

# Corporate governance

**American Shipping Company ASA's focus is on building a premier ownership position in the Jones Act market to create maximum value for its shareholders. Good corporate governance will help to reduce risk and ensure sustainable value creation.**

The Board of Directors of American Shipping Company ASA has reviewed and updated the Company's principles for corporate governance. The Board's statement of corporate governance is included in the annual report. The principles are based on the Norwegian Code of Practice for Corporate Governance, dated 30 October 2014 (the "Code of Practice"), the principles set out in the Continuing Obligations of stock exchange listed companies from the Oslo Stock Exchange, and the relevant Norwegian background law such as the Norwegian Accounting Act and the Norwegian Public Limited Liability Companies Act. The Code of Practice is available at [www.nues.no](http://www.nues.no) and the Continuing Obligations of stock exchange listed companies may be found at [www.oslobors.no](http://www.oslobors.no). The principles also apply to American Shipping Company ASA's subsidiaries where relevant.

The following presents American Shipping Company ASA's (hereinafter American Shipping Company, AMSC, the Company or the Group) practice regarding each of the recommendations contained in the Code of Practice. Any deviations from the recommendations are found under the item in question. In addition to the Code of Practice, the Norwegian Accounting Act § 3-3b stipulates that companies must provide a report on their policies and practices for corporate governance either in the annual report or in a document referred to in the annual report. This report is integrated in this corporate governance statement.

## Purpose

American Shipping Company's Corporate Governance principles are intended to ensure an appropriate division of roles and responsibilities among the Company's owners, its Board of Directors, and its executive management and that the Company's activities are subject to satisfactory control. These principles contribute to the greatest possible value creation

over time, to the benefit of owners and other stakeholders. It is the responsibility of the Board of Directors of AMSC to ensure that the Company implements sound corporate governance.

## Values and ethical guidelines

The Board has adopted AMSC's corporate values and ethical guidelines. The corporate values are presented below.

### Safety, Quality & Environment mindset

We take personal responsibility because we care

### Delivering results

We deliver consistently and strive to beat our goals

### Customer drive

Building customer trust is key to our business

### People and teams

All our major achievements are team efforts

### Hands-on management

We know our business and get things done

### Open and direct dialogue

We encourage early and honest communication

## Business

The Company's business model is to own and bareboat charter vessels for operation in the U.S. Jones Act market through its wholly owned subsidiary leasing companies. The corporate structure of American Shipping Company, through its operating subsidiaries in the United States, is in conformance with the applicable requirements of the Jones Act. All of its vessels are fully qualified to participate in the domestic maritime trades of the United States.

Pursuant to clause 3 of the Company's Articles of Association, the objective of the Company is "to own and carry out

*industrial business and other activities related hereto, including ownership of vessels, capital management and other functions for the group, as well as participation in or acquisition of other companies."*

The function of the business purpose clause is to ensure that shareholders have control of the business and its risk profile, without limiting the Board or management's ability to carry out strategic and financially viable decisions within the defined purpose. The Group's financial goals and main strategies are as follows:

- Be a preferred ship owning and lease finance company in the Jones Act market
- Have a modern, safe and operationally friendly fleet
- Explore and invest in value creating opportunities for our shareholders
- Apply the tools of financial engineering to ensure an optimal use of capital

These goals and strategies are presented in more detail on page 5 of this report and in the Board of Director's report.

## Equity and dividends

### Equity

The Group's book equity as of 31 December 2015 was USD 224.2 million corresponding to an equity ratio of 25 percent. The Company's Board of Directors frequently monitors the Company's equity level according to the Norwegian Public Limited Liability Companies Act Sections 3-4 and 3-5. As such, the Company regards the Group's current equity as sound.

### Dividends

American Shipping Company's dividend policy is included in the section "Shares and shareholder information", on pages 42-44 of this annual report. The Company's goal is that its shareholders shall, over

time, receive competitive returns on their investment. Any payment of dividend will be based upon the Group's earnings for the last year ended and other factors, the financial situation at the relevant point in time and applicable restrictions under AMSC's financial agreements and applicable laws and regulations.

#### **Board authorizations**

The Board's proposals for Board authorizations to increase the Company's share capital are to be limited to defined issues and to be valid only until the next Annual General Meeting.

The Annual General Meeting in 2015 granted an authorization to the Board to purchase own (treasury) shares in connection with the Company's incentive scheme for employees. The Board was also granted an authorization to increase the share capital in connection with strengthening of the Company's equity capital or to raise equity capital for future investments within the Company's scope of operations.

The Board of Directors has authorization to pay dividends, to facilitate payment of dividends on a quarterly basis.

All of these Board authorizations are valid up to the Annual General Meeting in 2016.

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

The Company has a single class of shares, and all shares carry the same rights in the Company. However, the shares are subject to certain ownership and voting restrictions due to the fact that the Company is operating under an exception from the U.S. ownership requirement in the Jones Act (see the Company's Articles of Association Section 8, which are available on the Company's web page).

Equal treatment of all shareholders is crucial. If existing shareholders' preemptive rights are waived upon an increase in share capital, the Board must justify the waiver. Transactions in own (treasury) shares must be executed on the Oslo Stock Exchange or by other means at the listed price.

If there are material transactions between the Company and a shareholder, board member, member of executive management, or a party closely related to any of the aforementioned, the Board shall ensure that independent valuations are available.

American Shipping Company has prepared guidelines designed to ensure that members of the Board of Directors and executive management notify the Board of any direct or indirect stake they may have in agreements entered into by the Group.

See information on transactions with related parties in Note 18 to the consolidated accounts.

#### **Freely negotiable shares**

American Shipping Company's shares are freely negotiable. However, the transferability of shares is subject to certain voting and ownership restrictions on "Shipping Operators" due to the fact that the Company is operating under an exception from the U.S. ownership requirement in the Jones Act. A "Shipping Operator" is defined in the Company's Articles of Association as a person or entity that operates any vessel for hire or directly or indirectly controls, is controlled by, or is under common control with any company or person who operates any vessel for hire. For further details, see the Company's Articles of Association Section 8, which are available on the Company's web page.

#### **General Meetings**

The Board encourages shareholders to participate in its General Meetings. It is the Board's priority to hold the Annual General Meeting as early as possible after the year-end. Notices convening General Meetings, with comprehensive documentation relating to the items on the agenda, including the recommendations from the Nomination Committee, are made available on the Company's website no later than 21 days prior to the General Meeting. The deadline for shareholders to register to the shareholders' meetings is set as close to the date of the meeting as possible and the deadline for registration may not expire earlier than five days prior to the date of the General Meeting.

The notice materials include a thorough explanation of all procedures for registration, voting and attendance. The proxy form includes instructions for representation at the meeting through a proxy and allows shareholders to nominate a person who will be available to vote on behalf of the shareholders. In addition, to the extent possible, the proxy form includes separate voting instructions to be given for each matter to be considered by the meeting. The shareholders may also

vote electronically in advance of the General Meeting.

Pursuant to the Company's Articles of Association, the Chairman of the Board or an individual appointed by the Chairman of the Board will chair shareholder's meetings. Thus, the Articles of Association of the Company deviates from the Code of Practice in this respect. Having the Chairman of the Board or a person appointed by her chairing the General Meetings simplifies the preparations for the General Meetings significantly. To the extent possible, board members and the auditor attend annual shareholders' meetings.

The shareholders are invited to vote on the composition of the Board of Directors proposed by the Nomination Committee as a group, and not on each board member separately. Hence, the Company deviates from the Code of Practice in this regard as it is important to the Company that the Board of Directors works in the best possible manner as a team, and that the background and competence of the board members complement each other.

Minutes of General Meetings are published as soon as practically possible via the Oslo Stock Exchange messaging service [www.newsweb.no](http://www.newsweb.no) (ticker: AMSC) and on the Company's website [www.americanshippingco.com](http://www.americanshippingco.com).

#### **Nomination Committee**

Pursuant to American Shipping Company's Articles of Association, the Nomination Committee recommends candidates for members of the Board of Directors. The Nomination Committee also makes recommendations as to remuneration of Board members and members of the Nomination Committee. The current members of the Nomination Committee, as elected by the General Meeting, are Arild Støren Frick (chair) and Christine Rødsæther.

The General Meeting of the Company has adopted guidelines for the Nomination Committee. According to these guidelines, the Nomination Committee shall emphasize that candidates for the Board have the necessary experience, competence and capacity to perform their duties in a satisfactory manner. Furthermore, attention should be paid to ensure that the Board can function effectively as a collegiate body. A reasonable representation with regard to gender and background should also be emphasized, and the Nomination

Committee should present its nomination of Directors to the Board, and also justify its nominations. The guidelines for the Nomination Committee are available on the Company's website.

The Chairman of the Nomination Committee has the overall responsibility for the work of the committee. In the exercise of its duties, the Nomination Committee may contact, amongst others, shareholders, the Board of Directors, management and external advisors. The Nomination Committee shall also ensure that its recommendations are endorsed by the largest shareholders. The Company will provide their shareholders with information on how to submit proposals to the Nomination Committee for candidates for election to the Board of Directors on the Company's website.

### **Board composition and independence**

The Company does not have a corporate assembly since the Company has only three employees.

Pursuant to the Company's Articles of Association and corporate governance policy, the Board comprises between three and nine members, which are elected for a period of two years. Further, up to three shareholder-elected deputy board members may be elected annually. The Chairman of the Board is elected by the General Meeting. The Board may elect a Deputy Board Chairman.

The majority of the shareholder-elected Board members are to be independent of the Company's executive management, its significant business associates and its significant shareholders. Representatives of American Shipping Company's executive management shall not be board members. The current composition of the Board is presented on page 49 of this annual report, which also includes the board members' expertise, capabilities and independence. The current members of the Board are Annette Malm Justad (Chairman), Kristian Røkke and Peter Knudsen. Two of the three members of the Board are independent of the Company's significant shareholders and significant business associates. The Company encourages the board members to invest in the Company shares, and the shareholdings of the board members are presented in Note 17 to the consolidated accounts.

The board members represent a combination of expertise, capabilities, and experience from various finance, industry, and non-governmental organizations. Based on the current board members' experience and expertise, the Board functions effectively as a collegiate body.

Two of the three shareholder-elected Board members are up for election in 2016.

### **The work of the Board of Directors**

The Board of American Shipping Company annually adopts a plan for its work, emphasizing goals, strategies, and implementation. Also, the Board has adopted informal guidelines that regulate areas of responsibility, tasks, and division of roles of the Board, Chairman, and CEO. These instructions also feature rules governing Board schedules, rules for notice and chairing of Board meetings, decision-making rules, the CEO's duty and right to disclose information to the Board, professional secrecy, impartiality, and other issues. In general, four ordinary board meetings are convened each year, with one meeting held every quarter.

To ensure a more independent consideration of matters of a material nature in which the Chairman is, or has been, personally involved, the Board's consideration of such matters should be chaired by another member of the Board. The Board itself assesses the need to elect a deputy chairman.

The Norwegian Public Limited Liability Companies Act requires that companies listed on a regulated market shall have an audit committee. Due to the small size of the Company's Board, the entire Board of Directors acts as the audit committee. The majority of the members of the audit committee are independent of the Company's operations.

With the exception of the audit committee, the Board has not deemed it necessary to establish other board committees at this time. The Board has considered appointing a remuneration committee in order to help ensure thorough and independent preparation of matters relating to compensation paid to executive personnel. However, due to the small size of the Board and since no members of the executive personnel are also members of the Board of Directors, the Board does not deem it necessary to appoint a remuneration committee at this time. If the Board decides to appoint a remuneration committee, the membership

of the committee shall be restricted to members of the Board who are independent of the Company's executive personnel.

The Board evaluates its own performance and expertise once a year.

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

The Board is to ensure that the Company maintains solid in-house control practices and appropriate risk management systems tailored to the Company's business activities and its values and ethical guidelines. The Board annually reviews the Company's most important risk areas and internal control systems and procedures, and the main elements of these assessments are mentioned in the Board of Directors' report.

### **Audit Committee**

The Audit Committee has reviewed the Company's internal reporting systems, internal control and risk management and had dialogue with the Company's auditor. The Audit Committee has also considered the auditor's independence.

AMSC's financial policies ensure follow-up of financial risk. Key targets are identified by the Board and management to ensure timely control of currency exposure, interest rate exposure and compliance with loan covenants.

### **Financial Statement Close Process**

Consolidation and control over the financial statement close process is the Controller's responsibility. The Company's current business includes bareboat chartering of its ten vessels and therefore means that the activities of its employees are managing the financing of vessels and overhead. The Company has a small organization with three employees, who all have direct communication with the Board of Directors. Meetings between management, the external auditor and members of the Board, to identify significant accounting issues or other issues are held prior to completion of the annual report and in connection with management's reporting to the Audit Committee. The purpose of these meetings is to focus on new and amended accounting principles or other issues in the financial statements. Financial results and cash development are analyzed and compared to the budget by the CFO and Controller and reported to the Board monthly.

Because of the inherent segregation of duties matters caused by having only three

employees, special actions have been implemented. A third party consultant performs a quarterly review of the Company's cash disbursements from its operating accounts in the U.S. and provides a report to the Audit Committee. In Norway, disbursements are managed by accounting services purchased from an accounting firm, with normal control procedures in place such as management approval of invoices for payment and two signatories required for payments.

The Board of Directors approves the Company's yearly budget and reviews deviations to the budget on a monthly basis.

### Remuneration of the Board of Directors

Board remuneration is to reflect the Board's responsibility, expertise, time spent, and the complexity of the business. Remuneration does not depend on American Shipping Company's financial performance and the Company does not grant share options to the board members. Board members and companies with whom they are associated must not take on special tasks for the Company beyond their Board appointments unless such assignments are disclosed to the full Board and remuneration for such additional duties is approved by the Board. The Chairman and the Board of Directors have not received benefits other than directors' fees.

Additional information on remuneration paid to board members for 2015 is presented in Note 17 to the consolidated accounts.

### Remuneration of executive management

The Board has adopted guidelines for remuneration of executive management in accordance with the Norwegian Public Limited Company Act section 6-16a. Salary and other remuneration of American Shipping Company's CEO are determined by the Board of Directors.

The Board's guidelines for remuneration of executive management will be made available as a separate appendix to the agenda for the Annual General Meeting. The statement will include information on which aspects of the guidelines are advisory, and which, if any, is binding. The shareholders will be able to vote separately on these aspects of the guidelines.

### Information and communications

The Board of Directors has established guidelines for the reporting of financial and other information and is based on openness and on equal treatment of shareholders, the financial community, and other interested parties. The long-term goal of American Shipping Company's investor relations activities is to ensure the Company's access to capital at competitive terms and to ensure shareholders' correct pricing of shares.

These goals are to be accomplished through correct and timely distribution of information that can affect the Company's share price; the Company is also to comply with current rules and market practices, including the requirement of equal treatment. All stock exchange notifications and press releases are made available on the Company's website [www.americanshippingco.com](http://www.americanshippingco.com); stock exchange notices are also available from [www.newsweb.no](http://www.newsweb.no). All information that is distributed to shareholders is simultaneously published on American Shipping Company's website. The Company's financial calendar is also found on page 2 of this annual report.

### Take-overs

The overriding principle is equal treatment of shareholders. The principles are based on the bidder, the Company and the management all having an independent responsibility for fair and equal treatment of the shareholders in a takeover process, and that company operations are not unnecessarily disturbed. It is the responsibility of the Board to ensure that the shareholders are kept informed and that they have reasonable time to assess the offer.

Unless the Board has particular reasons for so doing, it will not take steps to prevent or obstruct a take-over bid for the Company's business or shares, nor use share issue authorizations or other measures to hinder the progress of the bid, without such actions being approved by the shareholders' meeting after the take-over offer has become public knowledge.

If an offer is made for the Company's shares, the Board will make a statement to the shareholders that provides an assessment of the bid, the Board's recommendations, and reasons for these recommendations. If the Board cannot make a recommendation to the shareholders, the Board shall explain their rea-

soning for no such recommendation. For each bid, an assessment will be made as to the necessity of bringing in independent expertise. In a situation where a competing bid is made and the bidder has a connection to any member of the Board or executive personnel, or if the bidder is a main shareholder, the Board shall seek an independent valuation. The valuation is to be recorded in the Board's statement.

Transactions that have the effect of sale of the Company or a major component of it are to be decided on by shareholders at a shareholders' meeting.

### Auditor

The auditor will make an annual presentation to the Board of a plan for the auditing work for the year. Further, the auditor is to provide the Board with an annual written confirmation that the requirement of independence has been met.

The auditor participates in at least one Board meeting annually, including the meeting prior to the Annual General Meeting. At this meeting, the auditor reviews any material changes in the Company's accounting policies, comments on any material estimated accounting figures and reports all material matters on which there has been disagreement between the auditor and the executive management of the Company. The auditor also presents to the Board a review of the Company's internal control procedures, including identified weaknesses and proposals for improvements.

One meeting a year is held between the auditor and the Board, at which no representatives of executive management are present. Auditors are to provide the Board with an annual overview of services other than auditing that have been supplied to the Company. Remuneration for auditors, presented in Note 3 to the consolidated accounts, is stated for the four categories of ordinary auditing, other attestation services, tax assistance and other assurance services. In addition, these details are presented at the Annual General Meeting. The auditor has provided the Board of Directors with written confirmation of its independence.