

**REMUNERATION REPORT 2021**

for

**PHILLY SHIPYARD ASA**

## REMUNERATION OF EXECUTIVE MANAGEMENT OF PHILLY SHIPYARD ASA

Advisory vote by the general meeting on 20 April 2022

In accordance with the Norwegian Public Limited Liability Companies Act (the "Act") § 6-16 b, the board of directors of Philly Shipyard ASA (the "Company") has prepared a report on the salary and other remuneration of the CEO and CFO of the Company awarded or due in 2021.

This report regards remuneration of the following members of executive management in 2021:

- Chief Executive Officer (CEO) - position currently held by Steinar Nerbøvik
- Chief Financial Officer (CFO) - position currently held by Jeffrey Theisen

(Hereinafter collectively referred to as the "Executive Management" or separately as each "Executive".)

The remuneration report will be presented to the Annual General Meeting on 20 April 2022 for advisory vote.

### 1. Introduction, scope and purpose

This remuneration report 2021 provides an overview of remuneration of the Executive Management of the Company in 2021 in relation to the Company's Remuneration Policy adopted by the general meeting on 21 April 2021. This report has been prepared in accordance with the Norwegian Public Limited Liability Companies Act § 6-16 b.

The Company's Remuneration Policy is designed to align with the Company's overall business strategy, long-term interests and financial sustainability. The Company is dependent on being able to offer remuneration which can attract and retain high-quality persons for the Executive Management. With an international employee base, the remuneration package needs to be competitive both within the local and international labor market.

The purpose of the Remuneration Policy is to set out remuneration components for the Executive Management structured to provide strong alignment between the interests of executives and shareholders, including a focus on delivering the Company's key strategic objectives, and to support the business strategy and long-term interests. The total remuneration of the Executive Management is therefore constructed as a combination of fixed salary and variable compensation.

A competitive fixed salary shall be paid in order to attract and retain high-quality and experienced executives and to provide appropriate remuneration for their important role in the Company. This is required to support the recruitment and retention of executives of the caliber required to implement the Company's strategy. The variable compensation is designed to achieve good financial results and increase shareholder value while retaining key employees.

Further information on remuneration can be found in the Annual Report 2021 on pages 50-52.

The remuneration of Executives in 2021 was in accordance with the Company's approved Remuneration Policy.

## 2. Overview of financial year 2021

### *Full Year results*

Operating revenues in 2021 amounted to USD 214.1 million compared to operating revenues of USD 54.2 million in 2020. Operating revenues in 2021 were primarily driven by progress on the first four NSMV vessels (Hulls 033-036), ship repair and maintenance work on the USNS Charlton and government design studies, whereas operating revenues in 2020 were primarily driven by progress on the first two NSMV vessels (Hulls 033-034), ship repair and maintenance work on the FSS Pollux and government design studies.

EBITDA for 2021 was negative USD 7.0 million compared to EBITDA of negative USD 21.5 million for the same period of 2020. EBITDA for both years was negatively impacted by under-recovered overhead costs as the shipyard continued to ramp up shipbuilding activities.

Net loss after tax for 2021 was USD 7.3 million compared to net income after tax of USD 1.6 million for 2020. Net income after tax for 2020 was impacted by an income tax benefit resulting from passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

### *Statement of Financial Position*

Total assets were USD 437.0 million at 31 December 2021 compared to USD 237.7 million at 31 December 2020, with the increase resulting mainly from an increase of USD 157.6 million in cash and cash equivalents (unrestricted), an increase of USD 15.8 million of prepayments to suppliers mostly for the NSMV program, and an increase of USD 18.1 million of restricted cash deposited in an escrow account as collateral for the bonds required by the NSMV program and a reserve fund for NSMVs 1-2.

Cash and cash equivalents (unrestricted) were USD 255.0 million at 31 December 2021 compared to USD 97.4 million at 31 December 2020. The increase of USD 157.6 million was due primarily to an increase of USD 165.5 million in customer advances, net on the first four NSMV vessels (Hulls 033-036) and the first SRIV vessel (Hull 038) and an increase of USD 42.1 million in trade payables, accrued payables and provisions, partially offset by a combined increase of USD 33.9 million in prepayments and restricted cash deposits described above and an increase of USD 10.6 million in expenditures for property, plant and equipment.

Total restricted cash as of 31 December 2021 amounted to USD 44.5 million, of which USD 43.1 million (long-term) represents the total cash deposited in the escrow account and reserve fund described above and USD 1.4 million (short-term) pertains to a holdback in escrow for claims related to the second Matson vessel (Hull 030). It is anticipated that the cash collateral for the bonds required by the NSMV program for Hulls 033-036 will be released in tranches following the delivery of each NSMV vessel and the funds deposited into the reserve fund for NSMVs 1-2 will be released upon delivery of each NSMV vessel, respectively. The timing of the release of the Hull 030 holdback is uncertain and continues to be delayed due to the impacts of the COVID-19 pandemic, including quarantine and travel restrictions, on closing-out the underlying claims.

Total equity decreased to USD 85.5 million at 31 December 2021 from USD 92.8 million at 31 December 2020 due to net loss of USD 7.3 million.

### 2.1 Highlights of 2021

- Key events in the Company 2021 have included the attainment of HSE goals (i.e., no lost time

incidents) and operational goals (i.e., NSMV 1 keel laying and NSMV 2 production start) which are affecting the remuneration of the Executive Management through the 2021 incentive /retention program.

- There have been no changes to the composition of the Executive Management in 2021 compared to 2020.
- The Company's Remuneration Policy was established in 2021 and was adopted by the general meeting on 21 April 2021.
- There have been no derogations from the Remuneration Policy during 2021.

## 2.2 General overview of results and developments

### Financial results

- Order backlog of USD 1,203.2 million on 31 December 2021 with last delivery in 2024
- 2021 operating revenues of USD 214.1 million compared to USD 54.1 million in 2020
- 2021 net loss of USD 7.3 million compared to 2020 net income of USD 1.6 million
- Total cash and cash equivalents of USD 255.0 million at 31 December 2021, excluding USD 44.5 million of restricted cash

### Key developments, events, milestones, focus areas, commitments, investments etc.

- Operations and projects continued to safely move forward during the COVID-19 pandemic
- Exceeded 1,900,000 consecutive hours worked without a single lost time incident
- Received order for the second two National Security Multi-Mission Vessels (NSMV) with total contract value of approximately USD 600 million, bringing the total order intake for the NSMV program to greater than USD 1.2 billion
- Awarded a contract from Great Lakes Dredge & Dock Company, LLC to construct one Jones Act-compliant Subsea Rock Installation Vessel for the U.S. offshore wind market valued at approximately USD 197 million
- Awarded industry design study contract for the U.S. Navy's Cable Ship T-ARC(X) replacement program
- Continued progress on the NSMV new build program, including keel laying of NSMV 1 and full production start of NSMV 2
- Completed ship repair and maintenance work on the USNS Charlton, a large roll-on/roll-off ship for the U.S. Navy's Military Sealift Command (MSC), on time and on budget
- Reinstated the shipyard's apprenticeship program and reopened its training academy facility

### Sustainability and ESG

The Company has an established goal to increase the group focus on sustainability and ESG. During 2021, there was in particular focus on:

- Minimizing the transmission of COVID-19 among the workforce.
- Reducing the number of injuries in the workplace.
- Giving back to the communities in which the Company operates.

The Company's wholly-owned subsidiary, Philly Shipyard, Inc. ("PSI"), is located in the former Philadelphia Naval Shipyard. PSI believes that being a good corporate citizen is good business. As a

platform for these beliefs, PSI developed the WeCare program which provides support for its employees and for its community through teambuilding, volunteering, and educational initiatives. Through the WeCare program, PSI works with its employees and community-based organizations to understand and address issues that PSI can assist with. PSI's employees are encouraged to become involved in the WeCare program.

As 2021 presented continued challenges for the entire world, PSI remained steadfast in its approach to weathering the storm. PSI's safety initiatives to curb the spread of COVID-19 included installing additional hand sanitizers throughout the Shipyard, adding portable hand washing stations near the dock, strongly encouraging all workers to get vaccinated, and arranging multiple on-site COVID-19 vaccine clinics for employees, subcontractors and family members.

During this time, PSI was not able to fully engage in volunteer opportunities due to COVID-19 restrictions. Instead, PSI made multiple charitable donations in the form of money or food to several local groups, including Children's Hospital of Philadelphia, Nemours Children's Hospital of Delaware, the Philadelphia Animal Welfare Society, and Camp Out for Hunger. PSI's employees also banded together to help raise funds and donate baby supplies and household items for an employee whose family tragically lost a young mother.

With the ramp up in production, one of the biggest hurdles for health, safety and environmental (HSE) was integrating such a large amount of new employees and subcontractors. PSI designed and employed aggressive training programs to reach this goal. Despite the challenges, PSI marked three years without a lost time injury (LTI) and crossed two million work hours without an LTI in early January 2022. PSI is definitely proud of its incident rate, which is well below the industry average. PSI has also not experienced a yard outbreak or work stoppage due to COVID-19 since its onset in 2020.

PSI has a long history dedicated to protecting the surrounding waterways from any negative impacts associated with manufacturing operations. PSI has a close working relationship with the City of Philadelphia to ensure they are good stewards of the environment by strictly following all federal, state, and city regulations. For example, PSI went to great lengths to reduce its emissions by installing low-NOx burners in three new boilers for the paint halls. In 2021, PSI purchased several electrical vehicles to further reduce emissions.

Maintaining a healthy and safe workplace and being friendly to the environment is an essential part of the Company's strategy. PSI develops policies to comply with or exceed all federal, state, and local requirements.

### **3. Total remuneration in 2021**

#### **3.1 Remuneration awarded or due in 2021**

In 2021, the remuneration to Executives consisted of an average of 71% fixed salary and 16% variable remuneration. Pension and other compensation represented an average of 13%. The bonus amount consisted of payments under the 2020 HSE incentive / retention (I/R) program based on retention and the attainment of HSE goals (i.e., beating pre-defined annual targets for lost time incidents and total recordable incident rate), as well as a deferred payment under the 2019 annual variable payment (AVP) program based on retention. The total remuneration is designed to improve HSE performance while retaining key employees.

### 3.2 Fixed remuneration

The fixed base salaries are based on criteria such as the nature of the position and qualifications, whereas the exact amount is approved annually by the board for the CEO. For the CFO, the exact amount is normally approved annually by the CEO upon advice from the chairperson of the board. The fixed salary is determined during the first quarter of the new fiscal year and valid from 1 January the same year.

The salaries are normally reviewed on an annual basis, taking into consideration the business performance, demonstrated leadership and current salary level relative to market.

In 2021, the fixed salary has not been increased compared to 2020 for the CEO and the CFO. The CEO's fixed salary constitutes 64% of the CEO's total remuneration, and the CFO's fixed salary constitutes 86% of the CFO's total remuneration.

### 3.3 Variable remuneration

The variable compensation for 2021 consisted of payments under the 2020 HSE incentive/retention (I/R) program, as well as a deferred payment under the 2019 annual variable payment (AVP) program.

- The payments under the 2020 HSE I/R program were based on the achievement of HSE performance targets, as well as retention. The 2020 HSE I/R program for the Executive Management represented a potential for an additional variable pay up to 27% of base salary, including 5% of base salary for the HSE incentive components described below and 22% of base salary for the retention component described below.
- The deferred payment under the 2019 AVP program was based on retention. The 2019 AVP program included two payments, i.e., a base award and a deferred payment. The base award was paid in 2020. The deferred payment, which was designed to incentivize and retain key personnel, was equal to 50% of the base award and payable 12 months after the base award.

In 2021, the variable remuneration awarded to the CEO was USD 137,340, of which USD 106,820 is earned under the 2020 HSE I/R program as described below and USD 30,520 is earned under the 2019 AVP program as described below. In 2021, the variable remuneration awarded to the CFO was USD 20,472, of which USD 20,472 is earned under the 2020 HSE I/R program as described below. The CEO's variable salary constitutes 20% of the CEO's total remuneration, and the CFO's variable salary constitutes 6% of the CFO's total remuneration.

### 3.4 Application of performance criteria

The criteria for the HSE and retention components of the bonus under the 2020 HSE I/R program are:

- Beating the pre-defined annual target for lost time incidents (LTIs) in 2020. The minimum and maximum award equals 0% and 2.5% of base salary, respectively.
- Beating the pre-defined annual target for total recordable incident rate in 2020. The minimum and maximum award equals 0% and 2.5% of base salary, respectively.
- Remaining employed until the payment date in March 2021. The minimum and maximum award equals 0% and 22% of base salary, respectively.

This system of reward is designed to improve HSE performance while retaining key employees.

In 2021, the bonus under the 2020 HSE I/R program has been set to 24.5% of base salary for the CEO (USD 106,820) and the CFO (USD 20,472) due to the achievement of the first of the two HSE components

described above and remaining employed with the company. The CFO's bonus was pro rated since he re-joined the Company in September 2020.

The criteria for the deferred payment under the 2019 AVP program is remaining employed until the payment date in March 2021. The minimum and maximum award equals 0% and 50% of the base award, respectively.

In 2021, the bonus under the 2019 AVP program has been set to 50% of the base award for the CEO (USD 30,520) due to remaining employed with the company. The CFO did not participate in the 2019 AVP program since he was not employed with the company in 2019.

**Table 3. Remuneration of Management**  
(in USD)

Name of Executive	Position	Year	1 Fixed	2 Variable	3 Other	4 Pension	5 Total	5 Total
			remuneration	remuneration	benefits	expense	remuneration excl.-pension	remuneration incl. -pension
Steinar Nerbøvik	President & CEO	2021	\$435,999	\$137,340	\$73,097	\$32,000	\$646,436	\$678,436
	President & CEO	2020	\$452,768	\$101,560	\$75,565	\$33,231	\$629,893	\$663,124
Jeffrey Theisen	Chief Financial Officer	2021	\$275,000	\$20,472	\$15,723	\$9,263	\$311,195	\$320,458
	6 Sept. 2020 - 31 Dec. 2020 Chief Financial Officer	2020	\$83,558	\$0	\$5,023	\$1,837	\$88,581	\$90,418
Brian Leathers	Chief Financial Officer	2020	\$190,731	\$149,100	\$3,425	\$4,482	\$343,256	\$347,738
1 Jan. 2020 - 10 Aug. 2020								

The Executive Management did not receive any remuneration from the group outside of the amounts set forth in the table above.

### 3.5 Share based remuneration

The Company does not grant remuneration to the Executive Management in the form of shares, subscription rights, options, and other forms of remuneration linked to shares or the development of the share price in the Company or in other companies within the group.

### 3.6 Use of the right to reclaim remuneration

No remuneration has been reclaimed in 2021.

## 4. Information about any derogations and deviations from the remuneration policy and procedure for implementation

There have been no derogations or deviations from the Remuneration Policy during 2021.

## 5. Comparative information on the change of remuneration and company performance

**Table 5.1 Remuneration of Executive Management**  
(in USD)

Name of Executive	Element	Annual change	2016	2017 <sup>(1)</sup>	2018 <sup>(2)</sup>	2019 <sup>(3)</sup>	2020 <sup>(4)</sup>	2021 <sup>(5)</sup>
				2016 vs 2017	2017 vs 2018	2018 vs 2019	2019 vs 2020	2020 vs 2021
Steinar Nerbøvik President & CEO	Total payment incl. pension		\$611,306	\$742,315	\$930,470	\$873,246	\$663,124	\$678,436
	% change in payment incl. pension			21.4%	25.3%	-6.2%	-24.1%	2.3%
Jeffrey Theisen Chief Financial Officer 6 Sept. 2020 - 31 Dec. 2020	Total payment incl. pension						\$90,418	\$320,458
	% change in payment incl. pension							13.3%
Brian Leathers(6) Chief Financial Officer 1 Jan. 2020 - 10 Aug. 2020	Total payment incl. pension					\$325,062	\$347,738	
	% change in payment incl. pension						46.2%	
Jan Ivar Nielsen(7) Chief Financial Officer 1 Jan. 2019 - 15 July 2019	Total payment incl. pension		\$340,136	\$406,634	\$510,677	\$455,235		
	% change in payment incl. pension			19.6%	25.6%	-10.9%		

Note: % changes for partial years are based off annualized figures.

<sup>(1)</sup> The entire variable pay in 2017 was earned under the 2016 variable pay program based on the achievement of defined S/T and L/T results for 2016.

<sup>(2)</sup> A substantial portion of variable pay in 2018 was earned under the 2017 variable pay program based on the achievement of defined S/T and L/T results for 2017. The remainder was paid for achievement of specific project targets related to launch and delivery of Hull 029.

<sup>(3)</sup> A substantial portion of variable pay in 2019 was earned under the variable pay program based on the achievement of defined S/T and L/T results for 2018 & 2017 (USD 104,798 and USD 183,902, respectively). The remainder was paid for achievement of specific project targets related to delivery of Hull 030 (USD 232,160).

<sup>(4)</sup> Mr. Nerbovik's variable pay in 2020 consisted of a payment under the 2019 variable pay program, as well as a deferred payment under the 2018 variable pay program (USD 71,040 and USD 30,520, respectively). Mr. Leathers' variable pay in 2020 consisted of a payment under the 2019 variable pay program, as well as an accelerated payment under the 2020 HSE incentive/retention program (USD 66,120 and USD 82,980, respectively).

<sup>(5)</sup> Mr. Nerbovik's variable pay in 2021 consisted of a payment under the 2020 variable pay program, as well as a deferred payment under the 2019 variable pay program (USD 106,820 and USD 30,520, respectively). Mr. Theisen's variable pay in 2021 consisted of a payment under the 2020 variable pay program.

<sup>(6)</sup> Brian Leathers 2019 compensation includes remuneration from 1 January -14 July while serving as Strategy and Compliance Officer

<sup>(7)</sup> Jan Ivar Nielsen's 2019 base salary includes severance of \$70,000



**Table 5.2 Metrics**  
(in USD 000s)

Element	Annual change	2016	2017	2018	2019	2020	2021
			2016 vs 2017	2017 vs 2018	2018 vs 2019	2019 vs 2020	2020 vs 2021
Revenues		\$205,249	\$591,784 188.3%	\$129,737 -78.1%	\$28,207 -78.3%	\$54,144 92.0%	\$214,060 295.4%
EBITDA		\$70,405	\$105,059 49.2%	(\$15,817) N/A	(\$17,312) -9.5%	(\$21,568) -24.6%	(\$7,036) 67.4%
Income/(loss) after tax		\$38,652	\$67,223 73.9%	(\$44,099) N/A	(\$20,212) 54.2%	\$1,579 N/A	(\$7,382) N/A
Equity ratio		22%	61% 177.3%	59% -3.3%	56% -5.1%	39% -30.4%	20% -48.7%
Avg. employee salary(1)		\$62,642	\$66,034	\$73,553	\$82,801	\$89,712	\$75,391
Avg. change in % (2)			5%	1%	-3%	9%	6%
Total employees		621	573	281	130	178	336

(1) Average salary is based on the year end annualized salary for all employed as of December 31 of each respective year

(2) Salary percentage increase/(decrease) is based on salary changes for those employed for the full year for each respective year

\*\*\*

Oslo, Norway - 18 March 2022

Board of Directors Philly Shipyard ASA



Kristian Røkke  
Board Chairman



Amy Humphreys  
Deputy Board Chairperson



Elin Karfjell  
Board Member



Steinar Nerbøvik  
President and CEO



To the General Meeting of Philly Shipyard ASA

## Independent auditor's assurance report on report on salary and other remuneration to directors

### Opinion

We have performed an assurance engagement to obtain reasonable assurance that Philly Shipyard ASA report on salary and other remuneration to directors (the remuneration report) for the financial year ended 31 December 2021 has been prepared in accordance with section 6-16 b of the Norwegian Public Limited Liability Companies Act and the accompanying regulation.

In our opinion, the remuneration report has been prepared, in all material respects, in accordance with section 6-16 b of the Norwegian Public Limited Liability Companies Act and the accompanying regulation.

### Board of directors' responsibilities

The board of directors is responsible for the preparation of the remuneration report and that it contains the information required in section 6-16 b of the Norwegian Public Limited Liability Companies Act and the accompanying regulation and for such internal control as the board of directors determines is necessary for the preparation of a remuneration report that is free from material misstatements, whether due to fraud or error.

### Our independence and quality control

We are independent of the company as required by laws and regulations and the International Ethics Standards Board for Accountants' Code of International Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. Our firm applies International Standard on Quality Control 1 (ISQC 1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Auditor's responsibilities

Our responsibility is to express an opinion on whether the remuneration report contains the information required in section 6-16 b of the Norwegian Public Limited Liability Companies Act and the accompanying regulation and that the information in the remuneration report is free from material misstatements. We conducted our work in accordance with the International Standard for Assurance Engagements (ISAE) 3000 – "Assurance engagements other than audits or reviews of historical financial information".

We obtained an understanding of the remuneration policy approved by the general meeting. Our procedures included obtaining an understanding of the internal control relevant to the preparation of the remuneration report in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Further we performed procedures to ensure completeness and accuracy of the information provided in the remuneration report, including whether it contains the information required by the law and accompanying regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Oslo, 22 March 2022  
KPMG AS

A handwritten signature in blue ink, reading 'Gunnar Sotnakk'. The signature is written in a cursive, flowing style.

Gunnar Sotnakk  
*State Authorised Public Accountant*