

# FJORD1 CORPORATE GOVERNANCE REPORT 2019

**Fjord1 ASA (“Fjord1”, “the Group”, “the Company”) values the importance of sound corporate governance that strengthens shareholder trust in the Company and enhances shareholder value through effective management and improved communication between the Board of Directors and the Company’s shareholders. The purpose of the Fjord1’s corporate governance is to manage operational risk, maximise value and utilise the Company’s resources in an efficient, sustainable manner to the benefit of shareholders, employees and society.**

### **1. Corporate governance framework and reporting**

Fjord1’s governance policy and practices are based on the Norwegian Code of Practice for Corporate Governance (“the Code of Practice”), most recently revised 17 October 2018. The Code of Practice is based on legislation as well as stock exchange rules and is available at the Norwegian Corporate Governance Committee’s website [www.nues.no](http://www.nues.no). Adherence to the Code of Practice is based on the “comply or explain” principle, which implies that any deviations will be explained.

The Board of Directors adopted the Company’s corporate governance guidelines on 15 August 2017 when the Company was initially listed at the Oslo Stock Exchange. The guidelines include inter alia instructions for the Board of Directors, the audit committee and the nomination committee; a dividend policy, an inside information manual, an IR policy, code of conduct and ethical guidelines. The corporate governance framework is subject to annual review and discussions by the Board of Directors.

The corporate governance principles and practices as required by the Accounting Act Section 3-3b and the details of how Fjord1 complies with the Code of Practice are accounted for in this report of corporate governance. The report is included in the annual report. In the Board of Director’s own assessment, Fjord1 complied with the Code of Practice in the year of 2019.

The structure of this report is aligned with the structure of the Code of Practice.

### **2. Business**

Fjord1 primarily operates ferries with associated catering on Norwegian fjord crossings. The Company also provides passenger boat services and has a growing engagement in environmentally friendly tourism in Norway. The company transported in total 19,9 million passengers and 9.9 million vehicles in 2019. The Group’s activities are in line with article 2 of the Company’s Articles of Association:

“The Company’s objective is to carry out transport, communication and tourism activities via its own company, or other partly or fully owned companies”. The articles of association are available at the Company’s website.

The Board of Directors has established the Company’s objectives, strategy and risk profile within the scope of article 2 of the Articles of Associations to ensure that its resources are used efficiently and responsibly to create value for shareholders, employees and society. The Company’s objectives, strategies and risk profile are reviewed and evaluated at least yearly by the Board of Directors. The review is usually carried out in connection with Fjord1’s annual strategy meeting. Fjord1’s objectives and strategy are further described in the annual report page 15 and on the Company’s website [www.fjord1.no](http://www.fjord1.no).

Fjord1’s vision is to be the safest and most attractive provider of environmentally friendly and reliable transport for customers, clients and partners. The Company acknowledges its responsibilities towards the environment, the society and the local communities in which it operates along the coast of Norway. The Company has adopted policies and guidelines on corporate social responsibility and matters that relate to human rights, employee rights and social matters, the external environment, the prevention of corruption, the working environment, equal treatment, discrimination and environmental impact according to the Accounting Act. These efforts are further described in the section Corporate Social Responsibility/Sustainability on page 51 in the annual report.

### 3. Equity and dividends

#### SHARE CAPITAL

The share capital of the Company is NOK 250,000,000 divided into 100,000,000 shares each with a nominal value of NOK 2.50.

#### EQUITY AND CAPITAL STRUCTURE

At 31 December 2019, the Company had a consolidated equity of NOK 2,270 million, which is equivalent to 24.6% of total assets, and had a debt-to-equity ratio of 32.9%.

The Company made significant investments in ferries and related infrastructure in 2019 in connection with the renewal and upgrade programme which is expected to be completed in 2020. As a result of the investment programme, the Company's net interest-bearing debt increased in 2019 but is expected to decline in 2020 due to lower investments, improved cash flow and sale of infrastructure.

The Board of Directors considers the capital structure to be satisfactory in terms of the Company's objectives, strategy and risk profile.

#### DIVIDENDS

The Board of Directors has adopted a dividend policy which states that the Company intends to pay a dividend of up to 50% of net profit after tax. The dividend shall be in proportion to the Company's solidity, growth and profit development.

The impact of the coronavirus on Fjord1's operations and financials over the coming months will depend on the magnitude and length of the extraordinary measures. Therefore, the Board of Directors believes it is prudent to postpone the dividend recommendation for 2019 until further notice. In the meantime, the Board of Directors recommends allocating the profit of NOK 240 million from the parent company to other equity to further strengthen liquidity and balance sheet.

#### BOARD MANDATES

On 14 May 2019, the Fjord1's General Meeting authorised the Board of Directors to purchase own shares on behalf of the Company with an aggregated nominal value of up to NOK 10,000,000 in connection with the share plan for employees and incentive plan for senior executives. If the Company acquires more shares than necessary under the plans, the shares may be sold in the market or be cancelled through a decrease of the share capital. The Board of Directors determines the methods by which own shares can be acquired or disposed of. The authorisation is valid until the General Meeting in 2020, which is to be held on 30 June 2020 at the latest.

In 2019, a total of 100,000 treasury shares were purchased. In total, 56 366 shares were transferred to employees in 2019, 47,068 shares to senior employees and 9,298 shares to other employees. At the end of the year, the Company had 90,402 treasury shares compared to 46,768 shares at the beginning of the year. More information about the transactions can be found in Note 12 Share capital in the financial statements.

The Company's general meeting has not granted the Board of Directors a mandate to increase the share capital.

### 4. Equal treatment of shareholders and transactions with related parties

#### PRE-EMPTION RIGHTS TO SUBSCRIBE

In the event of a share offering, the existing shareholders have pre-emption rights, unless the pre-emption rights are set aside by the General Meeting or the General Meeting has given the Board of Directors a mandate to set aside the pre-emption rights. Any decision to waive the pre-emption rights shall be justified and publicly disclosed through a stock exchange release.

There were no share offerings in 2019.

#### TRADING IN OWN SHARES

Transactions in the Company's own shares (e.g. treasury shares, share buy-back programme) should either be carried out through the trading system at Oslo Stock Exchange or at prevailing prices at the Oslo Stock Exchange. In case of limited liquidity in the Company's shares, the Company should consider other ways to ensure equal treatment of all shareholders.

In 2019, the Company bought treasury shares through the trading system at Oslo Stock Exchange, see Section 3 Equity and Dividends. The Company currently has no ongoing share buy-back programme.

#### **TRANSACTIONS WITH RELATED PARTIES**

The Board of Directors aims to ensure that the arm's length principle is applied to not immaterial transactions between the Company and its shareholders, shareholder's parent Company, members of the Board of Directors, executive personnel or close associates of any such parties. This is explained in more detail in the Company's instructions for the Board of Directors and the Company's code of conduct.

For not immaterial transactions with any of the parties listed above which do not require approval by the General Meeting pursuant to the Norwegian Public Limited Liabilities Companies Act, the Board of Directors will as a general principle, on a case-by-case basis, assess whether a valuation from an independent third party should be obtained. Transactions with related parties shall be carried out at arm's length principle and at market terms. If the transaction is subject to a comprehensive tendering process with a minimum of three participants, the tender process will substitute and fulfil the purpose of an independent valuation. This is because the internal guidelines for such situations are deemed sufficient to ensure compliance with the arm's length principle and market terms. Independent reports are obtained in cases where legislation so requires.

The instructions to the Board of Directors require each individual board member to objectively and continuously assess, and if relevant disclose, any conflict of interest in general or related to specific matters discussed in a meeting.

Havilafjord AS and Havilafjord Holding AS held 66,5% of Fjord1's shares at the end of 2019. Havilafjord's shares in Fjord1 are collateral for a NOK 1,000 million senior secured bond issued by Havilafjord.

Havilafjord AS is owned by Havila Holding AS. Havyard Holding AS owns 40.35 % of the shares in Havyard Group ASA, which owns 100% of the shipyard Havyard Ship Technology AS (HST). HST was awarded two contracts with five newbuilds in each contract during 2017 and 2018 by Fjord1. Fjord1's investments related to these contracts amount to NOK 788,3 million in total for 2019. All newbuild contracts are awarded in accordance to Fjord1's policy, requiring minimum three tender participants. Relevant board members have not participated in the decision process related to the contract awards.

The Company provides an overview of related party transactions on a quarterly basis in the interim consolidated financial statements. A complete overview of related party transactions for 2019 is disclosed in Note 18 Related party transactions in the consolidated financial statements.

#### **5. Freely negotiable shares**

The Company is listed on the Oslo Stock Exchange. There are no restrictions on owning, trading or voting for shares in the Company's Articles of Association.

#### **6. General Meeting**

##### **ABOUT THE GENERAL MEETING**

The General Meeting is the Company's supreme governing body. The Board of Directors has the overriding responsibility for managing and supervising the Company's day-to-day management and operations. The Board of Directors aims to make the General Meeting an effective meeting place for its shareholders by ensuring open, timely and accessible information about the General Meeting to all shareholders.

##### **PARTICIPATION AND EXECUTION**

Notice of the Company's General Meeting shall be issued in writing to all shareholders with a known address. If documents relating to issues to be considered at the General Meeting are made available to the shareholders on the Company's website, the provisions of the Norwegian Public Limited Liability Companies Act requiring documents to be sent to the shareholders no longer apply. The same applies to documents that by law shall be included in or attached to the meeting notice. A shareholder may, however, demand that supporting documentation for the General Meeting be sent by post. This is laid down in Article 7 of the Company's Articles of Association.

All shareholders registered in the Central Securities Depository (VPS) received notice of the General Meeting and were entitled to submit proposals and vote directly at the meeting or by use of proxy. The Board of Directors ensured that resolutions and supporting information were sufficiently detailed, comprehensive and specific to allow shareholders to form a view on all matters considered at the General Meeting. Each matter shall be voted on individually, including individual candidates nominated for election.

The Board of Directors aims to encourage attendance by all shareholders. Registration of attendance is made in writing, by post, through VPS account or email. Registration is available until four days ahead of the meeting. Shareholders who are not able to attend are encouraged to be represented by a proxy or vote by proxy. Provisions are made for proxy votes to be cast on each individual issue discussed.

As a general rule, the Board of Directors and the Chairman of the nomination committee shall be present at the General Meetings. While the Chairman of the Board is normally elected to Chairman of the General Meeting, the Board of Directors will ensure that the General Meeting is able to appoint an independent Chairman.

In 2019, the Ordinary General Meeting was held 14 May 2019 with 74.6% of the shareholders represented. The Company complied with the procedures as described above in 2019. Minutes from the meetings can be found on the Company website and in the stock exchange release published after the respective meeting.

### **7. Nomination committee**

The Articles of Association Article 6 provide for a nomination committee consisting of two members. The members shall either be shareholders or act as representatives for the shareholders.

Guidelines have been compiled for the duties of the nomination committee, its composition and criteria. These guidelines were adopted by the Extraordinary General Meeting held 7 July 2017.

The General Meeting elects the Chairman of the nomination committee. Each member of the committee is elected for a period of two years and may be re-elected once. The members shall be independent of the Company's Board of Directors and executives and consider the interests of all

shareholders. Fees for the nomination committee are approved by the General Meeting.

The duties of the nomination committee are to propose candidates for election to the Board of Directors and to provide guidance on compensation for members of the Board of Directors and sub-committees, including the nomination committee. All candidate proposals shall be justified on an individual basis. The proposals shall include relevant information about the candidates and an evaluation of their independence of the Board of Directors and the executive management. The proposals are subject to justification by the Company's largest shareholders. All shareholders are entitled to propose candidates.

The proposals presented by the nomination committee to the General Meeting are made available to the Board of Directors four weeks prior to the General Meeting. The proposal must fulfil prevailing legislation and regulation on board composition.

On 31 December 2019, the nomination committee consisted of the following members; Anders Tallerås (Chairman) and Nina Skage. The members were re-elected for a new two-year term in May 2019. Both members are independent of the Board of Directors and the executive management.

### **8. Board of directors: Composition and independence**

Pursuant to Articles of Association Article 5, the Board of Directors shall consist of five to nine members. The General Meeting elects the Board members including the Chairman of the Board based on proposals by the nomination committee. Members of the Board are encouraged to hold shares in the Company.

The Company's Board of Directors is composed to meet the Company's needs for expertise, background diversity and capacity to carry out Board duties. The Company's employees shall be represented on the Board by two employee representatives and two observers according to the prevailing agreement. The composition of the Board of Directors shall ensure that the Board can act as a collegiate body in the best interest of the shareholders and handle its duties effectively and independently.

All members of the Board are independent of the Company's executive management. Board member independence is assessed according to criteria in the Code of Practice. None of the shareholder elected directors are employees of or have performed work for Fjord1.

There are five shareholder appointed members of the Board.

Vegard Sævik and Per Sævik are two of four ultimate owners of the main shareholders Havilafjord AS and Havilafjord Holding AS, through the holding company Havila Holding AS. Havila Holding AS owns 40.35% of the shares in Havyard Group ASA, which in turn owns 100 % of Havyard Ship Technology AS. Havyard Ship Technology AS is the supplier of a number of vessels to the Company. Vegard Sævik and Per Sævik are consequently not considered independent of the main shareholders nor of the Company's material business contacts.

Reuben Munger is the founder and managing partner of Vision Ridge Partners, LLC. A fund managed by Vision Ridge Partners has provided funding to Havilafjord Holding AS in connection with the latter's acquisition of shares in Fjord1 in December 2019, and together with Havilafjord and on acting in concert basis holds 70.35 % of the shares in Fjord1. Reuben Munger is consequently not considered independent of the main shareholders.

Reuben Munger does not have any agreements, dealings or informal arrangements with Havyard Ship Technology AS or other material business contacts of the Company and is considered independent of material business contacts.

Siri Hatland and Birthe Cecilie Lepsøe are both considered independent of the main shareholders and of the Company's material business contacts.

Thus, two members of the Board appointed by the shareholders are independent of the Company's main shareholders; and three of the five members of the Board appointed by shareholders are not independent of the Company's material business contacts.

On 10 December 2019, it was announced that Havilafjord Holding AS, had acquired 15 million shares in Fjord1, resulting in Havilafjord AS and Havilafjord Holding AS having a combined ownership of 66.5 million shares, representing 66.5% of the share capital. Funding for the acquisition was secured from Vision Ridge Partners. Havilafjord Holding AS, Havilafjord AS and Vision Ridge Partners jointly control 70.35% of the outstanding shares and share capital of Fjord1. The Board shall maintain a high level of awareness of and take due care of the interests of the minority shareholders following the increase in the majority owner's stake in the Company.

On 11 December 2019, Brita Eilertsen (independent member) and Frederik Wilhelm Mohn withdrew from the Fjord1's Board of Directors. Reuben Munger and Birthe Cecilie Lepsøe was elected new members of the Board on an Extraordinary General Meeting was held 14 January 2020.

In total, the company held six ordinary board meetings and 16 extraordinary board meetings in 2019. Extraordinary board meetings are typically held in connection with tender processes.



The table below provides an overview of the Fjord1's shareholder elected Board members, their independence, shareholdings and election term:

Name	Role	Considered independent of main shareholders	Considered independent of material business contracts	Served since	Term expires	Participation in ordinary Board meetings 2019	Shares in Fjord1 (direct/indirect)
Vegard Sævik	Chairman	No	No	2019	2020	6	*
Per Sævik	Member	No	No	2019	2021	5	*
Siri Hatland	Member	Yes	Yes	2019	2020	6	-
Siri Beate Hatlen	Member	Yes	Yes	2019	2019	3	-
Brita Eilertsen*	Member	Yes	Yes	2019	2021	2	-
Birthe Cecilie Lepsø	Member	Yes	Yes	2020	2021	0	-
Reuben Munger	Member	No	Yes	2020	2021	0	*
Frederik Mohn*	Member	Yes	Yes	2019	2021	0	*
Atle Olav Trollebø	Member	Yes	Yes	2019	2021	6	1 400
Geir Offerdal	Member	Yes	Yes	2019	2019	2	290
Terje Hals	Member	Yes	Yes	2019	2021	3	-

\* Owners of shares through other companies as described in section 8 above this table. Eilertsen and Mohn left the Board in December 2019.

### 9. The work of the Board of Directors

The Board of Directors is elected by the shareholders and has the ultimate responsibility for management at the Company and for supervising its day-to-day operations and activities in general. The Chairman of the Board is responsible for ensuring that board work is executed efficiently and correctly.

The Norwegian Public Limited Liability Companies Act regulates the duties and procedures of the Board of Directors and includes inter alia the responsibility for ensuring that activities are soundly organised. In addition, the Board of Directors has adopted separate instructions to the Board of Directors which inter alia include administrative

procedures, a clear split of responsibilities and duties between the Board and the CEO, including the CEO's responsibilities towards the Board. The instructions are subject to annual reviews.

The instructions to the Board of Directors require each Board member to objectively and continuously assess whether he or she may have any material interests in items to be considered by the Board of Directors. The purpose of this practise is to ensure that the Company's business decisions are made on an independent basis. If a member of the Board or a member of the executive management is found legally disqualified in a specific business decision,



he or she will be excluded from the decision process. This practise also applies to the Chairman of the Board.

The Board of Directors conducts an annual assessment of its performance and expertise, which is presented to the nomination committee. The assessment includes the work of the board, the work of its committees and the contribution made by the various directors. An assessment of this kind was last conducted in 2019.

#### AUDIT COMMITTEE

The audit committee is elected by the Board of Directors and consists of three selected Board members. A minimum of one of the audit committee members has experience from accounting, financial management or auditing. The majority of the audit committee is independent. The Company's auditor attends meetings upon request by the audit committee.

The audit committee is a preparatory and advisory committee for the Board of Directors. The main tasks for the audit committee are to:

- prepare the Board's monitoring of the financial reporting process
- monitor the systems for internal control and risk management
- maintain contact with the Company's elected auditor regarding the audit of the consolidated financial statements
- assess and monitor the auditor's independence and objectivity in relation to the Company, including whether non-audit services provided by the audit firm represent a threat to the independence and objectivity of the Company

The audit committee consists of Vegard Sævik, Siri Hatland and Birthe Cecilie Lepsøe. Birthe Cecilie Lepsøe was elected 24 February 2020. Birthe Cecilie Lepsøe and Siri Hatland are independent members. Brita Eilertsen served as an independent member of the audit committee during 2019. The audit committee held six meetings in 2019 and was in regular contact with the Company's auditor regarding the audit of the financial accounts.

#### THE BOARD'S REMUNERATION COMMITTEE

The Company's executive remuneration policy and principles are established by the Board of Directors. The Board of Directors' has assessed the need for a remuneration committee but found that these matters can be treated by the board. For an overview of executive remuneration for 2019 please see Note 19 Remuneration.

#### 10. Risk management and internal control

The Board of Directors ensures that the Company has appropriate systems for risk management and internal control. These systems shall enable effective operational and financial risk management, including relevant reporting in accordance with legislation. The Board of Directors assesses the Company's risk management and internal control system once a year, usually in connection with the annual strategy meeting.

The internal control and risk management systems define roles and responsibilities, processes and procedures, tools and documentation, standards, including considerations of value creation for the Company's shareholders, employees and society. The Company has inter alia established a set of internal procedures to ensure comprehensive and reliable reporting of financial and operational performance. As part of the operational performance and risk control, the Company has a system for project execution which contains project risk monitoring in order to effectively manage risk and ensure reliable planning, control, execution and economic follow-up of projects, e.g. newbuilding.

Fjord1's consolidated financial statements are prepared in accordance with prevailing IFRS regulations. The Board of Directors receives periodic reports on the Company's financial results and a description of the status of the Group's most important individual projects. In addition, economic reports are drawn up every quarter and are adopted by the Board of Directors prior to publication of the interim reports. The auditor takes part in meetings of the audit committee and in board meetings involving presentation of the preliminary financial statements.

The Company has established whistle-blowing routines that enable employees to anonymously communicate about situations involving illegal or unethical conduct.

Reference is made to the Board of Directors' report in the annual report which includes the most critical risk factors for the Company.

### **11. Remuneration of Board of Directors**

The nomination committee proposes, and the General Meeting approves the Board of Directors' remuneration. The remuneration to the Board of Directors reflects the Board's responsibility, expertise, time commitment and the complexity of the Company's activities. Additional compensation is paid to the members of the Board's subcommittees. The remuneration is not linked to the Company's performance and does not contain any share options. In 2019, a total of NOK 2.2 million was paid in remuneration to the Board of Directors. Detailed information on the remuneration to Board members is set forth in Note 17 Remuneration in the consolidated financial statements in the annual report for 2019.

As a main rule, the members of the Board shall not take on assignments for the Company beyond their Board duties, but if they do, this shall be disclosed to the full Board. The remuneration for such additional duties shall be approved by the Board of Directors. During 2019, none of the shareholder-elected members of the Board have had duties for the Company beyond their Board position.

### **12. Remuneration of executives**

The purpose of the remuneration to executives is partly to ensure that leading employees remain in the Company, and partly to secure a strong performance culture that creates values for the shareholders over time.

The Board of Directors prepared and followed guidelines for remuneration of the executive management in 2019. The guidelines were communicated at the General Meeting 14 May 2019 as part of the agenda item 6 - Discussion regarding the Board's statement on determination of salary and other remuneration to leading employees in the Company. The statement on determination of

salary and other remuneration was made available to all shareholders prior to the General Meeting at the Company's website. The guidelines in this statement clearly separated which guidelines that were advisory, and which were binding. The General Meeting on 14 May 2019 approved both the Board's advisory- and binding guidelines.

The executive management remuneration consists of a fixed base salary and standard pension and insurance schemes, a variable salary and an incentive scheme. The variable remuneration is a bonus based on the achievement of individual goals. The maximum bonus will be an amount equal to six months of the fixed base salary. Half of the bonus is paid in cash while the other half is paid in shares in the Company. In addition, the leading employees have a right to buy Fjord1 shares with a 20% discount to market price, with an aggregate value of up to 50% of the maximum potential bonus for the year.

Details on remuneration of the executive management can be found in Note 19 Remuneration in the consolidated financial statements.

### **13. Information and communications**

The Company's IR practice is based on the Oslo Børs Code of Practice for IR, latest updated July 2019. Open, precise and timely communication of financial and other relevant information together with equal treatment of investors, are the main principles for the Company's communication. The Board of Directors has adopted an IR policy which guides the Company's investor relation communication and activities.

The main purpose of financial information disclosure is to communicate the Company's long-term goals and potential, including strategies, value drivers and important risk factors. All material documents such as the annual report, interim reports and material news are published via the Oslo Stock Exchange as stock exchange releases. The information is also available on the Company's website. The information is published in Norwegian and English. Interim reports are published on a quarterly basis and normally presented by the CEO at the day of announcement at an open public event, in line with Oslo Børs' recommendation.

The Company has an ongoing dialogue with investors and analysts at various conferences and events. Ahead of the interim reporting date, the Company has a “silent period” of 30 days. During this period, Company management are not available for discussion with investors and analysts. The CEO and the CFO are the point of contact for investors and analysts.

#### 14. Takeovers

There are no defence mechanisms nor restrictions against takeover bids in the Company’s Articles of Association. In a bid situation, the Board of Directors shall ensure that the shareholders of the Company receive equal treatment and that the Company’s daily operations are not unnecessarily disrupted. The Board of Directors shall seek to ensure that shareholders are given sufficient information and time to assess the takeover bid. In the event of a takeover bid for the Company’s shares, the Board of Directors shall make a statement with a recommendation as to whether the shareholders should accept the offer or not.

The Board of Directors will further consider the relevant recommendations in the Code of Practice and whether the concrete situation entails that the recommendations in the Code of Practice can be complied with or not.

#### 15. Auditor

The Company’s external auditor, PwC, is elected by the General Meeting and is independent of the Company.

The Board of Directors ensures that the auditor describes the main elements in the Company’s audit plan which is shared with the audit committee annually. Further, the Board of Directors requires the auditor to participate in Board meetings that deal with the annual accounts. At least once a year the Board of Directors will review the Company’s internal control procedures together with the auditor, including weaknesses identified by the auditor and proposals for improvement.

At least once a year the auditor shall have a meeting with the Board of Directors without the presence of executive management. The auditor shall confirm in writing to the Board of Directors that the established requirements for the auditor’s independence were fulfilled.

The Board of Directors informs the General Meeting of fees paid to the auditor, broken down into audit and non-audit services. The Company assess any non-audit services on a case-by-case basis in order to ensure independence.