

Corporate governance

Philly Shipyard ASA (referenced to herein as “PHLY”) aims to create maximum value for its shareholders over time. Good corporate governance will help to reduce risk and ensure sustainable value creation.

The Board has reviewed and updated PHLY’s principles for corporate governance. The principles are based on the Norwegian Code of Practice for Corporate Governance, dated 17 October 2018 (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 and the Continuing Obligations of stock exchange listed companies may be found at www.oslobors.no. The principles also apply to PHLY’s subsidiaries when relevant. The Board’s statement of corporate governance is included in the annual report. The following presents the current practice of PHLY regarding each of the recommendations contained in the Code of Practice. Any deviations from the recommendations are explained under the item in question.

Purpose

PHLY’s Corporate Governance principles ensure an appropriate division of roles and responsibilities among PHLY’s owners, its Board of Directors, and its Executive Management, and that business activities are subject to satisfactory control. The appropriate division of roles and satisfactory control contribute to the greatest possible value creation over time, to the benefit of owners and other stakeholders.

Values and ethical guidelines

The Board has adopted corporate values and ethical guidelines. The Company’s corporate values are presented on page 6 of this annual report. These values consist of the following four “CORE” principles: Caring, One shipyard, Responsible and Efficient. Philly Shipyard has zero tolerance for corruption and, in 2015, the Board approved an Anti-Corruption Policy that is in-line with the anti-corruption policies in place at other Aker ASA-related companies. Philly Shipyard works to promote a sustainable and responsible

company that is driven by good results and the demands for social responsibility.

Business

PHLY’s business purpose clause in the articles of association is as follows:

“The Company’s business is to own and manage industry and other related business related to building of ships, capital management and other operations for the group, including participating in or acquiring other business.”

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. PHLY’s goals and main strategies and risks for its business activities are presented in the Board of Directors’ report. PHLY’s vision is for Philly Shipyard “To be – and be recognized as – a leading shipyard in America that delivers on its commitments, every time” and its supporting strategies for 2019 are delivering Hull 030 to Matson according to plan, securing new orders beyond Hull 030, expanding into government work and communicating openly with the workforce.

Equity and dividends

Equity

PHLY’s equity as of 31 December 2018 amounted to USD 111.5 million, which corresponds to an equity ratio (total equity divided by total assets) of approximately 59%. PHLY regards its current equity structure as appropriate and adapted to its objectives, strategy, and risk profile.

Dividends

PHLY’s dividend policy is included in the section “Shares and shareholder matters” (see page 62). As stated in that policy:

“The Company’s objective is to provide its shareholders with a competitive return on its shares over time based on the Company’s earnings. The Company aims to pay a quarterly dividend of USD 0.25 per share, beginning with the second quarter of 2014, with intentions of increasing the amount over time. Any payment of divi-

dends will be considered in conjunction with the Company’s financial position, debt covenants, capital requirements, market prospects and potential strengthening of the Company’s financial structure.”

PHLY’s Board of Directors uses this dividend policy as a guideline to determine how much of the Company’s earnings it will pay to shareholders.

Due to the current main focus on securing new orders beyond Hull 030, the PHLY Board has decided not to pay any ordinary or extraordinary dividends at this time. The PHLY Board will revisit PHLY’s dividend policy and dividend plan when it has more clarity about the Company’s new order situation and related capital requirements.

Board authorizations

It is the intention that the Board’s proposals for future Board authorizations to issue shares and to undertake share buy-backs are to be limited to defined purposes and to be valid only until the next annual shareholders’ meeting.

To facilitate the potential payment of dividends in accordance with PHLY’s dividend policy, the Board of Directors has an authorization to pay dividends based on PHLY’s annual accounts for 2017.

The Board of Directors has an authorization to increase the share capital by up to NOK 12,574,766, which can only be used to raise equity capital for new shipbuilding projects or other future investments within the Company’s scope of operations.

The Board of Directors has an authorization to acquire own shares with a total nominal value of NOK 12,574,766 which can only be used for the purpose of utilizing PHLY’s shares as transaction currency in acquisitions, mergers, de-mergers or other transactions.

The Board of Directors has an authorization to acquire own shares with a total nominal value of NOK 12,574,766 which can only be used for the purpose of investment or subsequent sale or deletion of such shares.

All of these Board authorizations are valid up to the annual shareholders' meeting in 2019.

The Board currently has no other authorizations to issue shares or undertake share buybacks. The Board will propose to the annual shareholders' meeting in 2019 that the Board is granted an authorization for payment of dividends, an authorization to increase the share capital and two authorizations to acquire own shares similar to the authorizations described above.

Equal treatment of shareholders and transactions with close associates

PHLY has a single class of shares, and all shares carry the same rights in PHLY. Equal treatment of all shareholders is crucial. If existing shareholders' pre-emptive rights are proposed waived upon an increase in share capital, the Board will justify the waiver. The Board will also publicly disclose such justification in a stock exchange announcement issued in connection with such increase in share capital. Transactions in own (treasury) shares are 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.

See additional information on transactions with related parties in note 26 to the consolidated accounts. As of 31 December 2018, 57.6% of the shares in PHLY are owned by Aker Capital AS, a wholly-owned subsidiary of Aker ASA. For further details on the relationship between Philly Shipyard and Aker ASA, see note 26 to the consolidated accounts.

Shares and negotiability

There are no limitations on any party's ability to own, trade or vote for shares in PHLY. No restrictions on transferability are found in PHLY's articles of association.

General meetings

The Board of Directors encourages shareholders to participate in shareholders' meetings. It is PHLY's priority to hold the annual shareholders' meeting as early as possible after the year-end. Notices of shareholders' meetings are sent physically by post and comprehensive supporting information, including the recommendations of the nomination committee,

are made available for the shareholders on the Company's home page, in each case not later than 21 days prior to the annual shareholders' meeting. The Board seeks to ensure that the resolutions and supporting information are sufficiently detailed and comprehensive to enable the shareholders to form a view on all matters to be considered at the 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 shareholders' meeting. Shareholders who are unable to attend the meeting in person may vote by proxy, and normally the proxy may be given to the chairman of the meeting or any other person appointed by the chairman. Both on the attendance and proxy form and the notice of meeting, all procedures for registration are thoroughly explained. In addition, information on how to propose a resolution to the items on the agenda at the annual shareholders' meeting will be included in the notice.

Pursuant to PHLY's articles of association, the Chairman of the Board, or any other person appointed by the Chairman, chairs the shareholders' meetings. Although the Code of Practice recommends an independent chair for annual general meetings, it is the view of PHLY that the procedure followed by PHLY provides efficient and well prepared general meetings and is in the interests of the shareholders. The shareholders are invited to make a joint voting on the composition of the Board of Directors as proposed by the nomination committee and not on each board member separately. Hence, PHLY deviates from the Code of Practice in this regard as the nomination committee emphasizes that the Board's composition shall reflect a variety of experience, knowledge and qualifications.

To the extent possible, the CEO/General Manager, nomination committee leader and auditor attend annual shareholders' meetings.

Minutes of shareholders' meetings are published as soon as practically possible on the Oslo Stock Exchange, www.newsweb.no (ticker: PHLY) and on the Company's home page www.phillyshipyard.com, under the heading "Media Center".

Nomination committee

PHLY has a nomination committee, as set forth in Section 7 of PHLY's articles of association. Pursuant to the articles of

association, the nomination committee is to comprise no fewer than three members. Each member is normally elected for a two-year period. The composition of the nomination committee reflects the interests of the shareholders, and its members are independent from the Board and Executive Management. The members and Chairman of the nomination committee are elected by PHLY's annual shareholders' meeting, which also approves the remuneration payable to committee members.

Pursuant to PHLY'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 the members of the Board and the nomination committee. The nomination committee will justify its recommendation and such justification will address the criteria specified in Section 8 of the Code of Practice on the composition of the Board of Directors.

The nomination committee comprises the following members:

- Leif Arne Langoy, Chairman (2017-2019)
- Gerhard Heiberg (2017-2019)
- Arild Støren Frick (2017-2019)

None of the members of the nomination committee is a member of the Board of Directors. Neither the CEO/General Manager nor any other senior executive is a member of the nomination committee.

The shareholders' meeting has stipulated guidelines for the duties of the nomination committee.

PHLY provides the 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 of Directors: composition and independence

Pursuant to Section 4 of PHLY's articles of association, the Board comprises between three and seven members. The Board is currently comprised of a total of four members. PHLY's shareholders elect the Chairman of the Board at the annual shareholders' meeting. The Board may elect its own Deputy Board Chairman. Board members are elected for a period of two years.

The composition of the Board of Directors is designed to ensure that it can operate independently of any special interests and function effectively as a collegiate body. A majority of the shareholder-elected

Board members are independent of PHLY's Executive Management and its significant business associates. The Board of Directors does not include any executive personnel. Further, three of the four shareholder-elected Board members are independent of PHLY's main shareholder, Aker ASA. Kristian Røkke, the Deputy Chairman of the Board of Directors of PHLY, is Chief Investment Officer of Aker ASA. Mr. Røkke replaced Audun Stensvold as the Deputy Chairman in June 2018, following Mr. Stensvold's resignation from the Board of Directors.

The current composition of the Board, as well as the Board members' expertise, capabilities, and experience, are presented on pages 68-69 of this annual report. The shareholder-elected Board members represent a combination of expertise, capabilities, and experience from various businesses and industries.

The Board members' shareholdings are presented in note 22 to the consolidated accounts. PHLY encourages the Board members to invest in PHLY's shares.

One of the four shareholder-elected Board members are up for election. PHLY will provide the relevant information regarding such Board member in accordance with the Code of Practice guidelines in advance of the annual general meeting.

The work of the Board of Directors

The Board of PHLY annually adopts a plan for its work, emphasizing the goals, strategies, and risk profile of the Company's business activities. The plan also recognizes the Company's corporate social responsibility. Also, the Board has adopted instructions that regulate areas of responsibility, tasks, and division of roles of the Board, Board Chairman, and the CEO/General Manager. These instructions feature rules governing Board schedules, rules for notice and chairing of Board meetings, decision-making rules, the CEO's/General Manager's duty and right to disclose information to the Board, professional secrecy, impartiality, and other issues.

In order to ensure a more independent consideration of matters of a material character in which the Board Chairman is, or has been, personally involved, the Board's consideration of such matters are chaired by the Deputy Board Chairman, if there is one serving at the time, or some other member of the Board in the absence of a Deputy Board Chairman.

The Board of PHLY established an audit committee in 2010. The audit

committee consists of two members, Elin Karfjell (Chairperson) and Amy Humphreys. Ms. Humphreys replaced Audun Stensvold on the audit committee in June 2018, following Mr. Stensvold's resignation from the Board of Directors. Both members are independent from operations of the Company and neither member is linked to PHLY's main shareholder.

The Board of PHLY established a tendering committee in 2012 to review tenders for new business. The tendering committee consists of two members, James H. Miller (Chairman) and Amy Humphreys. Both members are independent from operations of the Company and neither member is linked to PHLY's main shareholder.

PHLY does not have any other active Board committees at this time. In particular, PHLY does not have a remuneration committee because all members of the Board are independent of PHLY's executive personnel.

PHLY 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 Company. 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 protocols and appropriate risk management systems tailored to the Company's business activities. These practices and systems encompass the Company's guidelines for how it integrates considerations related to stakeholders into its creation of value. The Company's policy regarding corporate social responsibility is set forth on pages 19-20 of this annual report. The Board annually reviews the Company's most important risk areas and internal control systems and procedures, and these risk areas are mentioned in the Board of Directors' report. Through the use of a risk matrix and log, the Board also monitors the key risks related to the Company's business goals and assesses those risks, taking into account mitigating actions, on a quarterly basis. The issue is further described in notes 1 and 21 to the consolidated accounts.

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.

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

PHLY has prepared an authorization matrix and approval procedures for costs included in the Company's governing documents.

Financial statement close process

The Company has implemented Aker ASA's accounting and reporting guidelines which contains requirements and procedures for the preparation of both quarterly and annual reporting. The reporting is done quarterly through PHLY's reporting and consolidation system. Consolidation and control over the financial statement close process is the CFO's responsibility. Financial results and cash development are analyzed and compared to the budget by the CEO/General Manager and CFO and reported to the Board monthly.

Remuneration of the Board of Directors

Board remuneration reflects the Board's responsibility, expertise, time spent, and the complexity of the business. Remuneration does not depend on PHLY's financial performance and PHLY does not grant share options to members of its Board. Board members and companies with whom they are associated are not to take on special tasks for the Company beyond their Board appointments unless such assignments are disclosed to the full Board and the remuneration for such additional duties is approved by the Board. In this respect, PHLY's Board Chairman, James H. Miller, provides consulting services to Philly Shipyard, Inc. (PSI) on behalf of Mr. Miller's consulting company against a monthly fee. Approval of this assignment has been handled by the Board of Directors in accordance with the said procedure.

Additional information on remuneration paid to Board members for 2018 is presented in note 22 to the consolidated accounts.

Remuneration of Executive Management

The Board has adopted guidelines for remuneration of Executive Management in accordance with Section 6-16a of the

Norwegian Public Limited Company Act. Salary and other remuneration of the CEO/ General Manager of PHL Y are determined in a Board of Directors' meeting. The basis of remuneration of Executive Management has been developed in order to create a performance-based system. The system of reward is designed to contribute to the achievement of good financial results and increase in shareholder value.

PHLY does not have stock option plans or other such share award programs for employees. Further information on remuneration for 2018 for members of the Company's Executive Management is presented in note 22 to the consolidated accounts. PHL Y's guidelines for remuneration to Executive Management are discussed on pages 46-47 of this annual report and will be presented to the shareholders at the annual shareholders' meeting. The maximum size of any payment under the existing performance-related remuneration program to any executive is linked to the size of the executive's base salary.

The Board's guidelines for remuneration of Executive Management will be made available as a separate appendix to the agenda for the annual shareholders' meeting. The statement will include information on which aspects of the guidelines are advisory, and which, if any, are binding. The Company currently does not grant remuneration to Executive Management being subject to binding guidelines.

Information and communications

PHLY's reporting of financial and other information is based on openness and on equal treatment of shareholders, the financial community, and other interested parties.

The long-term purpose of PHL Y'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 PHL Y's share price; PHL Y 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 home page www.phillyshipyard.com; stock exchange notices are also available from www.newsweb.no. All information that is

distributed to shareholders is simultaneously published on the Company's home page.

PHLY's financial calendar is found on the inside front cover of this annual report.

PHLY's investor relations staff is responsible for maintaining regular contact with PHL Y's shareholders, potential investors, analysts and other financial market stakeholders. The Board is regularly informed about PHL Y's investor relations activities. For more information regarding PHL Y's guidelines for reporting of financial and other information, see pages 62-63.

Takeovers

PHLY has not produced special principles for how it will act in the event of a takeover bid. However, if a takeover bid occurred the Board would follow the overriding principle of equal treatment for all shareholders. Unless the Board has particular reasons for so doing, the Board will not take steps to prevent or obstruct a takeover 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 a shareholders' meeting after the take-over offer has become public knowledge.

The Company will not enter into any agreement with a bidder that acts to limit the Company's ability to arrange other bids for the Company's business or shares unless it is self-evident that such an agreement is in the common interest of PHL Y and its shareholders. This provision shall also apply to any agreement on the payment of financial compensation to the bidder if the bid does not proceed. Any financial compensation will be limited to the costs the bidder has incurred in making the bid.

Agreements entered into between PHL Y and a bidder that are material to the market's evaluation of the bid will be announced to the public no later than at the same time as the disclosure that the bid has been made is published.

Upon the issuance of an offer for PHL Y'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 recommend to the shareholders whether they should or should not accept the bid, the Board will explain the reasons for this. The Board's statement on the offer will make it clear whether the views expressed

are unanimous, and if this is not the case, it will explain the basis on which specific members of the Board have excluded themselves from the Board's statement.

For each instance, an assessment will be made as to the necessity of bringing in independent expertise and obtaining a third party valuation. If a third party valuation is obtained, such valuation will include an explanation, and the Board will aim at recording such valuation in its statement. It may be necessary to obtain a valuation from an independent expert where a competing bid is made and the bidder either is the main shareholder or has a connection to the Board members or executive personnel.

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 makes an annual presentation to the Board of a plan for the auditing work for the year. Further, the auditor has provided the Board with a written confirmation that the requirement of independence is met.

The auditor participates in the Board meeting that deals with the annual accounts, and the auditor has reviewed the companies' internal control with the Board. At these meetings, the auditor reviews any material changes to PHL Y's accounting principles, comments on any material estimated accounting figures and reports all matters on which there have been disagreement between the auditor and PHL Y's executive personnel. Once a year a meeting is held between the auditor and the Board, at which no representatives of Executive Management are present. In addition to the presentations to the full Board, the auditor is present at all audit committee meetings which occur throughout the year and presents both its preliminary and final audit findings to the committee during such meetings.

Guidelines have been established for Executive Management's use of auditors for services other than auditing. 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 is presented in note 5 to the consolidated accounts and note 2 to the parent company accounts, detailed in auditing and other services. In addition, these details are presented at the annual general meeting.