

Corporate Governance

Philly Shipyard ASA (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 of Directors (the "Board") of PHLY has reviewed and updated PHLY's principles for corporate governance. The principles are based on the Norwegian Code of Practice for Corporate Governance, dated 14 October 2021 (the "Code of Practice"), the principles set out in the continuing obligations of companies listed on 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.euronext.com/en/markets/oslo.^{*} The principles also apply to PHLY's subsidiaries when relevant. 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. In addition to the Code of Practice, the Norwegian Accounting Act section 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

PHLY's Corporate Governance principles ensure an appropriate division of roles and responsibilities among PHLY's owners, its Board, 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 8 of this annual report. PHLY has a code of conduct which is approved by the Board, and it constitutes a framework for managing compliance and integrity risks. It describes PHLY's ethical commitments, requirements and expectations for personal conduct and business practice. PHLY's code of conduct outlines clear principles and rules in key compliance and integrity areas such as anti-corruption and anti-bribery; facilitation payments; conflicts of interest; gifts and hospitality; human and labor rights; fair competition; anti-money laundering; and trade compliance. The code of conduct applies to all employees (including temporary personnel), officers and directors in PHLY and its subsidiaries. PHLY's code of conduct is available on PHLY's home page www.phillyshipyard.com, under the heading "Corporate Governance."

PHLY has not adopted specific guidelines on equality and diversity due to its lack of employees. The Company is focused however on carrying on its business in line with the principles of equality and diversity with respect to the composition of its management and Board, and its Board currently comprise of four members where two are female.

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's 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 2024 are executing its existing order backlog, securing new orders for major shipbuilding programs, and pursuing a mix of commercial and government work. When carrying out this work, the Board of Directors and management will take into account financial, social, and environmental considerations.

EQUITY AND DIVIDENDS

Equity

The PHLY group's equity as of 31 December 2023 amounted to USD 5.9 million, which corresponds to an equity ratio (total equity divided by total assets) of approximately 2%. PHLY regards its current equity structure as appropriate and adapted to its objectives, strategy and risk profile. PHLY anticipates that its equity level will increase over time as the Company returns to sustained profitability.

Dividends

PHLY's dividend policy is included in the Shares and Shareholder Matters section on page 72. 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's focus is on long-term profitability, and its current priority is to strengthen

^{*} The Issuer Rules / Regulations / Oslo Børs / Home - Oslo Børs (www.euronext.com/en/markets/oslo)

its balance sheet. Accordingly, no dividends are contemplated until further notice."

At this time, the Board does not foresee payment of shareholder distributions, including dividends and share buybacks, until the Company has returned to sustained profitability.

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 general meeting.

The Board has the following authorizations:

- to facilitate the potential payment of dividends in accordance with PHLY's dividend policy, an authorization to pay dividends based on PHLY's annual accounts for 2022;
- 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;
- 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; and
- 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 general meeting in 2024.

The Board currently has no other authorizations to issue shares or undertake share buybacks. The Board will propose to the annual general meeting in 2024 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

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.

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 encourages shareholders to participate in general meetings. It is PHLY's priority to hold the annual general meeting as early as possible after the year-end. Notices of general meetings are sent physically by post and comprehensive supporting information, including the recommendations of the nomination committee, are made available for the shareholders on PHLY's home page www.phillyshipyard.com, in each case not later than 21 days prior to the annual general 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 notice materials include a thorough explanation of all procedures for registration, voting and attendance. In addition, information on how to propose a resolution to the items on the agenda at the annual general meeting will be included in the notice. If a general meeting is held as a physical meeting, the

shareholders will also be given the opportunity to participate virtually unless the Board of Directors finds there is sufficient cause for it to refuse to allow this. The proxy form includes instructions for representation at the meeting through a proxy or by virtual participation 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 PHLY's articles of association, the Chairman of the Board (the "Chairman"), or any other person appointed by the Chairman, chairs the general 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 annual 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 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, the chairperson of the nomination committee and the auditor attend annual general meetings.

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

NOMINATION COMMITTEE

PHLY has a nomination committee, as set forth in section 7 of PHLY's articles of associ-

ation. Pursuant to the articles of association, the nomination committee is to comprise no fewer than two 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 chairperson of the nomination committee are elected by PHLY's annual general meeting, which also approves the remuneration payable to committee members. The general meeting may also decide on guidelines for the nomination committee.

Pursuant to PHLY's articles of association, the nomination committee recommends candidates for members of the Board. 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.

The nomination committee comprises the following members:

- Ingebret G. Hisdal, Chairperson (2022-2024)
- Charlotte Håkonsen (2022-2024)

Neither of the members of the nomination committee is a member of the Board. Neither the CEO/general manager nor any other senior executive is a member of the nomination committee. Hilde K. Ramsdal (2023-2025) serves as deputy member to the committee.

The general 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 on PHLY's home page www.phillyshipyard.com.

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 at the annual general 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 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 does not include any executive personnel. Further, two of the four shareholder-elected Board members, Elin Karfjell and Susan Hayman, are independent of PHLY's main shareholder, Aker ASA. Kristian Røkke, the Chairman, is Chief Executive Officer of Aker Horizons ASA. Jan Petter Hagen, Board member, is Managing Partner of Convento AS.

The current composition of the Board, as well as the Board members' status on independence and expertise, capabilities, and experience, are presented on pages 80-81 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 18 to the consolidated accounts. PHLY encourages the Board members to invest in PHLY's shares.

Two of the four shareholder-elected Board members are up for election in 2024. PHLY will provide the relevant information regarding election of Board members 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, and how the Board shall handle agreements with related parties. 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 and agreements with related parties in note 21 to the consolidated accounts. As of 31 December 2023, 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, please see note 21 to the consolidated accounts.

Also, the Board has adopted instructions that regulate areas of responsibility, tasks, and division of roles of the Board, the 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 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.

PHLY has an audit committee consisting of two members elected by and among the Board's members, Elin Karfjell (Chairperson) and Jan Petter Hagen. Both members are

independent from operations of the Company. One member, Jan Petter Hagen, is linked to PHLY's main shareholder, Aker ASA.

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 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. PHLY's policy regarding sustainability and environmental, social, and governance (ESG) is set forth on pages 23-26 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's 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 17 to the consolidated accounts.

Audit committee

The audit committee has reviewed the Company's financial reporting systems, systems for internal control and risk management and had dialogue with PHLY'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 PHLY's governing documents.

FINANCIAL STATEMENT CLOSE PROCESS

PHLY 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.

Additional information on remuneration paid to Board members for 2023 is presented in note 18 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 which was orig-

inally presented to the annual general meeting in 2021 and approved by the shareholders for a period of four years. The guidelines for remuneration of executive management will be presented to the annual general meeting and be subject to the shareholders' approval every fourth year, at a minimum. The guidelines currently approved by the shareholders are available on the Company's website. At the annual general meeting in 2023, the shareholders approved that the guidelines were changed to facilitate remuneration in the form of shares in PHLY. Salary and other remuneration of the CEO/general manager of PHLY are determined in a Board meeting. The basis of remuneration of executive management has been developed in order to create a system based on performance and retention.

The system of reward is designed to contribute to the achievement of good financial results and increase shareholder value.

PHLY does not have stock option plans or other such share award programs for employees, but the President and CEO and certain members of the senior management team can be awarded shares under the AVP program as further described in note 18 of the consolidated accounts. Further information on remuneration for 2023 for members of the Company's executive management is presented in note 18 to the consolidated accounts. PHLY's guidelines for remuneration to executive management are discussed starting on page 54 of this annual report and will be presented to the shareholders at the annual general 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 will prepare and present a report on remuneration of executive management every year as part of the annual general meeting, in accordance with the Norwegian Public Limited Company Act section 6-16b. This report is subject to the shareholders' advisory vote only.

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 PHLY's investor relations activities is to ensure PHLY'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 PHLY's share price. PHLY 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 PHLY's home page www.phillyshipyard.com; stock exchange notices are also available from www.newsweb.oslobors.no. All information that is distributed to shareholders is simultaneously published on PHLY's home page.

PHLY's financial calendar is found on the inside front cover of this annual report and its home page www.phillyshipyard.com.

PHLY's investor relations staff is responsible for maintaining regular contact with PHLY's shareholders, potential investors, analysts and other financial market stakeholders. The Board is regularly informed about PHLY's investor relations activities. For more information regarding PHLY's guidelines for reporting of financial and other information, see pages 72-74.

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 PHLY'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 general meeting after the takeover offer has become public knowledge.

PHLY will not enter into any agreement with a bidder that acts to limit PHLY's ability to arrange other bids for PHLY's business or shares unless it is self-evident that such an agreement is in the common interest of PHLY 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 PHLY 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 PHLY'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 PHLY or a major component of it are to be decided on by shareholders at a general 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 PHLY's internal control with the Board. At these meetings, the auditor reviews any material changes to PHLY's accounting principles, comments on any material estimated accounting figures and reports all matters on which there have been disagreement between the auditor and PHLY'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 quarterly audit committee meetings which occur throughout the year and presents both its preliminary and final audit findings to the committee during such meetings.