



## CORPORATE GOVERNANCE

**Deep Sea Supply Plc** ("DESSC" or the "Company" on a consolidated basis) principles for Corporate Governance are based on the "Norwegian Recommendation for Corporate Governance" issued on 28 November 2006, which is a revised version of the recommendations issued on the 8th December 2005. Listed companies are expected to practice Corporate Governance that regulates the division of roles between Shareholders, the Board of Directors and the Executive Management more comprehensively than is required by the legislation. The code of practice intends to strengthen the confidence in listed companies providing the highest possible value creation benefiting shareholders, employees and others. As long as DESSC is a Cyprus registered company, "Norwegian Recommendation for Corporate Governance" can only be adopted as long as the recommendation is in accordance with Cyprus Companies Law, Cap 113. The Board of the Company is not aware of any differences between the content of the "Norwegian Recommendation for Corporate Governance" and Cyprus Companies Act. The Board will below present its Corporate Governance.

DESSC's management has presented "The Norwegian Code of practice for Corporate Governance" for the Board.

### The following elements underpin the Company's Corporate Governance Policy:

- DESSC will maintain an open and reliable communication with the public about its business activities and conditions related to corporate governance.
- DESSC's Board will be autonomous and independent of the Company's Management.
- DESSC will attach importance to avoid conflicts of interest between the owners, the Board and the Management.
- DESSC will have a clear division of responsibilities between the Board and the Management.
- All shareholders will be treated equally.

In 2006 the Company completed its own corporate Code of Ethics. Compliance with and follow up of the Code of Ethics have been discussed and presented thoroughly in-house. For more detailed information about the Company's Code of Ethics, please see our corporate website at

[www.deepseasupply.no](http://www.deepseasupply.no).

## Company Background

Deep Sea Supply Plc was established on 7 November 2006 for the purpose of acquiring all shares of Deep Sea Supply ASA following an initiative by the Board of Deep Sea Supply ASA to change the domicile of the ultimate parent company to Cyprus. Cyprus is expected to afford more stable, attractive and competitive conditions over time compared to the Norwegian regime. It was also considered vital that Cyprus is member of the EU.

## Business

The Company's business objective is defined in Section 3 of the Memorandum of Association, and includes, inter alia, the following:

*"To engage and invest, directly or indirectly, by itself or through subsidiaries or part-owned companies, partnerships or other forms of entities, in the international offshore anchor handling and supply vessel business, and to do all such acts and things as are related thereto, including without limitation the acquisition, construction, leasing, chartering, operation and manning of such vessels and everything incidental thereto."*

In 2005 the Company acquired a fleet of modern second hand AHTS (Anchor Handling Tug Supply vessels) built in Norway in 1998/99. In April 2006 the Company purchased 22 newbuilding contracts, whereof 8 PSVs (Platform Supply Vessels) and 14 AHTS. The Company acquired in 2006 and 2007 another 4 shipbuilding contracts, one second hand vessel and bareboat chartered in (and later acquired) one vessel. In 2006, the Company sold three shipbuilding contracts and in 2007, the Company sold two vessels. In 2009, the Company ordered a newbuilding PSV from STX Offshore Brasil S.A. In 2010, the Company sold two AHTS vessels. Early 2011, two AHTS vessels were sold and one joint venture entered into between DESSC and Malaysian partners.

The Company intends to become one of the leading owners and operators of supply vessels on a global basis. DESSC will primarily seek to obtain and maintain a chartering profile with a combination of spot, medium and long term contracts for the large AHTS vessels. For the PSVs and the small AHTS vessels, DESSC will seek to obtain medium to long term contracts.

The Company's primary aims are to meet the demand from markets that require modern and advanced supply vessels.

DESSC seeks investments in the perspective of providing financial returns to its shareholders. The Company will actively consider possibilities to participate in industry consolidation, mergers and acquisitions, and will position itself to be part of such consolidation.

The Company has a small team of dedicated staff focusing on core activities such as chartering, finance, investor relations and accounting. In 2010, it was decided to establish in-house technical management for the Company's fleet and to gradually take over the technical management of the vessels during 2011. Until such time, the technical management, crew management, and construction supervision are outsourced to well-qualified professional suppliers of such services.

## Equity and dividend

### Equity

The Company's book equity as per 31 December 2010 was USD 161,6 mill. The Board considers this to be an acceptable level. The Board evaluates continuously the Company's equity in light of the overall goals, strategy, risk profile and market.

### Dividend policy

The Company will actively use the capital market when doing investments, and does not intend to hold significant liquid reserves for investments. Retained earnings will, to the extent permitted under operational constraints, financial covenants and with due regard to appropriate working capital requirements and, more recently, the uncertainties deriving from the current financial crises and adverse market conditions, be paid out as dividends.

The General Meetings stipulates the annual dividend, based on the Board's recommendation. Distributions to shareholders for 2010 have been evaluated quarterly.

For 2010, no dividend distributions were made due to the adverse market conditions resulting in lower utilization and rate levels for AHTS and PSVs.

### Purchase of treasury shares

The Board has been granted an authorization to acquire treasury shares, including acquisition of security rights. Authorization to acquire treasury shares is based on the assumption that acquisitions will be conducted at normal market conditions.

In 2010, the Company cancelled 3,101,000 own shares. By the end of 2010, DESSC did not own any own shares.

### Major shareholders

The major shareholder of the Company, is Hemen Holding Limited with an ownership of 35.1%

## Equal treatment of shareholders and transactions between related parties

### Class of shares

DESSC's shares are all equal. The Articles of Association place no restrictions on voting rights or rights of receiving dividends.

### Trading in treasury shares

The Board's authorization to acquire treasury shares is based on the assumption that acquisitions will be conducted at normal market conditions.

### Transactions between related parties:

Related parties are considered to be the Board members (including associated companies) and the Management (including associated companies).

### Hemen Holding Limited / Metrogas Holdings Inc.

In connection with the Company's change of domicile from Norway to Cyprus, Metrogas Holdings Inc issued in January 2007 a short term loan facility to DESSC which amounted to USD 25,6 mill. The purpose of the loan was to make relevant deposit for the purpose of conducting the mandatory bid for all of the shares in Deep Sea Supply PLC. Metrogas Holdings Inc is a sister company of Hemen Holding Ltd., the largest shareholder of DESSC. The loan agreement is entered into on an arms-length-basis. The loan was fully repaid in mid March 2007. In 2008, DESSC borrowed USD 12 mill. from Metrogas Holdings Inc (a company controlled by DESSC's largest shareholder) and repaid the loan in full prior to year-end 2008. In 2010, DESSC borrowed USD 10 mill. from Metrogas Holdings Inc. The current loan balance is USD 10 mill., and is repayable within 3 years.

## Freely negotiable

The shares are freely negotiable.

### General meetings

By virtue of the Annual General Meeting (AGM), the shareholders are guaranteed participation in the Company's supreme governing body. Shareholders representing at least 10 per cent of the shares can call for an extraordinary general meeting. The AGM shall be held at the place of establishment of the Company (Cyprus).

### Convening letter

The notifications to the AGM are distributed to all shareholders minimum 21 days in advance. It is considered important that the documents contain all relevant documentation so that the shareholders can take a position on all items up for discussion. The Finance Calendar is published on the Company's web page and distributed via Oslo Børs.

### Participation

It is possible to register for the AGM by post, telefax or e-mail. The Board and at least one member of the Nomination Committee will attend the AGM. As a minimum, the management is represented by the CEO and the CFO.

### Agenda and execution

The agenda is set by the Board, and the main items are specified in the Company's Articles of Association. The Chairman of the Board will chair the AGMs.

### Nomination and Audit Committees

In accordance with the Articles of Association, the Company shall have a nomination committee consisting of the Chairman of the Board and two members elected by the AGM. In connection with the election of Directors and election of the members to the Nomination Committee, the Nomination Committee shall in connection with the summons for the General Meeting provide its recommendations for candidates. The nomination committee shall also propose the remuneration to the Board members.



The Board has established an Audit Committee who had four meetings in 2010. The meetings were held together with the Management and the Company's Auditors.

## Board of Directors

### Composition and independence

The DESSC Board consists of six board members.

### Election of the Board of Directors

The Board members are elected by the AGM based on a recommendation prepared and presented by the Nomination Committee. The recommendation is distributed to the shareholders along with the convening letter to the AGM. Decisions on the composition of the Board require a simple majority. Directors are elected for two-year terms and can be re-elected.

### Composition of the Board

Emphasis is made on selecting board members with relevant competence. According to the Articles of Association, the Board shall have from three to seven board members. The Company's CEO is not member of the Board.

### The Board's autonomy

The Board considers itself autonomous and independent of the Company's executive management and main shareholders. Emphasis is made that there should exist no conflicts between the Board, the Management and the Company's shareholders. The corporate Code of Ethics discusses this topic under the heading "Conflict of interest".

### Director's ownership of shares

By year-end 2010, the majority of the members of the Board either owned shares in the Company or represented significant shareholders. Reference is furthermore made to the separate presentation of the Board Members in the Annual Report.

## Board work

### Board responsibilities

The Board bears the ultimate responsibility for running the Company and supervising routine management and business activities. The Board primarily looks after the interests of all the shareholders, but is also responsible for the Company's other stakeholders.

The Board has made an annual plan for the board meetings. The Board's main tasks are developing and determining the Company's strategy, performing the required control functions and advice the executive management. The Board is responsible for employing the Company's CEO and to draw up his/her job description. The Board members receives a fixed compensation and has a total of 866,665 stock options. Stock options were deemed necessary in order to attract good foreign board members. DESSC's Board of Directors consists of 1 Cyprus, 3 UK and 2 Norwegian residents.

## Remuneration to leading employees

The remuneration for the CEO is decided by the Board. Each year, the Board undertakes a thorough review of salary and other remuneration to the CEO. An incentive scheme for the employees is established which is linked to a combination of stock options and a bonus scheme. The bonus scheme is linked to the development of the stock price of the Company based on comparison with peer company companies. The terms are described in the notes of the annual financial statements.

## Remuneration to the members of the Board

The AGM stipulates the Board's remuneration each year. The suggested remuneration to the Board in 2008 breaks down as follows: NOK 350,000 for the Chairman and NOK 200,000 for each Director. In addition, each board member has stock options (200,000 for the chairman and 133,333 for each Director).

No Director is engaged in any paid consultancy work or other assignments for the Company.

### Change of control

The share options for the board and the share options and certain other benefits for the management will come into effect at a change of control in the Company (in excess of 33%).

### Information and communication

The Company considers an open and frequent communication as important to its shareholders and other related parties. The Company's Financial Calendar is published on the Company's website and communicated via Oslo Børs. Monthly information about vessel revenues, medium and long term charters, delivery of vessels etc is provided via Oslo Børs. The web-site contains financial and other information relevant for its shareholders and related parties.

Open presentations are arranged to present quarterly financial statements. Present at these presentations are the CEO and the CFO. The financial information is simultaneously made available on the Company's web-site.

It is considered essential to keep owners and investors informed about the Company's progress and financial status. Emphasis is made on presenting the same information to the entire equity market at the same time.

## Internal control environment and audit committee

The Company has established the necessary set of processes and systems to ensure proper internal controls. An audit committee is established from 2009, charged with oversight of financial reporting and disclosure. The audit committee meets with the management and the auditors prior to publishing quarter and annual results to the stock exchange.

## Take-over regulation

There are no defense mechanisms against take-over bids in the Company's Article of Associations, and the Company has not implemented other measures to limit the opportunity to acquire shares in the Company.

The EU Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on take-over bids is implemented in Norway through the Securities Trading Act of 29 June 2007 no. 79 (the "Norwegian Securities Trading Act") and in Cyprus through Cypriot Law 41 (I)/2007 on Takeover Bids. A brief summary of the take-over rules applicable to the Company is included below.

Any person, entity or group acting in concert that acquires 30% or more of the voting rights of the Company is required to make an unconditional general offer for the purchase of the remaining shares in the Company. The offer is subject to approval by Oslo Børs, in its capacity as competent take-over authority of Norway. The offer price per share must be at least as high as the highest price paid or agreed by the offeror in the six-month period prior to the date the 30% threshold was reached, however equal to the market price if the market price was higher at that time. In the event that the acquirer thereafter, but prior to the expiration of the acceptance period acquires, or agrees to acquire, additional shares at a higher price, the acquirer is obliged to restate its offer at that higher price. A mandatory offer must be in cash or contain a cash alternative at least equivalent to any other consideration offered. Payment of the offer price must be guaranteed by a bank.

Certain provisions regarding mandatory offers will also apply with respect to so called voluntary offers (i.e. offers that will trigger the mandatory offer obligation should the offer be accepted by the eligible shareholders.)

## Auditor

The Company emphasizes a frequent and open dialogue between the Company and its auditor. The Company's auditor participates in the board meetings where the annual financial statements are discussed. At such meetings, the auditor is briefing the Board on the annual accounts and any other issues of particular concern to the auditor. At least once a year the auditor presents to the Board a written report of the Company's accounting policies, risk areas and internal control routines.

Pursuant to section 6-14 (2), cfr. section 6-13 (3), of the Norwegian Securities Regulations of 29 April 2007 no. 876, any matters regarding information to employees as well as company law matters, such as the conditions for triggering the mandatory offer obligation, shall be regulated by relevant Cypriot legislation. Such matters will be under the supervision of the Cypriot Securities and Exchange Commission. Pursuant to Article 13 (1) of the Cypriot Law 41 (I)/2007 on takeover bids, any person who, as a result of own acquisition or acquisition by a person acting in concert with him, holds securities of a company which, adding to his existing holding and those of persons acting in concert with him, directly or indirectly gives him 30% or more of the voting rights of that company, is obliged to make a bid for the outstanding securities. There is no repeated offer obligation under relevant Cypriot legislation.

The auditor submits the main features of the plan for the audit of the Company to the Board annually. The auditor annually presents for the Board a written confirmation that the auditor continues to satisfy the requirements for independence.

At least one meeting a year will be held between the auditor and the Board without the presence of the CEO or other executive managers.

The Company's auditor is Pricewaterhouse Coopers (PwC). There has been no change in audit firm after the Company was established in 2004.