

**REMUNERATION REPORT 2022**

for

**PHILLY SHIPYARD ASA**

## REMUNERATION OF EXECUTIVE MANAGEMENT OF PHILLY SHIPYARD ASA

Advisory vote by the general meeting on 19 April 2023

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 2022.

This report regards remuneration of the following members of executive management in 2022:

- 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 19 April 2023 for advisory vote.

### 1. Introduction, scope and purpose

This remuneration report 2022 provides an overview of remuneration of the Executive Management of the Company in 2022 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 2022 on pages 54-55.

The remuneration of Executives in 2022 was in accordance with the Company's approved Remuneration Policy.

## 2. Overview of financial year 2022

### Full Year results

Operating revenue and other income in 2022 ended at USD 393.8 million. Operating revenues and other income in 2022 were primarily driven by revenues from progress on NSMVs 1-5, SRIV 1, CVs 1-3 and two government design studies as well as profit in equity-accounted investment.

EBITDA for 2022 was negative USD 18.1 million and primarily driven by increased costs on the NSMV project.

Net loss for 2022 was USD 11.7 million. Net loss for 2022 primarily consists of EBITDA of negative USD 18.1 million and depreciation expense of USD 6.2 million, partially offset by an income tax benefit of USD 10.6 million and net financial income of USD 2.0 million.

### Statement of Financial Position

Total assets were USD 350.5 million at 31 December 2022 compared to USD 437.0 million at 31 December 2021, with the decrease resulting primarily from a decrease of USD 117.4 million in cash and cash equivalents (unrestricted).

Cash and cash equivalents (unrestricted) was USD 137.6 million at 31 December 2022 compared to USD 255.0 million at 31 December 2021. The decrease of USD 117.4 million was due primarily to spending on materials and services related to the vessel projects underway, timing of customer milestone payments, and investment in property, plant and equipment (PP&E).

Total restricted cash as of 31 December 2022 amounted to USD 55.4 million, of which USD 45.4 million (long-term) represents the total cash deposited in an escrow account for the bonds required for NSMVs 1-5 and a reserve account required for NSMV 3, and USD 10.0 million (short-term) pertains to reserve accounts required for NSMVs 1-2. It is anticipated that the cash collateral for the bonds and the reserve account funds will be released in tranches following the delivery of each NSMV vessel.

Total equity decreased to USD 73.8 million at 31 December 2022 from USD 85.5 million at 31 December 2021 due to net loss of USD 11.7 million.

### 2.1 Highlights of 2022

- Key events in the Company 2022 have included the attainment of HSE goals (i.e., lost time incident rate), order intake goals (i.e., NSMV 5 order, Matson contract), and operational goals

(i.e., NSMV 1 launch, NSMV 2 keel laying and NSMV 3 full production start) which are affecting the remuneration of the Executive Management through the 2022 AVP program.

- There have been no changes to the composition of the Executive Management in 2022 compared to 2021.
- 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 2022.

## 2.2 General overview of results and developments

### Financial results

- Order backlog of USD 2,143.8 million on 31 December 2022 with last delivery in 2027
- 2022 operating revenues of USD 393.8 million compared to USD 214.1 million in 2021
- 2022 net loss of USD 11.7 million compared to 2021 net income of USD 7.3 million
- Total cash and cash equivalents of USD 137.6 million at 31 December 2022, excluding USD 55.4 million of restricted cash

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

- In April 2022, Philly Shipyard received an order for the construction of the fifth and final NSMV in the training ship series, valued at approximately USD 300.0 million and bringing the total order intake under the contract for the five-ship program to approximately USD 1.5 billion.
- In November 2022, Philly Shipyard was awarded a contract by Matson Navigation Company to build three 3,600 TEU Aloha Class LNG-fueled containerships with a total contract value of approximately USD 1.0 billion; the series will follow NSMV 5 with contractual delivery dates in 2026 and 2027.
- Record high order backlog of USD 2,143.8 million on 31 December 2022 with last contractual delivery in 2027.
- Continued progress on the NSMV new build program, including launch of NSMV 1, keel laying of NSMV 2 and full production start of NSMV 3
- During 2022, Philly Shipyard further deepened its efforts around sustainability by developing a formal program for sustainability and environmental, social, and governance (ESG)

### 3. Total remuneration in 2022

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

Name of Executive	Position	Year	5 Total remuneration						
			1 Fixed salary	2 Variable remuneration	3 Other benefits	4 Pension expense	incl. pension	6 Fixed remuneration	7 Variable remuneration
Steinar Nerbøvik	President & CEO	2022	\$449,079	\$111,180	\$32,000	\$73,556	\$665,815	83%	17%
	President & CEO	2021	\$435,999	\$137,340	\$32,000	\$73,097	\$678,436	80%	20%
Jeffrey Theisen	Chief Financial Officer	2022	\$283,250	\$70,125	\$16,166	\$11,768	\$381,309	82%	18%
	Chief Financial Officer	2021	\$275,000	\$20,472	\$15,723	\$9,263	\$320,458	94%	6%

**Breakdown of Variable Remuneration \***

(in USD)

	CEO variable remuneration	% of 2021 salary	CFO variable remuneration	% of 2021 salary
HSE goals	\$10,900	2.5%	\$6,875	2.5%
Operational goals	\$21,800	5.0%	\$13,750	5.0%
HR/Retention	\$78,480	18.0%	\$49,500	18.0%
Variable remuneration	<u>\$111,180</u>	<u>25.5%</u>	<u>\$70,125</u>	<u>25.5%</u>

\* Variable remuneration is 2021 bonuses paid in 2022.

#### 3.1 Remuneration awarded or due in 2022

In 2022, the remuneration to Executives consisted of an average of 70% fixed salary and 17% variable remuneration. Pension and other compensation represented an average of 13%. The bonus amount consisted of payments under the 2021 HSE incentive/retention (I/R) program based on retention and the attainment of certain operational goals (i.e., attaining construction milestones) and HSE goals (i.e., beating pre-defined annual targets for lost time incidents and total recordable incident rate). The total remuneration is designed to achieve key project targets and 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 2022, the fixed salary has been increased 3% compared to 2021 for the CEO and the CFO. The CEO's fixed remuneration constitutes 83% of the CEO's total remuneration, and the CFO's fixed remuneration constitutes 80% of the CFO's total remuneration.

### 3.3 Variable remuneration

The variable compensation for 2022 consisted of payments under the 2021 HSE I/R program.

- The payments under the 2021 HSE I/R program were based on the achievement of certain key project targets and HSE performance targets, as well as retention. The 2021 HSE I/R program for the Executive Management represented a potential for an additional variable pay up to 28% of base salary, including 5% of base salary for the HSE incentive components, 5% of base salary for the operational incentive components and 18% of base salary for the retention component, all as described in detail below.

In 2022, the variable remuneration awarded to the CEO was USD 111,180, which was earned under the 2021 HSE I/R program as described below. In 2022, the variable remuneration awarded to the CFO was USD 70,125, which was earned under the 2021 HSE I/R program as described below. The CEO's variable salary constitutes 17% of the CEO's total remuneration, and the CFO's variable salary constitutes 18% of the CFO's total remuneration.

In 2022, the Board resumed the "traditional" annual variable pay (AVP) program, which was in place prior to the introduction of the incentive/retention program in 2020 and developed in order to create a performance-based system. The 2022 AVP program is based on achievement of defined annual results such as financial targets, order intake, project targets, development of commercial solutions, alignment with the Company's values and improvement of HSE results. In 2022, the AVP program included two payments, i.e., a base award and a deferred payment. The base award represents a potential for an additional variable pay up to 70% of base salary for the CEO and 60% of base salary for the CFO. The deferred payment, which is designed to incentivize and retain key personnel, is equal to 50% of the base award and is payable no earlier than 12 months after the base award. Accrued but unpaid variable compensation for the CEO and the CFO as of 31 December 2022 is USD 133,601 and USD 72,229, respectively.

### 3.4 Application of performance criteria

The criteria for the HSE, operational and retention components of the bonus under the 2021 HSE I/R program are as follows:

- Beating the pre-defined annual target for lost time incidents (LTIs) in 2021. The minimum and maximum awards equal 0% and 2.5% of base salary, respectively.
- Beating the pre-defined annual target for total recordable incident rate (TRIR) in 2021. The minimum and maximum awards equal 0% and 2.5% of base salary, respectively.
- NSMV 1 keel laying by December 13, 2021. The minimum and maximum awards equal 0% and 2.5% of base salary, respectively.
- NSMV 2 production start by October 11, 2021. The minimum and maximum awards equal 0% and 2.5% of base salary, respectively.

- Remaining employed until the payment date in March 2022. The minimum and maximum awards equal 0% and 18% of base salary, respectively.

This system of reward is designed to achieve key project targets and improve HSE performance while retaining key employees.

In 2022, the bonus under the 2021 HSE I/R program has been set to 25.5% of base salary for the CEO (USD 111,180) and the CFO (USD 70,125) due to the achievement of the second of the two HSE components described above, achievement of both operational components described above and remaining employed with the company.

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

The criteria for the 2022 Annual Variable Pay (AVP) Program are as follows:

- Beating the pre-defined annual target for lost time incident Rate (LTIR) in 2022. The minimum and maximum awards equal 0% and 5% of the maximum base award, respectively.
- Beating the pre-defined annual target for total recordable incident rate (TRIR) in 2022. The minimum and maximum awards equal 0% and 5% of the maximum base award, respectively.
- Obtaining new orders (e.g., NSMV 5, SRIV 2 or another major contract). The minimum and maximum awards equal 0% and 15% of the maximum base award, respectively.
- Earning Shipbuilding EBITDA of USD 21.9M. The minimum award is 0% and the maximum award is 50% of the maximum base award, respectively.
- NSMV 1 launch and NSMV 2 keel laying in September 2022. The minimum and maximum awards equal 0% and 10% of the maximum base award, respectively.
- NSMV 3 production start in July 2022. The minimum and maximum awards equal 0% and 10% of the maximum base award, respectively.
- Meeting Management Team Goals. The minimum and maximum awards equal 0% and 5% of the maximum base award, respectively.

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

In 2023, the bonus under the 2022 AVP program has been set to 42.5% of the maximum base award, equivalent to 29.75% of base salary, for the CEO (USD 133,601) and 42.5% of the maximum base award, equivalent to 25.5% of base salary, for the CFO (USD 72,229) due to the achievement of the first of the two HSE components described above, achievement of the new orders component described above,

achievement of both operational components described above and partial achievement of the management team goals component described above.

### **3.5 Share based remuneration**

In 2022, the Company did 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 2022.

## **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 2022.

## 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	2017 <sup>(1)</sup>	2018 <sup>(2)</sup>	2019 <sup>(3)</sup>	2020 <sup>(4)</sup>	2021 <sup>(5)</sup>	2022 <sup>(6)</sup>
			2017 vs 2018	2018 vs 2019	2019 vs 2020	2020 vs 2021	2021 vs 2022	
Steinar Nerbøvik President & CEO	Total payment incl. pension		\$742,315	\$930,470	\$873,246	\$663,124	\$678,436	\$665,815
	% change in payment incl. pension			25.3%	-6.2%	-24.1%	2.3%	-1.9%
Jeffrey Theisen Chief Financial Officer 6 Sept. 2020 - 31 Dec. 2020	Total payment incl. pension					\$90,418	\$320,458	\$381,309
	% change in payment incl. pension						13.3%	19.0%
Brian Leathers <sup>(7)</sup> 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 <sup>(8)</sup> Chief Financial Officer 1 Jan. 2019 - 15 July 2019	Total payment incl. pension		\$406,634	\$510,677	\$455,235			
	% change in payment incl. pension			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 pro rata payment under the 2020 variable pay program due to his start date.

<sup>(6)</sup> Mr. Nerbovik's variable pay in 2022 consisted of a payment under the 2021 HSE/Retention program. Mr. Theisen's variable pay in 2022 consisted of a payment under the 2021 HSE/Retention program.

<sup>(7)</sup> Brian Leathers 2019 compensation includes remuneration from 1 January -14 July while serving as Strategy and Compliance Officer.

<sup>(8)</sup> Jan Ivar Nielsen's 2019 base salary includes severance of \$70,000.

**Table 5.2 Metrics**
**Annual change  
(in USD)**

<b>Element</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
		<b>2017 vs 2018</b>	<b>2018 vs 2019</b>	<b>2019 vs 2020</b>	<b>2020 vs 2021</b>	<b>2021 vs 2022</b>
Revenues	\$591,784	\$129,737 -78.1%	\$28,207 -78.3%	\$54,144 92.0%	\$214,060 295.4%	\$393,818 84.0%
EBITDA <sup>(1)</sup>	\$105,059	(\$15,817) N/A	(\$17,312) -9.5%	(\$21,568) -24.6%	(\$7,036) 67.4%	(\$18,116) -157.5%
Income/(loss) after tax	\$67,223	(\$44,099) N/A	(\$20,212) 54.2%	\$1,579 N/A	(\$7,382) N/A	(\$11,691) -58.4%
Equity ratio	61%	59% -3.3%	56% -5.1%	39% -30.4%	20% -48.7%	21% 5.0%

**Variable Compensation Key Metrics**

<b>HSE</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
LTIR <sup>(1)</sup>	0.98	0.23	0.00	0.00	0.00	0.39
RIR <sup>(1)</sup>	4.43	3.63	1.38	2.13	2.73	2.16
TRIR <sup>(1)</sup>	5.41	3.86	1.38	2.13	2.73	2.16

**<sup>(1)</sup> Definitions:**

EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
LTIR	Lost Time Incident Rate
RIR	Recordable Incident Rate
TRIR	Total Recordable Incident Rate

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Average employee salary <sup>(2)</sup>	\$66,034	\$73,553	\$82,801	\$89,712	\$75,391	\$76,573
Average change in % <sup>(3)</sup>	5%	1%	-3%	9%	6%	8%
Total employees	573	281	130	178	336	405

<sup>(2)</sup> Average salary is based on the year end annualized salary for all employed as of December 31 of each respective year.

<sup>(3)</sup> Salary % increase/(decrease) is based on salary changes for those employed for the full year for each respective year.

\*\*\*

Oslo, Norway - 17 March 2023

Board of Directors Philly Shipyard ASA

---



**Kristian Røkke**  
*Board Chairman*



**Jan Petter Hagen**  
*Board Member*



**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 2022 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 Management

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. We apply the International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, and accordingly, maintain 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, 17 March 2023  
**PricewaterhouseCoopers AS**

A handwritten signature in blue ink, appearing to read 'Anne Kristin Huuse', written in a cursive style.

Anne Kristin Huuse  
State Authorised Public Accountant