Philly Shipyard ASA (OSE: PHLY)
Q4 2020 and Full Year 2020 Results

11 February 2021

Key Events and Highlights

- ✓ Continued positive progress on engineering, procurement and planning work for the National Security Multi-Mission Vessel (NSMV) program and cut steel on the first NSMV
- ✓ Order backlog of USD 601.8 million on 31 December 2020 with last delivery in 2023
- ✓ Total cash and cash equivalents of USD 97.4 million at 31 December 2020, excluding USD 26.4 million of restricted cash
- ✓ Fourth quarter and full year 2020 operating revenues and other income of USD 7.7 million and USD 54.2 million, respectively, compared to USD 5.5 million and USD 28.2 million in the same periods in 2019
- ✓ Fourth quarter and full year 2020 net income of USD 2.6 million and USD 4.9 million, respectively, including a favorable income tax benefit resulting from the CARES Act and deferred tax assets, compared to net losses of USD 5.0 million and USD 20.2 million in the same periods in 2019
- ✓ Reached milestone of 1,000,000 consecutive work hours without a single lost time incident
- ✓ As the COVID-19 pandemic develops across the world, Philly Shipyard continues to take measures to mitigate the risk for operational disruptions

Subsequent Events and Highlights

- ✓ Received order for two additional NSMVs with total contract value of approximately USD 600 million, bringing the order backlog to over USD 1 billion and visibility of deliveries into 2024
- ✓ Awarded industry design study contract for the U.S. Navy's Cable Ship T-ARC(X) replacement program
- ✓ Selected for repair and maintenance work on the USNS *Charlton*, a large roll-on/roll-off ship for the U.S. Navy's Military Sealift Command (MSC)

Operations

Efforts are continuing on the National Security Multi-Mission Vessel (NSMV) program, with Philly Shipyard and its team advancing the engineering, procurement and planning work in accordance with plan. Philly Shipyard celebrated its first construction milestone in December 2020 with a virtual steel cutting ceremony and then commenced production of pilot blocks for this ship in January 2021. Philly Shipyard remains on target to start production on NSMV 2 in Q2 2021. Recruiting efforts are continuing to mobilize and ramp up the workforce in time to support this work. Related to this process, Philly Shipyard is restarting its apprenticeship program and reopening its training facility.

Philly Shipyard continues to work on industry design studies supporting three government shipbuilding programs, including the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program, the U.S. Coast Guard's Offshore Patrol Cutter (OPC) program, and the U.S. Navy's Auxiliary General Ocean Surveillance (T-AGOS) program. Philly Shipyard will soon begin work on industry design studies supporting a fourth government shipbuilding program, the U.S. Navy's Cable Ship T-ARC(X) replacement program.

Notwithstanding the COVID-19 pandemic, operations are continuing and ongoing projects are moving forward. Philly Shipyard continues to take precautionary measures to safeguard employees and subcontractors against the coronavirus and reduce the risk of outbreaks.

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 zero at the end of Q4 2020 and Q4 2019. The most recent LTI occurred in Q4 2018; there were zero LTIs in 2019 and in 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 2.13 at the end of Q4 2020 compared to 1.38 at the end of Q4 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 applicable guidelines by federal, state and local authorities, including the Centers for Disease Control and Prevention (CDC), to minimize the risk of transmission of the coronavirus. Currently, the implementation of these guidelines includes, without limitation, the use of teleworking when possible, additional cleaning and sanitizing staff, limitations on the size of meetings, limitations on the number of visitors, restrictions on travel, training on proper hygiene and hand washing, requiring face coverings and social distancing, and monitoring the temperatures of everyone entering the shipyard. It is anticipated that COVID-19 vaccinations will be available to the workforce during Q2 2021.

Financial Information

Fourth Quarter 2020 Results

Operating revenues and other income for Q4 2020 was USD 7.7 million compared to operating revenues and other income of USD 5.5 million for Q4 2019. In Q4 2020, there was revenue from progress on the first two NSMV vessels (Hulls 033-034) and government design studies, whereas in Q4 2019 there was no shipbuilding revenue; however, in Q4 2019 there was revenue from ship repair and maintenance work and a government design study.

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 Q4 2020 was negative USD 7.1 million compared to EBITDA of negative USD 5.1 million for Q4 2019. Negative EBITDA for Q4 2020 was driven primarily by (a) under-recovered overhead costs (i.e., overhead expenses incurred and not allocated to projects), and (b) SG&A costs, slightly offset by (c) the margins recognized on the NSMV shipbuilding project and work on government design studies. Negative EBITDA for Q4 2019 was driven primarily by (a) under-recovered overhead costs, (b) SG&A costs, (c) a loss on a ship repair and maintenance project, and (d) adjustment to the warranty provision, offset partially by (e) reimbursement for fuel and other items for the second Matson vessel (Hull 030), (f) reversal of previously incurred liabilities for delivered ships and (g) profit on a government design study. The under-recovery of overhead costs in these periods is attributable to operating at less than full capacity.

Net income for Q4 2020 was USD 2.6 million compared to net loss of USD 5.0 million for Q4 2019. Net income for Q4 2020 consists of (a) EBITDA of negative USD 7.1 million and (b) depreciation expense of USD 1.5 million, offset partially by (c) an income tax benefit of USD 11.2 million. Net loss for Q4 2019 consists of (a) EBITDA of negative USD 5.1 million, (b) depreciation expense of USD 1.7 million and (c) net financial expense of USD 0.1 million, offset partially by (d) the partial reversal of impairment of assets of USD 0.9 million pertaining to the cancellation of the CV3700 project and (e) a tax benefit of USD 1.0 million.

Full Year 2020 Results

Operating revenues and other income in 2020 amounted to USD 54.2 million compared to operating revenues and other income of USD 28.2 million in 2019. Operating revenues and other income in 2020 was primarily driven by progress on the first two NSMV vessels (Hulls 033-034), ship repair and maintenance work and government design studies, whereas operating revenues and other income in 2019 was primarily driven by progress on the second Matson vessel (Hull 030), ship repair and maintenance work and a government design study.

EBITDA for 2020 was negative USD 21.5 million compared to EBITDA of negative USD 17.3 million in 2019. Negative EBITDA for both years was mainly driven by under-recovery of overhead costs due to operating at less than full capacity. EBITDA for 2019 was strengthened by the release of USD 2.0 million of provisions for ship liabilities and the reversal of USD 3.1 million of previously incurred cancellation costs for the CV3700 project in 2018.

Net income for 2020 was USD 4.9 million compared to net loss of USD 20.2 million in 2019. Net income for 2020 is impacted by USD 32.5 million income tax benefit resulting from passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the recognition of deferred tax assets. Please see note 6 for further details.

Statement of Financial Position
Total assets were USD 240.3 million at 31 December 2020 compared to USD 161.8 million at 31 December 2019, with the increase resulting mainly from (a) an increase in cash and cash equivalents (unrestricted) of USD 46.7 million, (b) a net decrease in restricted cash of USD 40.1 million, (c) an increase in other current assets of USD 42.0 million, including USD 39.6 million due to prepayments to suppliers for the NSMV program, (d) an increase in income tax receivable (long-term and short-term) of USD 22.3 million due to the CARES Act and (e) an increase in deferred tax assets (long-term) of USD 8.5 million. The key factors contributing to the changes in cash and cash equivalents (unrestricted) and restricted cash are described below.

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

Cash and cash equivalents (unrestricted) were USD 97.4 million at 31 December 2020 compared to USD 50.7 million at 31 December 2019. The increase of USD 46.7 million was due to (a) net customer advances on the two NSMV vessels of USD 131.0 million and (b) a net increase of USD 0.9 million of cash released from the Welcome Fund collateral account upon repayment, offset by (c) other working capital uses of USD 19.0 million, (d) USD 39.6 million in prepayments to suppliers for the NSMV program, (e) USD 25.0 million deposited in an escrow account as cash collateral for the performance and payment bonds required by the NSMV program and (f) capex spending of USD 4.0 million.

Total restricted cash as of 31 December 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 in escrow for claims related to the second Matson vessel (Hull 030). The timing of the release of the holdback is uncertain due to the impacts of the COVID-19 pandemic, including quarantine and travel restrictions, on closing-out the underlying claims.

USD 4.2 million of the restricted cash amount of USD 5.6 million at year-end 2019 for the Matson project was released from escrow in 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.

The right-of-use asset in the amount of USD 14.2 million at 31 December 2020 consists of (a) USD 12.0 million net book value of the assets that Philly Shipyard's landlord, Philadelphia Shipyard Development Corporation (PSDC), purchased from Philly Shipyard in 2011 and (b) USD 2.2 million net book value recognized as a right-of-use asset in 2020 for the shipyard and plate priming facility leases.

Total equity increased to USD 96.2 million at 31 December 2020 from USD 91.3 million at 31 December 2019 due to net income of USD 4.9 million.

Shareholder Distributions
With the recent award of NSMVs 3 and 4, the PHLY Board has revisited the company's dividend policy, as announced in the Company's Q2 2020 report. Historically, Philly Shipyard's goal has been that its shareholders will, over time, receive competitive returns on their investments through a combination of dividends and share price growth. In line with this objective, PHLY has paid out significant dividends in the past. However, current priorities are to retain a strong balance sheet and, consequently, the PHLY Board does not foresee payment of shareholder distributions, including dividends and share buybacks, sooner than the delivery of the third NSMV.

Outlook
To date, TOTE Services has ordered the first four ships in the NSMV program, with a total order intake in excess of USD 1.2 billion. These ships are destined for the state maritime academies in New York, Massachusetts, Maine and Texas. TOTE Services retains an option for the fifth vessel for the state maritime academy in California. If all five NSMVs are ordered, then the contract value would total approximately USD 1.5 billion with the final delivery in 2025.

Philly Shipyard is utilizing its commercial best practices for design and construction for this important shipbuilding program for the U.S. Government. Philly Shipyard is seeking opportunities to replicate this innovative contract model to offer the government a new, high quality, cost-effective solution to help meet its ship program needs.

Philly Shipyard expects it will continue to incur operating losses in 2021 due to the shipyard operating at less than full capacity during the ramp-up of production for the NSMV program. It is expected that operations at Philly Shipyard will reach full capacity in mid-2022.

Philly Shipyard continues to explore a variety of government and commercial projects and is presently targeting new shipbuilding programs with building slots following the last NSMV built in series. Among other endeavors, Philly Shipyard is exploring interest from owners in building vessels to support the expanding offshore wind industry.

Philly Shipyard's objective remains to secure a mix of government and commercial new build contracts, while also opportunistically pursuing ship repair and maintenance contracts that allow the shipyard to utilize its drydocks until needed for the NSMV program, as well as steel fabrication jobs that enable the shipyard to take advantage of periodic excess capacity in its fabrication shops while the NSMV program is ongoing. A substantial capital investment would be required in order for the company to dedicate a drydock for future repair, maintenance, overhaul and conversion projects or significantly increase throughput.

Philly Shipyard is preparing to commence work on the USNS *Charlton*, its third repair and maintenance contract for a government ship. Philly Shipyard is expanding its customer base in this segment. The *Charlton* contract was awarded by Patriot Contract Services as ship manager for the U.S. Navy's Military Sealift Command (MSC). The prior two contracts were awarded by TOTE Services as ship manager for the U.S. Department of Transportation's Maritime Administration (MARAD).

Philly Shipyard is now participating in industry design studies for four government shipbuilding programs, including three for the U.S. Navy and one for the U.S. Coast Guard. These industry studies are the precursors for the future detail design and construction (DD&C) contracts for these programs. Participating in the design phase is key if the shipyard chooses to compete for the DD&C contract when requests for proposals (RFPs) are issued.

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, changes in existing or forecast market or political conditions, uncertainty regarding the timing of budget appropriations, the complex bidding and selection processes, potential for contract award protests and challenges, and governmental regulations. 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 to follow the NSMV program. There can be no assurance that Philly Shipyard will obtain such new orders or financing for vessels.

The delay Philly Shipyard experienced in securing new orders following Hull 030 interrupted its building program, resulting in a decrease of more than 80% of its workforce. 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 operations ramp up to full capacity for the NSMV program.

Operational risks

Philly Shipyard faces risks related to construction of vessels. 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 Shipyard has fixed-price subcontracts in U.S. dollars for the detailed design and major equipment for the NSMV program.

As is common in the shipbuilding industry, the Shipyard's projects are typically performed on a fixed-price basis. Under fixed-price contracts, PSI receives the price fixed in the contract, subject to adjustment only for change-orders. 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 NSMV contract is a fixed-price contract.

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 NSMV contract imposes liquidated damages for late delivery.

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, U.S. 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 NSMV contract has a termination for convenience clause at the option 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 these "lessons learned" will not result in improvements and that Philly Shipyard will face additional challenges as it bids on and performs repair and maintenance work on future ships. Additionally, the decrease in the shipyard's workforce following the completion of the FSS *Pollux* may make it more difficult for the shipyard to increase its workforce to desirable levels as production ramps up on the ship repair and maintenance contract for the USNS *Charlton*. The *Charlton* contract is a fixed-price contract with penalties for late delivery.

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 past several years, resulting in improved security and business resiliency. The Company maintains a continued high awareness of its risk profile regarding cyber security because new threats can emerge quickly.

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 for the NSMV program and Philly Shipyard has furnished the bonds required to support NSMVs 1 and 2. Philly Shipyard is in the process of obtaining the bonds required to support NSMVs 3 and 4.

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. The NSMV contract includes a steel cost adjustment clause for steel plates.

The Company is subject to exchange rate risk for purchases made in currencies other than the U.S. dollar. The Shipyard has fixed-price subcontracts in U.S. dollars for the detailed design and major equipment for the NSMV program.

COVID-19 risks

The ongoing COVID-19 pandemic 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 and the ultimate severity of the outbreak, and its effect on the Company's business in the future, is uncertain. It is expected that the work on the NSMV program would be permitted to continue without interruption if there were a stay-at-home order.

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)	Q4 Unaudited 2020	Q4 2019	12 Months Ended 31 Dec. Unaudited 2020	12 Months Ended 31 Dec. 2019 *
Operating revenues and other income	7.7	5.5	54.2	28.2
Operating expenses	(14.8)	(10.6)	(75.7)	(45.5)
Operating loss before depreciation - EBITDA	**(7.1)**	**(5.1)**	**(21.5)**	**(17.3)**
Depreciation	(1.5)	(1.7)	(6.2)	(7.1)
Reversal of impairment of assets	-	0.9	-	3.1
Operating loss - EBIT	**(8.6)**	**(5.9)**	**(27.7)**	**(21.3)**
Net financial items	-	(0.1)	0.1	0.1
Loss before tax	**(8.6)**	**(6.0)**	**(27.6)**	**(21.2)**
Tax benefit	11.2	1.0	32.5	1.0
Income/(loss) after tax **	**2.6**	**(5.0)**	**4.9**	**(20.2)**
Weighted average number of shares	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted income/(loss) per share (USD)	**0.22**	**(0.42)**	**0.40**	**(1.67)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q4 Unaudited 2020	Q4 2019	12 Months Ended 31 Dec. Unaudited 2020	12 Months Ended 31 Dec. 2019 *
Income/(loss) after tax	2.6	(5.0)	4.9	(20.2)
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive income/(loss) for the period **	**2.6**	**(5.0)**	**4.9**	**(20.2)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 31 Dec. 2020	31 Dec. 2019 *
Assets		
Non-current assets		
Property, plant and equipment	25.2	26.1
Right-of-use asset	14.2	13.0
Restricted cash - TOTE Services	25.0	-
Income tax receivable (long-term)	7.5	-
Deferred tax asset (long-term)	8.5	-
Other non-current assets	0.7	0.3
Total non-current assets	**81.1**	**39.4**
Current assets		
Cash and cash equivalents (unrestricted)	97.4	50.7
Contract asset	-	1.6
Restricted cash - Welcome Fund loan	-	60.9
Restricted cash - Matson	1.4	5.6
Income tax receivable (short-term)	15.0	0.2
Other current assets	45.4	3.4
Total current assets	**159.2**	**122.4**
Total assets	**240.3**	**161.8**
Equity and liabilities		
Total equity	**96.2**	**91.3**
Non-current liabilities		
Deferred tax liability	0.2	2.2
Total non-current liabilities	**0.2**	**2.2**
Current liabilities		
Interest-bearing debt - Welcome Fund loan	-	59.9
Trade payables, accrued liabilities and provisions	12.2	8.4
Income tax payable	0.7	-
Customer advances, net	131.0	-
Total current liabilities	**143.9**	**68.3**
Total liabilities	**144.1**	**70.5**
Total equity and liabilities	**240.3**	**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

	12 Months Ended 31 Dec.	
	Unaudited	
Amounts in USD millions	**2020**	**2019 ***
As of beginning of period	91.3	111.5
Total comprehensive income/(loss) for the period *	4.9	(20.2)
As of end of period	**96.2**	**91.3**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	12 Months Ended 31 Dec.	
	Unaudited	
Amounts in USD millions	**2020**	**2019 ***
Net cash from/(used in) operating activities	49.8	(20.2)
Investment in property, plant and equipment	(4.0)	(2.1)
Dividend received from equity-accounted investments	-	44.6
Net cash (used in)/from investing activities	(4.0)	42.5
Welcome Fund loan escrow received back/(portion held in escrow)	60.9	(21.2)
Repayment of the Welcome Fund loan	(60.0)	-
Net cash from/(used in) financing activities	0.9	(21.2)
Net change in cash and cash equivalents	**46.7**	**1.1**
Cash and cash equivalents at beginning of period	50.7	49.6
Cash and cash equivalents at end of period	**97.4**	**50.7**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 4th quarter and full year 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 full year periods ended 31 December 2020 and 31 December 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 full year 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 pandemic, 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 pandemic 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*. 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 Q4 2020 or the full year 2020.

5. Use of estimates

The preparation of these 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.

PHLY has reassessed the leases for its shipyard and its plate priming facility, both of which were treated as short term in nature in 2019. Based upon this reassessment, PHLY is treating each of these leases as long term due to the option to lease the premises over a longer lease period and the probability that this option will be exercised. Therefore, a right-of-use asset and lease liability is included in the accompanying 2020 statement of financial position.

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. Enacted by the U.S. Congress on 27 March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act 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 2020, these losses will be carried back to previous tax years and result in an income tax benefit of approximately USD 22.5 million. The 2018 and 2019 refund claims have been filed with the Internal Revenue Service (IRS). The 2020 refund claim will be filed with the IRS later in 2021. The 2018 refund claim is currently under examination by the IRS. The refunds for 2018 and 2019 are expected by Q3 2021 and the 2020 refund is expected in 2022. Due to the NSMV contracts, the Company has recorded certain of its deferred tax assets. This resulted in a tax deferred benefit of USD 10.0 million being recorded in Q4 2020.

7. **Share capital and equity**
At 31 December 2020 and 31 December 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 31 December 2020 and 31 December 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 31 December 2020 and 31 December 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 December 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 December 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 31 December 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 31 December 2020 were USD 30 thousand (USD 28 thousand for the same period in 2019) and for the full year ending 31 December 2020 were USD 103 thousand (USD 115 thousand for the same period in 2019).

10. Capitalized interest

	Q4		12 Months Ended 31 Dec.	
Amounts in USD millions	**2020**	**2019**	**2020**	**2019**
Interest expense	(0.1)	(0.4)	(0.4)	(1.6)
Interest capitalized on construction contracts	-	-	-	-
Net interest expense	**(0.1)**	**(0.4)**	**(0.4)**	**(1.6)**

11. Construction contracts

The order backlog for ship newbuilds is USD 601.8 million at 31 December 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(s).

Amounts in USD millions	Order backlog 31 Dec. 2020	Order intake 12 months to 31 Dec. 2020	Order backlog 31 Dec. 2019
	601.8	**631.0**	**-**

The recognized profit on long-term construction contracts in process (Hulls 033-034) as of 31 December 2020 is as follows:

Amounts in USD millions	**31 Dec. 2020**
Contract revenue recognized to date	29.2
Less: contract expenses recognized to date	(27.5)
Recognized profit to date (Hulls 033-034)	**1.7**
Contract costs incurred to date (Hulls 033-034)	**27.5**

As of 31 December 2020, the Company also has USD 39.6 million as prepayments to suppliers for materials and equipment for the construction of Hulls 033-034.

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

As of 31 December 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 (Hulls 033-034) for TOTE Services 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 31 December 2020, the NSMV project is approximately 4.6% complete.

Customer advances, net as of 31 December 2020 and 31 December 2019 totaled USD 131.0 million and USD 0. Customer advances, net represents the difference between cash advances received from the customer for newbuild vessels and revenue recognized. Prepayments to suppliers for those same vessels is presented as other current assets.

As of 31 December 2020, Philly Shipyard has non-cancellable purchase commitments for materials and equipment (unpaid liabilities) of approximately USD 201.2 million for the construction of Hulls 033 and 034.

12. Operating revenues and other income

	Q4		12 Months Ended 31 Dec.	
Amounts in USD millions	**2020**	**2019**	**2020**	**2019**
Shipbuilding	6.7	-	29.2	19.0
Ship repair and maintenance	-	4.5	19.9	8.2
Government design study (CHAMP)	0.7	1.0	3.1	1.0
Government design study (OPC)	0.3	-	2.0	-
Operating revenues and other income	**7.7**	**5.5**	**54.2**	**28.2**

(a) Shipbuilding revenue of USD 29.2 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 (MARAD). Shipbuilding revenue of USD 19.0 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 of USD 19.9 million in 2020 is from PSI's second drydocking contract, the FSS *Pollux*. Ship repair and maintenance revenue of USD 8.2 million in 2019 is from PSI's first drydocking contract, the FSS *Antares.*
(c) Government design study revenue of USD 3.1 million in 2020 results from PSI's prime contract for design studies work supporting the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program.
(d) Government design study revenue of USD 2.0 million in 2020 results from PSI's prime contract for design studies work supporting the U.S. Coast Guard's Offshore Patrol Cutter (OPC) program. The initial task for this project was completed in Q4 2020.

13. Financial instruments

As of 31 December 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 Q4 2019, Philly Shipyard obtained a temporary conditional waiver of this minimum employment condition. With the award of the NSMV program, this waiver now remains in effect until PSI reaches the 200 full-time employee (FTE) requirement.

15. Subsequent events

On 15 January 2021, Philly Shipyard was awarded a contract to participate in an industry study for the development and design of the U.S. Navy's Cable Ship T-ARC(X) program – a replacement for the U.S. Navy's only undersea cable installation and repair ship, USNS *Zeus* (T-ARC-7).

On 19 January 2021, TOTE Services ordered two additional National Security Multi-Mission Vessels (NSMVs 3 and 4) from Philly Shipyard. Construction of the two new vessels is expected to commence in 2022 with planned deliveries in 2024. This award is valued at approximately USD 600 million.

On 5 February 2021, Philly Shipyard was awarded a ship repair and maintenance contract by Patriot Contract Services – the ship manager on behalf of the U.S. Navy's Military Sealift Command (MSC) – for the USNS *Charlton* (T-AKR-314).

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