Philly Shipyard

# ANNUAL REPORT 2019

# Contents

## In review



## Performance 2019



## Our organization and governance



## Financial calendar 2020

| | |
|---|---|
| 2019 annual report | 1 April |
| Annual general meeting | 22 April |
| Interim report Q1 2020 | 5 May |
| Interim report Q2 2020 | 15 July |
| Interim report Q3 2020 | 3 November |

Dates are subject to change.


Philly Shipyard is a leading U.S. shipbuilder that is presently pursuing a mix of commercial and government work. It possesses a state-of-the-art shipbuilding facility and has earned a reputation as a preferred provider of ocean-going merchant vessels with a track record of delivering quality ships, having delivered around 50% of all large ocean-going Jones Act commercial ships since 2000.

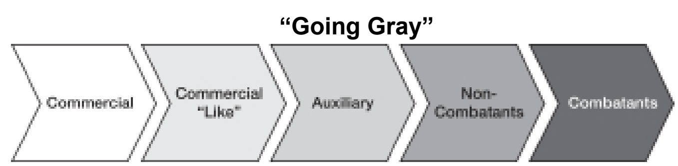
Philly Shipyard ASA is a holding company with headquarters in Oslo, Norway, and an operating subsidiary in Philadelphia, PA, USA.

Philly Shipyard ASA was listed on Oslo Axess in December 2007. Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder, holding 57.56% of the shares as of 31 December 2019.

**Elements contributing to success:**

- State-of-the-art shipyard with modern equipment
- Access to global shipbuilding and design expertise through agreements with partners in Asia and Europe
- A solid track record demonstrated by the delivery of 30 quality newbuild vessels (6 containerships, 22 product tankers and 2 Aframax tankers) through 2019
- Skilled workforce consisting of direct and contracted employees with a strong HSE mindset and culture of improvement
- Opportunistic investment approach with respect to the post-delivery economics of the vessels that it builds
- Maximize shipyard's utility with ship repair and maintenance work
- Proven history of promoting new vessel owners


**The U.S. Jones Act market**
U.S. coastwise law, commonly referred to as the Jones Act, requires all commercial vessels transporting merchandise between ports in the United States to be built in the United States, owned, operated and manned by U.S. citizens and registered under the U.S. flag. The Jones Act market encompasses all water-borne transportation between U.S. ports, including between the mainland U.S. and non-contiguous areas of Alaska, Hawaii and Puerto Rico, as well as shuttle tankers in the Gulf of Mexico.




**The U.S. Government market**
The U.S. Government market for ship design, construction and repair work is expansive and cuts across multiple government agencies. Government customers include the U.S. Navy, the Military Sealift Command (MSC), the Maritime Administration (MARAD), the U.S. Coast Guard, the U.S. Army Corps of Engineers and others. The U.S. Navy's fleet of 285 ships is to increase to a goal of 355 ships over the next 30 years at an annual cost of USD 29 billion in 2019 dollars.

# THE HISTORY

## 1997

**Founded by public-private partnership between U.S. Government agencies and the Kvaerner Shipbuilding Division**

## 2000

**Construction began on first two container vessels**

## 2003 - 2006

**Delivered four container vessels to Matson (Hulls 001-004)**

**2005:** Aker American Shipping formed and publicly listed on Oslo Børs

**2005:** Initiated construction program of ten product tankers

## 2007 - 2011

**Delivered 12 product tankers to AMSC and OSG (Hulls 005-016)**

**2007:** Two additional product tankers ordered for conversion to shuttle tankers

**2007:** Aker American Shipping split into ship owning and shipbuilding companies and Aker Philadelphia Shipyard listed on Oslo Axess

**2011:** Signed contracts with SeaRiver Maritime for two Aframax tankers

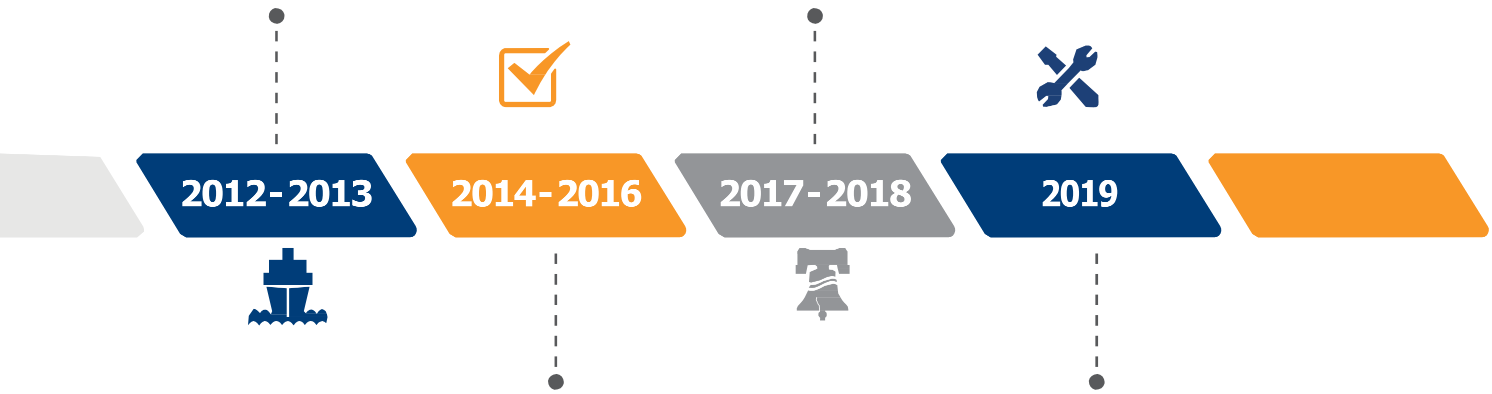

**Delivered two product tankers to Crowley (Hulls 017-018)**

**2013:** Signed contracts with Matson for two CV3600 container vessels

**2013:** Signed joint venture agreement with Crowley for four product tankers

**2017:** Delivered three product tankers to Kinder Morgan (Hulls 026-028)

**2018:** Delivered first CV3600 container vessel to Matson (Hull 029)




**Delivered two Aframax tankers to SeaRiver Maritime (Hulls 019-020), four product tankers to Crowley (Hulls 021-024) and one product tanker to Kinder Morgan (Hull 025)**

**2014:** Established Philly Tankers as pure-play Jones Act shipping company

**2014-2015:** Signed contracts with Philly Tankers for product tankers

**2015:** Philly Tankers agreed to sell product tanker contracts to Kinder Morgan

**2015:** Signed agreement with Marathon Petroleum to sell Crowley joint venture interests

**2015:** Re-branded as Philly Shipyard

**2019:** Delivered second CV3600 container vessel to Matson (Hull 030)

**2019:** Awarded first two repair & maintenance contracts for the FSS *Antares* and the FSS *Pollux,* large MARAD sister-ships managed by TOTE Services

**2019:** Awarded prime contract for design studies for the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program

# 2019 key events and highlights

### Hull 030 naming ceremony

Philly Shipyard celebrated its second containership built for Matson. The christening ceremony for Hull 030, the *Kaimana Hila*, took place on 10 March with dignitaries from the U.S. Coast Guard and government officials along with representatives from both Matson and Philly Shipyard.

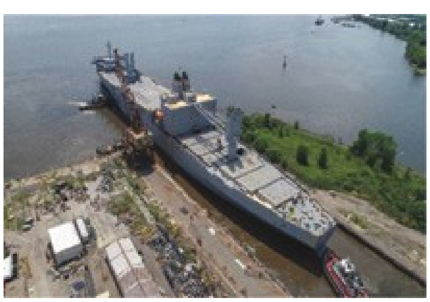
### Delivered second Matson vessel


On 28 March, Philly Shipyard delivered Hull 030, the *Kaimana Hila*, to Matson, the second CV3600 container vessel in the two-vessel series built for Matson. The two CV3600s built by PSI are the largest containerships ever built in the U.S.

### Visit from Washington, D.C.

On 10 October, the Secretary of the Navy, Richard Spencer, and the Director of Trade and Manufacturing, Peter Navarro, visited Philly Shipyard in support of the Shipyard's entry into repair and maintenance, con-version and new construction of U.S. Government vessels.


### FSS *Antares* government ship repair



On 1 August, Philly Shipyard commenced work on its first contract to perform modernization, repair and maintenance work on the FSS *Antares,* a U.S. Government ship. On 19 December, work was completed and the vessel was redelivered to MARAD.

# Investment highlights

### 1 A leading U.S. shipyard

* State-of-the-art facility with more than USD 650 million invested since founding
* Built around 50% of all large ocean-going Jones Act commercial ships since 2000
* Highly skilled workforce with integrated, fully flexible sub-contracting. Union agreement extended to January 2023
* Delivered last newbuild vessel (Hull 030) despite challenging situation with reduction in workforce

### 2 Successful track record in vessel ownership

* 10 of the 30 vessels built since start-up with some ownership or participation by the shipyard
* All stakes in post-delivery economics of vessels have been successfully divested
* PSI benefits from being early mover and initiating projects before positive segment development is fully visible
* PSI is exploring potential partnerships that can create a stronger entity to secure new orders and create value

### 3 Combination of commercial and government work

* Opportunities within specialty and high-end segments of the Jones Act market
* Very promising outlook for high activity in the government sector in the next 5-10 years
* Philly Shipyard has already taken substantial steps to build up its government contracting resources and systems
* Seeking to secure near-term steel fabrication, repair and dry docking work in 2020 and sign contract for newbuilding order

### 4 Prepared for period with lower activity

* Retain key personnel to be able to resume normal ship-building operations
* Solid cash position enables shipyard to manage through periods with low activity
* Take advantage of ability to give full focus and start on a new project immediately
* Strong balance sheet and low net debt reduce financial risk

## Philly Shipyard recent deliveries

| Customer | Vessel | Delivery | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| American Petroleum Tankers | 025 PT | 30 Nov. 2016 | | | | |
| | 026 PT | 29 Mar. 2017 | | | | |
| | 027 PT | 26 July 2017 | | | | |
| | 028 PT | 20 Nov. 2017 | | | | |
| Matson | 029 CV3600 | 31 Oct. 2018 | | | | |
| | 030 CV3600 | 28 Mar. 2019 | | | | |

## Philly Shipyard recent ship repairs

| Customer | Vessel | Redelivery | 2019 | 2020 |
|---|---|---|---|---|
| MARAD/TOTE | FSS *Antares* | 19 Dec. 2019 | | |
| | FSS *Pollux* | Q2 2020 | | |

## Vessels built and repaired by Philly Shipyard from inception through today

| | | | |
|---|---|---|---|
| 6 **container vessels** | 22 **product tankers** | 2 **Aframax tankers** | 1 **repair vessel** |

**Vision: To be - and be recognized as - a leading shipyard in America that delivers on its commitments, every time.**

# Our CORE values

**Philly Shipyard's CORE values were designed as a reflection of who we are, and who we aspire to be, as a shipyard, as an organization and as individuals.**

They capture the pride, passion and commitment behind each action we take and decision we make. They are not words on a page, but our stand – a united commitment to conquer all challenges and build long lasting relationships. For years to come we will be united by these values, that give us the platform to deliver on our commitments, every time.

### Caring

*Working as family*

We are a shipbuilding family, a unique group comprised of many backgrounds and ethnicities, teams and departments; but at the end of the day, we have a healthy respect and a natural need to protect each other.

### One shipyard

*Selfless for every customer*

Customers are all around. From ship owner to process owner, we are all powerfully united to deliver. That means decisions are made in the best interest of the company, rather than oneself, or one team. We are strongest when we act together.

### Responsible

*Treat it like you own it*

If you're responsible for it, you own it, so treat it like it's yours. This means taking the utmost care for tools and equipment, making decisions based on the impact to your bottom line, and simply doing the right thing. Success is in our hands.

### Efficient

*Being better than yesterday*

A healthy dissatisfaction for the status quo lives within us. It fuels the need to challenge ourselves, and each other, to find a better way. Being efficient keeps our costs down, while driving our competitive edge up.

# Caring in action

**At Philly Shipyard, the way in which we achieve growth and profitability is as important as the achievements themselves. Our overriding corporate responsibility is concern for the communities that we are a part of. We strive to provide products and services in a safe, environmentally sound, ethical and socially responsible manner.**

More information regarding the Company's corporate social responsibility efforts can be found on pages 20-21 of the Board of Directors' report.

# HSE 2019: Improvement in a Downturn

*Safety is the foundation for the decisions we make and the actions we take on the road to zero incidents.*

**At Philly Shipyard, safety is personal and our credo is clear: We fundamentally believe that all incidents are preventable and safety is everyone's responsibility; and we promise to be relentless in our pursuit of an injury-free workforce by creating and maintaining safe working conditions and never compromising safety for anyone, anywhere, at any time.**

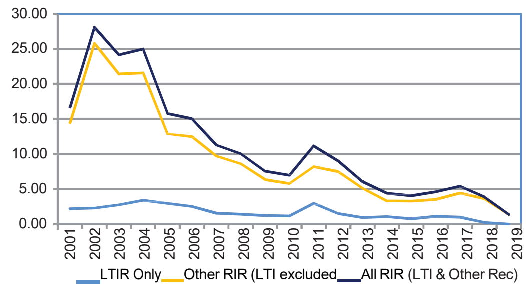
Speak to anyone closely related to Philly Shipyard, and they will likely agree that 2019 was quite possibly the most challenging year in the Company's twenty-two year history.

As Philly Shipyard approached the end of 2018, the reduction in workforce had been ongoing for several months. Numerous studies have shown that when workers are concerned with workforce reductions that the ability to stay focused on work – while at work – can be difficult. PSI's management team took the necessary steps to stay in front of this safety concern as much as possible, consistently emphasizing the need to remain focused on safety. Workers were reminded that working safe and avoiding injury is a personal commitment to themselves, their families and the company.

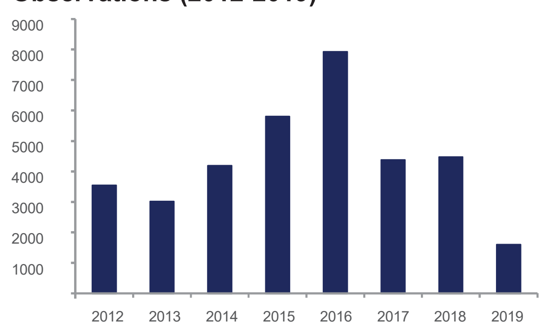
PSI successfully delivered Hull 030 at the end of March 2019 without incident; however, right after delivery the number of employees on site had been reduced to mostly office staff and maintenance workers. PSI asked itself how could it best utilize the down period to its advantage knowing that the training process had to improve for all production personnel. As the Company moved into the summer months, it began to realize that the immediate future would be in U.S.-Government vessel repair work, something that was new to PSI. The Company quickly recognized that there were specific hazards and challenges the Company would face in ship repair and maintenance work that were not apparent in new construction, including the potential for asbestos, lead paint and confined space entries. In order to ensure preparation for these risks and to reduce exposure risks, training programs and procedures were either developed or upgraded. Several weeks ahead of the first repair ship's arrival, the FSS *Antares*, production workers were brought in for a full day of safety training. The FSS *Antares* was certainly a learning curve for Philly Shipyard, but because of advance planning and a professional approach to safety, the ship repair project was an HSE success. The FSS *Antares* was redelivered on 19 December with an admirable safety record.

In total, 2019 was a good year statistically with only three recordable injuries and zero lost time incidents, a new record for the Shipyard and one that makes us proud, but we will not rest on that success. As the Shipyard enters 2020, with plans to return to full utilization, it will continue to build upon the successes of the past year to strengthen its future in safety.

**All incident frequency (2001-2019)**




**Observations (2012-2019)**



**The first step in "Going Gray" for Philly Shipyard.**

Steinar Nerbøvik, President and CEO, welcomes support from union officials and U.S. government dignitaries as work commences on its first contract to perform modernization, repair and maintenance work on a U.S. Government ship, the FSS *Antares*.


Steinar Nerbøvik speaking to Philly Shipyard employees in front of the FSS *Antares*.

# Philly Shipyard: Cautiously Optimistic about our Future

At the time of this writing, the U.S. and the entire international community is facing a serious pandemic known as COVID-19. Philly Shipyard is committed to following all the governmental and scientific guidance and our hearts go out to all of those who have been affected by this outbreak. Together as one nation and one world, we will persevere.

As 2019 drew to a close, we began 2020 facing challenges as a result of the lack of an order backlog. The Jones Act market for large ocean-going commercial vessels has been depressed for several years now. The unprecedented high level of commercial shipbuilding in the United States over the last decade resulted in the recapitalization of almost the entire domestic ocean-going fleet. Philly Shipyard built almost half of these vessels, and in doing so, we solidified our reputation for quality, on-time performance and best value for U.S. operators.

Our past success has enabled us to weather the challenges we face today and positioned us to succeed in the future as we pursue a mix of commercial and government work.

In 2019, we continued our "Going Gray" transition. We were awarded contracts for the repair and maintenance of two large U.S. Maritime Administration (MARAD) vessels, the FSS *Antares* and the FSS *Pollux*. We completed the FSS *Antares* in December 2019 and began work on the FSS *Pollux* in January 2020. These projects have enabled us to call back some of our employees. We also won a prime contract for the design studies for the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program. These contracts have allowed us to demonstrate to the federal government our ability to deliver on our commitments and perform to their standards.

Due to the incredibly hard work of our team, Philly Shipyard is in contention to win the contract for the construction of the National Security Multi-Mission Vessels (NSMV), which will replace up to five aging training ships based at state maritime academies across the United States. We have been pursuing this program for over a year, and we expect the NSMV shipyard contract will be awarded in the near term. If we are successful in winning this award, it would create a significant order backlog over the next few years and help us achieve our strategic goal of broadening and diversifying the markets we serve.

**2019 Activities: Deliver on our commitments and diversify our customer base**

***Shipbuilding***

In March 2019, we bid farewell to the second containership of a two-vessel order for our repeat customer, Matson (Hull 030 – *Kaimana Hila*). This delivery marked the conclusion of another successful series of large ocean-going commercial ships. This vessel, together with its sister-ship (Hull 029 – *Daniel K. Inouye*), which was delivered to Matson five months earlier, are the two largest container vessels ever built in the United States. I am extremely proud of our workforce for delivering on our commitments under challenging conditions.

***Repair, maintenance, modernization and conversion work***

Following the delivery of the second Matson vessel, there were no newbuilding activities in the shipyard, nor any new orders for large ocean-going commercial vessels at any U.S. shipyard. During 2019, Philly Shipyard began competing for short-term maintenance and repair opportunities, as well as modernization and conversion work, for U.S. Government and commercial vessels on an opportunistic basis.

In July 2019, Philly Shipyard was awarded its first maintenance and repair (M&R) contract involving a large auxiliary vessel, the FSS *Antares*, which is part of the MARAD Ready Reserve Force (RRF). RRF vessels are designed to support rapid worldwide deployment of equipment and supplies to U.S. armed forces. Philly Shipyard returned the ship in full operating condition when it left Philadelphia in December 2019. In October 2019, Philly Shipyard was awarded a second M&R contract, this time involving a sister-vessel to the FSS *Antares*, the FSS *Pollux*. The FSS *Pollux* arrived in Philadelphia in January 2020 and is expected to be in the shipyard until at least May 2020.

***Government design studies***

In May 2019, Philly Shipyard was one of four U.S. shipyards awarded a prime contract to conduct industry studies for the CHAMP program. Philly Shipyard is teaming with Vard Marine to conduct these studies for the U.S. Navy. The CHAMP program is a multi-phase effort that involves design studies, preliminary design, and detail design and construction (DD&C) leading to the recapitalization of the Military Sealift Command (MSC) fleet of aging auxiliary vessels. The requirements for the CHAMP program could approach 60+ vessels, which may be accomplished by a combination of new builds and the conversion of existing commercial vessels, with an anticipated contract award in 2023. The CHAMP vessels are not combatants, and are similar to a commercial design, which fits the structure of Philly Shipyard's facility. By all accounts, we are performing well on the CHAMP design studies, and we believe our continued success is our "ticket" to participate in the DD&C competition.

**2019 Activities: Transition the shipyard**

***Operations***

Beginning in January 2018, and culminating with the delivery of Hull 030 to Matson in March 2019, we made the difficult decision to idle areas of the shipyard and place employees in layoff status. In keeping with our CORE values, we continued communication with those employees, and an overwhelming majority have indicated that they would return to the shipyard when long-term work becomes available. Our employees know that working at Philly Shipyard means working in a safe environment, and with highly skilled trades, competitive pay and good benefits. As a reflection of their commitment to our shipyard, and in the midst of a production gap, our unions ratified another four-year collective bargaining agreement. We are confident that our workforce plan will enable us to secure the highly skilled workforce that is needed for a major shipbuilding program such as the NSMV vessels. On a much smaller scale, we saw support for this confidence as we easily met the workforce requirements for both the FSS *Antares* and the FSS *Pollux.*

***HSE***

I've heard it said that the most dangerous day on a job is the last day, which is why we made it abundantly clear to never take our eyes off the ball, even as we approached the finish line for Hull 030. As verification of our safety culture, we had zero lost time incidents (LTIs) in 2019, and even at the time of this writing, the shipyard has not had an LTI in nearly 500 days. Safety records like that do not happen by mistake, rather they are the product of training, employee mindset, solid procedures and leadership. In 2019, we revised our training programs to prepare us for repair work, new procedures were implemented, and all production employees were re-trained before their first steps onto the FSS *Antares*, and again before going onboard the FSS *Pollux*.

We realize there will be a greater challenge to maintain this success rate when we return to higher levels of employment and full production. If we are successful in winning the award for the construction of a major shipbuilding program such as the NSMV program, the priority will be to rebuild our workforce while maintaining our focus on safety. We believe our workforce has embraced the safety culture we are building, recognize the value of working in a safe environment and will fully support our commitment to make Philly Shipyard the safest shipyard in the country.

**2020: Navigating forward**

***Market outlook***

If we are successful with a contract award for the NSMV program, we will provide ourselves the proper foundation for growth in the future. There is growing interest among ship owners in replacing existing vessels, particularly those which are approaching 20 years of age or older, and the current interest rate environment is conducive to supporting large capital investments such as ships. I also see opportunities in major ship conversions and modifications that would be necessary as part of the U.S. Navy's efforts to recapitalize its sealift capabilities.

Among the significant achievements of 2019 is the relationship Philly Shipyard is building with the U.S. Navy. Early in 2019, we initiated efforts to make the U.S. Navy, prime contractors to the U.S. Navy and government officials aware of our capabilities and infrastructure. There is a growing recognition among all these parties that Philly Shipyard can be an integral component of the defense industrial base in the U.S. Navy's long-term plan to address its critical need for additional capacity to support new construction. This is an important step toward our goal of broadening our market base to mitigate the effects of any cyclical downturns in the new construction Jones Act markets.

Despite the challenges we are facing at this moment, there is much that gives us hope, optimism and confidence. Our workforce continues to believe in our future which, in turn, allows us to assure potential customers that when we receive a contract, they will be back working hard to build our future. I want to thank our employees, stakeholders and shareholders for their continued belief in Philly Shipyard, and I am looking forward to a revitalized shipyard in 2020.

Steinar Nerbøvik
President and CEO

Philadelphia, PA
March 18, 2020

# Board of Directors' report 2019

**Philly Shipyard ASA and its subsidiaries (referred to herein as a group as the "Group", the "Company" or "Philly Shipyard") is a leading shipbuilder in the U.S. Jones Act market that is presently pursuing a mix of newbuild and repair opportunities in the commercial and government markets. Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder in Philly Shipyard ASA.**

## Key Events

- ✓ **Negotiated a temporary conditional waiver of the minimum employment condition under the shipyard lease**
- ✓ **A new four-year collective bargaining agreement was ratified by the Philadelphia Metal Trades Council (PMTC) in February**
- ✓ **Received a liquidating distribution totaling USD 44.6 million from Philly Tankers in February**
- ✓ **Delivered the second vessel (Hull 030) in the two-containership order for Matson in March**
- ✓ **Idled its facilities and reduced its workforce due to the lack of an order backlog**
- ✓ **Awarded a prime contract in May to conduct industry studies for the Common Hull Auxiliary Multi-Mission Platform (CHAMP) program for the U.S. Navy**
- ✓ **Awarded a contract in July to perform modernization, repair and maintenance work on the FSS *Antares*, a government cargo ship, which was redelivered to the customer in December**
- ✓ **Submitted a proposal for the National Security Multi-Mission Vessel (NSMV) program for the U.S. Maritime Administration**
- ✓ **Awarded a contract in October to perform modernization, repair and maintenance work on the FSS *Pollux*, a sister-ship to the FSS *Antares***
- ✓ **EBITDA was negative USD 17.3 million in 2019, compared to negative 15.8 million in 2018**
- ✓ **Focused on controlling costs and preserving cash while readying itself for potential new ship orders; total cash and cash equivalents of USD 50.7 million at 31 December 2019, excluding USD 66.5 million of restricted cash**
- ✓ **Philly Shipyard did not record a single lost time incident in 2019**

### Activities

The main entities in Philly Shipyard are the Norwegian holding company, Philly Shipyard ASA (referred to herein as "PHLY"), and its U.S. operating subsidiary, Philly Shipyard, Inc. (referred to herein as "PSI" or the "Shipyard"), a leading U.S. commercial shipyard that is presently pursuing a mix of commercial and government work. PHLY is located in Oslo, Norway, while PSI is located in Philadelphia, Pennsylvania, USA. Philly Shipyard previously owned 53.7% of the outstanding shares of Philly Tankers AS (referred to herein as "Philly Tankers"), a Jones Act shipping company which was liquidated in February 2019.

As of 31 December 2019, PSI's workforce consisted of 139 people, with a breakdown of 119 direct employees and 20 subcontracted personnel following the redelivery of the FSS *Antares*.

Philly Shipyard's business strategy for PSI is to build vessels for operation in the U.S. Jones Act and U.S. Government markets while opportunistically performing ship repair, maintenance and conversion work to fully utilize the shipyard's capacity.

Safe, cost efficient and cost competitive construction of new vessels is critical for the success of Philly Shipyard's business model. There are several factors that position Philly Shipyard to capitalize on this market: a state-of-the-art shipyard with modern equipment; access to global shipbuilding and design expertise with partners in Asia and Europe; a solid track record demonstrated by the delivery of 30 quality vessels (6 containerships, 22 product tankers and 2 Aframax tankers) through 2019; a skilled workforce consisting of direct and contracted employees with a strong HSE mindset and culture of improvement; an opportunistic investment approach with respect to the post-delivery economics of the vessels that it builds; and a proven history of promoting new vessel owners.

### The Jones Act market

The U.S. Jones Act generally restricts the marine transportation of cargo and passengers between points in the United States to vessels built in the United States, registered under the U.S. flag, manned by predominately U.S. crews, and 75% owned and controlled by U.S. citizens. The ability of the Company to win contracts is in part dependent on its unique ability to construct vessels that are eligible for U.S. Jones Act trades, and the Jones Act requirement for construction of the vessels in the United States limits competition for future contracts by excluding foreign shipyards. Since the Company is not a U.S. citizen for purposes of the Jones Act, the Company's ability to maintain an economic interest in the vessels it constructs depends on compliance with certain Jones Act rules and interpretations.

### The U.S. Government market

The U.S. Government market for ship design, construction and repair work is expansive and cuts across multiple government agencies. Government customers include the U.S. Navy, the Military Sealift Command (MSC), the Maritime Administration (MARAD), the U.S. Coast Guard, the U.S. Army Corps of Engineers and others. The U.S. Navy continues to increase its fleet, with the President's 2021 fiscal year budget proposal allowing for 306 deployable ships by the end of 2021, surpassing the 300 ship mark for the first time since 2002, in its goal towards a total of 355 ships by 2030. Planned new ships include vessels operated by the MSC, which has announced its long-term goal of recapitalizing its fleet of support vessels through either new construction or conversion of existing commercial vessels. MARAD is seeking to replace up to five training vessels and the U.S. Coast Guard continues with its acquisition of a variety of Cutters.

### The Master Agreement, Shipyard Lease and Authorization Agreement with PSDC

PSI currently operates its shipyard under a 99-year lease with Philadelphia Shipyard Development Corporation (PSDC), a government-sponsored non-profit corporation. A Master Agreement, a Shipyard Lease and an Authorization Agreement govern PSI’s relationship with PSDC and the various governmental parties that have contributed to the establishment of the Shipyard.

Under the Master Agreement, the governmental parties have provided approximately USD 438 million for the renovation and modernization of the facility and training of the workforce. PSI was required to make certain qualified infra-structure investments totaling USD 135 million, which have been fully satisfied. PSI was also required to match government funding for certain training costs totaling USD 50 million, which has been fulfilled.

Pursuant to the Shipyard Lease, if PSI fails to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, then the lease term (i.e., a 99-year lease with approximately 77 years remaining including options) is automatically converted to month-to-month and PSDC has the right to terminate the lease, subject to the right of PSI to complete work-in-process projects and a one-time, limited cure right which allows PSI to restore the lease to a five-year term under certain circumstances. Due to a forecasted breach of this condition caused by the gap in shipbuilding activity following the delivery of the last vessel in its order backlog (Hull 030), which occurred in Q1 2019, Philly Shipyard obtained a temporary conditional waiver of this minimum employment condition until 31 December 2019. This waiver has been extended and now remains in effect on a month-to-month basis until 31 March 2020 so long as PSI continues to comply with its terms. If PSI obtains a new order during this waiver period, the waiver of the minimum employment condition will continue until PSI reaches the 200 full-time employee requirement.

Pursuant to the Authorization Agreement, PSDC purchased certain shipyard assets from PSI in 2011 for a purchase price of USD 42.0 million, with funds provided by the Commonwealth of Pennsylvania. PSI is leasing back those same assets from PSDC subject to the terms of the Shipyard Lease and the Authorization Agreement.

### Strategy

Philly Shipyard will, through its unique partnerships and experience obtained during construction of tankers and containerships, strive to be the most efficient shipyard in the U.S. Jones Act and government markets for production of ocean-going vessels. Philly Shipyard is seeking to diversify its business beyond the traditional vessels it has built for the commercial market. In order to be able to maintain continuous shipbuilding activities, the Shipyard is pursuing opportunities to expand its base for operations also into new long-term projects for non-commercial end users. Philly Shipyard expects its powerful resume to facilitate possibilities for profitable construction of vessels within existing and new market segments, including government work. PSI will also opportunistically pursue fabrication and vessel maintenance, modernization, conversion and repair work outside of traditional shipbuilding where its core competencies in steel fabrication, heavy lifting and project management are advantageous.

Going forward, Philly Shipyard will remain opportunistic in its approach with respect to investing in the post-delivery economics of the commercial vessels that it builds.

Philly Shipyard’s research and development activities are primarily related to two areas. The first area is the development of PSI’s building methodology and working methods to ensure that PSI takes maximum benefit of the learning curve and produces each grand block and each vessel more efficiently than the previous one. The second area is work related to the development of new vessels. Ordinarily, PSI will attempt to identify and license existing best-in-class designs and cooperate with the owners of such designs to make such modifications as are necessary. However, when existing designs are unavailable or unsuitable, PSI will develop new designs to meet the needs of the market.

### Key events 2019

On 6 February 2019, a temporary conditional waiver of the minimum employment condition under the Shipyard Lease was obtained from PSDC. The waiver period originally extended until 31 December 2019. This waiver has been extended and now remains in effect on a month-to-month basis until 31 March 2020 so long as PSI continues to comply with its terms. If PSI obtains a new order during this waiver period, the waiver of the minimum employment condition will continue until PSI reaches the 200 full-time employee requirement.

On 14 February 2019, a new four-year collective bargaining agreement was ratified by the Philadelphia Metal Trades Council, which represents the ten unions at the shipyard. This new labor contract will extend until 31 January 2023.

On 18 February 2019, Philly Shipyard received a liquidating distribution totaling USD 44.6 million from Philly Tankers AS. Of this, USD 13.1 million was deposited in Q1 2019 into a collateral account as additional security for the Welcome Fund loan.

On 28 March 2019, Philly Shipyard delivered Hull 030, the *Kaimana Hila*, the second vessel in the two-containership order for Matson. This vessel and its sister ship, Hull 029, the *Daniel K. Inouye*, are the largest containerships ever built in the United States.

On 29 May 2019, Philly Shipyard was one of four shipyards awarded a prime contract to conduct industry studies for the Common Hull Auxiliary Multi-Mission Plat-form (CHAMP) program. Philly Shipyard is teaming with Vard Marine to conduct these studies for the U.S. Navy. The CHAMP program is a multi-phase effort that involves design studies, preliminary design, and detail design and construction (DD&C) to ultimately recapitalize the Military Sealift Command (MSC) fleet of aging ships.

On 20 June 2019, Philly Shipyard deposited the remaining USD 7.1 million into a cash collateral account to fully cash collateralize and to fully defease the Welcome Fund loan in exchange for the release of substantially all loan covenants, including all financial covenants.

On 2 July 2019, Philly Shipyard was awarded its first repair and maintenance contract for the FSS *Antares*, a large MARAD vessel that is managed by TOTE Services. The vessel arrived at the end of July with the repair and maintenance effort lasting until redelivery on 19 December 2019.

On 3 October 2019, Philly Shipyard was awarded its second repair and maintenance contract for the FSS *Pollux*, another large MARAD vessel that is managed by TOTE Services. Work on the FSS *Pollux* began in January 2020 and is expected to last into Q2 2020.

While Philly Shipyard actively sought new orders and the capital necessary to build vessels after Hull 030, it adjusted its operations and workforce in line with its order backlog. Currently, the only activity is in one of the two graving docks at the shipyard, performing ship repair and maintenance work on the FSS *Pollux*; all other production facilities are idle. Today, Philly Shipyard's workforce (including direct employees and subcontracted personnel) totals approximately 250 people, down from approximately 350 people at the beginning of 2019.

During 2019, Philly Shipyard gradually increased its efforts and took substantial steps to build up its government contracting resources and systems to ensure it is prepared to compete for and handle government work. PSI entered into the competition for the National Security Multi-Mission Vessel (NSMV) program for the U.S. Department of Transportation's Maritime Administration (MARAD). The NSMV program seeks to replace as many as five of the aging vessels that serve as training ships for the state maritime academies in the United States. While the acquisition process has been delayed in both the awarding of the Vessel Construction Manager (VCM) contract and the subsequent release of the Request for Proposal (RFP), ongoing support for the program continues to be strong and an award of the construction contract to the successful shipyard is now anticipated in late Q1 2020 or early Q2 2020. The 2020 U.S. Federal Budget was approved in December 2019, and included USD 300 million for a third vessel, bringing total funding to USD 900 million for the first three vessels (i.e., NSMV 1 through NSMV 3). Additional funding of USD 300 million for a fourth vessel (i.e., NSMV 4) has been included in the President's 2021 U.S. Federal Budget proposal.

### Review of the annual accounts

Philly Shipyard prepares and presents its consolidated accounts according to International Financial Reporting Standards (IFRS) as adopted by the European Union.

PHLY was formed on 16 October 2007 to be the holding company of PSI which operates the shipyard located in Philadelphia, Pennsylvania, USA.

In accordance with IFRS, Philly Shipyard recognized the two-containership order by Matson (Hulls 029 and 030) as a single combined project. As such, revenue and expense for these vessels were recognized on a combined project basis, whereby the construction progress was measured together. As of 31 December 2019, the Matson project was 100% complete.

Also in accordance with IFRS, Philly Shipyard recognized a loss on the first ship repair and maintenance project, the FSS *Antares*, as the shipyard adjusted to a new line of business. Philly Shipyard also recognized a small profit on the CHAMP program industries studies during the year.

### Order backlog

As of 31 December 2019, PSI's order backlog was USD 0 as there currently are no secured shipbuilding contracts. Order backlog represents a contractual obligation to deliver vessels that have not yet been produced for PSI's customer. Order backlog consists of future shipbuilding contract revenues and is subject to adjustment based on change orders as defined in the construction contracts. The net order backlog decrease of USD 17.4 million from 2018 is due to the remaining progress made on the Matson project without any offset by new shipbuilding orders secured during 2019.

### Shipping investments

Philly Tankers, a Jones Act shipping company that was majority-owned by Philly Shipyard at year-end 2018, completed an orderly liquidation process for the purpose of distributing its available cash balances to its shareholders. These liquidating distributions totaled approximately USD 83.1 million (including Philly Shipyard's share of USD 44.6 million) and were made on 18 February 2019. Including these distributions, the dividends paid by Philly Tankers to its shareholders total USD 161.2 million (including Philly Shipyard's share of USD 86.6 million). See note 23 for complete details.

### Profit and loss accounts

Operating revenues and other income/ (loss) in 2019 ended at USD 28.2 million compared to operating revenues and other income/(loss) of USD 129.2 million in 2018. Operating revenues and other income/ (loss) in 2019 were primarily driven by the remaining progress on the Matson vessels (Hulls 029-030), ship repair and maintenance work on the FSS *Antares* and the FSS *Pollux* and government study work provided by PSI for the U.S. Navy's CHAMP program whereas operating revenues and other income/(loss) in 2018 were primarily driven by the continued progress on the Matson vessels (Hulls 029-030).

The operating revenues in 2018 were impacted by the implementation of the new IFRS 15 standard (IFRS 15). This had an impact on the timing of revenue recognition by increasing accumulated revenues recognized at 31 December 2017 from Hulls 029 and 030 by USD 38.4 million, with a corresponding decrease in future revenue to be recorded from 1 January 2018. As such, there is a USD 38.4 million difference between accumulated revenue from the 1 January 2018 effective date of IFRS 15 and 31 December 2017 as presented in the annual report for 2017. See note 3 of the Consolidated accounts for further details.

In 2019, Philly Shipyard did not report any other income/(loss). In 2018, other income/(loss) of negative USD 0.5 million was comprised of a loss in equity-accounted investments pertaining to Hulls 026-028.

Philly Shipyard's earnings before interest, taxes, depreciation and amortization (EBITDA) was negative USD 17.3 million in 2019, compared to EBITDA of negative USD 15.8 million in 2018. These figures correspond to EBITDA margins of -61.4% and -12.2%, respectively.

In comparison, Philly Shipyard's Q4 2019 report showed a preliminary EBITDA for 2019 of negative USD 16.3 million. The decrease in EBITDA of USD 1.1 million from the Q4 2019 report is due to (1) a final settlement on the warranty for Hull 029 and an adjustment on the warranty for Hull 030, (2) an adjustment of the final liabilities for the repair and maintenance work on the FSS *Antares,* and (3) an adjustment of liabilities associated with aged inventory receipts.

Depreciation and reversal of asset impairment expense was USD 4.0 million in 2019 and depreciation and asset impairment expense was USD 25.4 million in 2018. Philly Shipyard's earnings before interest and taxes (EBIT) was negative USD 21.3 million in 2019, compared to EBIT of negative USD 41.2 million in 2018.

In addition to the IFRS financial measures reported above, EBITDA and EBIT are considered relevant earnings indicators for the Company as they measure the operational performance of the shipyard. These non-IFRS measures are included as items in the consolidated income statement. Net financial items in 2019 and 2018 were income of USD 0.1 million and expense of USD 0.6 million, respectively. Net financial items in 2019 were primarily driven by interest income from bank balances offset mostly by interest expense on debt and bank fees, whereas net financial items in 2018 were primarily driven by net interest expense on debt offset slightly by interest income from bank balances.

Income tax benefit for 2019 was USD 1.0 million, compared to income tax expense of USD 2.3 million in 2018. The 2019 income tax benefit of USD 1.0 million relates to the reversal of an IFRS purchase accounting adjustment and further adjustments to the impairment of deferred tax assets. The 2018 income tax expense of USD 2.3 million included a net impairment of USD 2.4 million of tax assets since Philly Shipyard did not have an order backlog after delivery of Hull 030 at year-end 2018.

In 2019, Philly Shipyard's net loss was USD 20.2 million and its basic and diluted loss per share was negative USD 1.67. The corresponding figures for 2018 was net loss of USD 44.1 million and a basic and diluted loss per share of negative USD 3.64. The net loss in 2019 was driven by under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects) of USD 14.1 million (compared to USD 9.4 million in 2018), SG&A costs of USD 5.4 million and a loss of USD 3.9 million on the FSS *Antares* ship repair project, partially offset by a profit of USD 2.4 million recognized in 2019 on the Matson project (compared to a loss of USD 11.1 million recognized in 2018 on the Matson project), an asset impairment reversal charge of USD 3.1 million due to the partial recovery of previously incurred cancellation costs of USD 17.6 million that were written-off and charged as asset impairment costs in 2018 for the CV3700 project and the release of certain ship liabilities of USD 2.0 million.

In comparison, Philly Shipyard's Q4 2019 report showed a preliminary net loss for 2019 of negative USD 19.3 million. The increase in net loss of USD 0.9 million is due to the same reasons resulting in the decrease in EBITDA of USD 1.1 million from the Q4 2019 report mentioned above offset slightly by a tax adjustment of USD 0.2 million. Equity decreased USD 0.9 million from the Q4 2019 report for the same reasons.

### Cash flows

The Company's cash flow from operations depends on payment terms for construction and delivery settlement for the vessels sold to external customers.

Total net cash flow used in operating activities was USD 20.2 million in 2019 and USD 34.0 million in 2018. There are significant changes year-to-year caused by the timing of ship deliveries, the level of completion of vessels and customer and vendor contract payment schedules.

Net cash flow from investment activities was USD 42.5 million in 2019 and USD 0.3 million in 2018. 2019 investment activities were primarily due to the liquidation of the equity-accounted investments in Philly Tankers of USD 44.6 million offset slightly by capital improvements.

Net cash flow used in financing activities was USD 21.2 million in 2019 and USD 26.8 million in 2018. Net outflows in 2019 and in 2018 were both primarily for restricted cash payments held in an escrow account related to the Welcome Fund loan.

### Statement of financial position and liquidity

As of 31 December 2019, Philly Shipyard has cash and cash equivalents (excluding restricted cash) of USD 50.7 million. The corresponding figure for 2018 is USD 49.6 million. The increase of USD 1.1 million was primarily due to liquidation of the equity-accounted investments in Philly Tankers offset mostly by operating activities and additional restricted cash deposited into an escrow account to secure the Welcome Fund loan. This deposit was funded out of the dividends previously paid by Philly Tankers to Philly Shipyard described in "Shipping investments" on page 14 and was required by the Welcome Fund lender in connection with the liquidation of Philly Tankers. Philly Shipyard's net working capital (current assets less current liabilities) is USD 54.1 million at 31 December 2019, compared to USD 39.0 million at 31 December 2018.

As of 31 December 2019, Philly Shipyard has restricted cash of USD 66.5 million, of which USD 60.9 million is related to the Welcome Fund loan, which is expected to be used for repayment of the Welcome Fund loan at its maturity in March 2020, USD 1.4 million is related to hold-backs for guarantees, deficiencies and disputed items for Hull 029 and USD 4.2 million is related to similar holdbacks for Hull 030.

Total assets were USD 161.8 million at 31 December 2019 compared to USD 190.0 million at 31 December 2018.

Current assets as of 31 December 2019 of USD 122.4 million consists of contract asset, restricted cash, prepayments and other receivables, income tax receivable and cash and cash equivalents. Current assets as of 31 December 2018 of USD 56.4 million consists of prepayments and other receivables, income tax receivable and cash and cash equivalents. The increase in current assets is primarily due to a reclassification of the restricted cash accounts from a long-term asset to a short-term asset, as well as additional deposits made to fully cash collateralize the Welcome Fund loan.

Non-current assets as of 31 December 2019 of USD 39.4 million consists of property, plant and equipment, right-of-use asset and other non-current assets. Non-current assets as of 31 December 2018 of USD 133.6 million consists of property, plant and equipment, restricted cash, equity-accounted investments and other non-current assets.

Current liabilities as of 31 December 2019 of USD 68.3 million consists of interest-bearing short-term debt, trade payables and accrued liabilities, warranties and income tax payable. The corresponding figure for 31 December 2018 is USD 17.4 million and consists of trade payables and accrued liabilities, warranties, customer advances, net and income tax payable. The increase in current liabilities is primarily due to a reclassification of the Welcome Fund loan from long-term debt to short-term debt offset slightly by a reduction in trade payables and accrued liabilities.

Non-current liabilities as of 31 December 2019 of USD 2.2 million is for deferred tax liability. The corresponding figure for 31 December 2018 is USD 61.1 million and consists of interest-bearing long-term debt and deferred tax liability.

Interest-bearing debt as of 31 December 2019 amounts to USD 59.9 million compared to USD 59.6 million as of 31 December 2018. This USD 0.3 million increase is primarily attributable to annual amortization of Welcome Fund loan fees.

Total equity at 31 December 2019 amounts to USD 91.3 million and the equity ratio (total equity divided by total assets) was 56%. Corresponding figures for 31 December 2018 are USD 111.5 million and 59%, respectively. The USD 20.2 million decrease in equity is the result of the current year's loss.

The Board deems that the Company as of 31 December 2019 is financially sound and has an appropriate financing structure subject to the risks discussed in the Risks section below.

## Risks

### *Market risks*

The overall market risk for construction of commercial vessels is related to the Jones Act. Interest groups have lobbied the U.S. Congress in the past to repeal or modify the Jones Act, and legislation to remove the U.S-build requirement of the Jones Act has been proposed, but market experts believe that repeal of or significant changes to the Jones Act are unlikely. Repeal of or significant changes to the Jones Act could, among other things, increase competition from foreign (non-U.S.) shipbuilders with lower costs or require increased use of higher priced domestic content, and as a result reduce the demand for U.S.-built vessels. In order to address this risk, the Company has continuous engagement with local, state and federal government officials.

Philly Shipyard is also exposed to market risk related to imbalance between supply and demand for vessels in the Jones Act market, which may result in a reduction of vessel prices and/or a delay in new projects. PSI faces risks related to the contracts for its vessels, including the risk that those contracts are cancelled and the underlying vessels are ultimately sold to third parties for less favorable terms.

PSI's revenue is derived primarily from contracts awarded on a project-by-project basis. It is difficult to predict whether or when PSI will be awarded a new contract due to, among other things, the complex bidding and selection processes, changes in existing or forecast market conditions, governmental regulations and uncertainty regarding the timing of budget appropriations. Because PSI's revenue is derived from contract awards, the Company's revenues, results of operations and cash flows can fluctuate materially from period to period.

At this time, Philly Shipyard has no order backlog for ship newbuild programs. Philly Shipyard faces significant risks if it is unable to secure new orders and/or financing for major commercial or government shipbuilding programs such as the NSMV program. There can be no assurance that Philly Shipyard will obtain new orders and required financing to be able to construct potential future contracted vessels.

Furthermore, even if Philly Shipyard obtains new orders or financing for vessels, it will not fully cover the estimated under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects) in its 2020 forecast. Following such an order or financing, it is expected this under-recovery will decline as employment ramps up, but overhead costs will not be fully absorbed until the shipyard returns to full production.

The delay Philly Shipyard has experienced in securing new orders and financing has interrupted its building program, resulting in the idling of all production activities in its facility except for those associated with ship drydock and repair efforts, and a decrease of more than 80% of its workforce (including direct employees and subcontracted personnel) since the beginning of 2018. As this delay continues, Philly Shipyard's building program will be further interrupted and the costs and risks faced by Philly Shipyard, including challenges related to attracting and retaining skilled workers and under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects), will be further increased.

The longer the delay in securing new orders continues past Q1 2020, the more expensive and challenging it becomes for Philly Shipyard to win new orders and resume shipbuilding operations. In particular, the extended gap in production activities increases the risk that the Company is unable to mobilize the shipyard's workforce and retain and raise sufficient capital to support future shipbuilding projects. Moreover, under these circumstances, there is a risk that the going concern assumption will no longer apply for Philly Shipyard and, as such, Philly Shipyard would need to do an impairment charge against its fixed assets. A going concern qualification would make it very challenging to secure new orders and/or financing. For further specific assessment on the going concern, please refer to the going concern assumption section starting on page 19.

### *Operational risks*

Philly Shipyard faces risks related to construction of vessels. In many cases, these vessels involve complex design and engineering, significant procurement of equipment and supplies and extensive construction management. Management uses its best efforts to properly estimate the costs to complete PSI's project awards; however, PSI's actual costs incurred to complete these projects could exceed its estimates. The Shipyard's ability to meet budgets and schedules may be adversely affected by many factors, including changes in productivity, shortages of materials, equipment and labor and changes in the cost of goods and services, both Philly Shipyard's own and those charged by its suppliers. The Shipyard's operations also depend on stable supplier networks and the availability of key vendors for design and procurement services.

The Company furthermore faces challenges related to the construction of new classes of vessels, as well as managing multiple projects at the same time. These challenges sometimes tend to impact quality, timely delivery and cost efficiencies. In order to reduce these risks, the Shipyard enters into contracts with design and procurement partners.

Philly Shipyard's operations historically focused primarily on construction of new vessels for the U.S. Jones Act market. Philly Shipyard is continuing to develop and implement the policies and procedures required to be a fully compliant U.S. Government contractor. Philly Shipyard is aggressively pursuing U.S. Government opportunities for future ship design and construction programs, as well as opportunistically pursuing vessel maintenance, modernization, conversion and repair projects. Entry into, or further development of, lines of business in which the Company has not historically operated may expose Philly Shipyard to business and operational risks that are different from those it has experienced historically.

Philly Shipyard has entered the ship drydocking and repair market. Philly Shipyard is continuing to adjust its estimating and planning methods and operating processes in order to be cost competitive and profitable in this market segment. The lessons it learns from the first ship drydock and repair contract should result in improved performance on the second and any subsequent ship drydock and repair contracts. However, there is risk that Philly Shipyard will face additional challenges as it bids on and performs maintenance and repair work on the future ships.

The Shipyard depends on unionized labor for construction of vessels. Work stoppages or other labor disturbances could have a material adverse effect on the Company's business, results of operations and financial condition. In order to mitigate this risk, the Shipyard has signed a four-year collective bargaining agreement with the Unions which is effective through January 2023. The collective bargaining agreement includes a no-strike clause.

PSI reduced its skilled workforce during 2018 and 2019 in response to decreases in utilization of its facilities. PSI's productivity and profitability depends substantially on its ability to attract and retain skilled construction workers, primarily welders, fitters and equipment operators, at current forecasted rates. Reductions made in PSI's labor force may make it more difficult for PSI to increase its labor force to desirable levels during periods of rapid expanding customer demand. PSI's ability to expand its operations in tandem with customer demand depends on its ability to increase its labor force when necessary with the appropriate skilled construction workers.

PSI's success also depends to a great degree on the abilities of its key management personnel, particularly its executives and other key employees who have significant experience within PSI's industry. The loss of the services of one or more of these individuals could adversely affect PSI.

PSI's ability to perform under its contracts depends to some degree on the performance of third parties under subcontracts. PSI depends upon subcontractors for a variety of reasons, including: to perform work as a result of scheduling demands or capacity constraints that PSI would otherwise perform with its employees; to supervise and/or perform certain aspects of the contract more efficiently considering the conditions of the contract; and to perform certain types of skilled work. PSI works closely with these subcontractors to monitor progress and address its customer requirements. PSI generally has the ability to pursue back charges for costs it incurs or liabilities it assumes as a result of a subcontractor's lack of performance. However, the inability of PSI's subcontractors to perform under the terms of their contracts could cause PSI to incur additional costs that reduce profitability or create losses on projects.

The Shipyard further depends upon a 99-year lease agreement for the shipyard facility and the future operations of the yard will accordingly be dependent upon PSI fulfilling its obligations under this lease agreement. Failure to maintain certain employment levels may result in early termination of this lease. For more details regarding this lease, see "The Master Agreement, Shipyard Lease and Authorization Agreement with PSDC" on page 13.

The Shipyard's operations are subject to the usual hazards inherent in shipbuilding, such as the risk of equipment failure and work accidents. Despite the Shipyard's best efforts to eliminate these hazards, they can sometimes cause personal injury, business interruption, construction delays, property and equipment damage, pollution and environmental damage. PSI continues to implement its Health, Safety and Environment (HSE) management system and provide training to its workforce to mitigate these risks. The Shipyard's policy of covering these risks through contractual limitations of liability and indemnities and through insurance may not always be effective, and customers and subcontractors may not have adequate financial resources to meet their indemnity obligations to PSI.

PSI relies heavily on computer information and communications technology and related systems in order to properly operate its business. From time to time, PSI experiences occasional system interruptions and delays. In the event PSI is unable to regularly deploy software and hardware, effectively upgrade its systems and network infrastructure, and take other steps to maintain or improve the efficiency and efficacy of its systems, the operation of such systems could be interrupted or result in the loss, corruption or release of data, and the cost associated with responding to such events and restoring compliance could be significant.

The Company faces risk of significant financial, business and intelligence loss if there are cyber security breaches. Philly Shipyard has invested significant resources to provide a more secure computing environment over the last several years, resulting in improved security and business resiliency. PSI maintains a continued high awareness of the Company's risk profile regarding cyber security because new threats can emerge quickly.

The Shipyard's operations are subject to numerous international, national, state and local environmental, health and safety laws, regulations, treaties and conventions, including, inter alia, those controlling the permitted and unpermitted discharge of materials into the environment, requiring removal and cleanup of environmental contamination, establishing certification, licensing, health and safety, labor and training standards or otherwise relating to the protection of human health and the environment. Sanctions for failure to comply with these requirements, which may be applied retroactively, may include: administrative, civil and criminal liabilities, revocation of permits to conduct business and corrective action orders, including orders to investigate and clean up contamination.

PSI's operations historically focused primarily on construction of new vessels for the U.S. Jones Act market. PSI is continuing to develop and implement the policies and procedures required to be a fully compliant U.S. Government contractor. PSI is aggressively pursuing U.S. Government opportunities for future ship design and construction programs, as well as opportunistically pursuing vessel maintenance, modernization, conversion and repair projects. Entry into, or further development of, lines of business in which the Company has not historically operated may expose PSI to business and operational risks that are different from those it has experienced historically. PSI's management may not be able to effectively manage these additional risks or implement successful business strategies in new lines of business.

### *Financial risks*

Philly Shipyard's activities expose it to a variety of financial risks: market risk (including commodity pricing risk, currency risk and price risk), credit risk and cash flow interest rate risk. Philly Shipyard's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Philly Shipyard's financial performance. Philly Shipyard uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out under policies and protocols approved by the Board of Directors. The Board of Directors provides principles for overall financial risk management as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and use of derivative financial instruments and non-derivative financial instruments.

The Company is exposed to changes in prices of steel and other materials and duties, tariffs and other taxes imposed on goods imported from foreign (non-U.S.) countries. The Company attempts to mitigate its exposure with respect to steel and other material price escalation and increased taxes on imported goods by attempting to pass these risks on to its end customers. Matson carried the risk of steel price escalation on Hulls 029 and 030.

The Company is subject to exchange rate risk for purchases made in currencies other than the U.S. dollar. In order to mitigate exposure to this risk, PSI secured foreign exchange forward contracts for its known requirements for foreign currency for Hulls 029 and 030.

The Shipyard is dependent upon having access to construction financing facilities and other loans and debt facilities to the extent its own cash flow from operations and milestone payments from customers are insufficient to fund its operations and capital expenditures. In turn, the Shipyard must secure and maintain sufficient equity capital to support debt facilities. Additionally, the Shipyard may be required to obtain bonding capacity in case there is need for payment or performance bonds, or to furnish letters of credit, refund guarantees or other forms of security to support major commercial or government shipbuilding programs. Philly Shipyard may not be able to obtain sufficient debt facilities or bonding capacity or furnish sufficient security if and when needed with favorable terms, if at all.

Philly Shipyard regularly monitors the financial health of its construction financing lenders as well as the financial health of the financial institutions which it uses for cash management services and in which it makes deposits and other investments.

Through construction financing, the Company is exposed to fluctuations in interest rates. There was no construction financing for Hulls 029 and 030, as this contract was fully funded by customer milestone payments.

The credit risk of ship owners is evaluated upon contract signing. Typically, ship owners have financing approvals in place before they enter into contracts with PSI. During the construction period, Philly Shipyard continually evaluates the credit risk associated with ship owners and, except in cases where PSI arranges construction financing, manages this risk by requiring payment for substantially the entire contractual amount prior to delivering a vessel, including milestone payments upon completion of specified milestones. At the completion of a vessel, transfer of ownership takes place upon settlement. Should a ship owner fail to pay, PSI may attempt to dispose of the vessel in the open-market to recover its construction costs.

PSI accrues an estimate for future warranty claims on its delivered vessels. This estimate is examined during the warranty period and adjusted as necessary. In order to mitigate the risk of warranty claims exceeding warranty provisions, PSI has secured back-to-back warranties for most major components on the vessels.

***COVID-19 risks***

The ongoing COVID-19 crisis inherently increases many of the aforementioned risk factors. Markets become more uncertain, operations become more vulnerable to interruptions and policy makers around the world may gravitate towards stricter regulations impacting international trade. At the time of this report, Philly Shipyard is facing new and emerging COVID-19 related risks.

Philly Shipyard strictly follows all Centers for Disease Control and Prevention (CDC) guidelines to minimize the risk of transmission of the COVID-19 virus. Currently, our implementation of CDC guidelines includes the use of teleworking when applicable, additional sanitizing staff, limitations on the size of meetings, limitations on visitors, restrictions on travel, training on proper hygiene and hand washing, and social distancing. This list is not necessarily inclusive of every action being taken as precautions are being added daily.

Due to the COVID-19 crisis, there is a risk for delays in the redelivery of the FSS *Pollux*. However, ship repair and maintenance activities required to meet national security commitments to the federal government and U.S. Military have been deemed essential services and, therefore, work on the FSS *Pollux* is expected to continue unless the shipyard is particularly impacted. Likewise, subcontractors involved in ship repair and maintenance activities of U.S. Government-owned vessels should similarly qualify as performing essential services. Supplier requirements for material and equipment to support ship repair and maintenance activities on the FSS *Pollux* are minimal and should not be significantly impacted by the COVID-19 crisis.

The ongoing industry studies for the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program continue unabated. The Philly Shipyard staff in Pennsylvania, the Vard Marine staff in Texas and Canada, and U.S. Navy personnel, both uniformed and civilian, are all working remotely and coordinating via video conferencing, communication portals, email and telephone to ensure that the important government work continues on schedule.

Due to the COVID-19 crisis, there is a risk of impacts on future shipbuilding programs. However, if Philly Shipyard is awarded a new shipbuilding contract, the initial period of performance of approximately twelve months is typically focused on design, engineering and procurement activities. It is expected personnel involved in this pre-production phase (including subcontractors) would continue to operate using remote operations and coordinate via video conferencing, communication portals, email and telephone. It is also expected that, if the contract is for a U.S. Government program, then the work would qualify as essential services and, as such, operations in the shipyard would be permitted to continue.

For the reasons stated above, no significant loss of revenues in 2020 is foreseen as a result of the COVID-19 crisis with respect to existing repair and maintenance activities or any future shipbuilding programs.

As the owner of the FSS *Pollux* is the U.S. Government, no additional credit risk is expected to arise from any impact of the COVID-19 crisis on the ultimate customer. The Company will seek to ensure that any new shipbuilding contract(s) will require favorable payment terms to mitigate any credit risk(s) that might arise from the COVID-19 crisis.

The Company has no external debt (other than the Welcome Fund loan which has been fully defeased) and sufficient cash available to operate under an extended reduced state until a shipbuilding contract is awarded. The COVID-19 crisis should not increase Philly Shipyard's liquidity risk. Philly Shipyard will seek to ensure that any future shipbuilding contract award(s) will impose favorable payment terms to mitigate any liquidity risk(s) that might arise from the COVID-19 crisis.

## Events after 31 December 2019

On 16 March 2020, Philly Shipyard paid off the USD 60.0 million outstanding Welcome Fund loan together with all accrued interest thereon.

As the COVID-19 virus develops across the world, Philly Shipyard is taking measures to mitigate the risk for operational disruptions and reduce risk of outbreaks and its consequences, both in its production facility as well as in its offices. Even though the development is followed closely, a worst-case scenario with outbreak in the Philadelphia facility may have a significant operational and financial impact. As the COVID-19 virus is having a growing impact on the world economy, including Philly Shipyard's main market, the negative financial impact is uncertain with an unclear ending.

## The going concern assumption

The consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realization of assets and settlement of liabilities in the normal course of business. The ability of the entity to continue as a going concern is dependent upon continuing shipbuilding operations and securing a customer order. While the Group is actively working on securing new orders, there is inherent uncertainty and no assurance that the Group will successfully secure a customer order.

At 31 December 2019, the Group had net assets (equity) of USD 91.3 million (2018: USD 111.5 million), and a working capital surplus of USD 54.1 million (2018: USD 39.0 million). During the year ended 31 December 2019, the Group recorded cash outflows from operating activities of USD 20.2 million (2018 cash outflows: USD 34.0 million), cash inflows from investing activities of USD 42.5 million (2018 cash inflows: USD 0.3 million) and cash outflows from financing activities of USD 21.2 million (2018 cash outflows: USD 26.8 million). For the year ended 31 December 2019, the Group recorded a net cash inflow of USD 1.1 million (2018 net cash outflow: USD 60.5 million).

The following conditions give rise to a material uncertainty that may cast a significant doubt on the Group's ability to continue as a going concern:

- The Group does not have contracted customer order backlog for ship newbuild programs. The delay Philly Shipyard has experienced in securing new orders and financing has interrupted its building program, resulting in the idling of all production activities in its facility other than ship maintenance and repair work and a decrease of more than 80% of its workforce (including direct employees and subcontracted personnel) since the beginning of 2018. If this delay continues, then it will further interrupt Philly Shipyard's building program and increase the costs and risks faced by Philly Shipyard, including challenges related to attracting and retaining skilled workers and increases in under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects).
- The longer the delay in securing new orders continues past Q1 2020, the more expensive and challenging it becomes for Philly Shipyard to resume shipbuilding operations. In particular, the extended gap in production activities increases the risk that the Company is unable to mobilize the shipyard's workforce, and to retain and raise sufficient financing to support future shipbuilding projects.
- Pursuant to the Shipyard Lease between PSI and its landlord, Philadelphia Shipyard Development Corporation (PSDC), if PSI fails to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, then the lease term (i.e., a 99-year lease with approximately 77 years remaining including options) is automatically converted to month-to-month and PSDC has the right to terminate the lease, subject to the right of PSI to complete work-in-process projects and a one-time, limited cure right which allows PSI to restore the lease to a five-year term under certain circumstances. Due to a forecasted breach of this condition caused by the gap in shipbuilding activity following the delivery of Hull 030, which breach would have occurred in Q1 2019, Philly Shipyard obtained a temporary conditional waiver of this minimum employment condition until 31 December 2019. This waiver has been extended and now remains in effect on a month-to-month basis until 31 March 2020 so long as PSI continues to comply with its terms. If PSI obtains a new order during the waiver period that will result in a significant increase in employment at the shipyard, such as the NSMV program, then the waiver will continue until PSI reaches the 200 full-time employee requirement.

The Group acknowledges the material uncertainty in being able to continue ordinary shipbuilding operations and secure new contracted customer backlog in order to comply with the shipyard lease minimum employment condition without obtaining additional waivers to continue operations beyond 31 March 2020. However, the Directors are confident that this is achievable through a combination of the following:

- Philly Shipyard's main focus is the pursuit of the opportunity to build National Security Multi-Mission Vessels (NSMV). The NSMV program seeks to replace as many as five of the U.S. state maritime academy training ships. The award of this shipyard contract is anticipated to be announced late Q1 2020 or early Q2 2020 with delivery of the first vessel targeted within Q1 2023.
- In addition, Philly Shipyard is aggressively pursuing several possibilities for short-term work to have some activity in the shipyard before a production start of a potential new shipbuilding project. In particular, Philly Shipyard is pursuing possibilities for steel work and repair, maintenance, modernization and conversion jobs to utilize idle capacity in its fabrication shops and dry-docks.
- In the event that Philly Shipyard is in breach of the shipyard lease condition to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, the Group has the intention to request an additional waiver beyond 31 March 2020; however, the success of obtaining this waiver from PSDC is uncertain.
- The Company has sufficient unrestricted cash at year-end 2019 to continue operations over twelve months. In addition, the USD 60.0 million Welcome Fund loan, scheduled to be fully paid back in March 2020, has been fully secured through an escrow account created to cash collateralize the loan. At 31 December 2019, USD 60.9 million has been deposited in this account.
- Should the Group be unsuccessful in continuing ordinary shipbuilding operations and securing contracted customer backlog, or unsuccessful in complying with the shipyard lease minimum employment condition without obtaining additional waivers, there is a material uncertainty that exists that may cast significant doubt as to whether the Group will be able to continue as a going concern. In this scenario, the Group may elect to undergo an orderly liquidation process. Therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business at their stated net book values in the consolidated financial statements, resulting in the impairment of property, plant and equipment assets; termination payments relating to PSI's multi-employer union selected pension plan; and the potential acceleration of debt repayments.

The world is currently in the middle of the COVID-19 crisis, and how it will unfold is uncertain. Philly Shipyard is taking measures to mitigate substantial negative impact for the company. However, in a worst-case scenario, the COVID-19 crisis may have devastating effects for the world economy, including Philly Shipyard. The COVID-19 crisis increases the risk regarding the going concern assumption for most companies, and this is also the case for Philly Shipyard.

Despite the material uncertainties above, the Board's assessment is that it is appropriate to apply the going concern assumption. The Board anticipates that the Group can continue its shipbuilding activities, and will have the financial resources to apply the going concern principle as the basis for the financial statements.

### Parent company accounts and allocation of loss for the year

The income/(loss) account of Philly Shipyard ASA for the year 2019 shows a loss of USD 0.7 million. The Board of Directors proposes that the loss for the year be allocated as shown below:

| | |
|---|---|
| Dividend payment | USD 0 |
| Other equity | USD (0.7) million |
| Total allocated | USD (0.7) million |

As of 31 December 2019, before receiving any dividends from PSI, the parent company has approximately USD 4.7 million of equity which could be distributed to shareholders by the Board in accordance with PHLY's dividend policy.

Due to the delay in securing new orders, the PHLY Board has suspended payment of dividends. The PHLY Board will revisit the Company's dividend policy and dividend plan when it has more clarity about the Company's new order situation and related capital requirements.

The parent company's only assets are cash and the investment in subsidiary (PSI).

### Corporate social responsibility

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

All of PSI's employees work at the shipyard facility located in Philadelphia, Pennsylvania, USA. The Company believes that being a good corporate citizen is good business. As a platform for these beliefs, PSI developed a WeCare program which provides support for its employees and for its community through teambuilding, volunteering and educational initiatives.

Philly Shipyard is committed to its employees, customers, community and environment because it's right for the company, right for its people and right for our world. And the Company's commitment to this belief has never been stronger.

Through the WeCare program, PSI works with its employees and community-based organizations to understand and address issues that the Company can assist with. PSI employees are encouraged to become involved in the WeCare program.

In 2019, PSI honored several charities and assisted a few of its team's family members. For the second year in a row PSI supported the Children's Hospital of Philadelphia (CHOP) *Parkway Run and Walk*. This run supports many children affected by various cancers and life-threating illnesses and some of PSI's family members as well. Donations were also raised for the local hospice as PSI had lost one of its own employees. PSI employees also participated in raising funds through a bake sale to help support one of its own employees. PSI has also collected and donated several cases of magazines and books to the Seaman's Church Institute, which all go to the various seamen that enter Philadelphia's port.

In lieu of mailing holiday greeting cards, PSI continues to donate the funds to the Wounded Warrior, a charitable foundation that serves veterans and service members who have incurred a physical or mental injury, an illness or were wounded while serving in the military.

PSI seeks to be an attractive employer and maintains a human relations policy that is open and fair. PSI is committed to providing equal employment opportunity to all employees and applicants for employment, regardless of race, color, ethnic background, gender, religion, age, marital status, sexual orientation, national origin, citizenship status, disability, veteran status or any other legally protected status. Diversity strengthens the Shipyard's overall capacity and skills. In support of this diversity, at year-end 2019, approximately 30% of PSI's employees were minorities.

The maritime industry has traditionally been male-dominated. The entire industry faces the challenge of increasing the proportion of female employees. PSI has taken some affirmative steps to address this challenge. For example, the Shipyard encourages female applicants and has seen increased interest among potential female employees to pursue a career with PSI. To further this goal, PSI participates in available government programs that encourage women in manufacturing and has recruited at schools and training programs with more women. PSI has also continued to train supervisors, managers and employees in our Equal Employment Opportunity (EEO) policy.

At year-end 2019, approximately 5% of PSI's employees were women. While there were no women on PSI's senior management team, women held key positions such as Project Cost Controller, Payroll/Benefits Supervisor and HR/Communications Manager. In addition, two of the four members of PHLY's Board of Directors are women.

The Shipyard is committed to maintaining a work environment that is free of discrimination, harassment and hostilities. In keeping with this commitment, PSI maintains a strict Harassment Free Environment Policy and does not tolerate unlawful harassment of employees by anyone.

Philly Shipyard believes all people share the same fundamental human rights. The Company follows legal and responsible sourcing practices and expects its suppliers to uphold the same standards. In 2019, the Company did not have a formal policy regarding human rights as its sole operating company is located in the United States, which has extensive human rights laws in place.

At the operating subsidiary in Philadelphia, worker's rights are protected by federal, state and local laws. In addition, approximately one-third of PSI's employees are members of the Philadelphia Metal Trades Council (PMTC) union and are covered under the collective bargaining agreement between the PMTC and the Shipyard. This agreement is effective until 31 January 2023.

Under this collective bargaining agreement, union employees are granted vacation and personal time, and most union employees receive shutdown pay during the week of the Fourth of July holiday and in between the Christmas and New Year's holidays. In addition, union employees may take up to 6 unpaid days within a 12-month period. Traditional sick days are not part of the collective bargaining agreement. Non-union employees accrue sick time on a monthly basis and may maintain a balance of up to 200 hours. During 2019, 133 non-union employees used 3,812 hours of sick time, representing 2.0% of total non-union work hours. Comparably, in 2018, 211 non-union employees used 9,368 hours of sick time, representing 3.0% of total non-union work hours.

At the Shipyard, HSE is not just a priority, but is a mindset embedded in all decisions and actions. The Union-Management Safety and Environmental Board reviews the various HSE programs, and makes recommendations on policies and procedures. The HSE system includes safety training of employees and subcontractors, safety inspections, industrial health and wellness programs, drug testing, emergency response and environmental programs. PSI expects to implement new initiatives to continuously improve its HSE mindset during 2020.

In 2019, the other recordable incident frequency rate (OSHA-recordable incidents excluding lost time incidents per 200,000 hours worked) was 1.38, compared to 3.63 in 2018.PSI had zero Lost Time Incidents (LTIs) in 2019; however, there were three recordable injuries reported for the year. The incidents came from a total of 434,655 hours worked by PSI employees and sub-contractors in 2019, compared to 1,760,694 hours worked by PSI employees and subcontractors in 2018.

Philly Shipyard takes its environmental responsibilities seriously beginning with the vessel design. The Shipyard uses the latest International Maritime Organization requirements as guidance for environmental protection and efficiency during the design and production process. The industrial nature of the Shipyard's activities requires the use of significant amounts of energy, both electrical and gas, as well as the release of particulate and VOC emissions. During 2019, PSI used approximately 11.0 GWh of electricity and approximately 306,000 ccf of natural gas. Its VOC emissions were approximately 12 tons for the reporting period ending in 2019. PSI had no reported discharges into the surrounding waterways.

Environmental status reporting is an integral part of the Shipyard's reporting system, on par with reporting on financial matters and operations. This commitment extends to evaluating and adopting environmentally beneficial improvements in production processes, alternative materials and services. PSI promotes open communication on environmental issues with employees, neighbors, public authorities and other interested parties and has implemented a system through which employees can make observations and suggestions about the Shipyard's environmental performance.

In 2019, PSI generated approximately 8 tons of hazardous waste and recycled approximately 176 tons of wood and 248 tons of steel. Philly Shipyard has continued its program to gather and sort waste to promote environmentally responsible handling, disposal and recovery of any residual value.

A basic principle of ethical business conduct requires that each employee of the Shipyard support positively, both on and off the job, the Shipyard's business activities. One important way we satisfy this responsibility is to ensure that our business dealings are never influenced by – or even appear to be influenced by – our own personal interests. The Company has zero tolerance for corruption and has adopted an Anti-Corruption Policy that is in line with the anti-corruption policies at other Aker ASA-related companies. The Company also maintains a strict Conflict of Interests policy, which is reflected in PSI's employee handbook, as well as its Terms and Conditions to outside suppliers.

In support of the above initiatives and policies, the Shipyard maintains a formal policy for the disclosure of wrongful con-duct and protection from retaliation (the "Whistleblower Policy"). This policy is avail-able to all employees and is administered by the Vice President of Human Resources. The Company has implemented a process that allows anonymous reports of violations through a third party administrator. In 2019, there were two cases reported using this process, neither of which was considered material.

## Organization

On 31 December 2019, PSI had 119 direct employees and 20 subcontracted personnel. The Shipyard experiences higher turnover amongst its union and production subcontractor employees compared to other employees. The delay PSI has experienced thus far in securing new orders beyond the Matson vessels (Hulls 029 and 030) has caused it, and will continue to cause it, to experience a slowdown of various departments. Due to this interruption of PSI's building program, the Shipyard has reduced and will continue to adjust its workforce in line with its order backlog.

## Corporate governance

Philly Shipyard's corporate governance policy exists to ensure an appropriate division of roles among the Company's owners, Board of Directors and Executive Management. Such a separation of roles ensures that goals and strategies are pre-pared, that adopted corporate strategies are implemented, and that the results achieved are subject to verification and follow-up. Applying these principles also contributes to satisfactory group-wide monitoring and verification of activities. An appropriate division of responsibilities and satisfactory controls will contribute to the greatest possible value creation over time, to the benefit of shareholders and other interest groups. Philly Shipyard's corporate governance guidelines are presented in greater detail on pages 62-65 of this annual report.

## Outlook

### *Shipbuilding and Repair, Maintenance, Modernization and Conversion Work*

As of 31 December 2019, Philly Shipyard had no order backlog for ship newbuild programs. Philly Shipyard continues to pursue a mix of ship newbuild and repair opportunities in the commercial and government markets. Securing contracts to build new vessels is the key to unlocking Philly Shipyard's potential for sustained operations and profitability. Even if the shipyard receives orders to build new vessels, Philly Shipyard expects it will continue to incur losses in 2020 due to the under-recovery of overhead costs (i.e., overhead costs incurred and not allocated to projects). Following such an order, it is expected this under-recovery will decline as employment ramps up, but overhead costs will not be fully absorbed until the shipyard returns to full production.

In the near term, Philly Shipyard's main focus continues to be the pursuit of the opportunity to build National Security Multi-Mission Vessels (NSMV) for the U.S. Department of Transportation's Maritime Administration (MARAD). The NSMV program seeks to replace as many as five of the aging vessels that serve as training ships for the state maritime academies in the United States. While the acquisition process has been delayed in both the awarding of the Vessel Construction Manager (VCM) contract and the subsequent release of the RFP, ongoing support for the program continues to be strong and an award of the construction contract to the successful shipyard is now anticipated within late Q1 2020 or early Q2 2020. The 2020 U.S. Federal Budget was approved in December 2019, and included USD 300 million for a third vessel, bringing total funding to USD 900 million for the first three vessels (i.e., NSMV 1 through NSMV 3). Additional funding of USD 300 million for a fourth vessel (i.e., NSMV 4) has been included in the President's 2021 U.S. Federal Budget proposal.

If the Company is successful in winning the NSMV project, the Shipyard is poised to pursue additional opportunities for new construction projects for U.S.-built vessels, mainly work for the medium-term and long-term horizons. Among other endeavors, Philly Shipyard is engaged in discussions across a broad array of prospects and bidding both commercial projects and government programs. Philly Shipyard is also exploring potential partnerships that can enhance its prospects to secure new work into the shipyard and create value for the Company and its shareholders.

Philly Shipyard's objective remains to secure a mix of government and commercial newbuild contracts, while also winning repair and maintenance contracts that allow the yard to continuously utilize its drydocks. Additionally, Philly Shipyard is aggressively pursuing several possibilities for short-term work to have some activity in the shipyard before a production start of a potential new shipbuilding project. In particular, Philly Shipyard continues to opportunistically pursue steel work and repair, maintenance, modernization and conversion jobs to utilize idle capacity in its fabrication shops and drydocks. In support of this, Philly Shipyard has submitted to the U.S. Navy a Master Ship Repair Agreement and is in the process of having its two drydocks certified to Naval Sea Systems Command (NAVSEA) requirements. On 2 July 2019, Philly Shipyard was awarded its first repair and maintenance contract for the FSS *Antares*, a large MARAD vessel managed by TOTE Services. The vessel arrived at the end of July with the repair and maintenance effort lasting until redelivery on 19 December 2019. On 3 October 2019, Philly Shipyard was awarded its second repair and maintenance contract for the FSS *Pollux*, another large MARAD vessel managed by TOTE Services. Work on the FSS *Pollux* began in January 2020 and is expected to last into Q2 2020.

Philly Shipyard continues its work on the industry studies for the Common Hull Auxiliary Multi-Mission Platform (CHAMP) program. On 29 May 2019, Philly Shipyard was one of four shipyards awarded a prime contract to conduct industry studies for the CHAMP program. Philly Shipyard is teaming with Vard Marine to conduct these studies for the U.S. Navy. The CHAMP program is a multi-phase effort that involves design studies, preliminary design and detail design and construction (DD&C) to ultimately recapitalize the Military Sealift Command (MSC) fleet of aging ships. The demand for the CHAMP program could approach 60+ vessels and could be satisfied by a combination of new builds and the conversion of existing commercial vessels. The CHAMP vessels are not combatants, and are more commercially oriented, which fits the structure of Philly Shipyard's facility. It is anticipated that shipyards will ultimately compete for the DD&C contract, with award in 2023 and acquisition occurring over the next decade.

The Company faces many challenges and risks, now complicated by the uncertainty created by the COVID-19 crisis to the market outlook for the short-term and long-term.

However, Philly Shipyard continues to believe it can capitalize on future newbuild opportunities in the commercial and government segments that create value for its shareholders. Philly Shipyard remains committed to building the most cost-efficient and environmentally friendly vessels in the Jones Act market and believes that it will build its fair share of these vessels when they are ordered. Additionally, Philly Shipyard intends to offer the government a new, high quality, cost-effective solution to help meet their ship program needs.

### *Shipping*

Since the liquidation of Philly Tankers was completed in Q1 2019, Philly Shipyard no longer has any shipping assets. Going forward, in line with its business strategy, Philly Shipyard will continue to evaluate opportunities to participate in the post-delivery economics of the commercial ships that it constructs.

As part of the process of liquidating Philly Tankers described above, Philly Shipyard has received its liquidating distribution from Philly Tankers, bringing Philly Shipyard's share of total distributions to USD 86.6 million (see note 23). This caps off an innovative plan for Philly Shipyard to invest in eight Jones Act product tankers with an approximate contract value of USD 1.0 billion through the Philly Shipyard-Crowley joint venture (Hulls 021-024) and Philly Tankers (Hulls 025-028).

*Oslo, Norway*
*18 March 2020*
*Board of Directors*
*Philly Shipyard ASA*

James H. Miller
*Board Chairman*

Kristian Røkke
*Deputy Board Chairman*

Amy Humphreys
*Board Member*

Elin Karfjell
*Board Member*

Steinar Nerbøvik
*President and CEO*

**Directors' responsibility statement**

Today, the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' report and the consolidated and separate annual financial statements for Philly Shipyard ASA, as of and for the year ending 31 December 2019 (annual report 2019).

The Philly Shipyard ASA consolidated financial statements have been prepared in accordance with IFRS, as adopted by the European Union, and additional disclosure requirements in the Norwegian Accounting Act, and that should be used as of 31 December 2019. The separate financial statements for Philly Shipyard ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian Accounting Standards as of 31 December 2019. The Board of Directors' report for Philly Shipyard and the parent company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian accounting standard no. 16, as of 31 December 2019.

**To the best of our knowledge:**

- The consolidated and separate annual financial statements for 2019 have been prepared in accordance with applicable accounting standards
- The consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position and profit/(loss) as a whole as of 31 December 2019 for Philly Shipyard and the parent company
- The Board of Directors' report for Philly Shipyard and the parent company includes a true and fair review of:
  - The development and performance of the business and the position of Philly Shipyard and the parent company
  - The principal risks and uncertainties Philly Shipyard and the parent company face

*Oslo, Norway*
*18 March 2020*
*Board of Directors*
*Philly Shipyard ASA*

James H. Miller
*Board Chairman*

Kristian Røkke
*Deputy Board Chairman*

Amy Humphreys
*Board Member*

Elin Karfjell
*Board Member*

Steinar Nerbøvik
*President and CEO*

## Philly Shipyard ASA

# Consolidated Income Statement

| *Amounts in USD thousands (except share amounts and earnings per share)* | *Note* | **2019** | 2018 |
|---|---|---|---|
| Operating revenues | *2* | **28 207** | 129 737 |
| Other income/(loss) | *2* | **-** | (523) |
| **Operating revenues and other income/(loss)** | | **28 207** | 129 214 |
| Cost of vessels sold | | **(26 031)** | (126 560) |
| Wages and other personnel expenses | *4* | **(2 318)** | (1 927) |
| Other operating expenses | *5* | **(17 170)** | (16 544) |
| **Operating loss before depreciation and impairment (EBITDA)** | | **(17 312)** | (15 817) |
| Depreciation | *8* | **(7 056)** | (7 830) |
| Reversal of impairment of assets/(impairment of assets) | *8* | **3 077** | (17 601) |
| **Operating loss before interest and taxes (EBIT)** | | **(21 291)** | (41 248) |
| Financial income | *6* | **2 131** | 1 524 |
| Financial expense | *6* | **(2 021)** | (2 084) |
| **Loss before tax** | | **(21 181)** | (41 808) |
| Income tax benefit/(expense) | *7* | **969** | (2 291) |
| **Loss after tax** | | **(20 212)** | (44 099) |
| | | | |
| Weighted average number of ordinary shares | *13* | **12 107 901** | 12 107 901 |
| Basic loss per share (USD) | *13* | **(1.67)** | (3.64) |
| Diluted loss per share (USD) | *13* | **(1.67)** | (3.64) |

## Philly Shipyard ASA

# Consolidated Statement of Comprehensive Income

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Net loss for the year | **(20 212)** | (44 099) |
| Other comprehensive income, net of income tax | **-** | - |
| **Total comprehensive loss for the year *** | **(20 212)** | (44 099) |

* All attributable to equity holders of the parent company.

Philly Shipyard ASA

# Consolidated Statement of Financial Position
## as of 31 December

| *Amounts in USD thousands* | *Note* | **2019** | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | *8* | **26 104** | 44 084 |
| Right-of-use asset | *8* | **13 035** | - |
| Restricted cash long-term | *12* | **-** | 44 616 |
| Equity-accounted investments | *23* | **-** | 44 641 |
| Other non-current assets | *9* | **234** | 231 |
| **Total non-current assets** | | **39 373** | 133 572 |
| Prepayments and other receivables | *10* | **3 502** | 3 534 |
| Restricted cash short-term | *12* | **66 475** | - |
| Income tax receivable | *7* | **166** | 3 262 |
| Contract asset | *3* | **1 608** | - |
| Cash and cash equivalents | *11* | **50 673** | 49 624 |
| **Total current assets** | | **122 424** | 56 420 |
| **Total assets** | | **161 797** | 189 992 |
| **EQUITY AND LIABILITIES** | | | |
| Paid in capital | *14* | **35 206** | 35 206 |
| Other equity | | **56 060** | 76 272 |
| **Total equity attributable to equity holders of the parent company** | | **91 266** | 111 478 |
| **Total equity** | | **91 266** | 111 478 |
| Interest-bearing long-term debt | *15* | **-** | 59 639 |
| Deferred tax liability | *7* | **2 193** | 1 500 |
| **Total non-current liabilities** | | **2 193** | 61 139 |
| Trade payables and accrued liabilities | *19* | **6 255** | 15 042 |
| Other provisions - warranties | *18* | **2 137** | 945 |
| Customer advances, net | *3* | **-** | 1 218 |
| Interest-bearing short-term debt | *15* | **59 928** | - |
| Income tax payable | *7* | **18** | 170 |
| **Total current liabilities** | | **68 338** | 17 375 |
| **Total liabilities** | | **70 531** | 78 514 |
| **Total equity and liabilities** | | **161 797** | 189 992 |

*Oslo, Norway*
*18 March 2020*
*Board of Directors*
*Philly Shipyard ASA*

James H. Miller
*Board Chairman*

Kristian Røkke
*Deputy Board Chairman*

Amy Humphreys
*Board Member*

Elin Karfjell
*Board Member*

Steinar Nerbøvik
*President and CEO*

Philly Shipyard ASA

# Consolidated Statement of Changes in Equity

| *Amounts in USD thousands* | Share capital | Share premium | Treasury shares | Other equity | Total equity |
|---|---|---|---|---|---|
| Balance at 31 December 2017 | 22 664 | 22 511 | (9969) | 120 371 | 155 577 |
| Total comprehensive loss for the year 2018 | - | - | - | (44 099) | (44 099) |
| Balance at 31 December 2018 | 22 664 | 22 511 | (9969) | 76 272 | 111 478 |
| Total comprehensive loss for the year 2019 | - | - | - | (20212) | (20212) |
| **Balance at 31 December 2019** | **22 664** | **22 511** | **(9 969)** | **56 060** | **91 266** |

Philly Shipyard ASA

# Consolidated Cash Flow Statement

| *Amounts in USD thousands* | *Note* | **2019** | 2018 |
|---|---|---|---|
| Loss before tax | | **(21 181)** | (41 808) |
| Unrealized foreign exchange loss | *6* | **66** | 146 |
| Depreciation | *8* | **7 056** | 7 830 |
| Impairment of assets [(1)] | *3,8* | **-** | 13 420 |
| Amortization of fees of interest-bearing Welcome Fund loan | *15* | **289** | 289 |
| Loss in equity-accounted investments | *2,23* | **-** | 523 |
| Net financial expense | *6* | **(178)** | 460 |
| (Increase)/decrease in: | | | |
| Vessels-under-construction receivable | *3* | **-** | 7 275 |
| Contract asset | *3* | **(1 608)** | - |
| Restricted cash (Matson) | *12* | **(626)** | (4 916) |
| Prepayments and other receivables | *10* | **(32)** | 923 |
| Other non-current assets | *9* | **(3)** | 8 |
| Increase/(decrease) in: | | | |
| Trade payables and accrued liabilities | *18,19* | **(7 595)** | (20 142) |
| Customer advances, net | *3* | **(1 218)** | 1 218 |
| Income taxes refunded | *7* | **3 310** | 1 258 |
| Sale of Pennsylvania R&D tax credit | *7* | **1 300** | - |
| Miscellaneous taxes paid | | **(6)** | - |
| Interest paid, net of capitalized interest | *6* | **(1 953)** | (1 938) |
| Interest received | *6* | **2 131** | 1 478 |
| **Net cash flow used in operating activities** | | **(20 248)** | (33 976) |
| Investments in property, plant and equipment | *8* | **(2 111)** | (1 811) |
| Distribution received from equity-accounted investments | *23* | **44 641** | 2 145 |
| **Net cash flow from investing activities** | | **42 530** | 334 |
| Portion of interest-bearing Welcome Fund loan held in escrow | *12* | **(21 233)** | (26 532) |
| Repayment of interest-bearing debt | *15* | **-** | (268) |
| **Net cash flow used in financing activities** | | **(21 233)** | (26 800) |
| **Net change in cash and cash equivalents** | | **1 049** | (60 442) |
| Cash and cash equivalents as of 1 January | | **49 624** | 110 066 |
| **Cash and cash equivalents as of 31 December** | *11* | **50 673** | 49 624 |

[(1)] Total 2018 impairment charge for work-in-process assets amounts to USD 17.601 million which includes spending of USD 13.420 million thru 31 December 2017 plus spending of USD 4.181 million in 2018.

Philly Shipyard ASA

# Notes to the accounts

## Note 1: Accounting principles

### STATEMENT OF COMPLIANCE

The consolidated financial statements of Philly Shipyard ASA and its subsidiaries (referred to herein as a group as Philly Shipyard, the Group or the Company) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union in effect at each financial reporting period.

These accounts have been approved for issue by the Board of Directors on 18 March 2020. The annual accounts will be submitted to Philly Shipyard's annual general meeting on 22 April 2020 for final approval.

### BACKGROUND AND BASIS FOR PREPARATION

Philly Shipyard ASA (referred to herein as PHLY) was formed on 16 October 2007 to be the holding company of Philly Shipyard, Inc. (referred to herein as PSI or the Shipyard) which operates a shipyard located in Philadelphia, Pennsylvania, USA. PSI owns certain subsidiaries in connection with its investments in its shipping assets.

PHLY is domiciled in Oslo, Norway. PSI is domiciled in the Commonwealth of Pennsylvania, USA. The subsidiaries of PSI are domiciled in the State of Delaware, USA. These consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in USD (thousands), except when indicated otherwise.

### USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts in the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Critical accounting estimates and assumptions are as follows:

#### *Revenue and Cost Recognition*

Philly Shipyard recognizes revenue over time in accordance with IFRS 15 *Revenue from Contracts with Customers*. This approach requires Philly Shipyard to measure the progress of contract activity at each statement of financial position date and estimate the ultimate outcome of costs and profit on contracts. Progress towards satisfying performance obligations is measured based on project costs incurred compared to the total forecasted project costs. In case of a loss-making project, a loss provision will be made when it is estimated that total contract costs will exceed total contract revenues. Revenue and cost estimates from shipbuilding activities depend, amongst others, on variables such as steel prices, supplier and subcontractor costs, labor costs and availability, and other production inputs. Philly Shipyard must also evaluate and estimate the outcome of variation orders, liquidated damages, contract claims and requests from customers to modify contractual terms which can involve complex negotiations with customers. Generally, estimates are subject to a greater level of uncertainty when a vessel design is new to the Shipyard than if a vessel is being constructed later in a series.

#### *Estimates of the Fair Value of its Cash Generating Unit*

Philly Shipyard has concluded that it has only one primary cash generating unit and must determine the recoverable amount of its cash generating unit in order to perform impairment tests of its long-lived assets when impairment indicators are present. Philly Shipyard evaluates its investment in Philly Tankers LLC separately from its primary cash generating unit (see note 23). Determining the recoverable amount of the cash generating unit that includes Philly Shipyard's activities is subject to uncertainty and requires estimates of the recoverable amount which is the higher of the fair value less costs to sell and value in use. The estimated recoverable amount is determined based upon the present value of the future cash flows of the cash generating unit. Generally, there will be uncertainties regarding the timing and amount of cash flows for various reasons, including the costs of production and demand in the U.S. Jones Act shipping market and the current lack of order backlog at the Company. In addition, Philly Shipyard must determine an appropriate interest rate to discount expected future cash flows.

#### *Deferred Income Taxes*

Deferred income tax assets are recognized when it is probable that they will be realized. Determining probability requires Philly Shipyard to estimate the sources of future taxable income from operations, including profit sharing agreements and reversing taxable temporary differences. Determining these amounts is subject to uncertainty and is based primarily upon historical earnings, reversals of taxable temporary differences and expected earnings due to contracts in progress and contract order backlog. The recognition of deferred tax assets is primarily applicable to U.S. taxes where Philly Shipyard has a net deferred tax asset position.

#### *R&D Tax Credit*

Since 2015, PSI has qualified for the research and development (R&D) tax credit for both federal and Pennsylvania tax purposes. The Shipyard qualified for the credit because of the research it undertook to discover information that is technological in nature and intended to be useful in the development of a new or improved business component. The Company recognizes the R&D tax credit estimate as part of the income tax benefit based on a calculation of qualifying research expenses using available guidance and the applicable rules and regulations. An R&D tax credit of USD 53 thousand has been included in the income tax benefit in 2019. This amount was fully offset by a valuation allowance, so it had no impact on the income tax benefit in the current year.

#### *Accruals/Provisions*

Philly Shipyard has various accruals/provisions which require management to make estimates. Accruals/provisions are typically made for costs that arise after vessel deliveries, including warranty costs, and regular accruals/provisions made at the end of a financial period where costs have been incurred but an invoice has not yet been received. In addition, accruals/provisions are made if the Company has identified a commitment or event that will trigger a future payment. Management uses all available facts and circumstances when determining these estimates including historical experiences as well as input from outside advisors.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects that period or in the period of revision and future periods if the revision affects both current and future periods.

### SIGNIFICANT JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

#### *The Going Concern Assumption*

The consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realization of assets and settlement of liabilities in the normal course of business. The ability of the entity to continue as a going concern is dependent upon continuing shipbuilding operations and securing a customer order. While the Group is actively working on securing new orders, there is inherent uncertainty and no assurance that the Group will successfully secure a customer order.

At 31 December 2019, the Group had net assets (equity) of USD 91.3 million (2018: USD 111.5 million), and a working capital surplus of USD 54.1 million (2018: USD 39.0 million). During the year ended 31 December 2019, the Group recorded cash outflows from operating activities of USD 20.2 million (2018 cash outflows: USD 34.0 million), cash inflows from investing activities of USD 42.5 million (2018 cash inflows: USD 0.3 million) and cash outflows from financing activities of USD 21.2 million (2018 cash outflows: USD 26.8 million). For the year ended 31 December 2019, the Group recorded a net cash inflow of USD 1.1 million (2018 net cash outflow: USD 60.5 million).

The following conditions give rise to a material uncertainty that may cast a significant doubt on the Group's ability to continue as a going concern:

- The Group does not have contracted customer order backlog for ship newbuild programs. The delay Philly Shipyard has experienced in securing new orders and financing has interrupted its building program, resulting in the idling of all production activities in its facility other than ship maintenance and repair work and a decrease of more than 80% of its workforce (including direct employees and subcontracted personnel) since the beginning of 2018. If this delay continues, then it will further interrupt Philly Shipyard's building program and increase the costs and risks faced by Philly Shipyard, including challenges related to attracting and retaining skilled workers and increases in under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects).

- The longer the delay in securing new orders continues past Q1 2020, the more expensive and challenging it becomes for Philly Shipyard to resume shipbuilding operations. In particular, the extended gap in production activities increases the risk that the Company is unable to mobilize the shipyard's workforce, and to retain and raise sufficient financing to support future shipbuilding projects.

- Pursuant to the Shipyard Lease between PSI and its landlord, Philadelphia Shipyard Development Corporation (PSDC), if PSI fails to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, then the lease term (i.e., a 99-year lease with approximately 77 years remaining including options) is automatically converted to month-to-month and PSDC has the right to terminate the lease, subject to the right of PSI to complete work-in-process projects and a one-time, limited cure right which allows PSI to restore the lease to a five-year term under certain circumstances. Due to a forecasted breach of this condition caused by the gap in shipbuilding activity following the delivery of Hull 030, which breach would have occurred in Q1 2019, Philly Shipyard obtained a temporary conditional waiver of this minimum employment condition until 31 December 2019. This waiver has been extended and now remains in effect on a month-to-month basis until 31 March 2020 so long as PSI continues to comply with its terms. If PSI obtains a new order during the waiver period that will result in a significant increase in employment at the shipyard, such as the NSMV program, then the waiver will continue until PSI reaches the 200 full-time employee requirement.

The Group acknowledges the material uncertainty in being able to continue ordinary shipbuilding operations and secure new contracted customer backlog in order to comply with the shipyard lease minimum employment condition without obtaining additional waivers to continue operations beyond 31 March 2020. However, the Directors are confident that this is achievable through a combination of the following:

- Philly Shipyard's main focus is the pursuit of the opportunity to build National Security Multi-Mission Vessels (NSMV). The NSMV program seeks to replace as many as five of the U.S. state maritime academy training ships. The award of this shipyard contract is anticipated to be announced within late Q1 2020 or early Q2 2020 with a delivery of the first vessel targeted within Q1 2023.

- In addition, Philly Shipyard is aggressively pursuing several possibilities for short-term work to have some activity in the shipyard before a production start of a potential new shipbuilding project. In particular, Philly Shipyard is pursuing possibilities for steel work and repair, maintenance, modernization and conversion jobs to utilize idle capacity in its fabrication shops and dry-docks.

- In the event that Philly Shipyard is in breach of the shipyard lease condition to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, the Group has the intention to request an additional waiver beyond 31 March 2020; however, the success of obtaining this waiver from PSDC is uncertain.

- The Company has sufficient unrestricted cash at year-end 2019 to continue operations over twelve months. In addition, the USD 60.0 million Welcome Fund loan, scheduled to be fully paid back in March 2020, has been fully secured through an escrow account created to cash collateralize the loan. At 31 December 2019, USD 60.9 million has been deposited in this account.

Should the Group be unsuccessful in continuing ordinary shipbuilding operations and securing contracted customer backlog, or unsuccessful in complying with the shipyard lease minimum employment condition without obtaining additional waivers, there is a material uncertainty that exists that may cast significant doubt as to whether the Group will be able to continue as a going concern. In this scenario, the Group may elect to undergo an orderly liquidation process. Therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business at their stated net book values in the consolidated financial statements, resulting in the impairment of property, plant and equipment assets; termination payments relating to PSI's multi-employer union selected pension plan; and the potential acceleration of debt repayments.

The world is currently in the middle of the COVID-19 crisis, and how it will unfold is uncertain. Philly Shipyard is taking measures to mitigate substantial negative impact for the company. However, in a worst-case scenario, the COVID-19 crisis may have devastating effects for the world economy, including Philly Shipyard. The COVID-19 crisis increases the risk regarding the going concern assumption for most companies, and this is also the case for Philly Shipyard.

Despite the material uncertainties above, the Board's assessment is that it is appropriate to apply the going concern assumption. The Board anticipates that the Group can continue its shipbuilding activities, and will have the financial resources to apply the going concern principle as the basis for the financial statements.

***Equity-Accounted Investments***

At year-end 2018, the Company owned 53.7% of the outstanding shares of Philly Tankers AS (referred to herein as "Philly Tankers"), a Jones Act shipping company which was liquidated in February 2019. The Company performed an analysis of its ownership interests and voting rights in the articles of association in Philly Tankers and concluded that it did not control the relevant activities of Philly Tankers. Therefore, the Company accounted for the investment using the equity method and did not consolidate Philly Tankers.

## PHILLY SHIPYARD ACCOUNTING AND CONSOLIDATION PRINCIPLES

***Subsidiaries***

The consolidated financial statements include the financial statements of the parent company, Philly Shipyard ASA, and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability affect those returns through its power over the entity.

***Equity-Accounted Investments***

At year-end 2018, Philly Shipyard owned 53.7% of the outstanding shares of Philly Tankers AS (referred to herein as "Philly Tankers"), a Jones Act shipping company which was liquidated in February 2019. As of 31 December 2019, Philly Shipyard no longer had any equity-accounted investments. When Philly Shipyard had equity-accounted investments, they were treated as associates (Philly Tankers prior to liquidation as an example).

Associates are those entities in which Philly Shipyard has significant influence, but not control or joint control, over the financial and operating policies.

Interest in associates are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include Philly Shipyard's share of the profit or loss and other comprehensive income of equity-accounted investments, until the date on which significant influence or joint control ceases.

***Transactions Eliminated on Consolidation***

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated.

Revenues and costs related to vessel construction transactions with equity-accounted investees are not eliminated. However, profits from revenue transactions accounted for as construction contracts are deferred to the extent of Philly Shipyard's ownership of the investee until the investee either sells or operates the related vessel at which time the deferred profit is recognized in full when the investee sells the vessel or ratably over the useful life for vessels held for use by the investee. Deferred profit is treated as an adjustment to revenue with a corresponding adjustment to the investment balance for the equity-accounted investments.

For revenue transactions with equity-accounted investments that are not accounted for as construction contracts, any unrealized gains are eliminated prior to delivery of the vessel and treated as an adjustment to the investment to the extent of Philly Shipyard's interest in the investments. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

**Foreign Currency Translation and Transactions**

***Functional Currency***

Items included in the financial statements of each entity in Philly Shipyard are initially recorded in the entity's functional currency, i.e. the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity.

The consolidated financial statements are presented in United States dollars (USD), rounded to the nearest thousand, which is the reporting currency for the consolidated accounts and the functional currencies for all the entities within Philly Shipyard.

***Transactions and Balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rates in effect on the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Foreign exchange differences arising in respect of operating items are included in operating profit or loss in the consolidated income statement, and those arising in respect of financial assets and liabilities are recorded net as a financial item.

**PROPERTY, PLANT AND EQUIPMENT**

***General***

Property, plant and equipment and right-of-use asset acquired by the Shipyard is stated at cost at the date of acquisition. Depreciation is calculated on a straight-line basis and adjusted for impairment charges, if any. The carrying value of the property, plant and equipment and right-of-use asset on the statement of financial position represents the cost net of government grants and subsidies received (if applicable) less accumulated depreciation and any impairment charges. Cost includes expenditures that are directly attributable to the asset. The cost of self-constructed assets includes the costs of material and direct labor, and any other costs directly attributable to bringing the asset to working condition for its intended use. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Land is not depreciated, but other property, plant, and equipment in use and right-of-use asset are depreciated on a straight-line basis. Expected useful lives of long-lived assets are reviewed annually and, where they differ significantly from previous estimates, depreciation periods are changed accordingly.

Ordinary repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred. The cost of improvements is included in the asset's carrying amount when it is probable that the Shipyard will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset. Improvements are depreciated over the useful lives of the related assets.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit or loss. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

***Component Cost Accounting***

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment and right-of-use asset to its significant components and depreciates separately each such component part over its useful life.

**IMPAIRMENT OF LONG-LIVED ASSETS**

Property, plant and equipment, right-of-use asset and other non-current assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable, mainly independent, cash inflows. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the higher of the asset's net selling price and its value in use. The value in use is determined by discounted cash flows and fair market value is based on recent third party appraisals.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not to an extent higher than the carrying amount that would have been determined had no impairment loss been recognized in prior years.

**IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS***

IFRS 15 was adopted by the Group from 1 January 2018, which superseded the previous revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations. The standard introduced a new five-step model that applies to revenue arising from contracts with customers.

Philly Shipyard principally generates revenues from activities relating to long-term shipbuilding construction contracts, and also generated minimal revenue from the performance of industry studies for the U.S. Navy and for the ship repair and maintenance of U.S. Government-owned vessels. A detailed review of customer contracts occurred for contracts which were open from 1 January 2019 to 31 December 2019.

- Construction contracts:
  The construction contracts were assessed according to IFRS 15 to evaluate whether the revenue from such contracts shall be recognized over time or at a point in time. As a result of the assessment, the Company concluded that the principle-over-time revenue recognition method was appropriate for these con- tracts based on the fact that the vessels under construction do not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment from the customer for the work completed to date.

- Performance obligations:
  The Matson vessels were treated as a single performance obligation due to their similar nature and the integration of the design and production of the hulls. Progress towards completing the Matson performance obligation was measured over time based on project costs incurred compared to the total fore-casted project costs. Progress towards completing ship repair and maintenance is also measured over time based on project costs incurred compared to the total forecasted project costs. This is considered to be a faithful depiction of the transfer of goods as it accurately reflects the underlying transactions and progress.

- Constraint of variable consideration:
  To include variable consideration in the estimated contract revenue under IFRS 15, the entity has to conclude that it is highly probable that a significant revenue reversal will not occur when the uncertainties related to the variability are resolved. The threshold of including variable considerations in revenue recognition is higher than the requirements under current standards.

On transition to IFRS 15, the Company applied the cumulative effect method which requires the cumulative effect of initial application recognized as an adjustment to the opening balance of retained earnings as of 1 January 2018. Under this transition method, the new standard was applied to the contracts for Hulls 029 and 030 with Matson, which were the only open shipbuilding construction contracts in progress at the time of transition. As allowed under the standard, the comparable information presented was not restated. Based on its assessment, the following adjustment was made at initial application:

Total incurred shipbuilding contract expenses as of 31 December 2017 can be specified as follows (in USD thousands):

| | |
|---|---|
| Shipbuilding contract expenses charged to P&L according to IAS 11 | 221 744 |
| Incurred shipbuilding contract expenses included in the balance | 38 397 |
| **Total incurred shipbuilding contract expenses thru 31 Dec. 2017** | **260 141** |

The adoption had an impact on the timing of revenue recognition by increasing accumulated revenues recognized at 31 December 2017 from Hulls 029 and 030 by USD 38.4 million, with a corresponding decrease in future revenue recorded from 1 January 2018. As such, there is a USD 38.4 million difference between accumulated revenue from the 1 January 2018 effective date of IFRS 15 and 31 December 2017 as presented in the annual report for 2017. There was no effect on the 2018 opening balance of equity related to IFRS 15, given that the Matson con- tract was forecast as a breakeven project at 31 December 2017. In addition there was no material impact on the Group's statement of financial position or cash flow statement for the year ended 31 December 2018.

Project revenue is classified as operating revenues in the consolidated income statement. Vessels-under-construction receivable is classified as a current asset in the statement of financial position. Advances from customers are deducted from the value of vessels-under-construction receivable of the contract involved or, to the extent they exceed this value, recorded as customer advances, net. Customer advances, net that exceed contract offsets would be classified as current liabilities.

**VESSEL CONSTRUCTION WHEN IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS* DOES NOT APPLY**

***Vessels-under-construction with no customer contract***

Vessels-under-construction which are not under contract with a customer is capitalized into work-in-process. If conditions indicate that the ultimate sales price will be below the estimated cost of the vessel, Philly Shipyard determines the estimated sales price and records an impairment charge as appropriate. The accumulated costs for vessels-under-construction receivable for unspecified customers is included in work-in-process. This treatment is not applicable for the current year as the Company is currently not building any vessels on its own account.

**GOVERNMENT GRANTS AND SUPPORT**

Government grants and support are recognized at their fair value where there is reasonable assurance that amounts will be received and conditions have been met. In some cases, recognition occurs over a period of time as restrictions lapse or as conditions are met. Grants and support related to capital expenditures or construction of assets for the Shipyard's account are recognized as a reduction of the related asset cost. For assets held for use, this results in a lower depreciation charge over the useful life of the asset. Grants related to specific programs or projects are recognized as reductions in expense over the period in which work that relates to the grant or support is per-formed.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash on hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

**INTEREST-BEARING LIABILITIES**

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the effective interest method; any difference between proceeds (net of trans-action costs) and the redemption value is recognized in the consolidated income statement over the period the interest bearing liabilities are outstanding. Amortized cost is calculated by taking into account any issuance costs, and any discount or premium.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

**INCOME TAXES**

***Current Income Taxes***

Income taxes receivable and payable for the current period are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws as used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

***Deferred Income Taxes***

Deferred income tax is provided, using the asset/ liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except upon initial recognition of an asset or a liability that does not impact income.

Deferred income tax assets are recognized for all deductible temporary differences, and carry-forward of unused tax losses and credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses and credits can be utilized. The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. The expected utilization of tax losses are not dis-counted when calculating the deferred tax asset.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

**PENSION OBLIGATIONS**

The Shipyard has a pension plan that covers its non-union employees whereby contributions are paid to a qualifying pension plan. The Shipyard's union employees are participants in a union selected pension plan. Although the Union Plan is a defined benefit pension plan, because the union does not provide information on the Shipyard's employees and their share of the pension assets and obligations, the plan is accounted for in accordance with the requirements of a defined contribution plan. Under defined contribution pension plans, contributions are charged to the consolidated income statement in the period to which the contributions relate.

**PROVISIONS**

A provision is recognized when Philly Shipyard has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current estimate.

The amount of the provision is the present value of the risk adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the carrying amount of provision increases in each period and is recognized as interest expense.

**FINANCIAL RISK MANAGEMENT**

Philly Shipyard's activities expose it to a variety of financial risks: market risk (including commodity pricing risk, currency risk and price risk), credit risk and cash flow interest rate risk. Philly Shipyard's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Philly Shipyard's financial performance. Philly Shipyard uses derivative financial instruments to hedge certain risk exposures. As of 31 December 2019, there were no foreign exchange contracts in place.

Risk-management is carried out under policies approved by the Board of Directors. The Board of Directors provides principles for overall financial risk management as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and use of derivative financial instruments and non-derivative financial instruments.

***Credit Risk***

Due to the nature of the Shipyard's operations, revenues and related receivables are typically concentrated amongst a few customers. Philly Shipyard continually evaluates the credit risk associated with customers and their assignees and manages this risk by requiring payment for substantially the entire contractual amount prior to delivering a vessel, including milestone payments upon completion of specified milestones.

***Interest Rate Risk***

Philly Shipyard is exposed to fluctuations in interest rates for its variable interest rate debt related to construction financing and working capital facilities.

***Foreign Exchange Risk***

Philly Shipyard is exposed to foreign currency risk for purchases made in currencies other than the U.S. dollar which primarily relates to materials, supplies and costs related to the services of expatriate workers purchased from South Korea, Norway and other countries in Europe. Philly Shipyard attempts to mitigate this risk through its foreign exchange hedging program or passing this risk onto its end customers by having them purchase certain materials directly in foreign currency.

***Capital Management Risk***

Philly Shipyard's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, while maintaining an optimal capital structure to minimize the cost of capital. To meet these capital structure objectives, Philly Shipyard reviews on a quarterly basis with its Board any proposed dividends as well as any needs to raise additional equity for future business opportunities or to reduce debt. Any payment of dividends, including ordinary dividends, is dependent on, among other things, performance on existing contracts and possible new orders and will be considered in conjunction with the Company's financial position, debt covenants, capital requirements, market prospects and potential strengthening of the Company's financial structure.

***Funding/Investment Risk***
Philly Shipyard regularly monitors the financial condition of its construction financing lenders. Additionally, Philly Shipyard monitors the financial condition of the financial institutions which it uses for cash management services and in which it makes deposits and other investments. Philly Shipyard responds to changes in conditions affecting its financing sources and deposit relationships as situations warrant.

***Liquidity Risk***
Liquidity risk is the risk that Philly Shipyard will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Philly Shipyard's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Philly Shipyard's reputation. Philly Shipyard attempts to mitigate this risk through project financing and working capital facilities, progress payments from its customers, and material supplied and paid directly by its customers.

**Accounting for Derivative Financial Instruments and Hedging Activities**
Derivative financial instruments are recognized initially and in subsequent periods on the statement of financial position at fair value with the resulting gains and losses included in the consolidated income statement.

In accordance with its treasury policy, Philly Shipyard does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Estimates of the fair value for foreign currency contracts are obtained from a third party. The fair value of derivative long-term financial liabilities is disclosed in note 21 regarding financial instruments.

**IFRS 9 *Financial Instruments***
The standard replaced IAS 39 *Financial Instruments Recognition and Measurement* in 2018. The standard includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. The standard also introduces new general hedge accounting requirements; however Philly Shipyard does not apply hedge accounting to forward foreign exchange contracts held.

- Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The standard contains three principal classification categories: measured at amortized costs, Fair Value to Other Comprehensive Income (FVOCI) and Fair Value to Profit and Loss (FVTPL).

Based on its assessment and the nature of financial assets held by Philly Shipyard, the current classifications of the financial instruments held as at 31 December 2019 were not materially impacted.

- Impairment – Financial assets and contract assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortized cost or FVOCI and contract assets, except for equity instruments. Under IFRS 9, loss allowance is measured based on either "12-month ECLs" or "lifetime ECLs". The Company applied the simplified approach using "lifetime ECLs" for all trade receivables and contract assets.

Based on the Company's assessment, no significant changes in loss allowance were deemed necessary in order to satisfy the impairment requirement under IFRS 9.

**RELATED PARTY TRANSACTIONS**
The Company's policy is that all transactions, agreements and business activities with related parties are conducted on an arm's length basis according to ordinary business terms and conditions.

**SEGMENT INFORMATION**
Philly Shipyard currently has one business segment which is building and repairing vessels for both the U.S. Jones Act market and the U.S. Government.

**BASIC AND DILUTED EARNINGS PER SHARE**
The calculation of basic earnings per share is based on the profit or loss attributable to ordinary shareholders using the weighted average number of shares outstanding during the year (not including the treasury shares). The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while giving effect to all potential dilutive ordinary shares that were outstanding during the period. Philly Shipyard currently has no potentially dilutive shares outstanding.

**EVENTS AFTER 31 DECEMBER 2019**
A distinction is made between events both favorable and unfavorable that provide evidence of conditions that existed at the statement of financial position date (adjusting events) and those that are indicative of conditions that arose after the statement of financial position date (non-adjusting events). Financial statements will only be adjusted to reflect adjusting events and not non-adjusting events (although there are disclosure requirements for such events).

**NEW STANDARDS AND INTERPRETATIONS ADOPTED**
**IFRS 16 *Leases* (effective from 1 January 2019)**
The IFRS 16 lease standard (IFRS 16) replaces IAS 17 *Leases* and the related interpretations. The new standard introduces a single, on-balance sheet lease accounting model for lessees, with optional exemptions for short-term leases and leases of low value items. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company has applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Based on this, a potential cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as of 1 January 2019, with no restatement of comparative information. There has been no such adjustment of retained earnings as of 1 January 2019, following the implementation of IFRS 16.

As part of the 2011 Authorization Agreement, PSI's landlord, Philadelphia Shipyard Development Corporation (PSDC), purchased certain shipyard assets from PSI for a purchase price of USD 42.0 million with funds provided by the Commonwealth of Pennsylvania. PSI leases back those same assets from PSDC subject to the terms of its shipyard lease and the Authorization Agreement. For accounting purposes, the transaction was accounted for as a sale/leaseback, and no adjustments were made to the accounting value of the assets at closing.

The net book value of assets under leasing agreements recorded in the statement of financial position at 31 December 2019 amounts to USD 13.0 million. From 1 January 2019, the net book value of the assets PSDC purchased from PSI in 2011 has been reclassified from property, plant and equipment to right-of-use asset.

The operating leases are for facilities, vehicles and printing and copying equipment. These leases consist of smaller amounts for printers and copiers, and leases that are up to 12 months for a training facility and a vehicle. Based on this, and no material impact from these leases, no right-of-use asset or lease liability has been recorded when the new IFRS 16 lease standard became effective 1 January 2019.

The building lease for PSI's plate priming facility has been extended on a month-to-month basis. The base rent is USD 16 thousand per month. This amount is not included in the operating lease rentals recorded above. Due to the short term of the lease, on a month-to-month basis, no right-of-use asset or lease liability has been recorded as of 1 January 2019. This treatment will be revisited if the shipyard signs a contract or contracts that secures long-term activity.

PSI operates on land leased from PSDC under a 99-year lease consisting of an initial 20-year term and options to renew the lease for three consecutive periods of 20 years each and one final period of 19 years. At expiration of the first 20-year lease period in 2018, the lease was renewed for the first of the three 20-year option periods. PSI can acquire the land for USD 1 after the expiration of all renewal periods. Annual payments under the lease agreement include rent, taxes and operating expenses (operating expenses are subject to an annual revision based on PSDC's operating expenses). Lease payments for rent due under the Shipyard lease are USD 1 per year. Upon the award of a major shipbuilding program, such as the NSMV program, the annual rent under the lease agreement will increase to USD 200 thousand per annum.

The shipyard lease is treated as a government grant under IAS 20 *Accounting for*

*Government Grants and Disclosure of Government Assistance* (IAS 20). On transition to IFRS 16, the shipyard has continued to use this policy to record the government grant under IAS 20 against the investment. This gives a USD 0 balance for the right-of-use asset and the lease liability at 1 January 2019, as the grant is deducted to arrive at the carrying amount of the right-of-use asset. For more details regarding the shipyard lease, see note 25.

***Standards Issued But Not Yet Effective***
A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted new or amended standards in preparing these consolidated financial statements as of 31 December 2019.

The following amended standards and interpretations are not expected to have a significant impact on the Company's consolidated financial statements:

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS1 and IAS8).*
- IFRS 17 *Insurance Contracts.*

## **Note 2:** Operating revenues and other income/(loss)

**Operating revenues and other income/(loss) consist of the following items:**

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Operating revenues | **28 207** | 129 737 |
| Loss in equity-accounted investments | **-** | (523) |
| **Total operating revenues and other income/(loss)** | **28 207** | 129 214 |

Loss in equity-accounted investments (Hulls 025-028) represents the Company's 53.7% share of the total comprehensive loss of Philly Tankers which at 31 December 2019 and 31 December 2018 amounted to USD 0 and negative USD 0.5 million, respectively (see note 23).

## **Note 3:** Construction contracts/vessels built for own account

The order backlog is USD 0 at 31 December 2019 and represents a contractual shipbuilding obligation to deliver newly built vessels that have not yet been produced for the Company's customer(s). Order backlog consists of future construction contract revenues and is subject to adjustment based on change orders as defined in the construction contract(s); vessels under contract for ship repair and maintenance work are not included in the order backlog.

The order backlog on long-term construction contracts is as follows:

| *Amounts in USD thousands* | **Order backlog 31 Dec. 2019** | **Order intake 2019** | Order backlog 31 Dec. 2018 | Order intake 2018 | Order backlog 31 Dec. 2017 |
|---|---|---|---|---|---|
| **Total** | **-** | **350** | 17 371 | (950) | 187 668 |

As of 31 December 2019, the Company did not have any shipbuilding contracts in place where revenue is recognized over time in line with construction progress. For the purposes of revenue recognition under IFRS 15, Hulls 029 and 030 were treated as a combined contract, with the related performance obligation satisfied over time. As of 31 December 2019, the Matson project is 100% complete.

**Impact of IFRS 15 adoption**
As discussed in note 1, IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Philly Shipyard has applied the cumulative transition approach whereby the cumulative effect of initial application is to be recognized as an adjustment to the opening balance of retained earnings as of 1 January 2018, with no restatement of 2017 comparative figures.

The adoption had an impact on the timing of revenue recognition by increasing accumulated revenues recognized at 31 December 2017 from Hulls 029 and 030 by USD 38.4 million, with a corresponding decrease in future revenue to be recorded from 1 January 2018. As such, there is a USD 38.4 million difference between accumulated revenue from the 1 January 2018 effective date of IFRS 15 and 31 December 2017 as presented in the annual report for 2017. There was no effect on the 2018 opening balance of equity related to IFRS 15, given that the Matson contract was forecast as a breakeven project at 31 December 2017. In addition there was no material impact on the Group's statement of financial position or cash flow statement for the year ended 31 December 2018.

Under IFRS 15, a performance obligation is defined as a promise to deliver a good or service that meets both of the following criteria:
- the customer will benefit from the good or service either on its own or together with the other resources that are readily available to the customer;
- the promise to transfer the good or service is separately identifiable from other promises in the contract.

Progress towards completing the Matson contract performance obligation is measured based on project costs incurred compared to the total forecasted project costs.

The loss recognized on long-term construction contracts (Hulls 029-030) at year-end is as follows:

| *Amounts in USD thousands* | **Actual 31 Dec. 2019** | **Actual 31 Dec. 2018** | **Restated IFRS 15 31 Dec. 2017** | **Adjustment Q1 2018** |
|---|---|---|---|---|
| Construction contract revenue recognized | **408 812** | 389 878 | 260 141 | (38 397) |
| Construction contract expenses recognized | **(417 790)** | (400 376) | (260 141) | 38 397 |
| Provision for loss | **(559)** | (559) | - | - |
| Payment received from Matson for inventory items | **924** | - | - | - |
| **Recognized construction contract loss** | **(8 613)** | (11 057) | - | - |

Total incurred construction contract expenses as of 31 December 2017 can be specified as follows (in USD thousands):

| | |
|---|---|
| Contract expenses charged to profit and loss according to IAS 11 | 221 744 |
| Incurred contract expenses included in the balance | 38 397 |
| **Total incurred construction contract expenses thru 31 December 2017** | **260 141** |

The progress and the revenue recognition thru 31 December 2018 is the difference between the accumulated revenue per 31 December 2018 and the restated accumulated revenue per 31 December 2017.

Typical variable consideration elements identified in the Company's construction contracts with customers include liquidated damages, performance guarantees and warranties. Under the Matson contract for Hulls 029-030, liquidated damages were considered variable consideration, whereas performance guarantees and warranties were not categorized as variable consideration.

Construction contract revenue and loss recognized includes revenue and loss for Hulls 029-030 since the contract for these vessels was accounted for using the principle-over-time revenue recognition method according to IFRS 15.

As of 31 December 2019, the Company had no more construction contracts in place. In Q1 2019, PSI delivered Hull 030, the second of two containerships that the Company was building for Matson. Philly Shipyard recognized contract revenues and expenses for the two-containership order from Matson as one project. As of 31 December 2019, the Matson project is 100% complete.

Customer milestone payments as of 31 December 2019 and 31 December 2018 totaled USD 0 and USD 391.8 million, respectively. Customer milestone payments from Matson for Hulls 029 and 030 were made at intervals that were intended to be cash neutral, and as such were not representative of a significant financing component present in the contract.

Customer advances, net as of 31 December 2019 and 31 December 2018 totaled USD 0 and USD 1.2 million, respectively. Customer advances, net represents the difference between cash advances received from the customer and costs incurred for those vessels.

Contract asset as of 31 December 2019 and 31 December 2018 totaled USD 1.6 million and USD 0, respectively. Contract asset represents revenue recognized on a ship repair and maintenance contract that has not yet been billed.

In 2018, the project to build up to four containerships (CV3700 vessels) for delivery to TOTE Maritime was cancelled and, in connection therewith, the full amount of the work-in-process assets pertaining to the first two CV3700 vessels (Hulls 031-032), totaling USD 17.6 million, was written off and taken as an impairment charge. In 2019, approximately USD 3.1 million of previously incurred cancellation costs that were written-off and charged as impairment costs in 2018 were reversed based on the successful recovery from its suppliers for the first two CV3700 vessels. See note 8 for further details.

As of 31 December 2019, PSI did not have any remaining non-cancellable purchase commitments for materials and equipment (unpaid liabilities) for the construction of ships.

## **Note 4:** Wages and other personnel expenses

**Wages and other personnel expenses consist of:**

| *Amounts in USD thousands (except number of employees)* | **2019** | 2018 |
|---|---|---|
| Wages | **13 389** | 34 542 |
| Social security contributions | **1 146** | 2 945 |
| Pension costs (note 17) | **342** | 1 416 |
| Other expenses [(1)] | **3 112** | 7 001 |
| **Total gross expense** | **17 989** | 45 904 |
| Expenses related to vessel construction | **(15 671)** | (43 977) |
| **Wages and other personnel expenses** | **2 318** | 1 927 |
| Average number of employees | **142** | 419 |
| Number of employees at year-end | **119** | 253 |

(1) Other expenses relate primarily to workers' compensation and employee benefits.

## **Note 5:** Other operating expenses

**Other operating expenses consist of:**

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Under-recovered overhead costs | **14 122** | 9 387 |
| Other operating expenses | **3 048** | 7 157 |
| **Total** | **17 170** | 16 544 |

In 2019, PSI operated at below normal operating levels and under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects) were expensed in 2019. Other operating expenses primarily relate to selling, general and administrative expenses.

Fees to auditors for Philly Shipyard are as follows:

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Audit fees | **111** | 124 |
| Other audit and attestation fees | **12** | 22 |
| **Total** | **123** | 146 |

## **Note 6:** Financial income and financial expense

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Interest income | **2 131** | 1 478 |
| Foreign exchange gain | **-** | 46 |
| **Financial income** | **2 131** | 1 524 |
| Interest expense | **(1 953)** | (1 938) |
| Foreign exchange loss | **(2)** | - |
| Loss on foreign currency forward contracts | **(66)** | (146) |
| **Financial expense** | **(2 021)** | (2 084) |
| **Net financial items** | **110** | (560) |

Details regarding the Company's debt facilities and interest rates are provided in note 15 and foreign exchange gain/(loss) details are provided in note 21. In 2019, the foreign exchange loss is attributable to certain cash balances which are held in Norwegian Kroner and the loss on foreign currency forward contracts is attributable to mark-to-market of foreign currency forward contracts in Korean Won, Norwegian Kroner and Euro. In 2018, the foreign exchange gain is attributable to certain cash balances which are held in Norwegian Kroner and the loss on foreign currency forward contracts is attributable to mark-to-market of foreign currency forward contracts in Korean Won, Norwegian Kroner and Euro.

## Note 7: Taxes

**Income tax expense/(benefit)**
*Recognized in the income statement*

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Current income tax (benefit)/expense: | | |
| Current year - U.S. | **(366)** | 475 |
| Current year - Norway | **-** | 122 |
| **Total current income tax (benefit)/expense** | **(366)** | 597 |
| Deferred tax (benefit)/expense: | | |
| Origination and reversal of temporary differences - U.S. | **(398)** | 1 983 |
| Origination and reversal of temporary differences - Norway | **(205)** | (289) |
| **Total deferred tax (benefit)/expense** | **(603)** | 1 694 |
| **Total income tax (benefit)/expense in the income statement** | **(969)** | 2 291 |

*Reconciliation of effective tax rate:*

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Loss before tax | **(21 181)** | (41 808) |
| Nominal Norwegian tax rate | **22.0%** | 23.0% |
| Expected tax (benefit)/expense using nominal Norwegian tax rate | **(4 660)** | (9 616) |
| Effect of differences between nominal Norwegian tax rate and U.S. federal, state and city tax rate | **(2 616)** | (4 766) |
| Expenses not deductible for tax purposes | **70** | 84 |
| R&D tax credits | **542** | 36 |
| Other differences | **(1 272)** | 1 839 |
| Valuation allowance | **6 967** | 14 714 |
| **Total income tax (benefit)/expense in the income statement** | **(969)** | 2 291 |

The effective tax rate differs from the expected tax rate primarily due to the difference between the nominal Norwegian tax rate and U.S. federal, state and city tax rates, and income that was not taxable in Norway.

**Income tax receivable/(income tax payable)**

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Beginning of the period | **3 092** | 4 947 |
| Taxes payable/(refundable) | **366** | (597) |
| Taxes refunded | **(3 310)** | (1258) |
| **End of the period** | **148** | 3 092 |

Income tax receivable and income tax payable are offset when there is a legally enforceable right to offset the taxes; however, when the taxes relate to different tax authorities, they cannot be offset. The Company's income tax receivable and income tax payable at 31 December 2019 relate to different tax authorities and, therefore, cannot be offset. Accordingly, the Company has an income tax receivable of USD 166 thousand and an income tax payable of USD 18 thousand on its statement of financial position at 31 December 2019.

**Deferred tax asset/(deferred tax liability)**
Deferred tax asset and deferred tax liability are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority, which through 31 December 2019 for the Company was primarily Norway, the United States, the State of Delaware, the Commonwealth of Pennsylvania and the City of Philadelphia.

The offset amounts for U.S. items are as follows:

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Deferred tax assets - U.S. tax jurisdictions | **-** | 2 612 |
| Deferred tax liabilities - U.S. tax jurisdictions | **(1 988)** | (3 698) |
| **Net deferred tax (liability)/asset** | **(1 988)** | (1 086) |

The gross movement in the deferred income tax account for U.S. tax jurisdictions is as follows:

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Beginning of the period | **(1 086)** | 897 |
| Sale of Pennsylvania R&D tax credit | **(1 300)** | - |
| Deferred tax benefit | **398** | (1983) |
| **Net deferred tax (liability)/asset** | **(1 988)** | (1086) |

In 2019, Philly Shipyard was able to sell its Pennsylvania R&D tax credits to a third party, which netted out to USD 1.3 million.

The movement in deferred tax asset and deferred tax liability during the year for the U.S. tax jurisdictions is as follows:

*Deferred tax asset*

| *Amounts in USD thousands* | Other assets | Work-in-progress | Total |
|---|---|---|---|
| 31 December 2018 | 2 568 | 44 | 2 612 |
| Sale of Pennsylvania R&D tax credit | (1 300) | - | (1 300) |
| (Charged)/credited to the income statement | (636) | (44) | (592) |
| **31 December 2019** | **1 904** | **-** | **1 904** |

*Deferred tax liability*

| *Amounts in USD thousands* | P,P&E | Other | Total |
|---|---|---|---|
| 31 December 2018 | (3698) | - | (3698) |
| (Charged)/credited to the income statement | (194) | - | (194) |
| **31 December 2019** | **(3 892)** | **-** | **(3 892)** |

The movement in deferred tax asset and deferred tax liability during the year for the Norwegian tax jurisdiction is as follows:

*Deferred tax liability*

| Amounts in USD thousands | Other liabilities | Total |
|---|---|---|
| 31 December 2018 | (414) | (414) |
| Foreign currency impact | 4 | 4 |
| Charged to the income statement | (44) | (205) |
| **31 December 2019** | **(205)** | **205** |

PSI has federal tax losses in carryforward as of 31 December 2019 of USD 42.6 million in the U.S. which do not expire.

PSI has State and City tax losses in carryforward as of 31 December 2019 of USD 45.4 million in the U.S., which expire in 20 years with respect to the State tax losses and expire in 3 years with respect to the City tax losses.

PSI has concluded its audit by the State of Pennsylvania for the four-year period ended 31 March 2018. The Company booked a one-time charge of USD 100 thousand.

## **Note 8:** Property, plant and equipment and right-of-use asset

**Movements in P,P&E and right-of-use asset for 2019 are shown below:**

| *Amounts in USD thousands* | Machinery and vehicles | Buildings | Land improvements | Assets-under-construction | Total |
|---|---|---|---|---|---|
| **Cost at 1 January 2019** | 54 092 | 51 287 | 5 614 | 42 | 111 035 |
| Recognition of right-of-use asset on initial application of IFRS 16 | 4 175 | 10 238 | 13 314 | - | 27 727 |
| Purchases | - | - | - | 2 111 | 2 111 |
| Transfers | 459 | - | 1 642 | (2101) | - |
| **Cost at 31 December 2019** | **58 726** | **61 525** | **20 570** | **52** | **140 873** |
| **Depreciation and impairment losses at 1 January 2019** | 47 382 | 29 680 | 2 924 | - | 79 986 |
| Recognition of right-of-use asset on initial application of IFRS 16 | 3 848 | 3 997 | 6 847 | - | 14 692 |
| Depreciation - P,P&E | 4 229 | 1 052 | 220 | - | 5 501 |
| Depreciation - Right-of-use asset | 138 | 824 | 593 | - | 1 555 |
| **Depreciation and impairment losses at 31 December 2019** | **55 597** | **35 553** | **10 584** | **-** | **101 734** |
| **Net book value at 31 December 2019** (1) | **3 129** | **25 972** | **9 986** | **52** | **39 139** |
| (1) Net book value of right-of-use asset under lease agreements recorded in the statement of financial position (see note 16): | 327 | 6 241 | 6 467 | - | 13 035 |
| Depreciation period | 3-12 years | 7-30 years | 20 years | | |
| Depreciation method | Straight-line | Straight-line | Straight-line | | |

**Movements in P,P&E for 2018 are shown below:**

| *Amounts in USD thousands* | Machinery and vehicles | Buildings | Land improvements | Assets-under-construction | Total |
|---|---|---|---|---|---|
| Cost at 1 January 2018 | 54 893 | 61 175 | 18 928 | 2 119 | 137 115 |
| Purchases | - | - | - | 1 811 | 1 811 |
| Transfers | 3 538 | 350 | - | (3 888) | - |
| Assets written-off | (164) | - | - | - | (164) |
| Cost at 31 December 2018 | 58 267 | 61 525 | 18 928 | 42 | 138 762 |
| Depreciation and impairment losses at 1 January 2018 | 46 894 | 31 146 | 8 972 | - | 87 012 |
| Depreciation | 4 418 | 2 531 | 799 | - | 7 748 |
| Assets written-off | (82) | - | - | - | (82) |
| Depreciation and impairment losses at 31 December 2018 | 51 230 | 33 677 | 9 771 | - | 94 678 |
| Net book value at 31 December 2018 (1) | 7 037 | 27 848 | 9 157 | 42 | 44 084 |
| (1) Net book value of P,P&E assets under financial leasing agreements recorded in the statement of financial position (see note 16): | 465 | 7 065 | 7 060 | - | 14 590 |
| Depreciation period | 3-12 years | 7-30 years | 20 years | | |
| Depreciation method | Straight-line | Straight-line | Straight-line | | |

**Leased plant and machinery**
The Shipyard leases production equipment and land improvements under a number of lease agreements. At the end of each of the leases, the Shipyard has the option to purchase the equipment at a beneficial price. The leased equipment secures lease obligations (see note 16).

**Property, plant and equipment under construction**
Assets-under-construction primarily relate to upgrades in facilities and equipment.

**Depreciation**
Philly Shipyard's practice is to present its annual depreciation expense on a separate line item in its consolidated income statement when it is building vessels-under-construction contracts.

**Right-of-use asset (assets under lease agreements)**
From 1 January 2019, when the new IFRS 16 lease standard took effect, the net book value of the assets PSDC purchased from PSI in 2011 was reclassified from property, plant and equipment to a right-of-use asset.

The right-of-use asset lease is treated as a government grant under IAS 20. Upon transition to IFRS 16, the Shipyard will continue to use this policy to record the government grant under IAS 20 against the investment. This gives a USD 0 balance for the right-of-use asset and the lease liability at 1 January 2019, as the grant is deducted to arrive at the carrying amount of the right-of-use asset. For more details regarding the Shipyard lease, see note 25.

**Sale leaseback**
As part of the 2011 Authorization Agreement, PSDC purchased certain shipyard assets from PSI for a purchase price of USD 42.0 million with funds provided by the Commonwealth of Pennsylvania. PSI leases back those same assets from PSDC subject to the terms of its shipyard lease and the Authorization Agreement. For accounting purposes, the transaction was accounted for as a sale/leaseback, and no adjustments were made to the accounting value of the assets at closing. The proceeds were used for the construction of Hulls 017 and 018, and proportionately recognized as a reduction of vessel cost over the construction of Hulls 017 and 018.

From 1 January 2019, when the new IFRS 16 lease standard took effect, the net book value of the assets PSDC purchased from PSI in 2011 was reclassified from property, plant and equipment to a right-of-use asset.

The net book value of assets under lease agreements recorded in the statement of financial position at 31 December 2019 as a right-of-use asset amounts to USD 13.0 million (USD 14.6 million at 31 December 2018 recorded in the statement of financial position as property, plant and equipment). See above for further details.

**Impairment of assets and reversal of impairment of assets**
Philly Shipyard had been working on a project to build up to four containerships (CV3700 vessels) for delivery to TOTE Maritime in 2020 and 2021. However, in January 2018, this project was placed on hold. Based on new order prospects, market conditions and other circumstances, Philly Shipyard cancelled the CV3700 project and an impairment charge of USD 17.6 million was incurred in 2018 due to the write-off of the full amount of the work-in-process assets pertaining to the first two CV3700 vessels (Hulls 031-032). In 2019, approximately USD 3.1 million of previously incurred cancellation costs that were written-off and charged as impairment costs in 2018 for the CV3700 project were recovered from its suppliers; this amount is shown as reversal of impairment of assets on the consolidated income statement.

**Determination of recoverable amounts/fair value**
At 2019 year-end, the Company has assessed the risk of impairment due to the uncertainty related to PSI's new order situation and the cessation of certain operations and increasing layoffs at the Shipyard during 2019. This situation is a triggering event and the Group has carried out an impairment test. The cash generating unit used for the analysis is Philly Shipyard, Inc.

No impairment has been recorded in 2019 based on the key uncertain assumption that the Shipyard will be able to secure new contracts and continue operations. The recoverable amount derived from the calculations represents value in use and that the facility is continuing its operations as a shipyard. No impairment was recorded in 2018 for property, plant and equipment based on the expectation of new orders after Hull 030.

The projections have been prepared for the period 2020-2024, with a terminal value based on 2024 cash flows applying a 2.0% annual growth rate. The projections and the annual growth rate are based on an overall assessment of the market. In particular, the outlook for the next 5-10 years in the government sector is very promising (see the introduction to the U.S. Government market on pages 12-13 in the Board of Directors' report and on pages 21-22 in the Outlook section). In the near term, Philly Shipyard's main focus is the pursuit of the opportunity to build up to five National Security Multi-Mission Vessels (NSMV), where MARAD has received USD 300 million in federal funding for each of the first three vessels (i.e., NSMV 1 through NSMV 3), for a total of USD 900 million. Additional funding of USD 300 million for a fourth vessel (i.e., NSMV 4) has been included in the President's 2021 U.S. Federal Budget proposal. Philly Shipyard is in discussions related to several other potential new construction projects for U.S.-built vessels for the commercial market. Additionally, Philly Shipyard is aggressively pursuing several possibilities for short-term steel fabrication and ship repair, modernization and conversion work in order to have some activity in the shipyard in 2020 before a production start of a new shipbuilding project. The shipyard has operated at a level with higher activity than assumed in the projections for the impairment testing and believes the projections and annual growth rate applied are achievable and within the shipyard's capabilities.

The Company has calculated the net present value (NPV) of future expected cash flows, and used weighted probabilities for two scenarios. The most likely scenario reflects the Company's confidence in securing the NSMV program for at least one, and possibly two, shipbuilding contracts in 2020 which will allow the Company to start production around Q1 2021. In addition, the scenario includes revenues from ship repair and maintenance projects from 2020-2024. The less likely scenario is based on no new orders and full cessation of all activities in 2020. The weighted discounted cash flows exceed the combined carrying value of property, plant and equipment and right-of-use asset adjusted for the value of net working capital amounts, hence no impairment is required.

The Company has used available market information and management's best assessment of this information when preparing the forecasted future cash flows. Although this represents the best estimate for future cash flows, there is risk when forecasting future cash flows and the actual cash flows may be different from the forecast.

The Company used a post-tax discount rate of 10.9% and an annual growth rate of 2.0% for the calculations. If the post-tax discount rate was set higher than 34.7%, the discounted cash flows would have fallen below the combined carrying value of property, plant and equipment and right-of-use asset adjusted for the value of net working capital.

Although the Company has used available market information and management's best assessment when preparing the forecast, there can be no assurance that Philly Shipyard will obtain new orders or financing for vessels in 2020. Due to a forecasted breach of this condition caused by the gap in shipbuilding activity following the delivery of Hull 030, which breach would have occurred in Q1 2019, Philly Shipyard obtained a temporary conditional waiver of this minimum employment condition until 31 December 2019. This waiver has been extended and now remains in effect on a month-to-month basis until 31 March 2020 so long as PSI continues to comply with its terms. In a situation where the shipyard is not able to secure a new order and/or the minimum employment condition is triggered after the temporary waiver expires, the consequence is that the shipyard will have to write down the value of its property, plant and equipment to the liquidation value. The consequence would be the same if the going concern assumption was not valid anymore and which would result in triggering a full impairment.

## **Note 9:** Other non-current assets

**Other non-current assets consist of the following items:**

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Prepaid lease payments and deposits | **234** | **231** |
| **Total** | **234** | **231** |

Prepaid lease payments and deposits are unsecured and have no collateral.

## **Note 10:** Prepayments and other receivables

**Prepayments and other receivables consist of the following items:**

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Prepayments to suppliers and other | **2 978** | 3 401 |
| Claims receivable | **143** | 39 |
| Trade receivables | **381** | 94 |
| **Total** | **3 502** | 3 534 |

## **Note 11:** Cash and cash equivalents

**Cash and cash equivalents consist of the following items:**

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Cash and bank deposits | **50 673** | 49 624 |
| **Cash and cash equivalents in the statement of cash flows** | **50 673** | 49 624 |

Cash and bank deposits are invested in overnight deposits.

## **Note 12:** Restricted cash

**Restricted cash consists of the following items:**

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Restricted cash (short-term) - Welcome Fund | **60 919** | - |
| Restricted cash (short-term) - Matson | **5 556** | - |
| Restricted cash (long-term) - Welcome Fund | **-** | 39686 |
| Restricted cash (long-term) - Matson | **-** | 4 930 |
| **Total** | **66 475** | 44 616 |

Restricted cash amounts represent a custody account established in 2015 in connection with the Welcome Fund loan and escrow accounts established in 2018 and 2019 for Hulls 029 and 030, respectively, with Matson related to holdbacks for guarantees, deficiencies and disputed items.

In 2019, PSI had deposited USD 20.2 million into the Welcome Fund custody account as collateral for the Welcome Fund loan. Previously, PSI had deposited USD 39.3 million into the Welcome Fund custody account (including USD 13.1 million in 2015 and an additional USD 26.2 million in 2018) as collateral for the Welcome Fund loan. Of the USD 20.2 million deposited in 2019 into a collateral account to secure the Welcome Fund loan, USD 13.1 million was required by the Welcome Fund lender in connection with the liquidation of Philly Tankers. The remaining USD 7.1 million was made by Philly Shipyard to defease and fully cash collateralize the Welcome Fund loan in exchange for the release of substantially all loan covenants, including all financial covenants. As of 31 December 2019, the total amount deposited has earned USD 1.4 million of interest income that is included in the USD 60.9 million restricted cash amount for the Welcome Fund loan. The restricted cash amount for the Welcome Fund loan is expected to be used for repayment of the Welcome Fund loan at its maturity in March 2020.

In 2018, PSI deposited USD 4.3 million into a restricted cash account upon delivery of Hull 029 as a guarantee holdback for Matson; the remaining USD 0.6 million was for deficiencies and disputed items. During 2019, USD 3.5 million was released with the remaining USD 1.4 million expected to be released in early 2020.

In 2019, PSI deposited USD 4.0 million into a restricted cash account upon delivery of Hull 030 as a guarantee holdback for Matson; the remaining USD 0.3 million was for deficiencies and disputed items. During 2019, USD 0.1 million was released with the remaining USD 4.2 million expected to be released in 2020.

The funds allocated to the guarantee holdbacks for both vessels (Hulls 029 and 030) are due to be released in 2020 based on the assumption that guarantee issues are completed and covered within the regular warranty provision (see note 18).

## **Note 13:** Income/(loss) per share

**Basic and diluted**
Basic and diluted income/(loss) per share is calculated by dividing the total comprehensive income/(loss) attributable to equity holders of PHLY by the weighted average number of ordinary shares.

| *Amounts in USD thousands (except share amounts and earnings per share)* | **2019** | 2018 |
|---|---|---|
| Total comprehensive loss attributable to equity holders of PHLY | **(20 212)** | (44 099) |
| Weighted average number of ordinary shares in issue | **12 107 901** | 12 107 901 |
| **Basic and diluted loss per share (USD)** | **(1.67)** | (3.64) |

At 31 December 2019 and 31 December 2018, PHLY had 12,107,901 ordinary shares (excluding 466,865 treasury shares) at a par value of NOK 10 per share. There were no share issuances or repurchases in 2019 or 2018.

There were no potentially dilutive securities outstanding as of 31 December 2019 and 31 December 2018.

## **Note 14:** Paid in capital

The current share capital (excluding 466,865 treasury shares) is 12,107,901 shares issued and outstanding as of 31 December 2019, each with a par value of NOK 10, fully paid. As of 31 December 2019, there are no additional authorized shares.

| *Amounts in USD thousands* | Share capital | Share premium | Paid in capital |
|---|---|---|---|
| 31 December 2017 | 22 664 | 22 511 | 45 175 |
| Dividend paid | - | - | - |
| 31 December 2018 | 22 664 | 22 511 | 45 175 |
| Dividend paid | - | - | - |
| **31 December 2019** | **22 664** | **22 511** | **45 175** |

**Summary of purchases of treasury shares**

| *Amounts in USD thousands (except number of shares)* | Number of shares | Consideration |
|---|---|---|
| Treasury shares at 31 December 2017 | 466 865 | (9969) |
| Purchases | - | - |
| Treasury shares at 31 December 2018 | 466 865 | (9969) |
| Purchases | - | - |
| **Treasury shares at 31 December 2019** | **466 865** | **(9 969)** |

As of 31 December 2019, before receiving any dividends from PSI, the parent company had approximately USD 4.7 million of equity which could be distributed to shareholders by the Board in accordance with PHLY's dividend policy.

## **Note 15:** Interest-bearing debt

This note provides information about Philly Shipyard's contractual terms of interest-bearing loans and borrowings. For more information about Philly Shipyard's exposure to interest rate risk and foreign currency risk, see note 21.

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| **Interest-bearing long-term debt:** | | |
| Welcome Fund loan, net of fees (non-current portion) | **-** | 59 639 |
| **Total interest-bearing long-term debt** | **-** | 59 639 |
| | | |
| **Interest-bearing short-term debt:** | | |
| Welcome Fund loan, net of fees (current portion) | **59 928** | - |
| **Total interest-bearing short-term debt** | **59 928** | - |

PSI has a secured term loan of up to USD 60.0 million (USD 59.9 million on the statement of financial position which is the secured loan amount net of unamortized loan fees) with PIDC Regional Center, LP XXXI, a partnership between CanAm Enterprises and the Philadelphia Industrial Development Corporation (PIDC). The loan has a fixed interest rate of 2.625% per annum through maturity. The loan has a five-year term and matures in March 2020. This loan was made through the Welcome Fund loan program, a source of low-cost capital generally available to commercial, retail, industrial and non-profit firms that create significant job growth and are located in or planning to locate to the City of Philadelphia. The loan was defeased in June 2019 and is secured by a first lien on USD 60.9 million of restricted cash to cover all remaining debt service, including repayment in full at maturity. Substantially all loan covenants, including all financial covenants, have been released in connection with the defeasance of the loan. USD 60.0 million is drawn under this term loan at 31 December 2019.

**Loan covenants**
In 2019, the Company defeased and fully cash collateralized the Welcome Fund loan in exchange for the release of substantially all loan covenants, including all financial covenants.

**Undrawn credit facilities**
As of 31 December 2019, Philly Shipyard did not have any undrawn credit facilities with a lending institution.

## **Note 16:** Leases

**Non-cancellable lease rentals are payable as follows as of 31 December:**

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Less than one year | **86** | 87 |
| Between one and five years | **146** | 101 |
| **Total** | **232** | 188 |

The leases are for facilities, vehicles and printing and copying equipment. These leases consist of smaller amounts for printers and copiers, and leases that are up to 24 months for a training facility and a vehicle. Based on this, and no material impact from these leases, no right-of-use asset and lease liability was recorded when the new IFRS 16 lease standard became effective 1 January 2019.

The building lease for PSI's plate priming facility has been extended on a month-to-month basis. The base rent is USD 16 thousand per month. This amount is not included in the lease rentals recorded above. Due to the short term of the lease, on a month-to-month basis, no right-of-use asset or lease liability was recorded effective 1 January 2019. This treatment will be revisited if the shipyard signs a contract or contracts that secures long-term activity.

**Finance lease liabilities are payable as follows as of 31 December:**

| *Amounts in USD thousands* | **Payments 2019** | **Interest 2019** | **Principal 2019** | Payments 2018 | Interest 2018 | Principal 2018 |
|---|---|---|---|---|---|---|
| Less than one year | **-** | **-** | **-** | 276 | 8 | 268 |
| Between one and five years | **-** | **-** | **-** | - | - | - |
| **Total** | **-** | **-** | **-** | 276 | 8 | 268 |

PSI had a finance lease for priming equipment, which was fully paid off in 2018.

PSI operates on land leased from PSDC through April 2038. Annual payments under the Shipyard lease agreement include rent, taxes and operating expenses (operating expenses are subject to an annual revision based on PSDC's operating expenses). PSI has options to renew the Shipyard lease for three consecutive periods of 20 years each and one final period of 19 years. At expiration of the first lease period in 2018, the Shipyard lease was renewed for the first of the three 20-year option periods. PSI can acquire the land for USD 1 after the expiration of all renewal periods. Lease payments for rent due under the Shipyard lease are USD 1 per year. Upon the award of a major shipbuilding program, such as the NSMV program, the annual rent under the Shipyard lease agreement will increase to USD 200 thousand per annum.

The shipyard lease is treated as a government grant under IAS 20. Upon transition to IFRS 16, the shipyard will continue to use this policy to record the government grant under IAS 20 against the investment. This gives a USD 0 balance for the right-of-use asset and the lease liability at 1 January 2019, as the grant is deducted to arrive at the carrying amount of the right-of-use asset. For more details regarding the shipyard lease, see note 25.

## **Note 17:** Pension costs

**Pension costs recognized in the income statement:**

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Contribution plans (employer's contribution) | **342** | 1 416 |
| **Total** | **342** | 1 416 |

PSI has a defined contribution plan for its non-union employees which provides for a PSI contribution based on a fixed percentage of certain employee contributions plus a discretionary percentage of salaries. In addition, PSI's union employees are participants in a multi-employer union selected pension plan (Union Plan). PSI contributes a fixed amount per hour worked to the Union Plan. If PSI were to terminate its relationship with the Union Plan, PSI could be statutorily liable for a termination liability calculated at the termination date. The termination liability at 31 December 2019 was USD 7.5 million. Currently, PSI has no plans to terminate this relationship. Thus, no termination liability has been recognized in the financial statements. However, the termination liability will be incurred in the event the company permanently ceases its operation. PSI estimates that it will contribute approximately USD 0.2 million to the Union Plan in 2020.

## **Note 18:** Other provisions — warranties

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Current balance as of 1 January | **945** | 1 315 |
| Provisions made during the period | **2 635** | 500 |
| Provisions released during the period | **(168)** | (241) |
| Provisions used during the period | **(1 275)** | (629) |
| **Current balance as of 31 December** | **2 137** | 945 |

The warranty provision relates to the warranty work for vessels (Hulls 027-030) which were delivered through 31 December 2019. The warranty provision increased as specific issues for Hulls 029 and 030 arose. The normal warranty period for a new vessel is typically twelve months after delivery, but can be extended in cases where there are specific issues that have not been fully resolved within the normal warranty period.

## **Note 19:** Trade payables and accrued liabilities

**Trade payables and accrued liabilities comprise the following items:**

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Ship material and subcontracting accruals | **1 883** | 5 710 |
| Employee-related cost accruals | **1 754** | 4 985 |
| Trade payables | **1 072** | 2 188 |
| Overhead and capital projects accruals | **1 546** | 2 159 |
| **Total** | **6 255** | 15 042 |

## Note 20: Net interest-bearing debt

**Net interest-bearing debt comprise the following items at 31 December:**

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Interest-bearing long-term debt (see note 15) | **-** | 59 639 |
| + Interest-bearing short-term debt (see note 15) | **59 928** | - |
| **Total interest-bearing debt** | **59 928** | 59 639 |
| - Cash and cash equivalents (see note 11) | **(50 673)** | (49 624) |
| - Restricted cash (see note 12) | **(66 475)** | (44 616) |
| **Total interest-bearing assets** | **(117 148)** | (94 240) |
| **Net interest-bearing debt** | **(57 220)** | (34 601) |

Net interest-bearing debt is defined by the Company to be total interest-bearing debt less total interest-bearing assets.

## Note 21: Financial instruments

Exposure to credit, liquidity, currency and interest rate risks arise in the normal course of the Company's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates for business purposes.

**Credit risk**
The carrying amount of financial assets represents the maximum credit exposure. At 31 December 2019 and 2018, respectively, the maximum exposure to credit risk is as follows:

| *Amounts in USD thousands* | **31 Dec. 2019** | 31 Dec. 2018 |
|---|---|---|
| Cash and cash equivalents | **50 673** | 49 624 |
| Restricted cash | **66 475** | 44 616 |
| Trade receivables | **381** | 94 |
| **Total** | **117 529** | 94 334 |

**Liquidity risk**
The following are the contractual maturities of financial liabilities including interest payments:

| | **31 December 2019** | | | | | | |
|---|---|---|---|---|---|---|---|
| *Amounts in USD thousands* | **Book value** | **Contractual cash flow** | **Less than 6 months** | **6-12 months** | **1-2 years** | **2-5 years** | **More than 5 years** |
| **Non-derivative financial liabilities:** | | | | | | | |
| Welcome Fund loan | **60 000** | **(60 328)** | **(60 328)** | **-** | **-** | **-** | **-** |
| Trade payables | **1 072** | **(1 072)** | **(1 072)** | **-** | **-** | **-** | **-** |
| **Total** | **61 072** | **(61 400)** | **(61 400)** | **-** | **-** | **-** | **-** |

| | 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| *Amounts in USD thousands* | Book value | Contractual cash flow | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
| Non-derivative financial liabilities: | | | | | | | |
| Welcome Fund loan | 60 000 | (61 925) | (792) | (805) | (60 328) | - | - |
| Trade payables | 2 188 | (2 188) | (2 188) | - | - | - | - |
| Total | 62 188 | (64 113) | (2 980) | (805) | (60 328) | - | - |

Book values included in the above tables are gross loan amounts.

**Currency risk**
The Company incurs foreign currency risk on purchases that are denominated in a currency other than USD. The currencies giving rise to this risk are primarily EUR (Euro), KRW (Korean Won) and NOK (Norwegian Kroner).

Changes in the fair value of forward exchange contracts that economically hedge highly probable forecasted transactions (consisting of the unpaid portion of purchase commitments made by PSI) in foreign currencies and for which hedge accounting is not applied are recognized in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognized as part of net financial items (see note 6). The fair value of exchange contracts used as economic hedges of highly probable forecasted transactions in foreign currencies at 31 December 2019 was USD 0 (USD 58 thousand at 31 December 2018).

**Exposure to currency risk**
The Company's exposure to currency risk at 31 December 2019 and 2018 was as follows based on the following notional amounts:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| *Amounts in USD thousands* | **EUR** | **KRW** | **NOK** | EUR | KRW | NOK |
| **Gross balance sheet exposure** | | | | | | |
| Trade payables (-) | **-** | **(35)** | **(5)** | (18) | (1) | - |
| Cash | **-** | **-** | **223** | - | - | 209 |
| **Gross balance sheet exposure** | **-** | **(35)** | **218** | (18) | (1) | 209 |
| Estimated forecast expenses (-) | **-** | **-** | **-** | (2) | (514) | (8) |
| **Gross exposure** | **-** | **(35)** | **218** | (20) | (515) | 201 |
| Forward exchange contracts | **-** | **-** | **-** | - | - | - |
| **Net exposure** | **-** | **(35)** | **218** | (20) | (515) | 201 |

**Sensitivity analysis**
In managing interest rate and currency risks, the Company aims to reduce the impact of short-term fluctuations on its earnings. Over the longer term, however, permanent changes in interest and foreign exchange rates would have an impact on consolidated earnings.

At 31 December 2019 it is estimated that a 10% strengthening of the USD against other foreign currencies would not have significantly impacted the Company's loss before tax. At 31 December 2018 it is estimated that a 10% strengthening of the USD against other foreign currencies would have decreased the Company's loss before tax by approximately USD 0.2 million.

**Exposure to interest rate risk**
It is estimated that a general increase of 1.0% in interest rates would not have impacted the Company's loss before tax for 2019 and for 2018.

**Fair values**
The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| *Amounts in USD thousands* | **Carrying amount 2019** | **Fair value 2019** | **FV hierarchy level 2019** | Carrying amount 2018 | Fair value 2018 | FV hierarchy level 2018 |
|---|---|---|---|---|---|---|
| Welcome Fund loan | **(60 000)** | **(59 186)** | **2** | (60 000) | (58 383) | 2 |
| Forward exchange contracts | **-** | **-** | **-** | 58 | 58 | 2 |

The fair value of the Welcome Fund loan is calculated by using the difference between a 4.0% market rate and the actual 2.625% loan rate.

The fair value of fixed-interest long-term debt (i.e. finance lease liabilities) is calculated based on the present value of future principal and interest cash flows discounted at a market rate of 4.0% for 2019 and 4.0% for 2018.

Except for forward exchange contracts, none of the Company's financial assets and liabilities are measured at fair value.

**Financial instruments measured at fair value**
The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

| **Type** | **Valuation technique** | **Significant unobservable inputs** | **Inter-relationship between significant unobservable inputs and fair value measurement** |
|---|---|---|---|
| Forward exchange contracts | Market comparison technique: The fair values are based on banker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments. | Not applicable. | Not applicable. |

In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

The Company has categorized its assets and liabilities that are recorded at fair value, based on the priority of the input to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets and liabilities fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. The categories are described below:

**Level 1.** Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we have the ability to access.

**Level 2.** Assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Examples of Level 2 inputs include quoted prices for identical or similar assets or liabilities in non-active markets and pricing models whose inputs are observable for substantially the full term of the asset or liability.

**Level 3.** Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

## **Note 22:** Shares owned or controlled by and remuneration to the President and Chief Executive Officer, Board of Directors and Senior Management of Philly Shipyard

**Shares owned in Philly Shipyard ASA as of 31 December 2019 and 31 December 2018**

| Name | Position | 2019 number of shares held | 2018 number of shares held |
|---|---|---|---|
| Elin Karfjell | Board Member | 1 200 | 1 200 |
| Steinar Nerbøvik | President and CEO | 1 000 | 1 000 |

There is no share option agreement between Philly Shipyard ASA and Senior Management or Directors.

**Remuneration to the Board of Directors for the years ended 31 December 2019 and 31 December 2018**

| | | 2019 remuneration | | 2018 remuneration | |
|---|---|---|---|---|---|
| Name | Position | (NOK) | (USD) | (NOK) | (USD) |
| James H. Miller | Board Chairman | 350 000 | 39 223 | 345 000 | 40 095 |
| Elin Karfjell | Board Member | 240 000 | 27 623 | 235 000 | 27 311 |
| Amy Humphreys | Board Member | 240 000 | 27 623 | 235 000 | 27 311 |
| Kristian Røkke | Deputy Board Chairman | 240 000 | 27 623 | 120 000 | 13 946 |
| Audun Stensvold | Deputy Board Chairman | - | - | 115 000 | 13 365 |
| **Sum Directors' fees** | | **1 070 000** | **122 092** | **1 050 000** | **122 028** |

No Board members received any remuneration other than Directors' fees, except James H. Miller who received USD 90,000 for 2019, related to consulting services through the company SeaJay Consulting LLC. The Board remuneration for Kristian Røkke is paid to Aker ASA.

**Remuneration to the audit committee**
The audit committee of PHLY is comprised of Elin Karfjell (Chairperson) and Amy Humphreys. Remuneration for the Chairperson is NOK 50,000 (USD 5,811) and for each member is NOK 40,000 (USD 4,649).

**Remuneration to the nomination committee**
The nomination committee of Philly Shipyard ASA has the following members: Leif Arne Langoy (Chairman), Arild Støren Frick and Gerhard Heiberg. Remuneration earned by each member of the committee in 2019 was NOK 34,000 (USD 3,951). The nomination committee remuneration for Arild Støren Frick is paid to Aker ASA. This is in addition to the amounts shown in the Board of Directors table above.

**Guidelines for remuneration to the President and CEO and members of the Executive Team**
The President and CEO and members of the Executive Team receive a base salary. In addition, a variable pay as further described below may be awarded.

The President and CEO and Executive Team participate in the standard pension and insurance schemes, applicable to all employees.

The Company practices standard employment contracts and standard terms and conditions regarding notice period and severance pay for the President and CEO and members of the Executive Team. The Company does not offer share option programs to the Executive Team.

***2018 and 2019 variable pay program***
In 2018 and 2019, the variable pay was made in accordance with a variable pay program which was implemented in 2007 and developed in order to create a performance-based system. This system of reward was designed to contribute to the achievement of good financial results and increase shareholder value. This system of reward was adjusted in 2018 and 2019 to also retain key employees and ensure the delivery of the last two ships in the company's order backlog.

The 2018 and 2019 variable pay program was based on the achievement of financial and personal performance targets and leadership performance in accordance with the Company's values.

The 2018 and 2019 variable pay program for the President and CEO represented a potential for an additional variable pay up to 70% of base salary depending on the achievement of defined short-term and long-term results such as financial targets (profit and working capital) and personal targets (project targets, development of commercial solutions, alignment with values and improvement of HSE).

The 2018 and 2019 variable pay program for other members of the Executive Team represented a potential for an additional variable pay in the range of 20% to 60% of base salary depending on the achievement of the same factors described for the President and CEO.

The 2018 and 2019 variable pay program for some members of the Executive Team included two payments, i.e., a base award (calculated as provided above) and a deferred payment. The deferred payments were designed to incentivize and retain key personnel, were equal to 50% of the base awards and were payable 12 months after the base awards.

In addition, the 2018 variable pay program for some members of the Executive Team included additional payments for the achievement of specific project targets. The additional payments were designed to retain key personnel and ensure delivery of the last two vessels in the order book (Hulls 029 and 030). In 2018, there were two such additional payments, each equal to 25% of the maximum base award. The first was paid upon launch of Hull 029 in Q1 2018 and the second was paid upon delivery of Hull 029 in Q4 2018. There was a third additional payment in 2019 equal to 50% of the maximum base award paid upon the delivery of Hull 030.

### *HSE incentive/retention program for 2020*

In 2020, the variable pay will be made in accordance with a new HSE incentive/retention program. This system of reward is designed to improve Health, Safety and Environment (HSE) performance while retaining key employees during this crucial business cycle.

The 2020 HSE incentive/retention program is based on the achievement of HSE performance targets and continued employment with Philly Shipyard.

The 2020 HSE incentive/retention program for the President and CEO represents a potential for an additional variable pay up to 27% of base salary.

The 2020 HSE incentive/retention program for other members of the Executive Team represents a potential for an additional variable pay in the range of 11% to 27% of base salary.

The new 2020 HSE incentive/retention program has minimal effects on the company and the shareholders on the basis that remuneration is not granted in the form of shares (i.e., no risk of dilution effect) and has reduced cash payments compared to the previous program.

**Renumeration paid to Senior Management for 2019** (1)

| *Amounts in USD* | | | Base salary | Variable pay (2) | Pension contribution | Other benefits | Total remuneration | Severance pay |
|---|---|---|---|---|---|---|---|---|
| Steinar Nerbøvik | President & CEO | Jan-Dec | 435 999 | 331 905 | 32 000 | 73 342 | 873 246 | 12 months |
| Brian Leathers | CFO | 15 July-Dec (3) | 231 577 | - | 2 565 | 90 920 | 325 062 | 12 months |
| Jan Ivar Nielsen | CFO | Jan-15 July | 243 400 | 188 955 | 9 808 | 13 072 | 455 235 | 12 months |

(1) PHLY has no employees. The Senior Management is employed in the operating company.

(2) A substantial portion of variable pay in 2019 was earned under the variable pay program based on the achievement of defined short-term and long-term results for 2018 and 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).

(3) The amounts for Mr. Leathers include remuneration from 1 January-14 July while serving as Strategy and Compliance Officer.

**Remuneration paid to Senior Management for 2018** (4)

| *Amounts in USD* | | | Base salary | Variable pay (5) | Pension contribution | Other benefits | Total remuneration | Severance pay |
|---|---|---|---|---|---|---|---|---|
| Steinar Nerbøvik | President & CEO | Jan-Dec | 435 999 | 389 129 | 32 000 | 73 342 | 930 470 | 12 months |
| Jan Ivar Nielsen | CFO | Jan-Dec | 265 200 | 210 834 | 15 000 | 19 643 | 510 677 | 12 months |

(4) PHLY has no employees. The Senior Management is employed in the operating company.

(5) A substantial portion of variable pay in 2018 was earned under the variable pay program based on the achievement of defined short-term and long-term results for 2017 and 2016 (USD 183,902 and USD 183,902, respectively). The remainder was paid for achievement of specific project targets related to launch and delivery of Hull 029 (USD 232,159).

## **Note 23:** Equity-accounted investments

**Equity-accounted investments with Philly Tankers**

In July 2014, Philly Tankers completed a USD 65.025 million private placement with a registration in the Norwegian OTC.

Prior to the Philly Tankers private placement, in return for 62,475 shares in Philly Tankers, the Company contributed a promissory note with a face value of USD 58.0 million to the equity capital of Philly Tankers. This note was reduced dollar-for-dollar as PSI invested its own funds into the construction of Hulls 025 and 026. As this note was issued as an interest-free instrument, the Company discounted its value and imputed interest expense on the discounted amount at a rate of 3.49% per annum. The dollar-for-dollar reductions commenced in the third quarter of 2015 with a total reduction of the full USD 58.0 million through the second quarter of 2016.

In addition, as part of the Philly Tankers private placement, the Company invested USD 6.025 million in cash in exchange for an additional 6,025 shares in Philly Tankers. As the initial shareholder of Philly Tankers, the Company was paid a cash distribution of USD 5.525 million out of the proceeds of the Philly Tankers private placement.

On 10 August 2015, Philly Tankers executed definitive agreements with a third party for the assignment of its existing contracts and related assets for four product tankers (Hulls 025-028). Per the agreements, each of the contracts and related assets were assigned by Philly Tankers to the third party immediately prior to the delivery of the relevant vessel.

In accordance with IFRS, upon each delivery, Philly Tankers recognized a gain-on-sale and Philly Shipyard, in turn, recognized a portion of the gain as profit in equity-accounted investments recorded as other income on the income statement. Upon deliveries of Hull 026 in Q1 2017, Hull 027 in Q3 2017 and Hull 028 in Q4 2017, Philly Tankers recognized a combined gain-on-sale of approximately USD 37.2 million and Philly Shipyard recognized USD 19.6 million as profit in equity-accounted investments recorded as other income on the 2017 income statement. Upon delivery of Hull 025 in Q4 2016, Philly Tankers recognized a gain-on-sale of approximately USD 12.0 million and Philly Shipyard recognized USD 6.2 million as profit in equity-accounted investments recorded as other income on the 2016 income statement.

The liquidation of Philly Tankers was approved by its shareholders at an extraordinary general meeting on 13 February 2019, and the liquidation distribution of USD 83.1 million was paid to the shareholders of Philly Tankers the week of 18 February 2019. Philly Shipyard received approximately USD 44.6 million from this distribution, of which USD 13.1 million was deposited in Q1 2019 into a collateral account to secure the Company’s five-year term loan from PIDC Regional Center, LP XXXI through the Welcome Fund loan program.

As of 31 December 2019, the dividends paid by Philly Tankers to its shareholders total USD 161.2 million, and Philly Shipyard’s share of those dividends totals USD 86.6 million, of which USD 39.9 million was received in 2017, USD 2.1 million was received in 2018 and USD 44.6 million was received in 2019.

Prior to the liquidation of Philly Tankers in Q1 2019, the Company owned 53.7% of the outstanding shares of Philly Tankers. The Company performed an analysis of its ownership interests and voting rights in the articles of association in Philly Tankers and concluded that it did not control the relevant activities of Philly Tankers. While the Company could vote up to 50.1% of the shares of Philly Tankers, the Company could not elect a majority of the board of directors of Philly Tankers and could not control the vote on actions that required the approval of a "super-majority" of the shares of Philly Tankers. The Company did not have the ability to direct the activities that significantly affected Philly Tankers' returns. Therefore, the Company accounted for the investment using the equity method and did not consolidate Philly Tankers. Since the liquidation of Philly Tankers was completed in Q1 2019, Philly Shipyard no longer has any shipping assets.

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| **Percentage ownership interest** | - | 53.7% |
| Current assets | - | 85 305 |
| Current liabilities | - | (2214) |
| **Net assets (100%)** | - | 83 091 |
| **Company's share of net assets (53.7%)** | - | 44 641 |
| Adjustments for carrying value of investment: | | |
| Dividend owed but not received | - | - |
| **Carrying amount of equity-accounted investments** | - | 44 641 |
| Loss from operations (100%) | - | (974) |
| Other comprehensive income (100%) | - | - |
| Total comprehensive loss (100%) | - | (974) |
| **Company's share of total comprehensive loss (53.7%)** | - | (523) |

## **Note 24:** PHLY companies

| | Incorporation | | Ownership |
|---|---|---|---|
| Company name | State | Country | % |
| Philly Shipyard, Inc. | Pennsylvania | USA | 100.0% |
| APSI Tanker Holdings II, LLC | Delaware | USA | 100.0% |
| PSI Containership Holdings, Inc. | Delaware | USA | 100.0% |

APSI Tanker Holdings II, LLC was formed in May 2014 to hold the Company's shares in Philly Tankers.

PSI Containership Holdings, Inc. was formed in April 2018 to hold the shipbuilding contracts for the cancelled CV3700 project.

## **Note 25:** Government grants, other commitments and contingencies and legal matters

**Government grants**
For the year ended 31 December 2019, the Shipyard did not receive any reimbursement of employee training costs from various governmental agencies (USD 15 thousand in 2018).

For the year ended 31 December 2019, the Shipyard did not receive any grant funds for capital and infrastructure improvements under the Small Shipyard Grant Program (USD 347 thousand in 2018).

**Other commitments and contingencies**
PSI is required to pay a common area maintenance charge each month of approximately USD 54 thousand, subject to escalation, through the term of its shipyard lease.

On 29 November 2017, PSI finalized a new long-term agreement with the City of Philadelphia (and others), whereby the parties agreed to the Real Estate and Use and Occupancy Tax for the years 2018 through 2025. PSI is committed to a fixed payment-in-lieu-of-taxes (PILOT) of approximately USD 863 thousand per year, commencing in 2018.

Pursuant to the Shipyard Lease, if PSI fails to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, then the lease term (i.e., a 99-year lease with approximately 77 years remaining including options) is automatically converted to month-to-month and PSDC has the right to terminate the lease, subject to the right of PSI to complete work-in-process projects and a one-time, limited cure right which allows PSI to restore the lease to a five-year term under certain circumstances. Due to the forecasted breach of this condition caused by the gap in shipbuilding activity following the delivery of the last vessel (Hull 030) in Q1 2019, Philly Shipyard obtained a temporary conditional waiver of this minimum employment condition until 31 December 2019. This waiver has been extended and now remains in effect on a month-to-month basis until 31 March 2020 so long as PSI continues to comply with its terms. If PSI obtains a new order during the waiver period that will result in a significant increase in employment at the shipyard, such as the NSMV program, then the waiver will continue until PSI reaches the 200 full-time employee requirement.

**Legal matters**
The Company is involved in various legal disputes in the ordinary course of business related primarily to personal injury matters, employment matters and commercial matters. Provisions have been made to cover the expected outcomes when it is probable that a liability has been incurred and the amount is reasonably estimable. Although the final outcome of these matters is subject to uncertainty, in the Company's opinion the ultimate resolution of such legal matters will not have a material adverse effect on the Company's financial position or results of operations.

## Note 26: Transactions, guarantees and agreements with related parties and concentration of business

Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder in PHLY, owning 57.6% of its total outstanding shares as of 31 December 2019. In addition, Kristian Røkke, the Deputy Chairman of the Board of Directors of PHLY, is a board member of Aker Capital AS and is a board member of TRG Holding AS, which owns 66.7% of the total outstanding shares of Aker ASA as of 31 December 2019.

**Transactions**

Philly Shipyard has service agreements with Aker ASA and certain of its affiliates which provide specified consulting, tax, financial and administrative services. All payables under these agreements are paid within the normal course of business. Philly Shipyard believes that related party transactions are made on terms equivalent to those that prevail in arm's length transactions. Related administrative costs and financial statement amounts are as follows:

| *Amounts in USD thousands* | **Expenses 2019** | Expenses 2018 |
|---|---|---|
| Aker US Services LLC | **115** | 120 |
| Aker ASA | **5** | 7 |

PSI entered into an administrative services agreement with Philly Tankers LLC (PTLLC) whereby PSI will supply certain administrative services to PTLLC. Related revenues for the year ending 31 December 2019 were USD 0 (USD 120 thousand for the year ending 31 December 2018) and corresponding receivables for the year ending 31 December 2019 were USD 0 (USD 120 thousand for the year ending 31 December 2018). As part of the liquidation of Philly Tankers, this administrative services agreement was assigned by PTLLC to Philly Tankers AS (PTAS) on 31 May 2018 and was terminated on 31 December 2018.

**Concentrations**

Operating revenues are detailed below:

| *Amounts in USD thousands* | **Revenue 2019** | Revenue 2018 |
|---|---|---|
| Matson | **18 934** | 129 737 |
| TOTE Services | **8 232** | - |
| Government study | **1 041** | - |

## Note 27: Events after 31 December 2019

On 16 March 2020, Philly Shipyard paid off the USD 60.0 million outstanding Welcome Fund loan together with all accrued interest thereon.

As the COVID-19 virus develops across the world, Philly Shipyard is taking measures to mitigate the risk for operational disruptions and reduce risk of outbreaks and its consequences, both in its production facility as well as in its offices. Even though the development is followed closely, a worst-case scenario with outbreak in the Philadelphia facility may have a significant operational and financial impact. As the COVID-19 virus is having a growing impact on the world economy, including Philly Shipyard's main market, the negative financial impact is uncertain with an unclear ending. Further information on the COVID-19 crisis can be found in the Risks section of the Board of Directors' report.

Philly Shipyard ASA

# Income Statement

| *Amounts in USD thousands* | *Note* | **2019** | 2018 |
|---|---|---|---|
| Operating revenues | | **-** | - |
| Operating expenses | *2* | **(571)** | (463) |
| **Operating loss** | | **(571)** | (463) |
| Interest income from subsidiaries | | **1 699** | 1 637 |
| Interest expense paid to subsidiaries | | **(2 231)** | (2 230) |
| Other interest income and financial income | *3* | **423** | 1 767 |
| Other interest expense and financial expense | | **(14)** | (52) |
| **(Loss)/income before tax** | | **(694)** | 659 |
| Income tax benefit | *5* | **205** | 167 |
| **Net (loss)/income for the year** | | **(489)** | 826 |

| | | | |
|---|---|---|---|
| **Allocation of net (loss)/income:** | | | |
| Net (loss)/income for the year | | **(489)** | 826 |
| Other equity | *6* | **489** | (826) |
| **Total** | | **-** | - |

Philly Shipyard ASA

# Statement of Financial Position
## as of 31 December

| *Amounts in USD thousands* | *Note* | **2019** | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Shares in subsidiary | *4* | **67 000** | 67 000 |
| Loan to subsidiary | *9* | **31 000** | 31 000 |
| **Total non-current assets** | | **98 000** | 98 000 |
| Prepayments and other receivables | | **44** | 38 |
| Cash and cash equivalents | *7* | **1 505** | 2 721 |
| **Total current assets** | | **1 549** | 2 759 |
| **Total assets** | | **99 549** | 100 759 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | | **22 664** | 22 664 |
| Share premium reserve | | **12 542** | 12 542 |
| **Total paid in capital** | | **35 206** | 35 206 |
| Other equity | | **8 761** | 9 250 |
| **Total equity** | *6* | **43 967** | 44 456 |
| Deferred tax liability | *5* | **205** | 415 |
| Loan from subsidiary | *9* | **55 000** | 55 562 |
| **Total non-current liabilities** | | **55 205** | 55 977 |
| Trade payables and accrued liabilities | | **377** | 156 |
| Income tax payable | *5* | **-** | 170 |
| **Total current liabilities** | | **377** | 326 |
| **Total liabilities** | | **55 582** | 56 303 |
| **Total equity and liabilities** | | **99 549** | 100 759 |

*Oslo, Norway*
*18 March 2020*
*Board of Directors*
*Philly Shipyard ASA*

James H. Miller
*Board Chairman*

Kristian Røkke
*Deputy Board Chairman*

Amy Humphreys
*Board Member*

Elin Karfjell
*Board Member*

Steinar Nerbøvik
*President and CEO*

Philly Shipyard ASA

# Cash Flow Statement

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| (Loss)/income before tax | **(694)** | 659 |
| Income taxes paid | **(175)** | (917) |
| Change in prepayments and other receivables | **(6)** | 565 |
| Change in trade payables and accrued liabilities | **221** | 12 |
| **Net cash flow (used in)/from operating activities** | **(654)** | 319 |
| Loan proceeds (paid to)/from subsidiary | **(562)** | 562 |
| **Net cash flow (used in)/from investing activities** | **(562)** | 562 |
| **Net change in cash and cash equivalents** | **(1 216)** | 881 |
| Cash and cash equivalents as of 1 January | **2 721** | 1 840 |
| **Cash and cash equivalents as of 31 December** | **1 505** | 2 721 |

## Note 1: Basis for preparation

The accounts of Philly Shipyard ASA (referred to herein as PHLY) are presented in conformity with Norwegian legislation and generally accepted accounting principles in Norway. PHLY's functional and reporting currency is the U.S. dollar (USD), except when indicated otherwise.

**Subsidiaries**

Subsidiaries are presented on a historical cost basis in the parent company accounts. The investment is valued at historical cost for the shares unless impairment write-downs have been deemed necessary. The shares are written down to fair value if the impairment is not of a temporary nature and is necessitated by generally accepted accounting principles. Write-downs are reversed when the basis for the write-down no longer exists.

Dividends and other payments are taken to income in the year they are accrued in the subsidiary. If dividends exceed retained earnings after the purchase, the excess represents repayment of invested capital and the payments are deducted from the invested value in PHLY's statement of financial position.

**Classification and valuation of statement of financial position items**

Current assets and current liabilities include items that have less than one year to maturity, and other items that are deemed operational working capital. Other items are classified as non-current assets/non-current liabilities.

Current assets are valued at the lower of historical cost and fair value. Current liabilities are valued at their nominal historical value at the time the liability arises.

Non-current assets are valued at historical cost, but are written down to fair value if impairment is deemed to be of a permanent nature. Non-current liabilities are valued at nominal historical values.

**Tax**

Tax benefit in the income statement comprises both current payable taxes and the change in deferred tax. Payable tax is calculated on the basis of the profit for the period in Norwegian Kroner (NOK). Deferred tax at 31 December 2019 is calculated using a 22% income tax rate utilizing the difference that exists between book values and tax values and the net operating losses that can be carried forward at the statement of financial position date. Tax-increasing and tax-reducing temporary differences that are reversing or can reverse in the same period are offset against each other. Net tax assets are shown in the statement of financial position to the extent it is probable that these assets can be utilized.

To the extent a group contribution is not shown in the income statement, the tax effect is taken directly against the investment item in the statement of financial position.

**Cash flow statement**

The cash flow statement is shown using the indirect method. Cash and cash equivalents comprises cash, bank deposits and other short-term liquid placements.

**Use of estimates**

Preparation of financial statements in conformity with generally accepted accounting principles in Norway requires management to make estimates and assumptions that affect the income statement, the reported amounts of assets and liabilities and also the disclosure of contingent assets and liabilities on the statement of financial position date.

Contingent losses that are probable and quantifiable are expensed when they are identified.

**Going concern**

The going concern uncertainty, as discussed in note 1 of the consolidated accounts, is dependent upon continuing shipbuilding operations and securing a customer order backlog for the Group. While the Group is actively working on securing new orders, there is an inherent uncertainty and no assurance that the Group will successfully secure a customer order backlog.

## Note 2: Other operating expenses

Fees to the auditors for ordinary audit and other audit and attestation fees have been expensed.

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Audit fees | **38** | 31 |
| Other audit and attestation fees | **-** | 8 |
| **Total** | **38** | 39 |

PHLY has no employees. The Senior Management is employed in the operating company. Fees to the Board of Directors of USD 124 thousand and USD 122 thousand were expensed in 2019 and 2018, respectively.

## Note 3: Other interest income and financial income

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Guarantee provisions (1) | **388** | 1 686 |
| Interest income external | **35** | 35 |
| Foreign exchange gain | **-** | 46 |
| **Total** | **423** | 1 767 |

(1) See note 9 of the Parent company accounts for further details pertaining to the guarantee fee agreements.

## Note 4: Shares in subsidiary

This item comprises the following as of 31 December 2019:

| *Amounts in USD thousands* | Ownership and voting rights (%) | Business address | Historical cost | Book value |
|---|---|---|---|---|
| Philly Shipyard, Inc. (PSI) | 100% | Philadelphia, PA | 67 000 | 67 000 |
| **Total shares in subsidiary** | | | **67 000** | **67 000** |

PSI's results after-tax in 2019 and equity at the end of 2019 are (in USD thousands):

| | |
|---|---|
| Results after-tax 2019 | **(19 722)** |
| Equity at 31 December 2019 | **114 301** |

Based on the net asset position of PSI (the investment in subsidiary) as well as the cash on hand at PSI, PHLY has concluded that no impairment has occurred to the investment in subsidiary at 31 December 2019.

## Note 5: Taxes

The table below shows the difference between book and tax values by the end of 2019 and 2018 and the amounts of deferred taxes at these dates and the change in deferred taxes.

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Losses carried forward | **176** | - |
| Other temporary differences | **(1 109)** | (1 884) |
| **Total differences** | **(933)** | (1 884) |
| **Net deferred tax liability, 22%/22%** | **(205)** | (415) |
| Foreign currency impact | **-** | - |
| **Deferred tax liability in the statement of financial position** | **(205)** | (415) |

**Estimated result for tax purposes:**

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| **Loss before tax measured in NOK for taxation purposes** | **(694)** | (643) |
| Change in temporary differences | **250** | 1 427 |
| Foreign currency impact | **(235)** | (51) |
| Permanent differences | **-** | 5 |
| **Estimated (loss)/income for tax purposes** | **(679)** | 738 |
| **Income tax payable, 23%/23%** | **-** | 170 |

**Income tax benefit in the income statement:**

| *Amounts in USD thousands* | **2019** | 2018 |
|---|---|---|
| Income tax payable | **-** | (170) |
| Change in deferred tax in the statement of financial position | **205** | 326 |
| Foreign currency impact | **-** | 11 |
| **Income tax benefit** | **205** | 167 |

## Note 6: Total equity

**Changes in equity are:**

| *Amounts in USD thousands* | Share capital | Share premium | Treasury shares | Total paid in capital | Other equity | Total equity |
|---|---|---|---|---|---|---|
| Equity as of 1 January 2019 | 22 664 | 22 511 | (9 969) | 35 206 | 9 250 | 44 456 |
| Net loss for the year 2019 | - | - | - | - | (489) | (489) |
| **Equity as of 31 December 2019** | **22 664** | **22 511** | **(9 969)** | **35 206** | **8 761** | **43 967** |

The share capital of NOK 125,747,660 consists of 12,574,766 shares (including 466,865 treasury shares) with a par value of NOK 10 as of 31 December 2019. PHLY is a part of the consolidated accounts of Aker ASA, Oksenoyveien 10, NO-1366 Lysaker, Norway.

**Twenty largest shareholders**
(as of 31 December 2019)

| Shareholders | Number of shares held | Ownership (in %) |
|---|---|---|
| Aker Capital AS | 7 237 631 | 57.6% |
| Goldman Sachs & Co. LLC | 2 255 245 | 17.9% |
| J.P. Morgan Securities LLC | 499 330 | 4.0% |
| Philly Shipyard ASA | 466 865 | 3.7% |
| Morgan Stanley & Co. LLC | 298 107 | 2.4% |
| Morgan Stanley & Co. LLC | 225 435 | 1.8% |
| J.P. Morgan Securities LLC | 145 167 | 1.2% |
| Clearstream Banking S.A. | 119 727 | 1.0% |
| Citibank, N.A. | 106 273 | 0.9% |
| Patineer Management LLC | 59 857 | 0.5% |
| Pershing LLC | 59 400 | 0.5% |
| Interactive Brokers LLC | 55 715 | 0.4% |
| Citibank, N.A. | 47 342 | 0.4% |
| Ramadan Kovaci | 40 005 | 0.3% |
| Lars Ro | 40 000 | 0.3% |
| Heggum Holding AS | 27 400 | 0.2% |
| J.P. Morgan Chase Bank, N.A. | 27 000 | 0.2% |
| Nordnet Livsforsikring AS | 25 532 | 0.2% |
| Kim Skailand | 22 000 | 0.2% |
| Peter Myhre | 21 000 | 0.2% |
| **Total, 20 largest shareholders** | **11 779 031** | **93.7%** |
| Other shareholders | 795 735 | 6.3% |
| **Total** | **12 574 766** | **100.0%** |

## **Note 7:** Cash and cash equivalents

There is no restricted cash.

## **Note 8:** Shares owned by the Board of Directors and the Senior Management

For information regarding shares owned by the members of the Board of Directors and the Senior Management, see note 22 to the consolidated accounts.

## **Note 9:** Related party transactions and guarantees

PHLY has made the following guarantees:

| Description | Beneficiary | Amount (USD thousands) | Borrower |
|---|---|---|---|
| Welcome Fund loan | PIDC Regional Center, LP XXXI | 60 000 | PSI |

For additional information regarding the above loan facilities, see note 15 to the consolidated accounts.

PHLY supplied a parent guarantee for the obligations of PSI under the two construction contracts with Matson Navigation Company, Inc. (Hulls 029-030).

PHLY has service agreements with Aker ASA and certain of its affiliates which provide certain administrative services. All payables under these agreements are paid within the normal course of business. Total expenses incurred under these agreements in 2019 and 2018 were USD 5 thousand and USD 7 thousand, respectively.

On 29 April 2008, PSI, as borrower, entered into a loan agreement with PHLY, as lender. The facility is for up to USD 50.0 million and interest is at a floating rate of three-month LIBOR plus 3.00% per annum. The loan is payable on demand with advance notice of 30 days. As of 31 December 2019, USD 31.0 million is outstanding under the facility and PHLY does not intend to call the loan for repayment in 2020.

On 18 July 2013, PSI, as lender, entered into a loan agreement with PHLY, as borrower. This facility is for up to USD 60.0 million and interest is at a fixed rate of 4.00% per annum. The loan is payable on demand with advance notice of 90 days. As of 31 December 2019, USD 55.0 million is outstanding under the facility.

PSI and PHLY were parties to certain guaranty fee agreements related to the above-referenced loan and performance guarantees by PHLY. Total revenues of PHLY from PSI under these guaranty fee agreements in 2019 and 2018 were USD 0.4 million and USD 1.7 million, respectively, with fees ranging from 0.15% to 0.30 % for performance guarantees, and 0.75% for loan guarantees. These agreements were terminated in 2019 upon the delivery of Hull 030 and defeasance of the Welcome Fund loan.

KPMG AS
P.O. Box 7000 Majorstuen
Sørkedalsveien 6
N-0306 Oslo

Telephone +47 04043
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the Annual General Meeting of Philly Shipyard ASA

# Independent auditor's report

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Philly Shipyard ASA. The financial statements comprise:

- The financial statements of the parent company Philly Shipyard ASA (the Company), which comprise the statement of financial position as at 31 December 2019, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Philly Shipyard ASA and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2019, and income statement, statement of comprehensive income, statement of changes in equity, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements and the Board of Directors' report, which describe that the Group does not have a contracted customer order backlog beyond the dry docking of SS Pollux that is expected to be completed in Q2 2020. In addition, without continuous shipbuilding activity the shipyard lease covenant to maintain at least 200 full-time employees for 90 consecutive days may result in the termination of the shipyard lease following the expiry of a temporary conditional waiver of this covenant until 31 March 2020. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

*Assessment of the carrying value of property, plant and equipment and right of use asset*
Refer to Note 1 (Accounting Principles), and Note 8 (Property, plant and equipment and right of use asset)

| ***The key audit matter*** | ***How the matter was addressed in our audit*** |
|---|---|
| The impairment assessment of property, plant and equipment and right of use asset, with a carrying value of USD 39.1 million, is considered a key audit matter due to the conditions described in the *Material Uncertainty Related to Going Concern* section, and the size of its carrying value.<br><br>In the event that the going concern assumption becomes inappropriate this would result in a full impairment of the carrying value of property, plant and equipment and right of use asset balances.<br><br>No impairment of property, plant and equipment and right of use asset has been recorded in 2019 based on the Group's assessment of its value in use, which rely on external factors and management's assumptions which are subject to a high degree of uncertainty. The key assumptions applied in this assessment are that the Group will be able to secure new shipbuilding contracts in the future and continue operations following the completion of the dry docking of the last vessel in its backlog (SS Pollux), which is scheduled for Q2 2020, at the expected profit margins, the applied discount rate, growth rate assumptions used, and expected timing of future cash flows. | Our audit procedures to assess the carrying amount of property, plant and equipment and right of use assets included:<br>• challenging management's cash flow forecast assumptions used in their value in use calculations, including specifically identifying the targeted shipbuilding contracts for tender in the next 12 months, the forecasted margins compared to historical rates achieved, growth rate assumptions and the timing of cash flows;<br>• Using our internal valuation specialist in assessing the mathematical and methodological integrity of the calculations;<br>• using our internal valuation specialists to assess the reasonableness of the discount rate applied.<br><br>We have also evaluated the transparency and appropriateness of the disclosures related to the carrying value of property, plant and equipment and right of use assets, including the sensitivity and scenario analyses. |

## Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, with the exception of our report on Other Legal and Regulatory Requirements below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Philly Shipyard ASA

Auditor's report 2019

## Report on Other Legal and Regulatory Requirements

### Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

### Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 27 March 2020
KPMG AS

Gunnar Sotnakk

Gunnar Sotnakk
*State Authorised Public Accountant*

# Good dialogue

**Philly Shipyard ASA (referenced to herein as "PHLY") is committed to maintaining an open and direct dialogue with its shareholders, potential investors, analysts, brokers and the financial community in general.**

The timely release of information to the market that could affect PHLY's share price helps ensure that Philly Shipyard ASA's share price reflects its underlying value.

Philly Shipyard's goal is that PHLY's shareholders will, over time, receive competitive returns on their investments through a combination of dividends and share price growth. On 26 February 2014, the Company's Board of Directors adopted the following dividend 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 aims to pay a quarterly dividend of USD 0.25 per share, beginning with the second quarter of 2014, with intentions of increasing the amount over time. Any payment of dividends will be considered in conjunction with the Company's financial position, debt covenants, capital requirements, market prospects and potential strengthening of the Company's financial structure."*

PHLY's Board of Directors uses this dividend policy as a guideline to determine how much of PHLY's earnings it will pay to shareholders.

In 2019, PHLY did not pay any dividends.

The Norwegian Public Limited Liability Companies Act allows for the Board of Directors to pay dividends on the basis of an authorization from the general meeting. The Board of Directors will therefore propose to the annual general meeting in 2020 that the Board of Directors is granted an authorization to pay dividends based on PHLY's annual accounts for 2019, valid up to PHLY's annual general meeting in 2021. Such authorization will facilitate potential payments of dividends by the Board of Directors in accordance with PHLY's dividend policy.

Due to the delay in securing new orders, PHLY has suspended payment of dividends. The Board of Directors will revisit PHLY's dividend policy and dividend plan when it has more clarity about the Company's new order situation and related capital requirements.

### Shares and share capital

As of 31 December 2019, Philly Shipyard ASA has 12,574,766 ordinary shares; each share has a par value of NOK 10 (see note 6 to the Parent company's 2019 accounts). As of 31 December 2019, PHLY had 634 shareholders, of whom 56 shareholders, or 8.8%, were non-Norwegian shareholders.

PHLY has a single share class. Each share is entitled to one vote. PHLY holds 466,865 of its own (treasury) shares, constituting approximately 3.71% of the shares outstanding, as of 31 December 2019.

### Stock exchange listing

Philly Shipyard ASA was listed on Oslo Axess on 17 December 2007 (ticker: PHLY). PHLY's shares are registered in the Norwegian Central Securities Depository; the shares have the securities registration number ISIN NO 0010395577. DNB Bank ASA is PHLY's registrar.

### Majority shareholder

Philly Shipyard ASA's majority shareholder is Aker Capital AS, a wholly-owned subsidiary of Aker ASA. Companies that are part of Aker are legally and financially independent units. Aker Capital AS exercises active ownership as part of systematic efforts to create value for all PHLY shareholders.

From time to time, agreements are entered into between the Company and one or more Aker companies. The Boards of Directors and other parties involved in the decision-making processes related to such agreements are all critically aware of the need to handle such matters in the best interests of the involved companies, in accordance with good corporate governance practice. If needed, external, independent opinions are sought.

### Current Board authorizations

As of 31 December 2019, the Board of Directors of Philly Shipyard ASA has an authorization to pay dividends, an authorization to increase the share capital and two separate authorizations to acquire own shares. All of these current Board authorizations are valid up until the next annual general meeting in 2020. For more details, please see "Board authorizations" on page 62-63.

### Stock option plans

As of 31 December 2019, Philly Shipyard ASA has no stock option program.

### Investor relations

Philly Shipyard ASA seeks to maintain an open and direct dialogue with shareholders, financial analysts and the financial market in general.

All Philly Shipyard press releases and investor relations publications, including archived material, are available at the Company's website: www.phillyshipyard.com. This online resource includes PHLY's quarterly and annual reports, prospectuses, articles of association, financial calendar and its Investor Relations and Corporate Governance policies, along with other information.

Shareholders can contact the Company at contactus@phillyshipyard.com.

### Electronic interim and annual reports

Philly Shipyard ASA encourages its shareholders to subscribe to the electronic version of PHLY's annual reports. Annual reports are published on the Company's website at the same time as they are made available via website release by the Oslo Stock Exchange/ Oslo Axess: www.newsweb.no (ticker: PHLY). Subscribers to this service receive annual reports in PDF format by email.

## Share capital development over the past three years

| Date | Change in share capital (in NOK) | Share capital (in NOK) | Number of shares | Par value (in NOK) |
|---|---|---|---|---|
| Change in 2017 | - | - | - | - |
| 31 December 2017 | - | 125 747 660 | 12 574 766 | 10.00 |
| Change in 2018 | - | - | - | - |
| 31 December 2018 | - | 125 747 660 | 12 574 766 | 10.00 |
| Change in 2019 | - | - | - | - |
| 31 December 2019 | - | 125 747 660 | 12 574 766 | 10.00 |

Quarterly reports, which are generally only distributed electronically, are available from the Company's website and other sources. Shareholders who are unable to receive the electronic version of interim and annual reports, may subscribe to the printed version by contacting Philly Shipyard's investor relations staff.

### Nomination committee

PHLY's nomination committee has the following members: Leif Arne Langoy, Gerhard Heiberg and Arild Støren Frick. Shareholders who wish to contact Philly Shipyard's nomination committee may do so using the following address:

Nomination Committee of
Philly Shipyard ASA
Vika Atrium
Munkedamsveien 45
NO-0250 Oslo, Norway

### Annual shareholders' meeting

Philly Shipyard ASA's annual shareholders' meeting is normally held in March or April. Written notification is sent to all shareholders individually or to shareholders' nominees. To vote at shareholders' meetings, shareholders (or their duly authorized representatives) must either be physically present or vote by proxy.

### 2019 share data

PHLY's total market capitalization as of 31 December 2019 was NOK 537 million. During 2019, a total of 1,354,825 Philly Shipyard ASA shares traded, corresponding to 0.108 times PHLY's freely tradable stock. The shares traded on 236 trading days in 2019.

## Twenty largest shareholders
(as of 31 December 2019)

| Shareholders | Number of shares held | Ownership (in %) |
|---|---|---|
| Aker Capital AS | 7 237 631 | 57.6% |
| Goldman Sachs & Co. LLC | 2 255 245 | 17.9% |
| J.P. Morgan Securities LLC | 499 330 | 4.0% |
| Philly Shipyard ASA | 466 865 | 3.7% |
| Morgan Stanley & Co. LLC | 298 107 | 2.4% |
| Morgan Stanley & Co. LLC | 225 435 | 1.8% |
| J.P. Morgan Securities LLC | 145 167 | 1.2% |
| Clearstream Banking S.A. | 119 727 | 1.0% |
| Citibank, N.A. | 106 273 | 0.9% |
| Patineer Management LLC | 59 857 | 0.5% |
| Pershing LLC | 59 400 | 0.5% |
| Interactive Brokers LLC | 55 715 | 0.4% |
| Citibank, N.A. | 47 342 | 0.4% |
| Ramadan Kovaci | 40 005 | 0.3% |
| Lars Ro | 40 000 | 0.3% |
| Heggum Holding AS | 27 400 | 0.2% |
| J.P. Morgan Chase Bank, N.A. | 27 000 | 0.2% |
| Nordnet Livsforsikring AS | 25 532 | 0.2% |
| Kim Skailand | 22 000 | 0.2% |
| Peter Myhre | 21 000 | 0.2% |
| Total, 20 largest shareholders | 11 779 031 | 93.7% |
| Other shareholders | 795 735 | 6.3% |
| Total | 12 574 766 | 100.0% |

## Geographic distribution of shareholders
(as of 31 December 2019)

| Nationality | Number of shares held | Ownership (in %) |
|---|---|---|
| Norwegian shareholders | 8 501 937 | 67.6% |
| Non-Norwegian shareholders | 4 072 829 | 32.4% |
| Total | 12 574 766 | 100.0% |

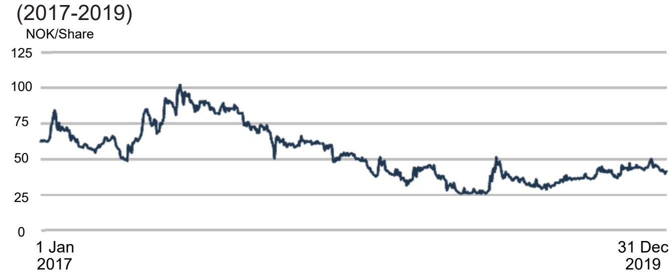
## Ownership structure by number of shares held
(as of 31 December 2019)

| Shares owned | Number of shareholders | Percent of share capital |
|---|---|---|
| 1 – 100 | 188 | 0.1% |
| 101 – 1 000 | 269 | 1.0% |
| 1 001 – 10 000 | 142 | 3.6% |
| 10 000 – 100 000 | 26 | 5.1% |
| 100 001 – 500 000 | 7 | 14.8% |
| Over 500 000 | 2 | 75.4% |
| Total | 634 | 100.0% |

## Share price development in 2019
2019 share data

| | | |
|---|---|---|
| Highest traded | NOK | 52.00 |
| Lowest traded | NOK | 28.00 |
| Share price as of 31 Dec. | NOK | 42.70 |
| Shares issued as of 31 Dec. | | 12 574 766 |
| Own (treasury) shares as of 31 Dec. | | 466 865 |
| Shares issued and outstanding as of 31 Dec. | | 12 574 766 |
| Market capitalization as of 31 Dec. | NOK million | 537 |
| Proposed share dividend | NOK per share | - |

## Share price development *
(2017-2019)




* For 2017-2019, PHLY paid dividends of approximately 2 NOK per share (2 NOK/share in 2017 and 0 NOK/share in both 2018 and 2019).

# Corporate governance

**Philly Shipyard ASA (referenced to herein as "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 has reviewed and updated PHLY's principles for corporate governance. The principles are based on the Norwegian Code of Practice for Corporate Governance, dated 17 October 2018 (the "Code of Practice"), the principles set out in the Continuing Obligations of stock exchange listed companies from 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.oslobors.no. The principles also apply to PHLY's subsidiaries when relevant. The Board's statement of corporate governance is included in the annual report. 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.

### *Purpose*

PHLY's Corporate Governance principles ensure an appropriate division of roles and responsibilities among PHLY's owners, its Board of Directors, 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 7 of this annual report. These values consist of the following four "CORE" principles: Caring, One shipyard, Responsible and Efficient. Philly Shipyard has zero tolerance for corruption and, in 2015, the Board approved an Anti-Corruption Policy that is in-line with the anti-corruption policies in place at other Aker ASA-related companies. Philly Shipyard works to promote a sustainable and responsible company that is driven by good results and the demands for social responsibility.

### *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 of Directors' 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 2020 are securing new orders for major shipbuilding programs and pursuing a mix of commercial and government newbuild and repair and maintenance opportunities.

## Equity and dividends

### *Equity*

PHLY's equity as of 31 December 2019 amounted to USD 91.3 million, which corresponds to an equity ratio (total equity divided by total assets) of approximately 56%. PHLY regards its current equity structure as appropriate and adapted to its objectives, strategy and risk profile.

### *Dividends*

PHLY's dividend policy is included in the section "Shares and shareholder matters" (see page 60). 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 aims to pay a quarterly dividend of USD 0.25 per share, beginning with the second quarter of 2014, with intentions of increasing the amount over time. Any payment of dividends will be considered in conjunction with the Company's financial position, debt covenants, capital requirements, market prospects and potential strengthening of the Company's financial structure."*

PHLY's Board of Directors uses this dividend policy as a guideline to determine how much of the Company's earnings it will pay to shareholders.

Due to the delay in securing new orders, PHLY has suspended payment of dividends. The Board of Directors will revisit PHLY's dividend policy and dividend plan when it has more clarity about the Company's new order situation and related capital requirements.

### *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 shareholders' meeting.

To facilitate the potential payment of dividends in accordance with PHLY's dividend policy, the Board of Directors has an authorization to pay dividends based on PHLY's annual accounts for 2018.

The Board of Directors has 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.

The Board of Directors has 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.

The Board of Directors has 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 shareholders' meeting in 2020.

The Board currently has no other authorizations to issue shares or undertake share buybacks. The Board will propose to the annual shareholders' meeting in 2020 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 and transactions with close associates*

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.

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 with related parties in note 26 to the consolidated accounts. As of 31 December 2019, 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, see note 26 to the consolidated accounts.

### *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 of Directors encourages shareholders to participate in shareholders' meetings. However, due to the public health requirements following the ongoing COVID-19 outbreak, the company will this year urge its shareholders to not meet and rather use the available means of voting by proxy. For the same reason, it is also the intention for this year's annual general meeting that only the minimum representatives required by law will attend the annual general meeting. It is PHLY's priority to hold the annual shareholders' meeting as early as possible after the year-end. Notices of shareholders' meetings are sent physically by post and comprehensive supporting information, including the recommendations of the nomination committee, are made available for the shareholders on the Company's home page, in each case not later than 21 days prior to the annual shareholders' 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 deadline for shareholders to register to the shareholders' meetings is set as close to the date of the meeting as possible and the deadline for registration may not expire earlier than five days prior to the date of the shareholders' meeting. Shareholders who are unable to attend the meeting in person may vote by proxy, and normally the proxy may be given to the chairman of the meeting or any other person appointed by the chairman. Both on the attendance and proxy form and the notice of meeting, all procedures for registration are thoroughly explained. In addition, information on how to propose a resolution to the items on the agenda at the annual shareholders' meeting will be included in the notice.

Pursuant to PHLY's articles of association, the Chairman of the Board, or any other person appointed by the Chairman, chairs the shareholders' 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 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 of Directors 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, nomination committee leader and auditor attend annual shareholders' meetings.

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

## Nomination committee

PHLY has a nomination committee, as set forth in Section 7 of PHLY's articles of association. Pursuant to the articles of association, the nomination committee is to comprise no fewer than three 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 Chairman of the nomination committee are elected by PHLY's annual shareholders' meeting, which also approves the remuneration payable to committee members.

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

The nomination committee comprises the following members:

- Leif Arne Langoy, Chairman (2019-2021)
- Gerhard Heiberg (2019-2021)
- Arild Støren Frick (2019-2021)

None of the members of the nomination committee is a member of the Board of Directors. Neither the CEO/General Manager nor any other senior executive is a member of the nomination committee.

The shareholders' 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 of Directors on the Company's website.

## 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 of the Board at the annual shareholders' 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 of Directors 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 of Directors does not include any executive personnel. Further, three of the four shareholder-elected Board members are independent of PHLY's main shareholder, Aker ASA. Kristian Røkke, the Deputy Chairman of the Board of Directors of PHLY, is Chief Investment Officer of Aker ASA.

The current composition of the Board, as well as the Board members' expertise, capabilities, and experience, are presented on pages 66-67 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 22 to the consolidated accounts. PHLY encourages the Board members to invest in PHLY's shares.

Three of the four shareholder-elected Board members are up for election. PHLY will provide the relevant information regarding such 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. Also, the Board has adopted instructions that regulate areas of responsibility, tasks, and division of roles of the Board, Board 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 Board 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.

The Board of PHLY established an audit committee in 2010. The audit committee consists of two members, Elin Karfjell (Chairperson) and Amy Humphreys. Both members are independent from operations of the Company and neither member is linked to PHLY's main shareholder.

The Board of PHLY established a tendering committee in 2012 to review tenders for new business. The tendering committee consists of two members, James H. Miller (Chairman) and Amy Humphreys. Both members are independent from operations of the Company and neither member is linked to PHLY's main shareholder.

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 of Directors 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. The Company's policy regarding corporate social responsibility is set forth on pages 20-21 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 of Directors' 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 21 to the consolidated accounts.

### *Audit committee*

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

### Financial statement close process

The Company 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. In this respect, PHLY's Board Chairman, James H. Miller, provides consulting services to Philly Shipyard, Inc. (PSI) on behalf of Mr. Miller's consulting company against a monthly fee. Approval of this assignment has been handled by the Board of Directors in accordance with the said procedure.

Additional information on remuneration paid to Board members for 2019 is presented in note 22 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. Salary and other remuneration of the CEO/General Manager of PHLY are determined in a Board of Directors' 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 was originally designed to contribute to the achievement of good financial results and increase in shareholder value. This system of reward was adjusted in 2018 and 2019 to also retain key employees and ensure the delivery of the last two ships in the company's order backlog. In 2020, the variable pay will be made in accordance with a new HSE incentive/retention program.

This system of reward is designed to improve Health, Safety and Environment (HSE) performance while retaining key employees during this crucial business cycle.

PHLY does not have stock option plans or other such share award programs for employees. Further information on remuneration for 2019 for members of the Company's Executive Management is presented in note 22 to the consolidated accounts. PHLY's guidelines for remuneration to Executive Management are discussed on pages 45-46 of this annual report and will be presented to the share-holders at the annual shareholders' 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's guidelines for remuneration of Executive Management will be made available as a separate appendix to the agenda for the annual shareholders' meeting. The statement will include information on which aspects of the guidelines are advisory, and which, if any, are binding. The Company currently does not grant remuneration to Executive Management being subject to binding guidelines.

## 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 the Company'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 the Company's home page www.phillyshipyard.com; stock exchange notices are also available from www.newsweb.no. All information that is distributed to shareholders is simultaneously published on the Company's home page.

PHLY's financial calendar is found on the inside front cover of this annual report.

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 60-61.

## 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 the Company'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 shareholders' meeting after the take-over offer has become public knowledge.

The Company will not enter into any agreement with a bidder that acts to limit the Company's ability to arrange other bids for the Company'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 the Company or a major component of it are to be decided on by shareholders at a shareholders' 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 pro- vided 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 the companies' 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 dis- agreement 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 audit committee meetings which occur throughout the year and presents both its preliminary and final audit findings to the committee during such meetings.

Guidelines have been established for Executive Management's use of auditors for services other than auditing. Auditors are to provide the Board with an annual overview of services other than auditing that have been supplied to the Company.

Remuneration for auditors is presented in note 5 to the consolidated accounts and note 2 to the parent company accounts, detailed in auditing and other services. In addition, these details are presented at the annual general meeting.

# Presentation of the Board of Directors

**James H. Miller**
***Board Chairman***

James H. Miller (b. 1955) is the sole member of SeaJay Consulting LLC and is currently providing consulting services to the construction and maritime industries. During the period of June 2011 through September 2017, Mr. Miller served as Executive Vice President – Americas at Kvaerner and President of Kvaerner Americas Holdings Inc. Prior to that Mr. Miller served as President and CEO of Philly Shipyard from June 2008 to April 2011. Before coming to the shipyard, Mr. Miller was President of Aker Solutions Process and Construction (P&C) Americas, where he was responsible for the operations of seven international business units. During his tenure, Aker Solutions P&C Americas became a leading provider of global engineering and construction solutions with 7,500 employees, including 4,500 construction trades personnel. Prior to joining Aker Solutions P&C Americas, Mr. Miller held the position of President of Aker Construction, Inc., which was one of the largest union construction companies in North America. Mr. Miller is currently the sole Director for all remaining Kvaerner U.S.-based legal and operating entities. In addition, Mr. Miller currently serves as Board Director of Matrix Service Company based in Tulsa, Oklahoma, which is a public company listed on the Nasdaq Exchange. Mr. Miller previously served as Chairman of the Board for Philly Shipyard ASA from June 2011 to April 2014. Mr. Miller graduated from the University of Edinboro in Pennsylvania with a BA. Mr. Miller is a U.S. citizen. Mr. Miller holds zero shares in the company and has no stock options. Mr. Miller has been elected for the period 2018-2020.

**Amy Humphreys**
***Board Member***

Amy Humphreys (b. 1966) is President and CEO of Bristol Bay Seafood Investments, a subsidiary of Bristol Bay Native Corporation. Ms. Humphreys also serves as a director for various companies spanning several industries. Prior to her current role, Ms. Humphreys was Chief Financial Officer of Darigold, one of the largest dairy cooperatives in the United States. Prior to Darigold, Ms. Humphreys was President and CEO of Icicle Seafoods, Inc., a multi-species seafood processor and marketer. Prior to joining Icicle Seafoods, Ms. Humphreys served as CFO of North Star Petroleum Group and President of Delta Western, both organizations were within the Petroleum Division of Saltchuk Resources. From 1995 to 2006, Ms. Humphreys held various leading positions in her 11 year tenure with American Seafoods Group, including VP Corporate Development and Treasurer. For many years, Ms. Humphreys has worked within companies operating under the Jones Act. Ms. Humphreys holds a Master of Business Administration (MBA), with honors, from University of Washington, is a Certified Public Accountant (CPA) and holds a Bachelor of Arts (BA) in Accounting and Finance, magna cum laude, from University of Puget Sound. Ms. Humphreys is a U.S. citizen. Ms. Humphreys holds zero shares in the company and has no stock options. Ms. Humphreys has been elected for the period 2018-2020.

## Elin Karfjell
***Board Member***

Elin Karfjell (b. 1965) is CFO in Statsbygg. Prior to that, Ms. Karfjell was CEO of Atelika AS and Fabi Group and Director of Finance and Administration of Atea AS. Ms. Karfjell is a former partner of Ernst & Young AS. Ms. Karfjell joined Ernst & Young AS in 2002. Prior to this, Ms. Karfjell held various positions including partner at Arthur Andersen. At Ernst & Young/Arthur Andersen, Ms. Karfjell held various leading positions, both within advisory and audit, and Ms. Karfjell has experience from a broad specter of industries. Ms. Karfjell is also a Board member of North Energy ASA, DNO ASA and Contesto AS. Previously, Ms. Karfjell was a Board member of Hent AS, Sevan Drilling Ltd, Norse Energy Corporation ASA, Aktiv Kapital ASA and Aker Floating Production ASA. Ms. Karfjell is a state authorized public accountant. Ms. Karfjell has a bachelor accountant's degree from Okonomisk College (Hoyskolen i Oslo) and a CPA exam from the Norwegian School of Economics and Business Administration. Ms. Karfjell is a Norwegian citizen. Ms. Karfjell holds 1,200 shares in the company and has no stock options. Ms. Karfjell has been elected for the period 2019-2021.

## Kristian Røkke
***Deputy Board Chairman***

Kristian Røkke (b. 1983) is Chief Investment Officer of Aker ASA. Mr. Røkke has extensive experience from offshore oil services, shipbuilding and mergers and transactions. Mr. Røkke joined Aker ASA from Akastor, an investment company listed on the Oslo stock exchange, where he was the CEO from 2015-2017. Mr. Røkke is Chair of the board of Akastor ASA, a Director of TRG Holding AS, Aker Capital AS and Aker Solutions ASA and previously a Director of Aker ASA. Mr. Røkke has an MBA from The Wharton School, University of Pennsylvania. Mr. Røkke holds both Norwegian and American citizenships. Mr. Røkke owns no shares in the company and has no stock options. Mr. Røkke has been elected for the period 2018-2020.

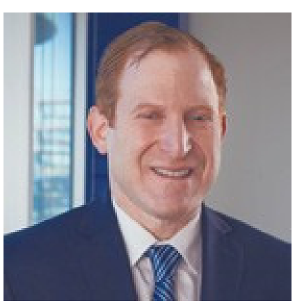
# Presentation of the Management Team

### Steinar Nerbøvik
***President and CEO***

Steinar Nerbøvik (b. 1961) was appointed President and Chief Executive Officer of Philly Shipyard ASA and Philly Shipyard, Inc. in November 2014 after serving as Managing Director since April 2014. Previously, Mr. Nerbøvik served as SVP Operations from October 2013. Prior to that, Mr. Nerbøvik served as SVP Yard Director for Norwegian Shipyard Vard Langsten (former Aker Yards and STX OSV Langsten), a leading provider of sophisticated offshore support vessels. Mr. Nerbøvik first joined Philly Shipyard in 2003 as Vice President Projects. Mr. Nerbøvik has held other management positions as combined Design Manager and Project Manager at Aker Langsten from 1991-2003. Mr. Nerbøvik holds a Master of Science in Ship Naval Engineering from the Norwegian Institute of Technology (NTNU) in Trondheim, Norway. Mr. Nerbøvik lives in Wilmington, DE, USA. Mr. Nerbøvik is a Norwegian citizen. As of 1 February 2020, Mr. Nerbøvik holds 1,000 shares in the company and has no stock options.

### Brian Leathers
***Chief Financial Officer***

Brian Leathers (b. 1960) joined Philly Shipyard, Inc. as Strategy and Compliance Officer in January 2019 and was appointed Chief Financial Officer in July 2019. Mr. Leathers has diverse experience that includes manufacturing, banking and finance and government contracting and served as the CFO for shipbuilder Austal USA. Mr. Leathers holds an Executive Masters in Business Administration from Troy University, a Bachelor of Arts in Accounting from the University of West Florida and is a graduate of the Graduate School of Banking held at Louisiana State University. Mr. Leathers lives in Philadelphia, PA, USA. Mr. Leathers is a U.S. citizen. As of 1 February 2020, Mr. Leathers holds zero shares in the company and has no stock options.



### Dean Grabelle
***Senior Vice President and General Counsel***

Dean Grabelle (b. 1970) was appointed Senior Vice President and General Counsel of Philly Shipyard, Inc. (PSI) in November 2016, after serving as PSI's General Counsel since May 2008. Prior to joining the shipyard, Mr. Grabelle was employed with the law firm Drinker Biddle & Reath LLP in Philadelphia, PA, USA where he established a legal career spanning 12 years. Past experience includes mergers and acquisitions, business counseling, lending, private equity and corporate finance. Mr. Grabelle graduated from Duke University with a Bachelor of Arts in Economics and Public Policy Studies. Mr. Grabelle also holds a Juris Doctor from the University of Pennsylvania Law School. Mr. Grabelle lives in Voorhees, NJ, USA. Mr. Grabelle is a U.S. citizen. As of 1 February 2020, Mr. Grabelle holds zero shares in the company and has no stock options.

## Robert Fitzpatrick
***Vice President Production***

Robert Fitzpatrick (b. 1964) joined Philly Shipyard, Inc. in 2001 and had held numerous key positions including Prefabrication Manager and Senior Production Manager before being promoted to Vice President Production in January 2007. Prior to coming to the shipyard, Mr. Fitzpatrick amassed 20 years of experience in industrial manufacturing including 12 years as a production manager responsible for the fabrication of naval circuit breakers and switchgear at L-3 Communications. Mr. Fitzpatrick holds a Bachelor of Science in Mechanical Engineering from Spring Garden College in Philadelphia, PA, USA. Mr. Fitzpatrick lives in Burlington, NJ, USA. Mr. Fitzpatrick is a U.S. citizen. As of 1 February 2020, Mr. Fitzpatrick holds zero shares in the company and has no stock options.

## Michael Giantomaso
***Vice President Human Resources***

Michael Giantomaso (b. 1966) joined Philly Shipyard, Inc. as Human Resources Manager in May 1998 and was the shipyard's first locally hired manager. Mr. Giantomaso was promoted to Vice President Human Resources in August 2001. Mr. Giantomaso has 30 years of human resources experience in the manufacturing and health care fields. Mr. Giantomaso holds a Bachelor of Arts in Business Administration and Human Resources from Temple University. Mr. Giantomaso lives in Huntingdon Valley, PA, USA. Mr. Giantomaso is a U.S. citizen. As of 1 February 2020, Mr. Giantomaso holds zero shares in the company and has no stock options.

## Nicolai Haugland
***Vice President***

Nicolai Haugland (b. 1993) is Vice President of Philly Shipyard ASA. In addition to this responsibility he serves as Investment Associate for Aker ASA. Prior to joining Aker ASA in 2019, Mr. Haugland worked for two years as an Associate in Investment Banking at Pareto Securities. Mr. Haugland holds an MSc in Finance from The London School of Economics (LSE) and a BSc in Economics (Honors) from The University of Warwick. Mr. Haugland lives in Oslo, Norway. Mr. Haugland is a Norwegian citizen. As of 1 February 2020, Mr. Haugland owns 700 shares in the company through his private company Elysium AS and has no stock options.

## Disclaimer

This annual report includes and is based, inter alia, on forward-looking information and statements that are subject to risks and uncertainties that could cause actual results to differ. Such forward-looking information and statements are based on current expectations, estimates and projections about global economic conditions, the economic conditions of the regions and industries that are major markets for Philly Shipyard ASA and its subsidiaries and affiliates (the “Philly Shipyard Group”) lines of business. These expectations, estimates, and projections are generally identifiable by statements containing words such as “expects”, “believes”, “estimates” or similar expressions. Important factors that could cause actual results to differ materially from those expectations include, among others, economic and market conditions in the geographic areas and industries that are or will be major markets for the Philly Shipyard Group’s businesses, oil prices, market acceptance of new products and services, changes in governmental regulations, interest rates, fluctuations in currency exchange rates and such other factors as may be discussed from time to time. Although Philly Shipyard ASA believes that its expectations and the information in this annual report were based upon reasonable assumptions at the time when they were made, it can give no assurance that those expectations will be achieved or that the actual results will be as set out in this annual report. Neither Philly Shipyard ASA nor any other company within the Philly Shipyard Group is making any representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of the information in the annual report, and neither Philly Shipyard ASA, any other company within the Philly Shipyard Group nor any of their directors, officers or employees will have any liability to you or any other persons resulting from your use of the information in the annual report.

Philly Shipyard ASA undertakes no obligation to publicly update or revise any forward-looking information or statements in the annual report, other than what is required by law.

The Philly Shipyard Group consists of various legally independent entities, constituting their own separate identities. Philly Shipyard is used as the common brand or trademark for most of these entities. In this annual report we may sometimes use “Company”, “Philly Shipyard”, “Group”, “we” or “us” when we refer to Philly Shipyard companies in general or where no useful purpose is served by identifying any particular Philly Shipyard company.

**Philly Shipyard ASA**

Vika Atrium, Munkedamsveien 45,
NO-0250 Oslo, Norway
Tel: + 47 23 11 91 00, Fax: + 47 23 11 91 01

**Philly Shipyard, Inc.**

2100 Kitty Hawk Avenue
Philadelphia, PA 19112 USA
Tel: +1 (215) 875 2600, Fax: +1 (215) 875 2700

website: www.phillyshipyard.com
email: info@phillyshipyard.com


Shipyard

**This page intentionally left blank.**

## Save the environment — read reports online

The annual reports of Philly Shipyard ASA are available via the Internet: www.phillyshipyard.com. Alternatively, Philly Shipyard ASA encourages its shareholders to subscribe to the company's annual reports via the electronic delivery system of the Norwegian Central Securities Depository (VPS). Please note that VPS services (VPS Investortjenester) are designed primarily for Norwegian shareholders. Subscribers to this service receive annual reports in PDF format by email. VPS distribution takes place at the same time as distribution of the printed version of Philly Shipyard's annual report to shareholders who have requested it.

Electronic distribution is the fastest channel for accessing company information; it is also cost-effective and environmentally friendly.

**Photos/illustrations:**
All photos courtesy of
Philly Shipyard, Inc. and
Charles Cerrone Photography

**Layout/production:**
Donnelley Financial Solutions

**Desktop publisher:**
Susan Blackbourn

**Philly Shipyard ASA**
**Annual Report 2019**

**www.phillyshipyard.com**