Philly Shipyard ASA (OSE: PHLY)
Q2 2020 and Half-Year 2020 Results

14 July 2020

Key Events

- ✓ Philly Shipyard was awarded a contract by TOTE Services for the construction of up to five National Security Multi-Mission Vessels (NSMVs) for the U.S. Department of Transportation's Maritime Administration (MARAD) and received an initial order for the first two vessels
- ✓ Order backlog of USD 596.6 million on 30 June 2020 with last delivery in 2023
- ✓ Second quarter and first half 2020 operating revenues and other income of USD 46.2 million and USD 53.7 million, respectively, compared to USD 0 and USD 18.9 million in the same periods in 2019
- ✓ Second quarter and first half 2020 EBITDA of negative USD 1.0 million and negative USD 6.8 million, respectively, compared to negative USD 3.3 million and negative USD 4.8 million in the same periods in 2019
- ✓ Second quarter and first half 2020 net income of USD 1.7 million and USD 9.1 million, respectively, driven primarily by a favorable income tax benefit resulting from the CARES Act, compared to net loss of USD 2.8 million and USD 6.2 million in the same periods in 2019
- ✓ Total cash and cash equivalents of USD 77.0 million at 30 June 2020, excluding USD 26.4 million of total restricted cash
- ✓ As the coronavirus develops across the world, Philly Shipyard continues to take measures to mitigate the risk for operational disruptions and reduce risk of outbreaks and its consequences

Operations

Ship repair and maintenance activity continued in Q2 2020 as a result of a contract for drydocking of the FSS *Pollux*, a U.S. Government cargo ship, which 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 repair and maintenance contracts, allowed Philly Shipyard to recall some of its laid-off workers. The total workforce was approximately 300 at the end of Q2 2020. Philly Shipyard will continue to adjust its workforce in line with its backlog. Philly Shipyard is continuing to opportunistically pursue other ship repair and maintenance contracts.

Philly Shipyard continues to work on an industry study supporting 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 Cutter (OPC) program.

Efforts are underway on MARAD's National Security Multi-Mission Vessel (NSMV) program, with Philly Shipyard and its team focused on the engineering, procurement and planning work needed to support the scheduled production start on NSMV 1 by Q1 2021.

Notwithstanding the COVID-19 pandemic, operations are continuing and ongoing projects are moving forward. However, the impacts of the coronavirus on the shipyard's workforce have contributed to schedule delay 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 Q2 2020 compared to 0.23 at the end of Q2 2019. The most recent LTI occurred in Q4 2018; there were zero LTIs in 2019 and in the first six months of 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 3.29 at the end of Q2 2020 compared to 2.93 at the end of Q2 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 coronavirus. 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, monitoring the temperatures of everyone entering the yard, and social distancing. This list is not necessarily inclusive of every action being taken as precautions are being added continuously. A total of 128 sick and FMLA (Family and Medical Leave Act) days have been reported as coronavirus-related for 18 Philly Shipyard direct employees through 30 June 2020.

Financial Information

Second Quarter 2020 Results

Operating revenues and other income for Q2 2020 were USD 46.2 million compared to operating revenues and other income of USD 0 for Q2 2019. In Q2 2020, there was recognized shipbuilding revenue on the first two NSMV vessels (Hulls 033 & 034), continued ship repair and maintenance work on the FSS *Pollux* as well as government study work for the CHAMP and OPC programs, whereas in Q2 2019 there was no shipbuilding or other revenue generating activity. 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 Q2 2020 was negative USD 1.0 million compared to EBITDA of negative USD 3.3 million for Q2 2019. EBITDA for Q2 2020 was driven primarily by (a) USD 3.2 million of under-recovered overhead costs (i.e., overhead expenses incurred and not allocated to projects), and (b) USD 1.3 million of SG&A costs, partially offset by (c) the margin recognized on the two NSMV vessels, and (d) the margins recognized on the FSS *Pollux* ship repair and maintenance project and government study work for the CHAMP and OPC programs. EBITDA for Q2 2019 was mainly driven by the lack of any shipbuilding or other revenue generating activity.

Net income for Q2 2020 was USD 1.7 million compared to net loss of USD 2.8 million for Q2 2019. Net income for Q2 2020 consists of (a) EBITDA of negative USD 1.0 million, and (b) depreciation expense of USD 1.6 million, offset by (c) net financial income of USD 0.1 million, and (d) income tax benefit of USD 4.2 million. Net loss for Q2 2019 consists of (1) EBITDA of negative USD 3.3 million, and (2) depreciation expense of USD 1.8 million, partially offset by (3) a reversal of USD 2.2 million of impairment of assets that were written-off and charged as asset impairment costs in 2018, and (4) net financial income of USD 0.1 million.

Year-to-Date 2020 Results

Operating revenues and other income in the first six months of 2020 ended at USD 53.7 million compared to operating revenues and other income of USD 18.9 million in the first six months of 2019. June 2020 year-to-date operating revenues and other income were primarily driven by initial progress on the first two NSMV vessels (Hulls 033 & 034), continued ship repair and maintenance work on the FSS *Pollux*, and government study work for the CHAMP and OPC programs, whereas June 2019 year-to-date operating revenues and other income were primarily driven by the remaining progress on the Matson vessels (Hulls 029 & 030).

EBITDA for the first six months of 2020 was negative USD 6.8 million compared to EBITDA of negative USD 4.8 million in the same period of 2019.

Net income for the first six months of 2020 was USD 9.1 million compared to net loss of USD 6.2 million in the same period of 2019. Net income for 2020 is impacted by a USD 19.2 million income tax benefit resulting from passage of The Coronavirus Aid, Relief, and Economic Security (CARES) Act. Please see note 6 for further details.

Statement of Financial Position

Total assets were USD 170.8 million at 30 June 2020 compared to USD 161.8 million at 31 December 2019, with the increase resulting mainly from additional cash (unrestricted), restricted cash of USD 25.0 million deposited in an escrow account as cash collateral for the performance and payment bonds required by TOTE Services to support the NSMV program, and an income tax receivable of USD 19.3 million mostly offset by the use of restricted cash to repay the entire USD 60.0 million Welcome Fund loan.

Total interest-bearing debt was USD 0 at 30 June 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 (unrestricted) were USD 77.0 million at 30 June 2020 compared to USD 50.7 million at 31 December 2019. The increase of USD 26.3 million was due to (a) net customer advances on the two NSMV vessels of USD 58.9 million, and (b) a net increase of USD 0.9 million of net cash released from a collateral account upon payoff of the Welcome Fund loan, offset partially by (c) operational spending of USD 33.1 million including the USD 25.0 million cash collateral deposit described above, and (d) capex spending of USD 0.4 million.

Total restricted cash as of 30 June 2020 amounted to USD 26.4 million, of which USD 25.0 million (long-term) represents the cash collateral deposit described above and USD 1.4 million (short-term) pertains to a holdback for guarantees, deficiencies and disputed items for Hull 030, which is expected to be fully released by Matson 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 USD 60.0 million Welcome Fund loan at its maturity in March 2020; the USD 0.9 million balance was released to Philly Shipyard. 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 12.3 million at 30 June 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, which took effect 1 January 2019.

Total equity increased to USD 100.4 million at 30 June 2020 from USD 91.3 million at 31 December 2019 due to net income of USD 9.1 million.

Financing
The Company has no external financing as of the end of Q2 2020. 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 revised the Company's dividend policy as follows:

"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's focus is on long-term profitability, and its current priorities are to retain a strong balance sheet and cash position. Accordingly, no dividends are contemplated until further notice."

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 30 June 2020, Philly Shipyard had a USD 596.6 million order backlog for two National Security Multi-Mission Vessels (NSMVs). During Q2 2020, Philly Shipyard was awarded a contract for the construction of up to five NSMVs from TOTE Services, LLC (TOTE Services) as the vessel construction manager for the U.S. Department of Transportation's Maritime Administration (MARAD). 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 total contract value of the initial award is approximately USD 630 million (before any revenue recognition) 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 (before any revenue recognition) and this project would span the next five years.

The NSMVs will be constructed using commercial design standards and commercial construction practices consistent with the best interests of the U.S. Government. Engineering, procurement and planning work for the NSMV program is already underway with a scheduled start of construction for NSMV 1 by Q1 2021.

Even with this backlog, Philly Shipyard expects it will continue to incur operating losses in 2020 and into 2021 due to the under-recovery of overhead costs. It is expected this under-recovery will decline as employment ramps up to full capacity for the NSMV program in the second half of 2021.

Securing the award of the contract for the NSMV program is a significant step in the Company's strategy to reposition the shipyard for a mix of government and commercial projects. This diversification strategy will allow the Company to participate in the high-activity government sector and withstand lulls in the cyclical Jones Act market. As part of this effort, Philly Shipyard has also secured contracts for the following government work:

- Philly Shipyard continues to perform its second ship repair and maintenance contract on the FSS *Pollux*, a large MARAD vessel that is managed by TOTE Services. Work on the FSS *Pollux* began in January 2020, shortly after the re-delivery of its sister ship, the FSS *Antares*, in December 2019, and was originally scheduled to end in Q2 2020. This work is now expected to last until mid-Q3 2020 due to schedule impacts mainly arising from growth work and the coronavirus.
- Philly Shipyard continues its work on the industry study for the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program. The CHAMP program is a multi-phase effort that involves design studies, preliminary design, and detailed 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.
- Philly Shipyard has begun its work on the industry study for the U.S. Coast Guard's Offshore Patrol Cutter (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 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 shipyard to continuously utilize its drydocks. Either of the CHAMP or OPC programs' proposed DD&C schedules would dovetail after the last delivery of the NSMV program if all five ships are built in series. Therefore, Philly Shipyard intends to pursue each of these programs as prime contractor when requests for proposals (RFPs) are issued. Meanwhile, Philly Shipyard continues to explore a variety of other government and commercial projects to ensure continuous shipbuilding activities at the shipyard following the last NSMV built in series.

Shipping

Since the liquidation of Philly Tankers was completed in Q2 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

Market 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 experienced in securing new orders interrupted its building program, resulting in the idling of all production activities in its facility except for those associated with ship repair and maintenance 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 its overhead costs until employment ramps up to full capacity for the NSMV program.

Operational risks
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.

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. The NSMVs will be constructed using commercial design standards and commercial construction practices consistent with the best interests of the U.S. Government.

Philly Shipyard has entered the ship repair and maintenance 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 and experience it gains from the first two ship repair and maintenance contracts should result in improved performance on any subsequent ship repair and maintenance contracts. However, there is risk that Philly Shipyard will face additional challenges as it bids on and performs repair and maintenance work on the future ships. Additionally, if Philly Shipyard is unable to secure additional ship repair and maintenance contracts to dovetail with the completion of the FSS *Pollux*, then Philly Shipyard will decrease its workforce accordingly.

Financial risks
Philly 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. No third party financing is needed, and Philly Shipyard has furnished the bonds required by TOTE Services to support the construction of NSMVs 1 and 2.

Legislation has been proposed that could result in the reversal of some or all of the income tax benefit to Philly Shipyard from The Coronavirus Aid, Relief, and Economic Security (CARES) Act. The Company is closely monitoring the situation.

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.

Responsibility Statement

The unaudited condensed interim consolidated financial statements and interim financial report as of and for the six months ended 30 June 2020 were approved by the Board of Directors and the President and CEO on 14 July 2020.

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as endorsed by the European Union and the Norwegian additional requirements in the Securities Trading Act.

To the best of our knowledge, the condensed interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit of PHLY, and the interim management report of PHLY includes a fair review of the development and performance of the business and the position of PHLY, together with a description of the principle opportunities and risks associated with the expected development of PHLY for the remaining months of the financial year.

Oslo, Norway
14 July 2020
Board of Directors and President and CEO
Philly Shipyard ASA

Kristian Røkke
Board Chairman

Amy Humphreys
Deputy Board Chairman

Elin Karfjell
Board Member

Steinar Nerbøvik
President and CEO

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Q2 Unaudited 2020	Q2 2019	6 Months Ended 30 June Unaudited 2020	6 Months Ended 30 June 2019 *	Full Year 2019 *
Operating revenues and other income	46.2	-	53.7	18.9	28.2
Operating expenses	(47.2)	(3.3)	(60.5)	(23.7)	(45.5)
Operating loss before depreciation - EBITDA	**(1.0)**	**(3.3)**	**(6.8)**	**(4.8)**	**(17.3)**
Depreciation	(1.6)	(1.8)	(3.3)	(3.6)	(7.1)
Reversal of impairment of assets	-	2.2	-	2.2	3.1
Operating loss - EBIT	**(2.6)**	**(2.9)**	**(10.1)**	**(6.2)**	**(21.3)**
Net financial items	0.1	0.1	-	-	0.1
Loss before tax	**(2.5)**	**(2.8)**	**(10.1)**	**(6.2)**	**(21.2)**
Tax benefit	4.2	-	19.2	-	1.0
Income/(loss) after tax **	**1.7**	**(2.8)**	**9.1**	**(6.2)**	**(20.2)**
Weighted average number of shares	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted income/(loss) per share (USD)	**0.14**	**(0.23)**	**0.75**	**(0.52)**	**(1.67)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q2 Unaudited 2020	Q2 2019	6 Months Ended 30 June Unaudited 2020	6 Months Ended 30 June 2019 *	Full Year 2019 *
Income/(loss) after tax	1.7	(2.8)	9.1	(6.2)	(20.2)
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive income/(loss) for the period **	**1.7**	**(2.8)**	**9.1**	**(6.2)**	**(20.2)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 30 June 2020	31 Dec. 2019 *
Assets		
Non-current assets		
Property, plant and equipment	23.9	26.1
Right-of-use asset	12.3	13.0
Restricted cash - TOTE Services	25.0	-
Income tax receivable (long-term)	6.2	-
Other non-current assets	0.5	0.3
Total non-current assets	**67.9**	**39.4**
Current assets		
Cash and cash equivalents (unrestricted)	77.0	50.7
Contract asset	3.0	1.6
Restricted cash - Welcome Fund loan	-	60.9
Restricted cash - Matson	1.4	5.6
Income tax receivable (short-term)	13.1	0.2
Other current assets	8.4	3.4
Total current assets	**102.9**	**122.4**
Total assets	**170.8**	**161.8**
Equity and liabilities		
Total equity	**100.4**	**91.3**
Non-current liabilities		
Deferred tax liability	2.2	2.2
Total non-current liabilities	**2.2**	**2.2**
Current liabilities		
Interest-bearing debt - Welcome Fund loan	-	59.9
Trade payables, accrued liabilities and provisions	9.3	8.4
Customer advances, net	58.9	-
Total current liabilities	**68.2**	**68.3**
Total liabilities	**70.4**	**70.5**
Total equity and liabilities	**170.8**	**161.8**

* Annual 2019 financial information is derived from audited financial statements.

** All attributed to the equity holders of PHLY.

Philly Shipyard

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in USD millions	6 Months Ended 30 June Unaudited 2020	2019 *
As of beginning of period	91.3	111.5
Total comprehensive income/(loss) for the period *	9.1	(6.2)
As of end of period	**100.4**	**105.3**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	6 Months Ended 30 June Unaudited 2020	2019 *
Net cash from/(used in) operating activities	25.8	(15.1)
Investment in property, plant and equipment	(0.4)	(0.1)
Dividend received from equity-accounted investments	-	44.6
Net cash (used in)/from investing activities	(0.4)	44.5
Welcome Fund loan escrow received back/(portion held in escrow)	60.9	(20.2)
Repayment of the Welcome Fund loan	(60.0)	-
Net cash from/(used in) financing activities	0.9	(20.2)
Net change in cash and cash equivalents	**26.3**	**9.2**
Cash and cash equivalents at beginning of period	50.7	49.6
Cash and cash equivalents at end of period	**77.0**	**58.8**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 2nd quarter and year-to-date 2020

1. Introduction – Philly Shipyard ASA

Philly Shipyard ASA (PHLY) is a company domiciled in Norway. These condensed interim consolidated financial statements for the three-month and six-month periods ended 30 June 2020 and 30 June 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 periods presented. Operating results for the three-month and year-to-date periods are not necessarily indicative of the results that may be expected for any subsequent quarter or period.

The going concern assumption

These condensed 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.

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.

There have not been any new IFRS standards or interpretations which were effective 1 January 2020 that have had a significant impact on Q2 2020 or the year-to-date period.

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 the first six months of 2020, these losses will be carried back to previous tax years and result in an income tax benefit of approximately USD 19.2 million.

7. Share capital and equity

At 30 June 2020 and 30 June 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 and year-to-date periods ended 30 June 2020 and 30 June 2019. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for the quarters and year-to-date periods ended 30 June 2020 and 30 June 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 30 June 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 30 June 2020. Kristian Røkke, the 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 30 June 2020.

Philly Shipyard has a service agreement with an affiliate of Aker ASA which provides specified tax services. All payables under this agreement 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 30 June 2020 were USD 30 thousand (USD 30 thousand for the same period in 2019) and for the six-month period ending 30 June 2020 were USD 60 thousand (USD 60 thousand for the same period in 2019).

10. Capitalized interest

	Q2		6 Months Ended 30 June	
Amounts in USD millions	**2020**	**2019**	**2020**	**2019**
Interest expense	-	(0.4)	(0.3)	(0.8)
Interest capitalized on construction contracts	-	-	-	-
Net interest expense	**-**	**(0.4)**	**(0.3)**	**(0.8)**

11. Construction contracts

The order backlog for ship newbuilds is USD 596.6 million at 30 June 2020 and represents an obligation to deliver vessels (Hulls 033 & 034) that have not yet been produced for the Company's customer: TOTE Services. Order backlog consists of future construction contract revenues and is subject to adjustment based on change orders as defined in the construction contract. Vessels under contract for ship repair and maintenance work are not included in the order backlog.

Amounts in USD millions	Order backlog 30 June 2020	Order intake 6 months to 30 June 2020	Order backlog 31 Dec. 2019
	596.6	**632.5**	**-**

The recognized profit on long-term construction contracts in process (Hulls 033-034) as of 30 June 2020 is as follows:

Amounts in USD millions	30 June 2020
Contract revenue recognized to date	35.9
Less: contract expenses recognized to date	(33.6)
Recognized profit to date (Hulls 033-034)	**2.3**
Contract costs incurred to date (Hulls 033-034)	**33.7**

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

As of 30 June 2020, the Company has one contract in progress that is accounted for using the percentage-of-completion method per IFRS 15 *Revenue from Contracts with Customers*. The Company is building two NSMVs for TOTE Services (Hulls 033 & 034) scheduled for delivery in 2023. Philly Shipyard will recognize contract revenues and expenses for the two-vessel order from TOTE Services as one project. As of 30 June 2020, the TOTE Services project is approximately 5.7% complete.

Customer advances, net as of 30 June 2020 and 31 December 2019 totaled USD 58.9 million and 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 30 June 2020, Philly Shipyard has non-cancellable purchase commitments for materials and equipment (unpaid liabilities) of approximately USD 207.4 million for the construction of Hulls 033 and 034.

12. Operating revenues and other income

	Q2		6 Months Ended 30 June	
Amounts in USD millions	**2020**	**2019**	**2020**	**2019**
Shipbuilding	35.9	-	35.9	18.9
Ship repair and maintenance	8.7	-	16.1	-
Government study (CHAMP)	0.7	-	0.8	-
Government study (OPC)	0.9	-	0.9	-
Operating revenues and other income	**46.2**	**-**	**53.7**	**18.9**

(a) Shipbuilding revenue of USD 35.9 million in 2020 results from the first two National Security Multi-Mission Vessels (Hulls 033 & 034) being constructed for the U.S. Department of Transportation's Maritime Administration. Shipbuilding revenue of USD 18.9 million in 2019 results from the remaining progress on the two-vessel CV3600 containership project built for Matson (Hulls 029 & 030).

(b) Ship repair and maintenance revenue results from PSI's second drydocking contract, the FSS *Pollux;* work on the FSS *Pollux* began in January 2020 and is expected to be completed in Q3 2020.

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

(d) Government study (OPC) revenue results from the U.S. Coast Guard's Offshore Patrol Cutter program for which Philly Shipyard is providing an industry study.

13. Financial instruments

As of 30 June 2020, the Company had no forward exchange contracts or other financial instruments.

14. Commitments and contingencies

Pursuant to the Shipyard Lease between PSI and 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 the gap in shipbuilding activity following the delivery of the last vessel (Hull 030) in Q2 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.

Contact information:

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

Steinar Nerbøvik
President and CEO
Tel: +1 215 875 2600
steinar.nerbovik@phillyshipyard.com

Brian Leathers
Chief Financial Officer
Tel: +1 215 875 2600
brian.leathers@phillyshipyard.com

Nicolai Haugland
Vice President
Tel: +47 23 11 91 00
nicolai.haugland@phillyshipyard.com

Disclaimer

This press release 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," "anticipates," "intends" 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 press release 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 press release. 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 press release, 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 press release.

Philly Shipyard ASA undertakes no obligation to publicly update or revise any forward-looking information or statements in the press release, 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 press release we may sometimes use the "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.

This report does not constitute an offer of any securities for sale.