Philly Shipyard ASA (OSE: PHLY)
Q2 2021 and Half-Year 2021 Results

13 July 2021

Key Events and Highlights

- ✓ Continued progress on the NSMV new build program and the USNS *Charlton* repair and maintenance project
- ✓ Reinstated the shipyard's apprenticeship program and reopened its training academy facility
- ✓ Order backlog of USD 1,149.5 million on 30 June 2021 with last delivery in 2024
- ✓ Total cash and cash equivalents of USD 295.9 million at 30 June 2021, excluding USD 39.5 million of restricted cash
- ✓ Second quarter and first half 2021 operating revenues and other income of USD 32.8 million and USD 53.5 million, respectively, compared to USD 25.0 million and USD 32.5 million in the same periods in 2020
- ✓ Second quarter and first half 2021 net loss of USD 4.3 million and USD 9.5 million, respectively, compared to net income of USD 0.8 million and USD 8.2 million in the same periods in 2020

Operations

Shipbuilding

Philly Shipyard continues to advance the engineering, procurement and planning work on the National Security Multi-Mission Vessel (NSMV) program. Philly Shipyard completed production of pilot blocks for NSMVs 1 and 2. Philly Shipyard started full production of NSMV 1 in April 2021 and targets to start full production of NSMV 2 in late 2021. Pre-production activities on NSMVs 3 and 4 are ongoing.

Philly Shipyard continues to mobilize and ramp up its workforce in time to support the NSMV project. Related to this process, Philly Shipyard welcomed its first class of apprentices since the last class graduated in early 2018. In April 2021, Philly Shipyard received a USD 720 thousand grant from the U.S. Department of Transportation's Maritime Administration (MARAD) to support its apprenticeship program.

Maintenance, Repair, Overhaul and Conversion (MROC)

Philly Shipyard continues to perform repair and maintenance work on the USNS *Charlton*. This project, including growth work, is approximately fifty percent (50%) complete with planned delivery in September 2021.

Industry Design Studies

Philly Shipyard continues to work on industry design studies supporting the U.S. Coast Guard's Offshore Patrol Cutter (OPC) program and the U.S. Navy's Cable Ship T-ARC(X) replacement program. The industry design study for the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program is winding down and the industry design study for the U.S. Navy's Auxiliary General Ocean Surveillance (T-AGOS(X)) program was recently completed.

Health, Safety, Security and Environment (HSSE)

Philly Shipyard's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR) was zero at the end of both Q2 2021 and Q2 2020. LTIFR is based on lost time incidents (LTI) per 200,000 hours as defined by the Occupational Safety and Health Administration (OSHA). The most recent LTI occurred in Q4 2018 and since then the shipyard has performed more than 1.2 million consecutive work hours without a single LTI.

Philly Shipyard's 12-month trailing average for its Other Recordable Incident Frequency Rate (ORIFR) was 2.08 at the end of Q2 2021 compared to 3.29 at the end of Q2 2020. ORIFR is based on recordable incidents other than LTIs per 200,000 hours as defined by OSHA. Philly Shipyard continues to work proactively to further improve safety and reduce the number of incidents at the shipyard.

COVID-19

Notwithstanding the COVID-19 pandemic, operations are continuing and ongoing projects are moving forward. As the COVID-19 pandemic develops across the world, Philly Shipyard continues to take measures to mitigate the risk for operational disruptions.

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. In line with these guidelines, most mask mandates in the shipyard have been lifted for fully vaccinated personnel.

This quarter, Philly Shipyard partnered with a major pharmacy chain to offer its workforce and their family members an on-site COVID-19 vaccination clinic.

Financial Information

Second Quarter 2021 Results

Operating revenues for Q2 2021 was USD 32.8 million compared to operating revenues of USD 25.0 million for Q2 2020. In Q2 2021, there was revenue from progress on the first four NSMV vessels (Hulls 033-036), ship repair and maintenance work on the USNS *Charlton* and three government design studies, whereas in Q2 2020 there was revenue from progress on the first two NSMV vessels (Hulls 033-034), ship repair and maintenance work on the FSS *Pollux* and two government design studies.

EBITDA[1] and Adjusted EBITDA[2] are considered other relevant earnings indicators for Philly Shipyard as they measure the operational performance of the shipyard. Please see note 14 for further details.

EBITDA for Q2 2021 was negative USD 3.8 million compared to EBITDA of negative USD 2.4 million for Q2 2020. Negative EBITDA for Q2 2021 was driven primarily by under-recovered overhead costs, one-time start-up costs and SG&A costs, partially offset by the gross profit recognized on the NSMV project, the USNS *Charlton* ship repair and maintenance project and the government design studies. Negative EBITDA for Q2 2020 was driven primarily by under-recovered overhead costs and SG&A costs, partially offset by the gross profit recognized on the first two NSMV vessels and the government design studies. Adjusted EBITDA for Q2 2021 was USD 1.1 million compared to Adjusted EBITDA of negative USD 0.2 million for Q2 2020.

Net loss after tax for Q2 2021 was USD 4.3 million compared to net income after tax of USD 0.8 million for Q2 2020. Net loss after tax for Q2 2021 primarily consists of EBITDA of negative USD 3.8 million and depreciation expense of USD 1.3 million, partially offset by a tax benefit of USD 0.8 million. Net income after tax for Q2 2020 consists primarily of EBITDA of negative USD 2.4 million and depreciation expense of USD 1.6 million, offset by net financial income of USD 0.1 million and an income tax benefit of USD 4.7 million. The Q2 2020 income tax benefit was derived from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Please see note 6 for further details.

Year-to-Date 2021 Results

Operating revenues and other income in the first six months of 2021 ended at USD 53.5 million compared to operating revenues and other income of USD 32.5 million in the first six months of 2020. June 2021 year-to-date operating revenues and other income were primarily driven by progress on the first four NSMV vessels (Hulls 033-036), ship repair and maintenance work on the USNS *Charlton*, and three government design studies, whereas June 2020 year-to-date operating revenues and other income were primarily driven by progress on the first two NSMV vessels (Hulls 033-034), ship repair and maintenance work on the FSS *Pollux*, and two government design studies.

EBITDA for the first six months of 2021 was negative USD 8.6 million compared to EBITDA of negative USD 8.2 million in the same period of 2020. Adjusted EBITDA for the first six months of 2021 was USD 1.4 million compared to Adjusted EBITDA of negative USD 2.4 million for the same period in 2020.

Net loss for the first six months of 2021 was USD 9.5 million compared to net income of USD 8.2 million in the same period of 2020. Net income for 2020 was impacted by a USD 19.7 million income tax benefit resulting from passage of the CARES Act noted above.

[1] EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

[2] Adjusted EBITDA is defined as EBITDA plus under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects) and one-time startup costs.

Statement of Financial Position
Total assets were USD 471.1 million at 30 June 2021 compared to USD 237.7 million at 31 December 2020, with the increase resulting mainly from an increase in cash and cash equivalents (unrestricted) of USD 198.5 million, USD 23.2 million of prepayments to suppliers for the NSMV program, and USD 13.1 million of cash deposited in an escrow account as collateral for the bonds required by the NSMV program and a reserve fund for NSMV 1.

Cash and cash equivalents (unrestricted) were USD 295.9 million at 30 June 2021 compared to USD 97.4 million at 31 December 2020. The increase of USD 198.5 million was due primarily to an increase in customer advances, net on the first four NSMV vessels (Hulls 033-036) of USD 233.2 million and an increase in trade payables, accrued payables and provisions of USD 9.4 million, partially offset by USD 36.3 million in prepayments and escrow deposits described above.

Total restricted cash as of 30 June 2021 amounted to USD 39.5 million, of which USD 38.1 million (long-term) represents the total cash deposited in the escrow account and reserve fund 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). It is anticipated that the cash collateral for the bonds required by the NSMV program will be released in tranches following the delivery of each NSMV and the funds deposited into the reserve fund for NSMV 1 will be released upon delivery of the vessel. The timing of the release of the Hull 030 holdback is uncertain and has been delayed due to the impacts of the COVID-19 pandemic, including quarantine and travel restrictions, on closing-out the underlying claims.

Total equity decreased to USD 83.3 million at 30 June 2021 from USD 92.8 million at 31 December 2020 due to net loss of USD 9.5 million.

Shareholder Distributions
Philly Shipyard's goal is 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
Philly Shipyard has four NSMVs in its order book with a total contract value in excess of USD 1.2 billion and a final delivery in 2024. TOTE Services retains an option for the fifth NSMV. If all five NSMVs are ordered, then the total contract value would exceed USD 1.5 billion and the final delivery would extend into 2025.

The Biden administration released its final budget request for fiscal year 2022. The request for the U.S. Department of Transportation includes full funding for the fifth NSMV. This is a positive step in the budget process, but the final passage and timing of these appropriations remain uncertain.

Philly Shipyard continues to pursue prospects in the government and commercial new build markets and is presently targeting shipbuilding programs with building slots following the last NSMV built in series.

In the government sector, Philly Shipyard remains focused on opportunities for commercial-like and auxiliary ships. In the commercial sector, Philly Shipyard is exploring a variety of opportunities for Jones Act ships. In particular, Philly Shipyard is seeing increased interest from owners in building various types of vessels to support the expanding offshore wind industry on the U.S. East Coast.

Philly Shipyard is seeking opportunities to replicate the NSMV contract model for other government shipbuilding programs. This approach enables Philly Shipyard to apply commercial best practices for design and construction to government vessels. Additionally, Philly Shipyard is promoting variants based on existing ship designs as potential cost-effective solutions for both government and commercial customers.

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 and steel fabrication jobs that enable it to take advantage of periodic excess capacity in its drydocks and fabrication shops.

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. The *Charlton* project is reducing under-recovered overhead costs during 2021. It is expected that operations at Philly Shipyard will reach full capacity in the first half of 2022.

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 and amount of budget appropriations, the complex bidding and selection processes, potential for contract award protests and challenges, and governmental regulations.

While Philly Shipyard now has an order backlog for ship new builds, 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.

Operational risks

Philly Shipyard faces risks related to construction of vessels. Philly 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. Philly Shipyard's operations also depend on stable supplier networks and the availability of key vendors for design and procurement services. Philly 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, Philly Shipyard's projects are typically performed on a fixed-price basis. Under fixed-price contracts, Philly Shipyard 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 accurately estimate the costs to complete Philly Shipyard's project awards; however, Philly Shipyard's actual costs incurred to complete these projects could exceed its estimates. The NSMV contract is a fixed-price contract.

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 Philly Shipyard's workforce may make it more difficult for Philly Shipyard to increase its workforce to desirable levels as production ramps up on the NSMV program. Philly 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.

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 Philly 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 is continuing to adjust its estimating and planning methods and operating processes in order to be cost competitive and profitable in the ship repair and maintenance (R&M) market. These adjustments are based on the lessons learned and experience gained by Philly Shipyard from its first two R&M contracts and are being implemented on the R&M contract for the USNS *Charlton*. However, there is no guarantee these adjustments will result in performance improvements and there is risk that Philly Shipyard will face additional challenges as it performs R&M work on this ship. Additionally, Philly Shipyard depends on fixed-price and time and material (T&M) subcontractors to perform certain types of skilled work on the USNS *Charlton*. The failure of these subcontractors to meet their contractual obligations could negatively impact the level of profitability on this project. The USNS *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 last several years, resulting in improved security and business resiliency. Philly Shipyard maintains a continued high awareness of its risk profile regarding cyber security because new threats can emerge quickly.

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.

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, Philly Shipyard must secure and maintain sufficient equity capital to support debt facilities. Additionally, Philly 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 1-4.

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. PSI 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. In order to mitigate exposure to this risk, Philly Shipyard will look to secure foreign exchange forward contracts for its known requirements for foreign currency. Philly 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. The world continues to face new and emerging COVID-19 related risks and the ultimate severity of the pandemic, and its effect on the Company's business in the future, is uncertain.

Due to the COVID-19 crisis, there is a risk for delays in the delivery of the NSMVs. In particular, the COVID-19 pandemic could impact the Company's global supply chain for material and equipment used in the production of vessels. Additionally, it could result in the implementation or recurrence of shelter in place or similar orders in the future. However, shipbuilding activities required to meet national security commitments to the federal government have been deemed essential services and, therefore, work on the NSMVs is expected to continue without interruption. Likewise, subcontractors involved in ship repair and maintenance activities for U.S. Government-owned vessels should similarly qualify as performing essential services.

For a further analysis of risks, please refer to the Company's 2020 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 2021 were approved by the Board of Directors and the President and CEO on 13 July 2021.

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
13 July 2021
Board of Directors and President and CEO
Philly Shipyard ASA

Kristian Røkke Board Chairperson	Amy Humphreys Deputy Board Chairperson
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 2021	Q2 2020	6 Months Ended 30 June Unaudited 2021	6 Months Ended 30 June 2020 *	Full Year 2020 *
Operating revenues	32.8	25.0	53.5	32.5	54.1
Operating expenses	(36.6)	(27.4)	(62.1)	(40.7)	(75.6)
Operating loss before depreciation - EBITDA	**(3.8)**	**(2.4)**	**(8.6)**	**(8.2)**	**(21.5)**
Depreciation	(1.3)	(1.6)	(2.7)	(3.3)	(6.2)
Operating loss - EBIT	**(5.1)**	**(4.0)**	**(11.3)**	**(11.5)**	**(27.7)**
Net financial items	-	0.1	-	-	0.1
Loss before tax	**(5.1)**	**(3.9)**	**(11.3)**	**(11.5)**	**(27.6)**
Tax benefit	0.8	4.7	1.8	19.7	29.2
(Loss)/income after tax **	**(4.3)**	**0.8**	**(9.5)**	**8.2**	**1.6**
Weighted average number of shares	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted (loss)/income per share (USD)	**(0.36)**	**0.07**	**(0.78)**	**0.68**	**0.13**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q2 Unaudited 2021	Q2 2020	6 Months Ended 30 June Unaudited 2021	6 Months Ended 30 June 2020 *	Full Year 2020 *
(Loss)/income after tax	(4.3)	0.8	(9.5)	8.2	1.6
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive (loss)/income for the period **	**(4.3)**	**0.8**	**(9.5)**	**8.2**	**1.6**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 30 June 2021	31 Dec. 2020 *
Assets		
Non-current assets		
Property, plant and equipment	29.3	25.4
Right-of-use assets	13.5	14.0
Restricted cash - TOTE Services	38.1	25.0
Deferred tax asset long-term	10.1	8.4
Income tax receivable long-term	5.2	5.2
Other non-current assets	0.5	0.5
Total non-current assets	**96.7**	**78.5**
Current assets		
Cash and cash equivalents (unrestricted)	295.9	97.4
Prepayments and other receivables	68.6	45.4
Restricted cash - Matson	1.4	1.4
Income tax receivable short-term	8.5	15.0
Total current assets	**374.4**	**159.2**
Total assets	**471.1**	**237.7**
Equity and liabilities		
Total equity	**83.3**	**92.8**
Non-current liabilities		
Lease liability long-term	1.7	1.9
Income tax payable long-term	1.2	1.2
Total non-current liabilities	**2.9**	**3.1**
Current liabilities		
Customer advances, net	364.1	130.9
Trade payables, accrued liabilities and provisions	19.1	9.7
Lease liability short-term	0.3	0.3
Income tax payable short-term	0.4	0.7
Other contract liabilities	1.0	0.2
Total current liabilities	**384.9**	**141.8**
Total liabilities	**387.8**	**144.9**
Total equity and liabilities	**471.1**	**237.7**

* Annual 2020 financial information is derived from audited financial statements.

** All attributed to the equity holders of PHLY.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	6 Months Ended 30 June	
	Unaudited	
Amounts in USD millions	**2021**	**2020 ***
As of beginning of period	92.8	91.3
Total comprehensive (loss)/income for the period *	(9.5)	8.2
As of end of period	**83.3**	**99.5**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	6 Months Ended 30 June	
	Unaudited	
Amounts in USD millions	**2021**	**2020 ***
Net cash from/(used in) operating activities	204.8	25.8
Investment in property, plant and equipment	(6.1)	(0.4)
Net cash used in investing activities	(6.1)	(0.4)
Welcome Fund loan escrow received back	-	60.9
Repayment of the Welcome Fund loan	-	(60.0)
Repayment of lease liability	(0.2)	-
Net cash (used in)/from financing activities	(0.2)	0.9
Net change in cash and cash equivalents	**198.5**	**26.3**
Cash and cash equivalents at beginning of period	97.4	50.7
Cash and cash equivalents at end of period	**295.9**	**77.0**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 2nd quarter and year-to-date 2021

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 year-to-date periods ended 30 June 2021 and 30 June 2020 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 2020, 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 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 2020.

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 2020.

There have not been any new IFRS standards or interpretations which were effective 1 January 2021 that have had a significant impact on Q2 2021 or the year-to-date period.

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 2020 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.

Enacted by the U.S. Congress on 27 March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act allowed 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. As the Company had qualifying taxable losses in 2018, 2019 and 2020, these losses were carried back to previous tax years and resulted in an income tax benefit of approximately USD 19.0 million. The 2018 refund claim is currently under examination by the Internal Revenue Service (IRS). The 2018 refund of USD 6.5 million has been received, the 2019 refund is expected in the second half of 2021 and the 2020 refund is expected in 2022.

7. Share capital and equity

At 30 June 2021 and 30 June 2020, 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 both the second quarter and year-to-date periods ended 30 June 2021 and 30 June 2020. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for both the second quarter and year-to-date periods ended 30 June 2021 and 30 June 2020.

8. Interest-bearing debt

At 30 June 2021 and 30 June 2020, Philly Shipyard had no external debt.

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 2021. 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 2021. TRG Holding AS is controlled by Kjell Inge Røkke through The Resource Group TRG AS.

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 30 June 2021 were USD 30 thousand (USD 30 thousand for the same period in 2020) and for the six-month period ending 30 June 2021 were USD 60 thousand (USD 60 thousand for the same period in 2020).

10. Construction contracts

The order backlog is USD 1,149.5 million at 30 June 2021 and represents a contractual shipbuilding obligation to deliver newly built vessels (Hulls 033-036) 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). Vessels under contract for ship repair and maintenance work are not included in the order backlog. The order backlog on long-term construction contracts is as follows:

Amounts in USD millions	Order backlog 30 June 2021	Order intake 6 months to 30 June 2021	Order backlog 31 Dec. 2020
	1,149.5	**593.0**	**601.9**

The recognized profit on long-term construction contracts in process (Hulls 033-036) as of 30 June 2021 is as follows:

Amounts in USD millions	30 June 2021
Contract revenue recognized to date	74.5
Less: contract expenses recognized to date	(69.8)
Recognized profit to date (Hulls 033-036)	**4.7**
Contract costs incurred to date (Hulls 033-036)	**69.8**

As of 30 June 2021, the Company also has USD 60.4 million as prepayments to suppliers for materials and equipment for the construction of Hulls 033-036, included in prepayments and other receivables on the statement of financial position.

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

As of 30 June 2021, Philly Shipyard has one shipbuilding contract in place for the NSMV program but two separate projects in progress that are being accounted for using the percentage-of-completion method per IFRS 15 *Revenue from Contracts with Customers*. PSI is building four NSMVs (Hulls 033-036) for TOTE Services, the first two vessels scheduled for delivery in 2023 and the last two vessels scheduled for delivery in 2024. PSI is recognizing contract revenues and expenses for the first two-vessel order (Hulls 033-034) as one project and the second two-vessel order (Hulls 035-036) as a separate project. The principle of a series of distinct goods has been applied where Hulls 033-034 are treated as one series separately from Hulls 035-036.

As of 30 June 2021, the NSMV projects for Hulls 033-034 and Hulls 035-036 are 11.0% and 0.8% complete, respectively.

Customer advances, net as of 30 June 2021 and 31 December 2020 totaled USD 364.1 million and USD 130.9 million, respectively. Customer advances, net represents the difference between cash advances received from the customer (TOTE Services) and revenue recognized for the NSMV shipbuilding projects (Hulls 033-036).

Other contract liabilities as of 30 June 2021 and 31 December 2020 totaled USD 1.0 million and USD 0.2 million, respectively. Other contract liabilities represent the difference between cash advances received and accounts receivable as of quarter-end from customers and revenue recognized for repair and maintenance projects and government design studies.

As of 30 June 2021, Philly Shipyard has USD 446.0 million in non-cancellable purchase commitments for materials, equipment and design fees for the construction of Hulls 033-036.

11. Operating revenues

	Q2		6 Months Ended 30 June	
Amounts in USD millions	**2021**	**2020**	**2021**	**2020**
Shipbuilding	25.7	14.7	45.4	14.7
Ship repair and maintenance	6.2	8.7	6.6	16.1
Government design studies	0.9	1.6	1.5	1.7
Operating revenues	**32.8**	**25.0**	**53.5**	**32.5**

12. Financial instruments

As of 30 June 2021, the Company had no forward exchange contracts or other financial instruments.

13. 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 76 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. PSI was in compliance with this lease condition as of 30 June 2021.

14. Use and reconciliation of non-GAAP financial alternative performance measures

	Q2		6 Months Ended 30 June	
	Unaudited		**Unaudited**	
Amounts in USD millions	**2021**	**2020**	**2021**	**2020**
EBITDA	(3.8)	(2.4)	(8.6)	(8.2)
Plus: under-recovered overhead costs	4.5	2.2	9.2	5.8
Plus: one-time startup costs	0.4	-	0.8	-
Adjusted EBITDA	**1.1**	**(0.2)**	**1.4**	**(2.4)**

Non-GAAP financial measures are defined as numerical measures that either exclude or include amounts that are not excluded or included in the comparable measures calculated and presented in accordance with GAAP (i.e. IFRS).

The following financial measure may be considered a non-GAAP financial measure:
Adjusted EBITDA, which is defined as EBITDA (i.e., earnings before interest, taxes, depreciation and amortization) plus under-recovered overhead costs, plus one-time startup costs.

The Company believes presenting Adjusted EBITDA is useful to investors as it provides another measure of Philly Shipyard's profitability from its operations as if it had not had a shipbuilding stoppage and was allocating all overhead costs to projects. Under-recovered overhead costs are overhead costs incurred and not allocated to projects. Overhead costs are costs not directly attributable to individual projects. One-time startup costs are costs related to the ramp-up of operations at the shipyard, consisting primarily of workforce training as the shipyard returns to operating at or near full capacity.

15. Subsequent events

There are no events after 30 June 2021 that require disclosure.

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