sea
- ☐ ensuring an adequate capital base to finance the company through exploration, development and into production
- ☐ ensuring access to good investment opportunities by being an attractive partner for government and leading oil companies

② being a credible and attractive partner for important stakeholders, such as suppliers/contractors, the fishing industry and environmental interests

② establishing a basis for long-term value development and spin-offs in the far north.

North Energy's articles of association specify clear parameters for its operations, while visions, goals and strategies are enshrined in its management system. Work to prepare the company for operator assignments on the NCS continued during 2014, and updates to procedures and process descriptions have been made in that connection.

Further information on the company's articles of association can be found at www.northenergy.no/nb/om-north-energy/vedtekter and on licences and operations at <http://www.northenergy.no/nb/var-virksomhet/lisenskart>.

3. Equity and dividends

Since its formation in 2007, North Energy has been solely an exploration company without revenues except from the sale of licence interests. Its activities are primarily financed through equity, which has been significantly strengthened through the share issue approved by the extraordinary general meeting of 13 February 2014. This involved the issue of 71.25 million new shares at a subscription price of NOK 4.00. The company entered into a loan agreement with EMGS under which the lender had the right but not the obligation to convert the loan to shares. The agreement with EMGS had a framework of NOK 75 million. EMGS opted on 20 August 2014 to convert NOK 28.4 million of the loan to shares in the company at a conversion price of NOK 4.1451 per share. The outstanding loan balance of NOK 46.6 million was redeemed on 2 September 2014. Following the conversion of loan to shares, EMGS increased its holding in the company to 9.96 per cent.

Furthermore, the board was mandated by the annual general meeting in 2014 to issue new shares up to a limit of 10 per cent of the existing number of shares. This mandate is valid until the next AGM, but has not been utilised.

The company's equity totalled NOK 440 million at 31 December. That represents 74 per cent of its total capital. Liquidity is regarded as satisfactory in relation to the company's future obligations. Cash, cash equivalents and provision for tax refunds, less interest-bearing debt, totalled NOK 325 million at 31 December. North Energy also has an overdraft facility of NOK 950 million which covers tax-refundable exploration costs, and NOK 55 million of this had been drawn down at 31 December. The overdraft facility was extended in December 2014 to the end of 2017. North Energy has not paid a dividend and does not expect to make any dividend payment in the next few years.

4. Equal treatment of shareholders and transactions with close associates

Should North Energy be a party to a transaction with close associates of the company or with companies in which directors or senior executives, or their close associates, have a significant interest, directly or indirectly, the parties concerned must immediately notify the board. All such transactions must be approved by the chief executive and the board and, where required, also be reported to the market. North Energy made no investment in its own shares during 2014.

5. Freely negotiable shares

The North Energy share is listed on the Oslo Axess exchange. All the shares are freely negotiable. The articles of association impose no restrictions on the negotiability of the share.

6. General meetings

The company's general meetings in 2014 were held in accordance with the Public Companies Act.

The general meeting is North Energy's highest authority. The board endeavours to ensure that the general meeting is an effective forum for communication between the board and the company's shareholders. As a result, the board makes provision for the highest possible participation by the company's owners at the general meeting. Notice of the meeting and supporting documentation for items on the agenda are made available on the company's website no later than 21 days before the general meeting. Provision is also made to vote in advance of the company's general meeting. Elections are organised in such a way that it is possible to vote separately for each candidate to serve on the company's elected bodies. Shareholders who cannot attend the general meeting in person are able to appoint a proxy to vote on their behalf. Proxy forms have been drawn up which allow the proxy to be instructed how to vote on each agenda item.

The board determines the agenda for the general meeting. However, the most important items on the agenda are dictated by the Public Companies Act and the company's articles of association. Minutes of the meetings are posted to the company's website the day after the general meetings have been held at the latest.

7. Nomination committee

The job of the nomination committee is to submit recommendations, with justifications, to the general meeting on the election of shareholder-elected directors and to nominate the chair of the board. Furthermore, the committee will submit proposals for the remuneration of directors and recommend members of the committee. Establishment of the committee is stipulated in the articles of association, and its work is regulated by instructions adopted by the general meeting. Nomination committee members are independent of the board and the company's executive management.

Members of the committee receive a fixed remuneration which is not dependent on results. The general meeting decides on all recommendations made by the committee.

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

North Energy has chosen not to have a corporate assembly.

The board is organised in accordance with the Public Companies Act, with two women and three men as shareholder-elected directors. All have broad experience. Two of these directors are elected independently of the company's shareholders. In addition, one director and an observer are elected from and by the company's employees. Neither of them belong to the executive management. The directors represent both industry-specific and professional expertise from national and international companies. More information on each director is available at www.northenergy.no. Shareholder-elected directors are elected for two-year terms. Elections are conducted in such a way that new directors can join the board every year.

North Energy takes the view that all its directors are independent of the company's executive management and significant business partners. At present, four of the directors own shares directly or indirectly in North Energy. No director holds options to buy further shares.

9. The work of the board of directors

The board's work is regulated by instructions. Its duties consist primarily of managing North Energy, which includes determining the company's strategy and overall goals, approving its action

programme and ensuring an acceptable organisation of the business in line with the company's articles of association. The board can also determine guidelines for the business and issue orders in specific cases. The board must look after North Energy's interests as a whole, and not act as individual shareholders.

A clear division of responsibility has been established between the board and the executive management. The chief executive is responsible for operational management of the company and reports regularly to the board.

The administration is responsible for preparing matters for board meetings. Ensuring that the work of the board is conducted in an efficient and correct manner in accordance with relevant legislation is the responsibility of the chair. The board ensures that the auditor fulfils a satisfactory and independent control function. It presents the auditor's report to the general meeting, which also approves the remuneration of the auditor. It was resolved in 2014 that the audit committee's duties would be discharged directly by the board.

A compensation committee was established by the board in 2014, and comprises the following directors:

- ☐ Anders Onarheim, chair of the board
- ☐ Jogeir Romestrand
- ☐ Elin Karfjell.

The committee will ensure that compensation arrangements support the company's strategy and enable it to recruit, motivate and retain managers of a high standard, while complying with requirements set by governing bodies, fulfilling shareholder expectations and being in line with the expectations of the rest of the workforce.

The board conducts an annual evaluation of its work, competence and performance.

Fifteen board meetings were held in 2014, including four without physical attendance, and average attendance by directors was 90 per cent.

10. Risk management and internal control

Strict standards are set for the company's internal control and management system as a player in the oil and gas industry. Work on further development and improvement of North Energy's management system and associated documentation is a priority job in the company's corporate governance and risk management. North Energy concentrated attention during the year on enhancing awareness and a sense of responsibility among the employees in order to improve the system's processes. The company's management system is a good tool for the executive management and the workforce, and reduces the risk of errors and misunderstandings. The system facilitates collaboration and learning, and ensures continuity in the execution of the company's processes.

North Energy has incorporated well-functioning systems and routines for identifying, recording and following-up nonconformities. These are all followed up systematically by the company management, which sees to it that corrective measures are adopted. Undesirable incidents, unfortunate conditions and improvement suggestions are recorded and dealt with in the same improvement system.

The executive management follows up conditions which present the company with a financial risk on a daily basis, and reports these to the board. Reporting to the board from the

company gives emphasis both to the on-going risk in daily operations and to risk associated with the investment opportunities presented. In addition, the board considers an overall risk assessment at least twice a year which takes account of all the company's activities and the exposure these involve. The board is also presented at regular intervals with the auditor's assessments of financial risk.

11. Remuneration of the board of directors

The nomination committee recommends the directors' fees to the general meeting, and takes account of their responsibility, qualifications, time taken and the complexity of the business. Directors' fees are not profit-related. North Energy has not issued any options to its shareholder-elected directors.

None of the shareholder-elected directors have undertaken special assignments for North Energy other than those presented in this report, and none have received compensation from the company other than normal directors' fees.

12. Remuneration of executive personnel

The board determines the remuneration of the chief executive and takes account of the responsibility involved, qualifications, the complexity of the work and the results achieved. Furthermore, the board determines the principles for remunerating other senior executives in the company, and these are explained in this annual report. All employees have the same performance-based bonus scheme. Further information is provided in the notes to the annual financial statements.

13. Information and communications

North Energy keeps shareholders and investors regularly informed about its commercial and financial status. The requirements for such information have been increased by the company's stock exchange listing and the expansion in the number of its shareholders. The board is concerned to ensure that players in the stock market receive the same information at the same time, and all financial and commercial information is accordingly made available on the company's website. Stock exchange announcements are distributed through www.newsweb.no.

The annual financial statements for North Energy are made available on its website at least three weeks before the general meeting. Interim reports are published within two months of the end of each quarter. Quarterly presentations are transmitted directly over the internet. North Energy publishes an annual financial calendar which is available on the Oslo Stock Exchange website.

The board gives emphasis to openness and equal treatment in relation to all players in the market, and strives at all times to give as correct a picture as possible of the company's financial position.

14. Takeovers

North Energy's articles of association contain no restrictions on or defence mechanisms against the acquisition of the company's shares. In accordance with its general responsibility for the management of North Energy, the board will act in the best interests of all the company's shareholders in such an event. Unless special grounds exist, the board will not seek to prevent takeover offers for the company's business or shares. Should an offer be made for the shares of North Energy, the board will issue a statement which recommends whether shareholders should accept it.

15. Auditor

The annual financial statements are audited by PricewaterhouseCoopers AS. The board receives and considers the auditor's report after the financial statements for the relevant year have been audited. The auditor submits an annual plan for the conduct of audit work, and attends board meetings when the consideration of accounting matters requires their presence. In at least one of these meetings, the auditor makes a presentation to the board without the executive management being present. The auditor presents a declaration of independence and objectivity. Relations with the auditor are regularly reviewed by the board to ensure that the auditor exercises an independent and satisfactory control function. The board presents the auditor's fee to the general meeting for approval by the shareholders.

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