Philly Shipyard ASA (OSE: PHLY)
Q4 2021 and Full Year 2021 Results

15 February 2022

Key Events and Highlights

- ✓ Won contract to construct one Jones Act-compliant Subsea Rock Installation Vessel for the U.S. offshore wind market
- ✓ Continued progress on the NSMV new build program, including keel laying for the first NSMV vessel
- ✓ Order backlog of USD 1,203.2 million on 31 December 2021 with last delivery in 2024
- ✓ Total cash and cash equivalents of USD 255.0 million at 31 December 2021, excluding USD 44.5 million of restricted cash
- ✓ Fourth quarter and full year 2021 operating revenues of USD 90.2 million and USD 214.1 million, respectively, compared to USD 7.7 million and USD 54.2 million in the same periods in 2020
- ✓ Fourth quarter 2021 net income of USD 3.1 million and full year 2021 net loss of USD 7.3 million, compared to net loss of USD 0.7 million and net income of USD 1.6 million in the same periods in 2020

Operations

Shipbuilding

On 15 November 2021, Philly Shipyard was awarded a contract by Great Lakes Dredge & Dock Company, LLC (Great Lakes) to build one Subsea Rock Installation Vessel (SRIV). Great Lakes retains a right of first refusal on a second ship. The initial award is valued at approximately USD 197 million. If both ships are ordered, then the total contract value of the two-ship program would be approximately USD 382 million. Philly Shipyard has commenced pre-production activities on SRIV 1.

Philly Shipyard continues to advance the engineering, procurement and planning work on the National Security Multi-Mission Vessel (NSMV) program. Keel laying of NSMV 1 occurred in December 2021 and full production start of NSMV 2 occurred in November 2021 in accordance with plan. Pre-production activities on NSMVs 3 and 4 are ongoing.

As of 31 December 2021, Philly Shipyard's workforce consisted of 973 employees and subcontractors. As production on the NSMV program ramps up, Philly Shipyard will continue to increase its workforce, including through its reinvigorated apprenticeship program.

Industry Design Studies

Philly Shipyard is concluding its work on the industry design study supporting the U.S. Coast Guard's Offshore Patrol Cutter (OPC) program and is concentrating its efforts on the industry design study supporting the U.S. Navy's Cable Ship T-ARC(X) replacement program.

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 Q4 2021 and Q4 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 1.9 million consecutive work hours without a single LTI.

Philly Shipyard's 12-month trailing average for its Other Recordable Incident Frequency Rate (ORIFR) was 2.73 at the end of Q4 2021 compared to 2.13 at the end of Q4 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, including the emergence of variants such as Delta and Omicron, Philly Shipyard continues to take measures to mitigate the risk for operational disruptions. Philly

Shipyard experienced an uptick in the number of sick days taken by its production workers towards year-end due to the Omicron variant.

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. Philly Shipyard also strongly encourages all of its workers to get vaccinated for COVID-19. This quarter, Philly Shipyard offered an additional on-site COVID-19 vaccination clinic for its workforce.

The vaccine mandate for federal contractors was officially flowed down to Philly Shipyard under its contract for the NSMV program in early November 2021. Enforcement of the contractual flow down was suspended in mid-December 2021, but the cost and schedule impacts due to the mandate's effects on the available workforce are ongoing. While it remains too soon to quantify the full extent of these impacts, Philly Shipyard has taken mitigating actions and will seek relief, as appropriate, under its contracts.

The COVID-19 pandemic continues to dramatically disrupt the global supply chain. Many of Philly Shipyard's suppliers are facing significant cost increases and delays due to raw material shortages and other supply chain issues caused by the COVID-19 pandemic. Philly Shipyard is exploring mitigating actions to minimize the potential impact on its shipbuilding projects in terms of both cost and schedule. The steel cost escalation risk is reduced by price adjustment clauses, with coverage for steel plates under the NSMV contract and all structural steel under the SRIV contract.

Financial Information

Fourth quarter 2021 Results

Operating revenues for Q4 2021 was USD 90.2 million compared to operating revenues of USD 7.7 million for Q4 2020. In Q4 2021, there was revenue from progress on the first four NSMV vessels (Hulls 033-036) and government design studies, whereas in Q4 2020 there was revenue from progress on the first two NSMV vessels (Hulls 033-034) and 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 Q4 2021 was USD 1.3 million compared to EBITDA of negative USD 7.1 million for Q4 2020. EBITDA for Q4 2021 was driven primarily by the profit recognized on the first four NSMV vessels (Hulls 033-036), profit recognized on the government design studies and additional profit recognized on the USNS *Charlton* ship repair and maintenance project upon final close-out, 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 Q4 2020 was driven primarily by under-recovered overhead costs and SG&A costs, partially offset by the profits recognized on the NSMV shipbuilding project (Hulls 033-034) and government design studies. Adjusted EBITDA for Q4 2021 was USD 5.1 million compared to Adjusted EBITDA of negative USD 1.2 million for Q4 2020.

Net income after tax for Q4 2021 was USD 3.1 million compared to net loss after tax of USD 0.7 million for Q4 2020. Net income after tax for Q4 2021 primarily consists of an income tax benefit of USD 3.1 million. Net loss after tax for Q4 2020 consists of EBITDA of negative USD 7.1 million and depreciation expense of USD 1.5 million, partially offset by an income tax benefit of USD 7.9 million.

Full year 2021 Results

Operating revenues in 2021 amounted to USD 214.1 million compared to operating revenues of USD 54.2 million in 2020. Operating revenues in 2021 were primarily driven by progress on the first four NSMV vessels (Hulls 033-036), ship repair and maintenance work on the USNS *Charlton* and government design studies, whereas operating revenues in 2020 were primarily driven by progress on the first two NSMV vessels (Hulls 033-034), ship repair and maintenance work on the FSS *Pollux* and government design studies.

EBITDA for 2021 was negative USD 7.0 million compared to EBITDA of negative USD 21.5 million for the same period of 2020. EBITDA for both years was negatively impacted by under-recovered overhead costs as the shipyard continued to ramp up shipbuilding activities. Adjusted EBITDA for 2021 was USD 10.8 million compared to Adjusted EBITDA of negative USD 4.9 million for the same period in 2020.

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[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.

Net loss after tax for 2021 was USD 7.3 million compared to net income after tax of USD 1.6 million for 2020. Net income after tax for 2020 was impacted by an 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 437.0 million at 31 December 2021 compared to USD 237.7 million at 31 December 2020, with the increase resulting mainly from an increase of USD 157.6 million in cash and cash equivalents (unrestricted), an increase of USD 15.8 million of prepayments to suppliers mostly for the NSMV program, and an increase of USD 18.1 million of restricted 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 255.0 million at 31 December 2021 compared to USD 97.4 million at 31 December 2020. The increase of USD 157.6 million was due primarily to an increase of USD 165.5 million in customer advances, net on the first four NSMV vessels (Hulls 033-036) and the first SRIV vessel (Hull 038) and an increase of USD 42.1 million in trade payables, accrued payables and provisions, partially offset by a combined increase of USD 33.9 million in prepayments and restricted cash deposits described above and an increase of USD 10.6 million in expenditures for property, plant and equipment.

Total restricted cash as of 31 December 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 for Hulls 033-036 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 85.5 million at 31 December 2021 from USD 92.8 million at 31 December 2020 due to net loss of USD 7.3 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 five vessels, consisting of four NSMVs and one SRIV, in its order book with a total contract value in excess of USD 1.4 billion and a final delivery in 2024. TOTE Services retains an option for the fifth NSMV. Great Lakes retains a right of first refusal for a second SRIV. If both NSMV 5 and SRIV 2 are ordered, then the total contract value would approach USD 1.9 billion and the final delivery would extend into 2025.

As previously reported, the President's final budget request and the Senate Appropriations Committee's funding bill for Transportation, Housing & Urban Development (THUD) for fiscal year 2022 include full funding for the fifth NSMV. While these are positive steps in the budget process, negotiations on a federal spending package are ongoing and the timing of these appropriations remains uncertain.

Over the past several years, Philly Shipyard has pivoted toward a more diversified order backlog in an attempt to maintain continuous shipbuilding activity and grow the Company's profitability. 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 vessel in its existing order backlog.

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. The recent award of the Great Lakes contract for the SRIV project marks Philly Shipyard's entry into the expanding offshore wind market.

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. A substantial capital investment would be required in order for the Company to dedicate a drydock for future ship repair, maintenance, overhaul and conversion projects or significantly increase throughput.

Philly Shipyard expects to continue to improve profitability in 2022 as it continues to ramp up production for the NSMV program. 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 its existing backlog. 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 for the detailed design and major equipment for the NSMV program and intends to secure fixed-price subcontracts for the detailed design and major equipment for the SRIV 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 and SRIV contracts are fixed-price contracts.

The federal COVID-19 vaccine mandates could materially adversely impact the Company's ability to attract and retain skilled workers at forecasted rates. Philly Shipyard's productivity and profitability depends substantially on its ability to attract and retain skilled workers at forecasted rates. Until operations ramp-up to full capacity for the NSMV program, Philly Shipyard will not fully cover its overhead costs.

Given the NSMV and SRIV 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 and SRIV contracts impose 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 or the SRIV program, and Philly Shipyard has furnished the bonds required to support NSMVs 1-4. Philly Shipyard is required to furnish security to support SRIV 1.

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 cost escalation and increased taxes on imported goods by attempting to pass these risks on to its end customers. The NSMV and SRIV contracts include price adjustment clauses for steel plates and all structural steel, respectively.

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 pass this risk on to its end customers or suppliers or 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. The SRIV contract includes an exchange rate adjustment clause for purchases made in certain foreign currencies.

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. These risks include risks to human capital resources arising from vaccine mandates; supply chain constraints; labor and raw materials shortages; and inflation. These risks have caused, and could continue to cause, delays and increased costs with respect to the Company’s shipbuilding projects.

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)	Q4 Unaudited 2021	Q4 2020	12 months ended 31 Dec. Unaudited 2021	12 months ended 31 Dec. 2020 *
Operating revenues	90.2	7.7	214.1	54.2
Operating expenses	(88.9)	(14.8)	(221.1)	(75.7)
Operating income/(loss) before depreciation - EBITDA	**1.3**	**(7.1)**	**(7.0)**	**(21.5)**
Depreciation	(1.4)	(1.5)	(5.4)	(6.2)
Operating loss - EBIT	**(0.1)**	**(8.6)**	**(12.4)**	**(27.7)**
Net financial items	0.1	-	0.2	0.1
Loss before tax	**-**	**(8.6)**	**(12.2)**	**(27.6)**
Tax benefit	3.1	7.9	4.9	29.2
Income/(loss) after tax **	**3.1**	**(0.7)**	**(7.3)**	**1.6**
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)	**0.26**	**(0.06)**	**(0.61)**	**0.13**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q4 Unaudited 2021	Q4 2020	12 months ended 31 Dec. Unaudited 2021	12 months ended 31 Dec. 2020 *
Income/(loss) after tax	3.1	(0.7)	(7.3)	1.6
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive income/(loss) for the period **	**3.1**	**(0.7)**	**(7.3)**	**1.6**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 31 Dec. 2021	31 Dec. 2020 *
Assets		
Non-current assets		
Property, plant and equipment	36.0	25.4
Right-of-use assets	12.8	14.0
Restricted cash	43.1	25.0
Deferred tax asset long-term	13.1	8.4
Income tax receivable long-term	0.1	5.2
Other non-current assets	0.4	0.5
Total non-current assets	**105.5**	**78.5**
Current assets		
Cash and cash equivalents (unrestricted)	255.0	97.4
Prepayments and other receivables	61.2	45.4
Restricted cash	1.4	1.4
Income tax receivable short-term	13.6	15.0
Contract assets	0.3	-
Total current assets	**331.5**	**159.2**
Total assets	**437.0**	**237.7**
Equity and liabilities		
Total equity	**85.5**	**92.8**
Non-current liabilities		
Lease liability long-term	1.6	1.9
Income tax payable long-term	1.2	1.2
Total non-current liabilities	**2.8**	**3.1**
Current liabilities		
Customer advances, net	296.4	130.9
Trade payables, accrued liabilities and provisions	51.8	9.7
Lease liability short-term	0.3	0.3
Income tax payable short-term	0.2	0.7
Other contract liabilities	-	0.2
Total current liabilities	**348.7**	**141.8**
Total liabilities	**351.5**	**144.9**
Total equity and liabilities	**437.0**	**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	12 months ended 31 Dec. Unaudited 2021	2020 *
As of beginning of period	92.8	91.2
Total comprehensive (loss)/income for the period *	(7.3)	1.6
As of end of period	**85.5**	**92.8**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	12 months ended 31 Dec. Unaudited 2021	2020 *
Net cash from operating activities	172.7	50.0
Investment in property, plant and equipment	(14.8)	(4.0)
Net cash used in investing activities	(14.8)	(4.0)
Welcome Fund loan escrow received back	-	60.9
Repayment of the Welcome Fund loan	-	(60.0)
Repayment of lease liability	(0.3)	(0.2)
Net cash (used in)/from financing activities	(0.3)	0.7
Net change in cash and cash equivalents	**157.6**	**46.7**
Cash and cash equivalents at beginning of period	97.4	50.7
Cash and cash equivalents at end of period	**255.0**	**97.4**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 4th quarter and full year 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 full year periods ended 31 December 2021 and 31 December 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 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 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 Q4 2021 or the full year 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 2020, these losses were carried back to previous tax years and resulted in an income tax refund of USD 22.1 million at 31 December 2020.

The 2018 and 2019 refund claims are currently under examination by the Internal Revenue Service (IRS). The 2018 refund of USD 6.5 million has been received and due to the backlog at the IRS the 2019 and 2020 refunds are both expected in the fourth quarter of 2022.

7. Share capital and equity

At 31 December 2021 and 31 December 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 fourth quarter and full year periods ended 31 December 2021 and 31 December 2020. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for both the fourth quarter and full year periods ended 31 December 2021 and 31 December 2020.

8. Interest-bearing debt

At 31 December 2021 and 31 December 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 31 December 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 31 December 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 31 December 2021 were USD 33 thousand (USD 30 thousand for the same period in 2020) and for the full year period ending 31 December 2021 were USD 125 thousand (USD 103 thousand for the same period in 2020).

10. Construction contracts

The order backlog is USD 1,203.2 million at 31 December 2021 and represents a contractual shipbuilding obligation to deliver newly built vessels (Hulls 033-036 and Hull 038) that have not yet been produced for the Company's customers - TOTE Services and Great Lakes, respectively. Order backlog consists of future construction contract revenues and is subject to adjustment based on change orders as defined in the construction contracts. The order backlog on long-term construction contracts is as follows:

Amounts in USD millions	Order backlog 31 Dec. 2021	Order intake 12 months to 31 Dec. 2021	Order backlog 31 Dec. 2020
	1,203.2	**790.6**	**601.9**

The recognized profit on long-term construction contracts in process (Hulls 033-036) as of 31 December 2021 is as follows:

Amounts in USD millions	31 Dec. 2021
Construction contract revenue recognized to date	218.4
Less: construction contract expenses recognized to date	(207.7)
Recognized profit to date (Hulls 033-036)	**10.7**
Construction contract costs incurred to date (Hulls 033-036)	**207.7**

As of 31 December 2021, the Company has USD 56.8 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 31 December 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 performance obligations 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. As of 31 December 2021, the NSMV projects for Hulls 033-034 and Hulls 035-036 are 33.5% and 1.0% complete, respectively, and the SRIV project (Hull 038) has not yet started.

Customer advances, net as of 31 December 2021 and 31 December 2020 totaled USD 296.4 million and USD 130.9 million, respectively. Customer advances, net represents the difference between (i) cash advances received from customers (TOTE Services and Great Lakes) and (ii) revenue recognized for the two NSMV shipbuilding projects (Hulls 033-34 and Hulls 035-036).

Other contract liabilities as of 31 December 2021 and 31 December 2020 totaled USD 0 and USD 0.2 million, respectively. Other contract liabilities represent the difference between (i) cash advances received and accounts receivable from customers and (ii) revenue recognized for ship repair and maintenance work and government design studies.

As of 31 December 2021, Philly Shipyard has USD 320.5 million in non-cancellable purchase commitments for materials, equipment and design fees for the construction of Hulls 033-036 and Hull 038.

11. Operating revenues

	Q4		**12 months ended 31 Dec.**	
Amounts in USD millions	**2021**	**2020**	**2021**	**2020**
Shipbuilding	87.5	6.7	189.3	29.2
Ship repair and maintenance	-	-	19.8	19.9
Government design studies	2.7	1.0	5.0	5.1
Operating revenues	**90.2**	**7.7**	**214.1**	**54.2**

12. Financial instruments

As of 31 December 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 31 December 2021.

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

	Q4		**12 months ended 31 Dec.**	
	Unaudited		**Unaudited**	
Amounts in USD millions	**2021**	**2020**	**2021**	**2020**
EBITDA	1.3	(7.1)	(7.0)	(21.5)
Plus: under-recovered overhead costs	3.5	5.9	16.0	16.6
Plus: one-time startup costs	0.3	-	1.8	-
Adjusted EBITDA	**5.1**	**(1.2)**	**10.8**	**(4.9)**

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 31 December 2021 that require disclosure.

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