

## 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](http://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 explanation of their corporate governance policy annually. Current requirements for companies listed on the Oslo Stock Exchange can be found at [www.oslobors.no](http://www.oslobors.no).

The following information is presented according to the same structure as the code and contains the same 15 main elements.

### 1. Implementation and reporting on corporate governance

It is the executive management's job to ensure that the areas of responsibility, individually and collectively, are prioritised according to the Company's values and business codes. The Company has established clear guidelines for ethics and corporate social responsibility. These can be found on the Company's website, [www.northenergy.no](http://www.northenergy.no).

### 2. The business

North Energy's business purpose is to directly or indirectly own, manage and provide financing for activities within exploration, development and production of oil and gas resources and other forms of energy, and equivalent for other services and activities related to the oil and gas industry or energy.

North Energy's vision is to become a successful and respected energy company that is committed to creating value. The Company will achieve this by focusing on core exploration areas and prospectivity with clear commercial potential, while at the same time investigating strategic options including M&As and possible expansion into other parts of the energy value chain.

North Energy's Articles of Association specify clear parameters for its operations, while its vision, goals and strategies are at the core of its management philosophy and operations.

### 3. Equity and dividends

The Company's dividend policy, outlined on its web page, states that any payment of dividends will be determined based on the Company's expected cash flow, capital expenditure plans, financing requirements and other factors the Board considers relevant. All proposals from the Board concerning dividends must be approved by shareholders at the General Meeting to ensure that the Company's equity and dividend are consistent with its objectives, strategies and risk profile.

North Energy did not pay any dividend in 2016, but in January 2017, the Board proposed to pay a NOK 0.25 per share dividend, corresponding to a total distribution of NOK 29.8 million. The proposal was approved at an Extraordinary General Meeting ("EGM") in February.

Equity as of 31 December 2016 was NOK 406.9 million, compared with NOK 314.9 million at year-end 2015, giving an equity ratio of 88 per cent, up from 48.7 per cent at year-end 2015. 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, totaled NOK 154 million at 31 December. North Energy also has an overdraft facility of NOK 200 million which covers tax-refundable exploration costs, of which NOK 25 million was drawn down at 31 December 2016.

At present, North Energy does not have any authorization to issue new shares.

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

Should North Energy be a party to any transaction that may involve a close associate of the Company or other companies that Directors, senior executives or their close associates have a significant interest in, whether 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, a market notification must be sent.

North Energy made no investment in its own shares during 2016.

#### 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 Annual General Meeting ("AGM") is North Energy's highest authority. The Company's General Meetings in 2016 (AGM and EGM's) were held in accordance with the Public Companies Act.

The Board endeavors to ensure that the General Meeting is an effective forum for communication between the Board and the Company's shareholders. Thus, 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 for shareholders to vote in advance of the Company's General Meeting, and elections are organized such that it is possible to vote individually candidates nominated to serve in 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 are provided that 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. Meeting minutes are published on the Company's website the day after the General Meetings, at latest.

#### 7. Nomination Committee

The Nomination Committee submits recommendations for candidates to be elected, along with a justification, to the General Meeting, as well as nominates the Chair of the Board. Furthermore, the Committee will submit substantiated proposals for the remuneration of Directors and recommend Committee members. Establishment of the Committee is stipulated by the Articles of Association, and its work is regulated by instructions adopted by the General Meeting.

Nomination Committee members serve independently 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.

The members of the Nomination Committee are Rabbe Lund (Head), Merete Haugli and Hans Kristian Rød.

## 8. Corporate assembly and Board of Directors: composition and independence

North Energy has chosen not to have a corporate assembly.

North Energy initiated a significant cost-cutting programme in 2015, in response to adverse market conditions. To contribute to this programme, the Nomination Committee recommended to the 2015 AGM that the Board should be reduced to the three existing shareholder-elected Directors. The recommendation from the Nomination Committee was approved at the AGM. The Board consists of two men and one woman who serve as shareholder-elected Directors. All have broad experience. Two of these Directors are elected independently by the Company's shareholders. In addition, one Director is elected from and by the Company's employees. The Directors provide industry-specific professional expertise and experience from national and international companies. More information on each Director is available at [www.northenergy.no](http://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.

Apart from Chairman Anders Onarheim, North Energy regards its Directors as independent of the Company's executive management and significant business partners. At present, all three Directors own shares directly or indirectly in North Energy. No director holds options to buy further shares.

As a key part of its revised business strategy announced in 2016, North Energy elected to strengthen its management resources. The Company negotiated an advisory agreement whereby North Energy outsourced certain strategic, financial and business advisory services to North Advisors AS ("North Advisors"), an advisory company owned by a group of key stakeholders of North Energy, including Mr. Onarheim. As remuneration for its services, North Advisors receive a fee equivalent to 2 per cent per year based on the consolidated book equity of North Energy. The proposal to outsource certain management functions to North Advisors was presented in detail and subsequently approved at an EGM in May 2016.

## 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. 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.

15 board meetings were held in 2016, including 5 without physical attendance, and average attendance by directors was 100 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. 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 to identify, record and follow-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 regularly up conditions which present the Company with a financial risk daily, and reports these to the Board. Reporting to the Board by 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.

Apart from Mr. Onarheim's assignment in North Advisors described above, 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, taking into account the responsibility involved, qualifications, the complexity of the work and the results achieved. Furthermore, the Board determines the principles for remuneration of other senior executives in the Company, which are outlined in the Annual Report. All employees have the same performance-based bonus scheme. Further information is provided in the notes section of the annual financial statements.

#### 13. Information and communications

North Energy keeps its shareholders and investors regularly informed about its commercial and financial status. The Board is conscientious that all stakeholders shall receive the same information at the same time, and all financial and commercial information are made available on the Company's website simultaneously. Stock exchange announcements are distributed through [www.newsweb.no](http://www.newsweb.no) and made available on the Company's website.

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 after 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 emphasizes openness and equal treatment in relation to all relevant parties in the market, and strives always to provide 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 defense 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 with its recommendation as to 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.

Oslo, 22 March 2017

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Anders Onarheim  
Chair

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Elin Karfjell  
Director

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Jogeir Romestrand  
Director

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Johan Terje Bjerka  
Director

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Knut Sæberg  
CEO