Philly Shipyard ASA (OSE: PHLY)
Q3 2021 and First Nine Months 2021 Results

2 November 2021

Key Events and Highlights

- ✓ Continued progress on the NSMV new build program
- ✓ Completed the USNS *Charlton* repair and maintenance project on time and on budget
- ✓ Order backlog of USD 1,093.7 million on 30 September 2021 with last delivery in 2024
- ✓ Total cash and cash equivalents of USD 296.6 million at 30 September 2021, excluding USD 44.5 million of restricted cash
- ✓ Third quarter and first nine months 2021 operating revenues of USD 70.3 million and USD 123.8 million, respectively, compared to USD 13.9 million and USD 46.5 million in the same periods in 2020
- ✓ Third quarter and first nine months 2021 net loss of USD 1.0 million and USD 10.5 million, respectively, compared to net loss of USD 6.0 million and net income of USD 2.3 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. All major equipment purchases have been made and all steel has been received for NSMV 1. Philly Shipyard targets keel laying of NSMV 1 and full production start of NSMV 2 in late 2021. Pre-production activities on NSMVs 3 and 4 are ongoing.

As of 30 September 2021, Philly Shipyard's workforce consisted of 686 people. As production on the NSMV program ramps up, Philly Shipyard will continue to increase its workforce.

Maintenance, Repair, Overhaul and Conversion (MROC)

In mid-September, Philly Shipyard completed repair and maintenance (R&M) work on the USNS *Charlton*. The delivery of the USNS *Charlton* was on time and on budget.

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 concluded in August 2021.

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 Q3 2021 and Q3 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 1.4 million consecutive work hours without a single LTI.

Philly Shipyard's 12-month trailing average for its Other Recordable Incident Frequency Rate (ORIFR) was 2.17 at the end of Q3 2021 compared to 2.44 at the end of Q3 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 evolves around 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, mask mandates in the shipyard have been reinstated.

Philly Shipyard strongly encourages all of its workers to get vaccinated for COVID-19. This quarter, Philly Shipyard implemented a vaccination reward program for its employees with vaccinated employees receiving either extra personal time or vacation time. In addition, Philly Shipyard is planning additional on-site COVID-19 vaccination clinics for its workforce.

In September 2021, the Biden administration announced vaccine mandates for federal contractors and companies with more than 100 workers. The mandate for federal contractors has been flowed down to Philly Shipyard under the NSMV program. It is anticipated there will be schedule and cost impacts due to compliance with this mandate. However, it is too soon to quantify the extent of these impacts. Philly Shipyard has taken proactive steps to help alleviate the extent of these impacts and will pursue contract change order requests, as appropriate.

As widely reported in the media, there has been significant disruption in the global supply chain due to port congestion on the U.S. West Coast. The port congestion is largely attributed to pent-up demand, a reduced workforce, including longshoremen and truck drivers, and a container chassis shortage, as the COVID-19 crisis recedes. The port congestion mainly impacts cargo shipped on foreign flagged vessels. U.S. flag vessels are impacted, too, but to a lesser degree. The NSMV program has a U.S. flag vessel preference. The Company is closely monitoring the situation.

Financial Information

Third quarter 2021 Results

Operating revenues for Q3 2021 was USD 70.3 million compared to operating revenues of USD 13.9 million for Q3 2020. In Q3 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 Q3 2020 there was recognized shipbuilding revenue 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 Q3 2021 was USD 0.2 million compared to EBITDA of negative USD 6.4 million for Q3 2020. EBITDA for Q3 2021 was driven primarily by the gross profit recognized on the first four NSMV vessels (Hulls 033-036) and ship repair and maintenance work on the USNS *Charlton,* partially offset by under-recovered overhead costs (i.e., overhead expenses incurred and not allocated to projects), one-time start-up costs and selling, general and administrative (SG&A) costs. Negative EBITDA for Q3 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 (Hulls 033-034), ship repair and maintenance work and government design studies. Adjusted EBITDA for Q3 2021 was USD 4.2 million compared to Adjusted EBITDA of negative USD 1.5 million for Q3 2020.

Net loss after tax for Q3 2021 was USD 1.0 million compared to net loss after tax of USD 6.0 million for Q3 2020. Net loss after tax for Q3 2021 primarily consists of EBITDA of USD 0.2 million and depreciation expense of USD 1.3 million, partially offset by net financial income of USD 0.1 million. Net loss after tax for Q3 2020 consists primarily of EBITDA of negative USD 6.4 million and depreciation expense of USD 1.3 million, partially offset by net financial income of USD 0.1 million and an income tax benefit of USD 1.6 million.

Year-to-Date 2021 Results

Operating revenues in the first nine months of 2021 amounted to USD 123.8 million compared to operating revenues of USD 46.5 million in the first nine months of 2020. September 2021 year-to-date operating revenues 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 September 2020 year-to-date operating revenues 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.

[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.

EBITDA for the first nine months of 2021 was negative USD 8.4 million compared to EBITDA of negative USD 14.5 million in the same period of 2020. Adjusted EBITDA for the first nine months of 2021 was USD 5.6 million compared to Adjusted EBITDA of negative USD 3.8 million for the same period in 2020.

Net loss after tax for the first nine months of 2021 was USD 10.5 million compared to net income after tax of USD 2.3 million in the same period of 2020. Net income after tax for the first nine months of 2020 was impacted by a USD 21.3 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 480.9 million at 30 September 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 199.2 million, USD 23.2 million of prepayments to suppliers for the NSMV program, and USD 18.1 million of cash deposited in an escrow account as collateral for the bonds required by the NSMV program and a reserve fund for NSMVs 1-2.

Cash and cash equivalents (unrestricted) were USD 296.6 million at 30 September 2021 compared to USD 97.4 million at 31 December 2020. The increase of USD 199.2 million was due primarily to an increase in customer advances, net on the first four NSMV vessels (Hulls 033-036) of USD 221.2 million and an increase in trade payables, accrued payables and provisions of USD 32.1 million, partially offset by USD 41.3 million in prepayments and escrow deposits described above.

Total restricted cash as of 30 September 2021 amounted to USD 44.5 million, of which USD 43.1 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 vessel and the funds deposited into the reserve fund for NSMVs 1-2 will be released upon delivery of each NSMV vessel, respectively. The timing of the release of the Hull 030 holdback is uncertain and continues to be 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 82.3 million at 30 September 2021 from USD 92.8 million at 31 December 2020 due to net loss of USD 10.5 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 Senate Appropriations Committee's funding bill for Transportation, Housing & Urban Development (THUD) for fiscal year 2022 includes full funding for the fifth NSMV. This is another 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 to be 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 continues to see 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 continues to seek 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 continues to promote 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 USNS *Charlton* R&M project reduced under-recovered overhead costs during 2021. It is expected that operations at Philly Shipyard will reach full capacity in mid-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 federal COVID-19 vaccine mandates could materially adversely impact the Company's ability to attract and retain skilled workers. Philly Shipyard's productivity and profitability depends substantially on its ability to attract and retain skilled workers. Until operations ramp-up to full capacity for the NSMV program, Philly Shipyard will not fully cover its overhead costs.

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.

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. For example, the current congestion in the ports on the U.S. West Coast could result in delays and additional costs with respect to the NSMV program.

Additionally, the COVID-19 pandemic could result in changes in laws and regulations and the implementation or recurrence of shelter in place or similar orders. For example, the federal COVID-19 vaccine mandates could materially adversely impact the Company’s ability to ramp-up its workforce in time for the NSMV program.

For a further analysis of risks, please refer to the Company’s 2020 annual report.

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Q3 Unaudited 2021	Q3 2020	9 months ended 30 Sept. Unaudited 2021	9 months ended 30 Sept. 2020 *	Full Year 2020 *
Operating revenues	70.3	13.9	123.8	46.5	54.1
Operating expenses	(70.1)	(20.3)	(132.2)	(61.0)	(75.6)
Operating income/(loss) before depreciation - EBITDA	**0.2**	**(6.4)**	**(8.4)**	**(14.5)**	**(21.5)**
Depreciation	(1.3)	(1.3)	(4.0)	(4.6)	(6.2)
Operating loss - EBIT	**(1.1)**	**(7.7)**	**(12.4)**	**(19.1)**	**(27.7)**
Net financial items	0.1	0.1	0.1	0.1	0.1
Loss before tax	**(1.0)**	**(7.6)**	**(12.3)**	**(19.0)**	**(27.6)**
Tax benefit	-	1.6	1.8	21.3	29.2
(Loss)/income after tax **	**(1.0)**	**(6.0)**	**(10.5)**	**2.3**	**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)	**(0.09)**	**(0.49)**	**(0.87)**	**0.19**	**0.13**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q3 Unaudited 2021	Q3 2020	9 months ended 30 Sept. Unaudited 2021	9 months ended 30 Sept. 2020 *	Full Year 2020 *
(Loss)/income after tax	(1.0)	(6.0)	(10.5)	2.3	1.6
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive (loss)/income for the period **	**(1.0)**	**(6.0)**	**(10.5)**	**2.3**	**1.6**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 30 Sept. 2021	31 Dec. 2020 *
Assets		
Non-current assets		
Property, plant and equipment	33.6	25.4
Right-of-use assets	13.3	14.0
Restricted cash	43.1	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	**105.8**	**78.5**
Current assets		
Cash and cash equivalents (unrestricted)	296.6	97.4
Prepayments and other receivables	68.6	45.4
Restricted cash	1.4	1.4
Income tax receivable short-term	8.5	15.0
Total current assets	**375.1**	**159.2**
Total assets	**480.9**	**237.7**
Equity and liabilities		
Total equity	**82.3**	**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	352.1	130.9
Trade payables, accrued liabilities and provisions	41.8	9.7
Lease liability short-term	0.3	0.3
Income tax payable short-term	0.5	0.7
Other contract liabilities	1.0	0.2
Total current liabilities	**395.7**	**141.8**
Total liabilities	**398.6**	**144.9**
Total equity and liabilities	**480.9**	**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

Amounts in USD millions	9 months ended 30 Sept. Unaudited 2021	2020 *
As of beginning of period	92.8	91.3
Total comprehensive (loss)/income for the period *	(10.5)	2.3
As of end of period	**82.3**	**93.6**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	9 months ended 30 Sept. Unaudited 2021	2020 *
Net cash from operating activities	210.9	37.6
Investment in property, plant and equipment	(11.5)	(1.9)
Net cash used in investing activities	(11.5)	(1.9)
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	**199.2**	**36.6**
Cash and cash equivalents at beginning of period	97.4	50.7
Cash and cash equivalents at end of period	**296.6**	**87.3**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 3rd 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 September 2021 and 30 September 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 continuing to be impacted by the COVID-19 pandemic, and how it will continue to unfold is uncertain. Philly Shipyard is continuing to take 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 Q3 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 (expense)/benefit 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 the first nine months of 2020, these losses were carried back to previous tax years and resulted in an income tax benefit of approximately USD 21.3 million at 30 September 2020.

The 2019 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 fourth quarter of 2021 and the 2020 refund is expected in 2022.

7. Share capital and equity

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

8. Interest-bearing debt

At 30 September 2021 and 30 September 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 September 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 September 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 September 2021 were USD 32 thousand (USD 28 thousand for the same period in 2020) and for the nine-month period ending 30 September 2021 were USD 92 thousand (USD 73 thousand for the same period in 2020).

10. Construction contracts

The order backlog is USD 1,093.7 million at 30 September 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 Sept. 2021**	**Order intake 9 months to 30 Sept. 2021**	**Order backlog 31 Dec. 2020**
	1,093.7	**593.6**	**601.9**

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

Amounts in USD millions	**30 Sept. 2021**
Contract revenue recognized to date	130.8
Less: contract expenses recognized to date	(123.5)
Recognized profit to date (Hulls 033-036)	**7.3**
Contract costs incurred to date (Hulls 033-036)	**123.5**

As of 30 September 2021, the Company also has USD 56.9 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 September 2021, Philly Shipyard has two separate awards under one shipbuilding contract in place for the NSMV program. Hulls 033-034 were awarded at contract signing in April 2020. Hulls 035-036 were awarded upon the exercise of an option in January 2021. Therefore, the two awards are treated as two separate contracts 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, with the first two vessels scheduled for delivery in 2023 and the last two vessels scheduled for delivery in 2024. 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 September 2021, the NSMV projects for Hulls 033-034 and Hulls 035-036 are 19.8% and 0.8% complete, respectively.

Customer advances, net as of 30 September 2021 and 31 December 2020 totaled USD 352.1 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 September 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 from customers and revenue recognized for R&M work and government design studies.

As of 30 September 2021, Philly Shipyard has USD 423.6 million in non-cancellable purchase commitments for materials, equipment and design fees for the construction of Hulls 033-036.

11. Operating revenues

	Q3		9 months ended 30 Sept.	
Amounts in USD millions	**2021**	**2020**	**2021**	**2020**
Shipbuilding	56.3	7.6	101.7	22.5
Ship repair and maintenance	13.2	3.8	19.8	19.9
Government design studies	0.8	2.5	2.3	4.1
Operating revenues	**70.3**	**13.9**	**123.8**	**46.5**

12. Financial instruments

As of 30 September 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 September 2021.

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

	Q3		9 months ended 30 Sept.	
	Unaudited		Unaudited	
Amounts in USD millions	**2021**	**2020**	**2021**	**2020**
EBITDA	0.2	(6.4)	(8.4)	(14.5)
Plus: under-recovered overhead costs	3.3	4.9	12.5	10.7
Plus: one-time startup costs	0.7	-	1.5	-
Adjusted EBITDA	**4.2**	**(1.5)**	**5.6**	**(3.8)**

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 as if the yard was operating at full capacity. Under-recovered overhead costs are overhead costs incurred and not allocated to projects. Overhead costs are costs not directly attributable to individual projects and exclude SG&A costs. 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 September 2021 that require disclosure.

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