Philly Shipyard ASA (OSE: PHLY)
Q1 2020 Results

4 May 2020

Key Events

- ✓ Philly Shipyard paid off the USD 60.0 million Welcome Fund loan
- ✓ Philly Shipyard was awarded a USD 2.0 million industry study contract by the U.S. Coast Guard for the Offshore Patrol Craft (OPC) program
- ✓ The CARES Act, enacted by the U.S. Congress, includes a net operating loss (NOL) carryback tax provision, creating a USD 15.0 million income tax receivable
- ✓ First quarter 2020 operating revenue and other income of USD 7.5 million, compared to USD 18.9 million in the same period in 2019
- ✓ First quarter 2020 EBITDA of negative USD 5.8 million, compared to negative USD 1.5 million in the same period in 2019
- ✓ First quarter 2020 net income of USD 7.4 million, compared to net loss of USD 3.4 million in the same period in 2019
- ✓ The Company continued to focus on controlling costs and preserving cash while readying itself for the production start on the first NSMV training ship; total cash and cash equivalents of USD 44.5 million at 31 March 2020, excluding USD 2.7 million of restricted cash
- ✓ As the COVID-19 virus develops across the world, Philly Shipyard has taken measures to mitigate the risk for operational disruptions and reduce risk of outbreaks and its consequences

Subsequent Events

- ✓ Philly Shipyard was awarded a contract by TOTE Services for the construction of up to five (5) National Security Multi-Mission Vessels (NSMV) for the U.S. Department of Transportation's Maritime Administration (MARAD) and received an initial order for the first two vessels

Operations

Ship maintenance and repair activity continued in Q1 2020 as a result of a contract for drydocking of the FSS *Pollux*, a government cargo ship, which was awarded in October 2019 and arrived in January 2020. The FSS *Pollux* is owned by the U.S. Department of Transportation's Maritime Administration (MARAD) and managed by TOTE Services, LLC (TOTE Services). The FSS *Pollux* is a sister-ship of the FSS *Antares*, which was redelivered by Philly Shipyard to TOTE Services in Q4 2019.

The recent awards by TOTE Services, as ship manager, of vessel maintenance and repair contracts, have allowed Philly Shipyard to begin to recall some of its laid-off workers. The total workforce was approximately 300 at the end of Q1 2020. The workforce will continue to be adjusted in line with Philly Shipyard's backlog.

Philly Shipyard continues to work on the industry study for the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program, and has begun work on an industry study supporting the U.S. Coast Guard's Offshore Patrol Craft (OPC) program.

Notwithstanding the COVID-19 pandemic, operations are continuing and ongoing projects are moving forward. However, as a result of the virus, there will be some delay in the redelivery of the FSS *Pollux*. Philly Shipyard is taking precautionary steps to safeguard employees and subcontractors against the coronavirus disease.

Health, Safety, Security and Environment (HSSE)

Philly Shipyard's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR), based on Lost Time Incidents (LTI) per 200,000 hours as defined by the Occupational Safety and Health Administration (OSHA), was 0.00 at the end of Q1 2020 compared to 0.14 at the end of Q1 2019. The most recent LTI occurred in Q4 2018; there were zero LTIs in 2019 and in Q1 2020.

Philly Shipyard's 12-month trailing average for its Other Recordable Incident Frequency Rate (ORIFR), based on recordable incidents other than LTIs per 200,000 hours as defined by OSHA, was 1.77 at the end of Q1 2020 compared to 2.75 at the end of Q1 2019. Philly Shipyard continues to work proactively to further improve safety and reduce the number of incidents at the shipyard.

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.

Financial Information

First Quarter 2020 Results

Operating revenues and other income for Q1 2020 were USD 7.5 million compared to operating revenues and other income of USD 18.9 million for Q1 2019. In Q1 2020, there was ship repair and maintenance work on the FSS *Pollux* as well as government study work for the CHAMP program, whereas in Q1 2019 operating revenues and other income were driven mainly by the remaining progress on the two Matson vessels (Hulls 029-030). For further details on operating revenues and other income, please see note 12.

EBITDA, defined as earnings before interest, taxes, depreciation and amortization, is considered a relevant earnings indicator for Philly Shipyard as it measures the operational performance of the shipyard.

EBITDA for Q1 2020 was negative USD 5.8 million compared to EBITDA of negative USD 1.5 million for Q1 2019. EBITDA for Q1 2020 was driven primarily by (a) USD 5.0 million of under-recovered overhead costs (i.e., overhead expenses incurred and not allocated to projects) while awaiting production start of the next shipbuilding award, and (b) USD 2.2 million of SG&A costs; the margin on the FSS *Pollux* ship repair project was breakeven for Q1 2020. EBITDA for Q1 2019 was mainly driven by USD 4.3 million of under-recovered overhead costs, offset partially by a USD 1.5 million margin improvement recognized on the Matson vessels.

Net income for Q1 2020 was USD 7.4 million compared to net loss of USD 3.4 million for Q1 2019. Net income for Q1 2020 was driven primarily by (a) EBITDA of negative USD 5.8 million, (b) depreciation expense of USD 1.7 million and (c) the CARES Act NOL carryback tax benefit provision of USD 15.0 million (please see note 6 for further details). Net loss for Q1 2019 was driven primarily by (a) EBITDA of negative USD 1.5 million and (b) depreciation expense of USD 1.8 million.

Statement of Financial Position

Total assets were USD 109.9 million at 31 March 2020 compared to USD 161.8 million at 31 December 2019, with the decrease resulting mainly from the use of restricted cash to repay the entire USD 60.0 million Welcome Fund loan.

Total interest-bearing debt was USD 0 at 31 March 2020 compared to USD 59.9 million at 31 December 2019. The Welcome Fund loan of USD 60.0 million matured in March 2020 and was fully paid back.

Cash and cash equivalents (excluding restricted cash) were USD 44.5 million at 31 March 2020 compared to USD 50.7 million at 31 December 2019. The decrease of USD 6.2 million was due to (1) operational spending of USD 7.0 million and (2) capex spending of USD 0.1 million offset slightly by (3) a net increase of USD 0.9 million of net cash released from a collateral account upon payoff of the Welcome Fund loan.

Restricted cash as of 31 March 2020 amounted to USD 1.4 million, which pertains to a holdback for guarantees, deficiencies and disputed items for Hull 030. The restricted cash for this holdback is expected to be fully released within 2020.

The restricted cash amount of USD 60.9 million at year-end 2019 for the Welcome Fund loan was used for repayment of the Welcome Fund loan at its maturity in March 2020. For further details on the Welcome Fund loan and payoff of the loan, please see note 8.

Right-of-use asset in the amount of USD 12.7 million at 31 March 2020 represents the net book value of the assets that Philly Shipyard's landlord, Philadelphia Shipyard Development Corporation (PSDC), purchased from Philly Shipyard in 2011. These assets were reclassified from property, plant and equipment to right-of-use asset per the IFRS 16 lease standard (IFRS 16), which took effect 1 January 2019.

Total equity increased to USD 98.7 million at 31 March 2020 from USD 91.3 million at 31 December 2019 due to the net income of USD 7.4 million.

Financing

The Company had a secured five-year term loan for up to USD 60.0 million from PIDC Regional Center, LP XXXI through the Welcome Fund loan program which matured in March 2020. On 16 March 2020, Philly Shipyard paid off the USD 60.0 million outstanding Welcome Fund loan together with all accrued interest thereon.

Shareholder Distributions

Given the recent award of the NSMV contract and related capital requirements, the PHLY Board has revisited the company's dividend policy and dividend plan. At this time, the PHLY Board does not foresee payment of dividends during the construction period of the first two NSMVs.

Outlook

Shipbuilding and Repair, Maintenance, Modernization and Conversion Work

As of 31 March 2020, Philly Shipyard had no order backlog for ship newbuild programs. However, within days after quarter end, Philly Shipyard was awarded a contract for the construction of up to five (5) National Security Multi-Mission Vessels (NSMV) from TOTE Services, LLC (TOTE Services). TOTE Services was selected by the U.S. Department of Transportation's Maritime Administration (MARAD) as the vessel construction manager for the NSMV program in May 2019. TOTE Services placed an initial order with Philly Shipyard for the first two vessels, with deliveries in 2023, and retains options for the next three vessels.

The initial award is valued at approximately USD 630 million and supports non-recurring engineering and detail design of the NSMV class as well as procurement of equipment and materials and construction of the first two ships. If all five ships are ordered and built in series, then the total contract value of the 5-ship program would be approximately USD 1.5 billion. Securing this award is a significant step in the company's strategy to reposition the shipyard for a mix of government and commercial projects.

Engineering, procurement and planning work is already underway with a scheduled production start on NSMV 1 in early 2021. Even with this backlog, Philly Shipyard expects it will continue to incur losses in 2020 due to the under-recovery of overhead costs. It is expected this under-recovery will decline as employment ramps up.

On 3 October 2019, Philly Shipyard was awarded its second ship repair and maintenance contract, this time 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 approximately five months.

Philly Shipyard continues its work on the industry studies for the Common Hull Auxiliary Multi-Mission Platform (CHAMP) program. 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.

On 23 March 2020, Philly Shipyard was one of eight companies awarded industry study contracts by the U.S. Coast Guard for the Offshore Patrol Craft (OPC) program. The OPC vessels are replacements for the aging 270-foot and 210-foot endurance cutters that are 30 years old and 50 years old, respectively. A total of 21 vessels are planned, with deliveries of approximately two (2) OPC vessels per year.

Philly Shipyard's objective remains to secure a mix of government and commercial newbuild contracts, while also opportunistically pursuing ship repair and maintenance contracts that allow the yard to continuously utilize its drydocks. Both the CHAMP and OPC programs' DD&C schedules would dovetail after the last delivery of the NSMV program if all five (5) ships are ordered. Therefore, Philly Shipyard intends to pursue both programs.

Shipping
Since the liquidation of Philly Tankers was completed in Q1 2019, Philly Shipyard has no 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 any commercial ships that it constructs. This potential strategy, however, does not apply to the NSMV program or any other government ships that it might build in the future.

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

While Philly Shipyard now has an order backlog for ship newbuilds, it faces future risks if it is unable to secure new orders and/or financing for major commercial or government shipbuilding programs. There can be no assurance that Philly Shipyard will obtain new orders or financing for vessels.

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. The decrease in the shipyard's workforce may make it more difficult for the shipyard to increase its workforce to desirable levels as production ramps up on the NSMV program. The shipyard's productivity and profitability depends substantially on its ability to attract and retain skilled workers. Philly Shipyard will not fully cover the estimated under-recovered overhead costs in its 2020 forecast. It is expected this under-recovery will decline as employment ramps up for the NSMV program.

Given the NSMVs are prototype vessels, there is a higher technical design risk and a higher project execution risk compared to the construction of vessels based on a proven design, such as the series of product tankers built by the shipyard. This prototype risk increases the current construction cost estimation uncertainty and the likelihood of occurrence of contract contingencies. In particular, failure to meet Philly Shipyard's performance obligations to deliver vessels on time and within the contract specifications can potentially lead to penalties and ultimately contract termination.

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'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 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. For example, government projects generally are subject to suspension, termination or a reduction in scope at the option of the customer, although the customer is typically required to pay for work performed and materials purchased through the date of termination.

Philly Shipyard has entered the ship drydocking and repair market and 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.

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.

There is a risk of adverse impacts on shipyard operations due to the COVID-19 crisis. Regarding the NSMV program, the initial period of performance of approximately twelve months is focused on design, engineering and procurement activities. It is expected personnel involved in this pre-production phase (including subcontractors) would operate using remote operations and coordinate via video conferencing, communication portals, email and telephone. Following this initial phase, it is expected that the work on the NSMV program would qualify as essential services and, as such, operations in the shipyard would be permitted.

For a further analysis of risks, please refer to the Company's 2019 annual report.

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Q1 Unaudited 2020	Q1 2019	Full Year 2019 *
Operating revenues and other income	7.5	18.9	28.2
Operating expenses	(13.3)	(20.4)	(45.5)
Operating loss before depreciation - EBITDA	**(5.8)**	**(1.5)**	**(17.3)**
Depreciation	(1.7)	(1.8)	(7.1)
Reversal of impairment of assets	-	-	3.1
Operating loss - EBIT	**(7.5)**	**(3.3)**	**(21.3)**
Net financial items	(0.1)	(0.1)	0.1
Loss before tax	**(7.6)**	**(3.4)**	**(21.2)**
Tax benefit	15.0	-	1.0
Income/(loss) after tax **	**7.4**	**(3.4)**	**(20.2)**
Weighted average number of shares	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted income/(loss) per share (USD)	**0.61**	**(0.28)**	**(1.67)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q1 Unaudited 2020	Q1 2019	Full Year 2019 *
Income/(loss) after tax	7.4	(3.4)	(20.2)
Other comprehensive income, net of income tax	-	-	-
Total comprehensive income/(loss) for the period **	**7.4**	**(3.4)**	**(20.2)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 31 Mar. 2020	31 Dec. 2019 *
Assets		
Non-current assets		
Property, plant and equipment	24.9	26.1
Right-of-use asset	12.7	13.0
Income tax receivable (long-term)	2.0	-
Other non-current assets	0.2	0.3
Total non-current assets	**39.8**	**39.4**
Current assets		
Cash and cash equivalents	44.5	50.7
Contract asset	2.6	1.6
Restricted cash - Welcome Fund loan	-	60.9
Restricted cash - Matson	1.4	5.6
Income tax receivable (short-term)	13.2	0.2
Other current assets	8.4	3.4
Total current assets	**70.1**	**122.4**
Total assets	**109.9**	**161.8**
Equity and liabilities		
Total equity	**98.7**	**91.3**
Non-current liabilities		
Deferred tax liability	2.2	2.2
Other non-current liabilities	0.2	-
Total non-current liabilities	**2.4**	**2.2**
Current liabilities		
Interest-bearing debt - Welcome Fund loan	-	59.9
Trade payables, accrued liabilities and provisions	8.8	8.4
Total current liabilities	**8.8**	**68.3**
Total liabilities	**11.2**	**70.5**
Total equity and liabilities	**109.9**	**161.8**

* Annual 2019 financial information is derived from audited financial statements.
** All attributed to the equity holders of PHLY.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	3 Months Ended 31 Mar.	
	Unaudited	
Amounts in USD millions	**2020**	**2019 ***
As of beginning of period	91.3	111.5
Total comprehensive income/(loss) for the period *	7.4	(3.4)
As of end of period	**98.7**	**108.1**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	3 Months Ended 31 Mar.	
	Unaudited	
Amounts in USD millions	**2020**	**2019 ***
Net cash used in operating activities	(7.0)	(8.5)
Investment in property, plant and equipment	(0.1)	-
Dividend received from equity-accounted investments	-	44.6
Net cash (used in)/from investing activities	(0.1)	44.6
Welcome Fund loan escrow received back/(portion held in escrow)	60.9	(13.1)
Repayment of the Welcome Fund loan	(60.0)	-
Net cash from/(used in) financing activities	0.9	(13.1)
Net change in cash and cash equivalents	**(6.2)**	**23.0**
Cash and cash equivalents at beginning of period	50.7	49.6
Cash and cash equivalents at end of period	**44.5**	**72.6**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 1st quarter 2020

1. Introduction – Philly Shipyard ASA

Philly Shipyard ASA (PHLY) is a company domiciled in Norway. The condensed interim consolidated financial statements for the three-month periods ended 31 March 2020 and 31 March 2019 are comprised of PHLY and its direct and indirect wholly-owned subsidiaries (collectively referred to herein as the Group), including Philly Shipyard, Inc. (PSI).

This interim report has not been subject to audit or review by independent auditors.

The audited consolidated financial statements of PHLY as of and for the year ended 31 December 2019, which include a detailed description of accounting policies and significant estimates, are available at www.phillyshipyard.com.

2. Basis of preparation

These condensed interim consolidated financial statements reflect all adjustments, in the opinion of PHLY's management, that are necessary for a fair presentation of the results of operations for the period presented. Operating results for the three-month period are not necessarily indicative of the results that may be expected for any subsequent quarter or year.

The going concern assumption

The interim 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. Due to the award of the NSMV program and continued waiver of the minimum employment conditions in the shipyard lease agreement, the material uncertainty as highlighted in the 2019 annual report is significantly reduced.

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.

3. Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union IAS 34 *Interim Financial Reporting* (IAS 34). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of PHLY as of and for the year ended 31 December 2019.

4. Significant accounting principles

The accounting policies applied by PHLY in these condensed interim consolidated financial statements are substantially the same as those applied by PHLY in its audited consolidated financial statements as of and for the year ended 31 December 2019.

5. Use of estimates

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The most significant judgments made by management in preparing these condensed interim consolidated financial statements in applying PHLY's accounting policies, and the key sources of estimation uncertainty, are the same as those that are applied to the audited consolidated financial statements as of and for the year ended 31 December 2019 unless described elsewhere in this report.

6. Tax estimates

Income tax benefit/(expense) is recognized in each interim period based on the best estimate of the expected annual income tax rates. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted by the U.S. Congress on 27 March 2020, allows for the carryback of net operating losses (NOL) arising in taxable years beginning after 31 December 2017, and before 1 January 2021, to the five taxable years preceding the loss year. This rule allows corporate taxpayers the opportunity to carry back NOLs to tax years as far back as 2013. As the company had qualifying taxable losses in 2018, 2019 and Q1 2020, these losses will be carried back to previous tax years and result in a tax benefit of approximately USD 15.0 million.

7. Share capital and equity

At 31 March 2020 and 31 March 2019, PHLY had 12,107,901 ordinary shares (excluding 466,865 own shares) at a par value of NOK 10 per share. There were no share issuances or repurchases for the quarters ended 31 March 2020 and 31 March 2019. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for the quarters ended 31 March 2020 and 31 March 2019.

8. Interest-bearing debt

The following shows changes in interest-bearing debt during 2020:

Amounts in USD millions	Non-current debt	Current debt	Total interest-bearing debt
Balance 31 December 2019	-	**59.9**	**59.9**
Reclass of debt	-	0.1	0.1
Repayment of debt	-	(60.0)	(60.0)
Balance 31 March 2020	-	-	-

PSI had a secured term loan of up to USD 60.0 million with PIDC Regional Center, LP XXXI, a partnership between CanAm Enterprises and the Philadelphia Industrial Development Corporation (PIDC). The 5-year loan had a fixed interest rate of 2.625% per annum through maturity 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 was secured by a first lien on USD 60.9 million of restricted cash as of 31 December 2019 to cover all remaining debt service, including repayment in full at maturity. Substantially all loan covenants, including all financial covenants, were released in connection with the defeasance of the loan. On 16 March 2020, Philly Shipyard paid off the USD 60.0 million outstanding Welcome Fund loan together with all accrued interest thereon.

9. Related party transactions

Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder of PHLY, owning 57.6% of its total outstanding shares as of 31 March 2020. In addition, Kristian Røkke, the newly elected Chairman of the Board of Directors of PHLY, is a Board member of TRG Holding AS, which owns 66.7% of the total outstanding shares of Aker ASA as of 31 March 2020.

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 for the three-month period ending 31 March 2020 were USD 30 thousand (USD 30 thousand for the same period in 2019).

10. Capitalized interest

	Q1	
Amounts in USD millions	**2020**	**2019**
Interest expense	(0.3)	(0.4)
Interest capitalized on construction contracts	-	-
Net interest expense	**(0.3)**	**(0.4)**

11. Construction contracts

The order backlog for ship newbuild programs is USD 0 at 31 March 2020. 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.

Amounts in USD millions	Order backlog 31 Mar. 2020	Order intake 3 months to 31 Mar. 2020	Order backlog 31 Dec. 2019
	-	-	-

Typical variable consideration elements identified in the Company's contracts with customers include liquidated damages, performance guarantees and warranties.

Customer advances, net as of 31 March 2020 and 31 December 2019 both totaled USD 0. Customer advances, net represents the difference between cash advances received from the customer for newbuild vessels and costs incurred for those same vessels.

As of 31 March 2020, Philly Shipyard did not have any non-cancellable purchase commitments for materials and equipment (unpaid liabilities) for the construction of ships.

12. Operating revenues and other income

	Q1	
Amounts in USD millions	**2020**	**2019**
Shipbuilding	-	18.9
Ship repair and maintenance	7.4	-
Government study	0.1	-
Operating revenues and other income	**7.5**	**18.9**

(a) No shipbuilding revenue was recognized in Q1 2020 as the last vessel under construction (Matson vessel Hull 030) was delivered in Q1 2019.

(b) Ship repair and maintenance reflects the Company's second drydocking contract, the FSS *Pollux;* work on the FSS *Pollux* began in January 2020 and is expected to be completed in Q2 2020.

(c) Government study pertains to the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program for which Philly Shipyard is providing design studies.

13. Financial instruments

As of 31 March 2020, the Company had no forward exchange contracts or other financial instruments.

14. Commitments and contingencies

Pursuant to the Shipyard Lease between PSI and 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 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, with the award of the NSMV program, now remains in effect until PSI reaches the 200 full-time employee requirement.

15. Subsequent events after 31 March 2020

On 8 April, Philly Shipyard was awarded a subcontract by TOTE Services for the construction of up to five (5) National Security Multi-Mission Vessels (NSMV) for the U.S. Department of Transportation's Maritime Administration (MARAD) and received an initial order for the first two vessels.

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