Annual Report

2021

Philly Shipyard

Contents

FINANCIAL CALENDAR 2022

2021 annual report	30 March
Annual general meeting	20 April
Interim report Q1 2022	3 May
Interim report Q2 2022	14 July
Interim report Q3 2022	2 November

Dates are subject to change.

This is Philly Shipyard

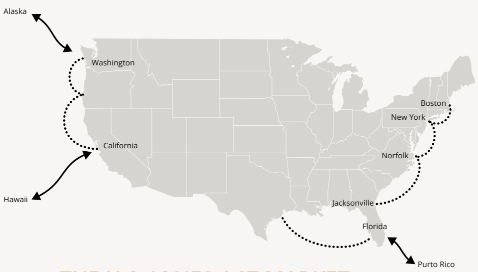
Philly Shipyard is a leading U.S. shipbuilder that is presently pursuing a mix of commercial and government work. It possesses a state-of-the-art shipbuilding facility and has earned a reputation as a preferred provider of ocean-going merchant vessels with a track record of delivering quality ships, having delivered around 50% of all large ocean-going Jones Act commercial ships since 2000.

Philly Shipyard ASA is a holding company with headquarters in Oslo, Norway, and an operating subsidiary in Philadelphia, PA, USA.

Philly Shipyard ASA is listed on the Euronext Expand Oslo (formerly known as Oslo Axess) with the ticker symbol "PHLY". Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder, holding 57.56% of the shares as of 31 December 2021.

ELEMENTS CONTRIBUTING TO SUCCESS:

- State-of-the-art shipyard with modern equipment and two of the largest dry docks on the East Coast
- Access to global shipbuilding and design expertise through agreements with partners in North America, Asia, and Europe
- Solid track record demonstrated by the delivery of 30 quality newbuild vessels (6 containerships, 22 product tankers, and 2 Aframax tankers)
- Skilled workforce consisting of direct and contracted employees with a strong HSE mindset and culture of improvement
- Opportunistic investment approach with respect to the post-delivery economics of the vessels that it builds



THE U.S. JONES ACT MARKET

U.S. coastwise law, commonly referred to as the Jones Act, requires all commercial vessels transporting merchandise between ports in the United States to be built in the United States, owned, operated and manned by U.S. citizens and registered under the U.S. flag. The Jones Act market encompasses all water-borne transportation between U.S. ports, including between the mainland U.S. and non-contiguous areas of Alaska, Hawaii and Puerto Rico, as well as vessels involved in offshore wind development.

THE U.S. GOVERNMENT MARKET

The U.S. Government market for ship construction and ship maintenance, repair, overhaul, and conversion (MROC) work is expansive and cuts across multiple government agencies. Government customers include the U.S. Navy, the Military Sealift Command (MSC), the U.S. DOT Maritime Administration (MARAD), the U.S. Coast Guard, the U.S. Army Corps of Engineers and others. Philly Shipyard is well-positioned to build commercial "like" and auxiliary ships in the government market.

Commercial

Commercial "Like"

Auxiliary

Non-Combatants

Combatants

Going Gray: The term – coined because most U.S. Navy hulls are painted gray – means Philly Shipyard is diversifying its offerings by also pursuing work in the government market.

Philly Shipyard:
Our History 1997 - 2021

1997-2000

Founded by public-private partnership between U.S. Government agencies and the Kvaerner Shipbuilding Division

Construction began on first two container vessels

2003 - 2006

Delivered four container vessels to Matson (Hulls 001-004)

2005: Aker American Shipping formed and publicly listed on Oslo Børs

2005: Initiated construction program of 10 product tankers

2007 - 2011

Delivered 12 product tankers to AMSC and OSG (Hulls 005-016)

2007: Two additional product tankers ordered for conversion to shuttle tankers

2007: Aker American Shipping split into ship owning and shipbuilding companies and Aker Philadelphia Shipyard listed on Oslo Axess

2011: Signed contracts with SeaRiver Maritime for two Aframax tankers

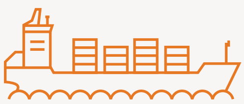
2012 - 2013

Delivered two product tankers to Crowley (Hulls 017-018)

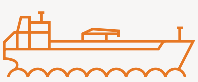
2013: Signed contracts with Matson for two CV3600 container vessels

2013: Signed joint venture agreement with Crowley for four product tankers

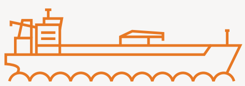
VESSELS BUILT AND REPAIRED BY PHILLY SHIPYARD FROM INCEPTION THROUGH TODAY



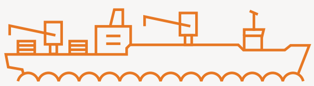
6 Container Vessels



22 Product Tankers



2 Aframax Tankers



3 Repair Vessels

2014 - 2016

Delivered two Aframax tankers to Sea-River Maritime (Hulls 019-020), four product tankers to Crowley (Hulls 021-024), and one product tanker to Kinder Morgan (Hull 025)

2014: Established Philly Tankers as pure-play Jones Act shipping company

2014-2015: Signed contracts with Philly Tankers for product tankers

2015: Philly Tankers agreed to sell product tanker contracts to Kinder Morgan

2015: Signed agreement with Marathon Petroleum to sell Crowley joint venture interests

2015: Re-branded as Philly Shipyard

2017 - 2019

Delivered three product tankers to Kinder Morgan (Hulls 026-028) and two CV3600 container vessels to Matson (Hulls 029-030)

2019: Awarded first two repair & maintenance contracts for the FSS *Antares* and the FSS *Pollux*, large MARAD sister-ships managed by TOTE Services

2019: Awarded prime contract for design studies for the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program

2019: Completed ship repair & maintenance work on a U.S. Government vessel, the FSS *Antares*

2020

Awarded a contract by TOTE Services for the construction of up to five National Security Multi-Mission Vessels (NSMVs) for the U.S. Department of Transportation's Maritime Administration (MARAD)

Received an order for the first two NSMVs (1 and 2) with a total contract value of approximately USD 630 million

Completed ship repair & maintenance work on a U.S. Government vessel, the FSS *Pollux*

Awarded contracts to participate in industry studies for the U.S. Coast Guard's Offshore Patrol Cutter (OPC) program and the U.S. Navy's Auxiliary General Ocean Surveillance (T-AGOS(X)) program

2021

Received an order for two additional NSMVs (3 and 4) for MARAD with a total contract value of approximately USD 600 million

Awarded and completed a repair & maintenance contract for USNS *Charlton* from Patriot Contract Services on behalf of the U.S. Navy Military Sealift Command

Awarded an industry study contract for the development and design of U.S. Navy Cable Ship T-ARC(X) program

Won a contract from Great Lakes Dredge & Dock Company, LLC to construct one Jones Act-compliant Subsea Rock Installation Vessel

Celebrated the NSMV 1 keel laying and cut steel to mark the start of production for NSMV 2

2022

2021 Key Events and Highlights

Received an order to construct two more National Security Multi-Mission Vessels (NSMVs 3 and 4), bringing the total order intake for the NSMV program to USD 1.2 billion

Finished repair and maintenance work on the USNS *Charlton*, concluding the shipyard's third dry docking contract for a government vessel

Awarded a contract to build one Jones Act-compliant Subsea Rock Installation Vessel (SRIV) valued at approximately USD 197 million, extending the shipyard's backlog into late 2024

Exceeded 1,900,000 consecutive hours worked without a single lost time injury

Celebrated the NSMV 1 keel laying, marking a significant milestone in one of America's most high profile shipbuilding programs

Revived the PSI apprenticeship program with the first of three cohorts beginning in May for welders and shipbuilders

Investment Highlights

1.
A leading U.S. shipyard

- State-of-the-art facility with more than USD 675 million invested since founding, including new logistics center and cabin factory
- Major builder of large ocean-going Jones Act commercial ships since 2000
- Highly skilled workforce with integrated, fully flexible subcontracting under single union contract
- Reinvigorated apprenticeship program and modern training facility

2.
Strong backlog and high pipeline visibility

- Over USD 1.2 billion in backlog with last delivery in 2024
- Awarded contract for high visibility NSMV program, supporting a new and innovative approach to federal shipbuilding by leveraging commercial best practices
- Series production with familiar ships offers operational benefits
- Awarded contract for one Subsea Rock Installation Vessel from Great Lakes Dredge & Dock Company

3.
Combination of commercial and government work

- Opportunities within specialty and high-end segments of the Jones Act market including emerging wind market
- Very promising outlook for high activity in the government sector in the next 5-10 years
- Completed two industry studies for government shipbuilding programs and currently participating in two more
- Completed three repair projects to utilize excess dock capacity and prove out the business rationale

4.
Well positioned for future growth

- Retained key personnel during idle period, added government resources and ramped up from 202 to 973 personnel in 2021
- Strong balance sheet with USD 255 million in cash and debt capacity
- Solid positioning for future contract awards with promising prospects in both commercial and government markets
- NSMV variant opportunities include hospital ships and auxiliary vessels

PHILLY SHIPYARD RECENT SHIP DELIVERIES

Customer	Vessel	Delivery	2018	2019	2020
Matson	029 CV3600	31 Oct. 2018	■		
	030 CV3600	28 Mar. 2019		■	

PHILLY SHIPYARD RECENT SHIP REPAIRS

Customer	Vessel	Redelivery	2019	2020	2021
MARAD/TOTE Services	FSS *Antares*	Q4 2019	■		
	FSS *Pollux*	Q3 2020		■	
Military Sealift Command/Patriot Contract Services	USNS *Charlton*	Q3 2021			■

PHILLY SHIPYARD ORDER BACKLOG

Customer	Vessel	Delivery	2023	2024	2025
MARAD/TOTE Services	033 NSMV 1	1st half 2023	■		
	034 NSMV 2	2nd half 2023	■		
	035 NSMV 3	1st half 2024		■	
	036 NSMV 4	2nd half 2024		■	
Great Lakes Dredge & Dock Company	038 SRIV 1	2nd half 2024		■	

Our CORE Values

Philly Shipyard's CORE values were designed as a reflection of who we are, and who we aspire to be, as a shipyard, as an organization and as individuals.

They capture the pride, passion, and commitment behind each action we take and decision we make. They are not words on a page, but our stand – a united commitment to conquer all challenges and build long lasting relationships. For years to come we will be united by these values, that give us the platform to deliver on our commitments, every time.

CARING
We make safety personal and take ownership for protecting each other

We are united to ensure our coworkers, our company and our communities succeed

ONE SHIPYARD
We are proud to be part of an inclusive work environment where all feel welcome

We build lasting cooperation based on respect and candid communication

RESPONSIBLE
We are environmental stewards and take care to protect future generations

We do what´s right simply because it´s the right thing to do

EVOLVING
We challenge ourselves and each other to be better than yesterday

We support change that moves the organization into diverse markets

Caring in Action

At Philly Shipyard, the way in which we achieve growth and profitability is as important as the achievements themselves. Our overriding corporate responsibility is concern for the communities that we are a part of. We strive to provide products and services in a safe, environmentally sound, ethical and socially responsible manner.

More information regarding the Company's corporate social responsibility efforts can be found on pages 19-21 of the Board of Directors' report.

HSE 2021:
Training and Integrating Our Growing Team

At Philly Shipyard, Inc. (PSI), safety is personal and our credo is clear: We fundamentally believe that all incidents are preventable and safety is everyone's responsibility; and we promise to be relentless in our pursuit of an injury-free workforce by creating and maintaining safe working conditions and never compromising safety for anyone, anywhere, at any time.

In 2021, we – like everyone else – saw the health, safety, and environmental (HSE) challenges of the coronavirus pandemic which carried over into a second year. Throughout the year, we were constantly reevaluating our strategies to combat the virus. Like many other companies, we lifted our mask mandate for a portion of the summer before reinstating it with the onset of the Delta variant – leaving it in place through the end of the year. We strictly followed the recommendation and guidance of the Centers for Disease Control and Prevention (CDC) as well as our state and local policies.

We strongly encouraged all employees and subcontractors to get vaccinated and boosted – even going as far as holding multiple on-site vaccine clinics. We also sponsored educational seminars to assist people in understanding the facts.

When employees or subcontractors did test positive, they would be instructed to quarantine in accordance with the CDC guidelines and to follow their doctor's advice. All individuals who were identified as potentially being in close contact with the positive employee(s) were notified with instructions to quarantine, get tested, and contact HR with results. Through contact tracing, we are able to proudly say that no cases of the virus originated here at PSI.

With the ramp up in production, one of the biggest hurdles for HSE was integrating such a large amount of new employees and subcontractors. We designed and employed aggressive training programs to reach this goal. Despite the challenges, PSI marked three years without a lost time injury (LTI) and crossed two million work hours without an LTI in early January 2022. We are definitely proud of our incident rate, which is well below the industry average. We have also not experienced a yard outbreak or work stoppage due to COVID-19 since its onset in 2020.

After learning our lessons with two previous repair jobs, PSI was able to complete a six-month long repair & maintenance project on the USNS *Charlton* without a single recorded injury.

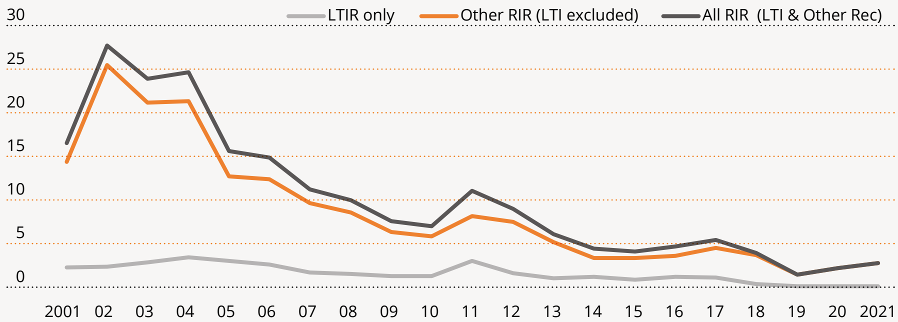
PSI has a long history dedicated to protecting the surrounding waterways from any negative impacts associated with manufacturing operations. We have a close working relationship with the City of Philadelphia to ensure we are good stewards of the environment by strictly following all federal, state, and city regulations. For example, PSI went to great lengths to reduce our emissions by installing low-NOx burners in three new boilers for the paint halls. In 2021, PSI purchased several electrical vehicles to further reduce emissions.

It was also a special year for the HSE department as we grew the team from four to 10 employees. This growth was a direct result of the increased demand for HSE support from Production. One of the biggest challenges historically has been the language barrier for reaching many Spanish-speaking employees and subcontractors. We were able to help close that gap by hiring two HSE employees who are fluent in Spanish. We were able to build out a dedicated and bilingual training department to focus training efforts on equipment such as overhead shop cranes, rigging, high-reaches, scissor lifts, and forklifts.

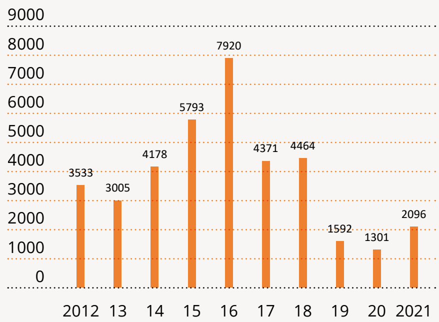
In December, we marked one of the great milestones in shipbuilding – a keel laying for NSMV I. As we move into 2022, we all look forward to continuing the success and growth of the past year.

Carl W. Danley
HSE Director

ALL INCIDENT FREQUENCY (2001 - 2021)



OBSERVATIONS (2012 - 2021)



2021: Building Ships and our Future

Dear Shareholders,

2021 was a year of tremendous and positive change at Philly Shipyard. Once again, the shipyard is filled with the energy of ships being built. The sounds of a busy shipyard are truly music to my ears!

Last year when I wrote you, our workforce was down to 120. Since that time, we have grown to nearly 1,000, and the National Security Multi-Mission Vessel (NSMV) program is fully underway. The first two NSMVs are in various stages of production, the shops are filled with steel sections being constructed and everywhere you look in the shipyard, you see large grand blocks.

The first steelworkers returned to the shipyard in January after three years. In December, we celebrated the official keel laying of NSMV 1. The next grand blocks are now being erected in the building dock, and soon NSMV 2 will be in the dock following directly after NSMV 1. My shipbuilder heart is smiling again!

In addition to restarting our newbuilding work, we successfully completed our first repair project for the U.S. Navy Military Sealift Command (MSC), demonstrating again that we can diversify our markets to include not only new construction, but repair work which is part of our "Going Gray" strategy. I have never been more confident in the future of the shipyard and our transition to also building ships for the U.S. Navy and other government agencies.

Due largely to the impact of COVID-19 and the vaccination mandates, the rebuilding of our workforce has been challenging, as it is for most heavy industry and manufacturing employers in the United States. We are building back our workforce with returning former employees, newly recruited hires, and working closely with subcontractors to fill our critical shipbuilding positions. At the same time, we have restarted our comprehensive apprentice program with support from a grant from the U.S. DOT Maritime Administration (MARAD), and now have over 70 apprentices, with more added each quarter. We believe the most effective way to build and keep a workforce is through this program and past graduates have advanced to leadership positions throughout the shipyard, with some joining our management.

Another way in which we differentiate ourselves from other manufacturing employers is through our unwavering commitment to HSE. We continue to excel in our HSE performance and even recently surpassed 2,000,000 hours without a lost time injury. We invest in every employee to ensure they work in a safe and responsible manner. Thus, when we are talking to new candidates about why Philly Shipyard is a great place to work, we emphasize our commitment to safety, and we think that is a significant factor in them accepting a position with Philly Shipyard. But our efforts to build a safety culture throughout the shipyard cannot diminish and we must strive for constant improvement each and every day. Indeed, continuously striving to improve safety is not only the right thing to do, but also good for our business, since our customers expect nothing less. We are also committed to be in compliance with all environmental standards and to reduce our carbon imprint in the years to come.

As everywhere, COVID-19 remains a challenge to our operations. We strongly encourage vaccinations for all our workforce. Although we continue to experience positive cases, we have been fortunate to avoid an outbreak in our shipyard. We share the hopes of everyone that the pandemic will subside, and we can return to our normal operations. But until that time, we will remain vigilant and continue to follow all applicable COVID-19 guidelines.

The NSMV program has given us our first exposure to government new build work, although the contract structure and management are quite different from the way U.S. Government ships are built. Instead of a direct contract with MARAD, we have contracted with and are being managed by a Vessel Construction Manager (VCM), TOTE Services, which oversees all aspects of the construction and reports to MARAD. Because of this unique structure, the vessels are being built to commercial standards with fewer government requirements, which results in a lower cost to the government than would be possible in a traditional government contract structure. We believe this contract structure could be utilized in the construction of several classes of U.S. Navy and other governmental auxiliary vessels. There is growing interest in Congress and various government shipowners in the NSMV model, and its potential applicability to government shipbuilding programs to reduce costs and build more vessels. It is my belief that the success we will achieve in the NSMV program will lead to additional opportunities with other government vessels. The funding for NSMV 5 was recently secured, and we are hopeful that TOTE Services will exercise its option for that ship shortly.

We are aggressively pursuing our "Going Gray" strategy, but recognize U.S. government shipbuilding projects require specific knowledge in responding to bids, preparing the proposals and managing contract provisions throughout the construction of their vessels. For example, U.S. Navy contracts require that many of the components in the ships must be sourced in the United States, whereas with our commercial vessels, there are fewer limitations on where components

can be purchased. In response, we have hired talented individuals with deep experience working on government programs, and are identifying potential U.S. suppliers of key components. We are now in a position to effectively compete for opportunities for new auxiliary vessels, which are expected to be built in the years to come. We have gained additional experience through our participation in various design studies, such as OPC for the U.S. Coast Guard and CHAMP, T-AGOS, and T-ARC for the U.S. Navy. I have great confidence that we will be successful in this market.

On the commercial side, we secured a contract with Great Lakes Dredge and Dock Company (Great Lakes) for the construction of one Subsea Rock Installation Vessel, the first of its kind to be constructed in the United States. The vessel will support the growing offshore wind energy industry, and Great Lakes retains a right of first refusal to build a second vessel. We monitor the commercial Jones Act markets very closely to identify potential opportunities for tankers and container vessels, and because of our successful history, and the quality of our vessels, I believe that Philly Shipyard will be high on any vessel owner's list when it is time to build new ships.

Last year, I said that our business would be balanced upon the "three-legged stool" of 1) commercial new builds, 2) government new builds, and 3) repairs. This year, I can tell you Philly Shipyard is firmly on that stool and in a much stronger position as a result.

The biggest change in 2021 was the feeling of optimism and confidence all of us feel about our shipyard, and speaking for all the men and women who are Philly Shipyard, I can honestly say it feels terrific to be building ships again. We are back in business, our focus remains sharp and the energy that is evident throughout the shipyard will ensure our success on the NSMV program and beyond.

We are so fortunate to have steadfast support from our stakeholders, among them our union leaders, our suppliers, federal, state, and local representatives and above all our fantastic employees, who never fail to meet any challenge and who build the finest ships in the United States. As I look ahead, I have great faith that 2022 will be a terrific year.

Yours truly,

Steinar Nerbøvik
President and CEO

Philadelphia, PA
18 March 2022

Board of Directors' Report 2021

Philly Shipyard ASA and its subsidiaries (referred to herein as a group as the "Group", the "Company" or "Philly Shipyard") is a leading commercial shipbuilder in the U.S. Jones Act market that is presently pursuing newbuild opportunities in the commercial and government markets. Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder in Philly Shipyard ASA.

KEY EVENTS AND HIGHLIGHTS

- Operations and projects continued to safely move forward during the COVID-19 pandemic
- Exceeded 1,900,000 consecutive hours worked without a single lost time injury
- Received order for the second two National Security Multi-Mission Vessels (3 and 4) with total contract value of approximately USD 600 million, bringing the total order intake for the NSMV program to greater than USD 1.2 billion
- Awarded a contract from Great Lakes Dredge & Dock Company, LLC to construct one Jones Act-compliant Subsea Rock Installation Vessel for the U.S. offshore wind market valued at approximately USD 197 million
- Awarded industry design study contract for the U.S. Navy's Cable Ship T-ARC(X) replacement program
- Continued progress on the NSMV new build program, including keel laying of NSMV 1 and full production start of NSMV 2
- Completed ship repair and maintenance work on the USNS *Charlton*, a large roll-on/roll-off ship for the U.S. Navy's Military Sealift Command (MSC), on time and on budget
- Reinstated the shipyard's apprenticeship program and reopened its training academy facility
- Order backlog of USD 1,203.2 million on 31 December 2021 with last delivery in 2024
- 2021 operating revenues of USD 214.1 million compared to USD 54.1 million in 2020
- 2021 net loss of USD 7.3 million compared to 2020 net income of USD 1.6 million
- Total cash and cash equivalents of USD 255.0 million at 31 December 2021, excluding USD 44.5 million of restricted cash

ACTIVITIES

The main entities in Philly Shipyard are the Norwegian holding company, Philly Shipyard ASA (referred to herein as "PHLY"), and its U.S. operating subsidiary, Philly Shipyard, Inc. (referred to herein as "PSI" or the "Shipyard"), a leading U.S. commercial shipyard that is presently pursuing a mix of commercial and government work. PHLY is located in Oslo, Norway, while PSI is located in Philadelphia, Pennsylvania, USA.

As of 31 December 2021, PSI's workforce consisted of 973 people, with a breakdown of 343 direct employees and 630 subcontracted personnel.

Philly Shipyard's business strategy for PSI is to build vessels for operation in the U.S. Jones Act and U.S. Government markets while opportunistically performing ship maintenance, repair, overhaul, and conversion (MROC) work to fully utilize the shipyard's capacity. As of year-end 2021, Philly Shipyard has five vessels in its order book with a total contract value in excess of USD 1.4 billion and a final delivery in 2024.

Safe, cost efficient and quality construction of new vessels is critical for the success of Philly Shipyard's business model. There are several factors that position Philly Shipyard to capitalize on this market: a state-of-the-art shipyard with modern equipment and two of the largest dry docks on the East Coast; access to global shipbuilding and design expertise with partners in North America, Asia and Europe; a solid track record demonstrated by the delivery of 30 quality vessels (6 containerships, 22 product tankers and 2 Aframax tankers); and a skilled workforce consisting of direct and contracted employees with a strong Health, Safety and Environment (HSE) mindset and culture of improvement.

THE JONES ACT MARKET

The U.S. Jones Act generally restricts the marine transportation of cargo and passengers between points in the United States to vessels built in the United States, registered under the U.S. flag, manned by predominately U.S. crews, and 75% owned and controlled by U.S. citizens. The ability of the Company to win contracts is in part dependent on its unique ability to construct vessels that are eligible for U.S. Jones Act trades, and the Jones Act requirement for construction of the vessels in the United States limits competition for future contracts by excluding foreign shipyards.

THE U.S. GOVERNMENT MARKET

The U.S. Government market for ship construction and ship maintenance, repair, overhaul, and conversion (MROC) work is expansive and cuts across multiple government agencies. Government customers include the U.S. Navy, the Military Sealift Command (MSC), the U.S. DOT Maritime Administration (MARAD), the U.S. Coast Guard, the U.S. Army Corps of Engineers and others. In June 2021, the U.S. Navy released an abbreviated 30-year shipbuilding plan. The total projected outlay is approximately USD 25-33 billion per year in shipbuilding for the foreseeable future. The spending available for auxiliary ship programs is dominated by the huge quantitative impact of the submarine program and the qualitative debates about what the service needs to do 'to reconstitute the sealift capability.' Planned new auxiliary ship programs include the T-ARC(X) (future undersea cable layer) and the T-AS(X) (future submarine support ship).

THE MASTER AGREEMENT, SHIPYARD LEASE AND AUTHORIZATION AGREEMENT WITH PSDC

PSI currently operates its shipyard under a 99-year lease with Philadelphia Shipyard Development Corporation (PSDC), a government-sponsored non-profit corporation. A Master Agreement, a Shipyard Lease and an Authorization Agreement govern PSI's relationship with PSDC and the various governmental parties that have contributed to the establishment of the Shipyard.

Under the Master Agreement, the governmental parties have provided approximately USD 438 million for the renovation and modernization of the facility and training of the workforce. PSI was required to make certain qualified infrastructure investments totaling USD 135 million, which have been fully satisfied. PSI was also required to match government funding for certain training costs totaling USD 50 million, which has been fulfilled.

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.

Pursuant to the Authorization Agreement, PSDC purchased certain shipyard assets from PSI in 2011 for a purchase price of USD 42.0 million, with funds provided by the Commonwealth of Pennsylvania. PSI is leasing back those same assets from PSDC subject to the terms of the Shipyard Lease and the Authorization Agreement.

STRATEGY

Philly Shipyard will, through its unique partnerships and experience obtained during construction of tankers and containerships, strive to be the most efficient shipyard in the U.S. Jones Act and U.S. Government markets for production of ocean-going vessels. Over the past several years, Philly Shipyard has taken steps to diversify its business beyond the traditional vessels it has built for the commercial market. The National Security Multi-Mission Vessel (NSMV) program for the U.S. Department of Transportation's Maritime Administration (MARAD) is a critical step forward in the shipyard's transformation to serve both commercial and government customers. Going forward, PSI's main focus is to pursue major shipbuilding programs in both markets. PSI will also opportunistically pursue maintenance, repair, overhaul, and conversion (MROC) work for government ships.

Philly Shipyard's research and development activities are primarily related to two areas. The first area is the development of PSI's building methodology and working methods to ensure that PSI takes maximum benefit of the learning curve and produces each grand block and each vessel more efficiently than the previous one. The second area is work related to the development of new vessels. Ordinarily, PSI will attempt to identify and license existing best-in-class designs and cooperate with the owners of such designs to make such modifications as are necessary. However, when existing designs are unavailable or unsuitable, PSI will develop new designs to meet the needs of the markets it serves.

KEY EVENTS 2021

In January 2021, Philly Shipyard received an order for two additional National Security Multi-Mission Vessels (NSMVs 3 and 4) from TOTE Services LLC (TOTE Services). Construction of the two new vessels is expected to commence in 2022 with planned deliveries in 2024. This award is valued at approximately USD 600 million, which brought the total order intake for the NSMV program to greater than USD 1.2 billion.

Additionally, in January 2021, Philly Shipyard was awarded a contract to participate in an industry study for design of the U.S. Navy's Cable Ship T-ARC(X) program – a replacement for the U.S. Navy's only undersea cable installation and repair ship, the USNS *Zeus* (T-ARC-7). The ship's primary mission will be to transport, install, retrieve and repair undersea cables and equipment, with many additional capabilities including ocean surveys and deployment of unmanned underwater vehicles. Philly Shipyard partnered with Vard Marine, Inc. as the ship design team on this program. It represents the fourth government design studies contract that Philly Shipyard has been awarded since the beginning of 2019.

In February 2021, Philly Shipyard was awarded a ship repair and maintenance contract by Patriot Contract Services (Patriot) – the ship manager on behalf of the U.S. Navy's Military Sealift Command (MSC) – for the USNS *Charlton* (T-AKR-314), which marked the third government repair contract that PSI had been awarded since the middle of 2019 and its first contract with Patriot as ship manager. The vessel, a large roll-on/roll-off MSC ship, was redelivered to the customer on time and on budget in September 2021.

In May 2021, PSI reinstated the shipyard's apprenticeship program and reopened its training academy facility. Philly Shipyard welcomed its first class of apprentices since the last class graduated in early 2018. Earlier in 2021, Philly Shipyard received a USD 720 thousand grant from MARAD to support its apprenticeship program.

In November 2021, the Company won a contract from Great Lakes Dredge & Dock Company, LLC (Great Lakes), the nation's leading dredging company, to construct one Jones Act-compliant Subsea Rock Installation Vessel (SRIV) - the first such ship to enter the U.S. offshore wind market - valued at approximately USD 197 million. Great Lakes retains a right of first refusal on a second ship. If both ships are ordered, then the total contract value of the two-ship program would be approximately USD 382 million.

During the course of 2021, Philly Shipyard continued to advance the engineering, procurement and planning work on the NSMV program. Full production start of NSMV 2 occurred in November 2021 and keel laying of NSMV 1 occurred in December 2021 in accordance with plan. Pre-production activities on NSMVs 3 and 4 are ongoing. Philly Shipyard has commenced pre-production activities on SRIV 1.

For the third straight year, PSI did not record a single lost time injury (LTI). As of year-end 2021, PSI has performed more than 1.9 million consecutive work hours since the last LTI.

REVIEW OF THE ANNUAL ACCOUNTS

Philly Shipyard prepares and presents its consolidated accounts according to International Financial Reporting Standards (IFRS) as adopted by the European Union.

PHLY was formed on 16 October 2007 to be the holding company of PSI which operates the shipyard located in Philadelphia, Pennsylvania, USA.

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.

Also in accordance with IFRS, Philly Shipyard recognized a profit on its third ship repair and maintenance project, the USNS *Charlton*. Philly Shipyard also recognized profits on the OPC, T-ARC, T-AGOS and CHAMP government design studies during the year.

Order backlog

As of 31 December 2021, PSI's order backlog was USD 1,203.2 million and represents a contractual obligation to produce vessels that have not yet been delivered to PSI's customers: TOTE Services and Great Lakes. Order backlog consists of future shipbuilding contract revenues and is subject to adjustment based on change orders as defined in the construction contracts. At the end of 2021, the order backlog was comprised of the first four NSMVs (Hulls 033-036) under contract with TOTE Services and the one SRIV (Hull 038) under contract with Great Lakes. The net backlog increase of USD 790.6 million from 2020 represents the shipbuilding contracts awarded for NSMVs 3 and 4 plus the one SRIV vessel plus change orders offset by progress made on the two NSMV projects.

Profit and loss accounts

Operating revenues in 2021 ended at USD 214.1 million compared to operating revenues of USD 54.1 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. 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.

Philly Shipyard's earnings before interest, taxes, depreciation and amortization (EBITDA) was negative USD 7.0 million in 2021, compared to EBITDA of negative USD 21.6 million in 2020. These figures correspond to EBITDA margins of –3.3% and -39.9%, respectively.

Depreciation expense in 2021 and 2020 was USD 5.4 million and USD 6.2 million, respectively.

Philly Shipyard's earnings before interest and taxes (EBIT) was negative USD 12.4 million in 2021, compared to EBIT of negative USD 27.8 million in 2020. Key contributing factors to negative EBIT in 2021 were under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects) of USD 19.4 million (compared to USD 21.6 million in 2020) and SG&A costs of USD 7.5 million (compared to USD 6.4 million in 2020), partially offset by a combined profit of USD 9.0 million recognized on the two NSMV projects (Hulls 033-034 and Hulls 035-036), a profit of USD 4.5 million on the USNS *Charlton* ship repair and maintenance project and a profit of USD 1.0 million on government design studies.

In addition to the IFRS financial measures reported above, EBITDA and EBIT are considered relevant earnings indicators for the Company as they measure the operational performance of the shipyard. These non-IFRS measures are included as items in the consolidated income statement.

Net financial items in 2021 and 2020 was income of USD 0.2 million and USD 0.1 million, respectively. Net financial items in 2021 and 2020 were both primarily driven by interest income from bank balances partially offset by interest expense and bank fees.

Income tax for 2021 and 2020 was a benefit of USD 4.9 million and USD 29.2 million, respectively. The 2021 income tax benefit is due to Federal and State research and development (R&D) credits and Federal tax net operating losses (NOL). The 2020 income tax benefit was due to a NOL carryback tax provision created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which resulted in a USD 19.0 million net income tax receivable, and (b) a USD 10.2 million deferred tax asset due to future profits to be recognized.

In 2021, Philly Shipyard's net loss was USD 7.3 million and its basic and diluted loss per share was negative USD 0.61. The corresponding figures for 2020 was net income of USD 1.6 million and a basic and diluted income per share of USD 0.13. Net income in 2020 was driven by the USD 29.2 million income tax benefit described above.

Cash flows

The Company's cash flow from operations depends on payment terms for construction and delivery settlement for vessels sold to external customers.

Net cash flow from operating activities in 2021 and 2020 were USD 172.7 million and USD 50.0 million, respectively. There are significant changes year-to-year caused by the level of completion of vessels and customer and vendor contract payment schedules.

Net cash flow used in investing activities in 2021 and 2020 were USD 14.8 million and USD 4.0 million, respectively. In both 2021 and 2020, investment activities were due to capital improvements and enhancements to support the NSMV program and future programs.

Net cash flow used in financing activities was USD 0.3 million in 2021 and net cash flow from financing activities was USD 0.7 million in 2020. Net outflow in 2021 was for repayment of a lease liability whereas net inflow in 2020 was primarily from the interest income earned on the USD 60.0 million escrow amount held for the Welcome Fund loan.

Statement of financial position and liquidity

As of 31 December 2021, Philly Shipyard has cash and cash equivalents (excluding restricted cash) of USD 255.0 million. The corresponding figure for 2020 is USD 97.4 million. The increase of USD 157.6 million was primarily due to customer advances, net of project costs on the first four NSMV vessels and the one SRIV vessel and an increase in trade payables and accrued liabilities offset by prepayments to suppliers for the NSMV program, cash deposited in escrow accounts related to the NSMV program and investment in property, plant and equipment. Philly Shipyard's net working capital (current assets less current liabilities) is negative USD 17.3 million at 31 December 2021 compared to USD 17.4 million at 31 December 2020.

As of 31 December 2021, Philly Shipyard has restricted cash of USD 44.5 million, of which USD 43.1 million (long-term) represents the cash deposited in escrow accounts related to the NSMV program and USD 1.4 million (short-term) pertains to a holdback in escrow for claims related to the second Matson vessel (Hull 030). The corresponding figure for 2020 was USD 26.4 million. The increase of USD 18.1 million in restricted cash is primarily due to the additional cash deposited in escrow accounts described above.

Total assets were USD 437.0 million at 31 December 2021 compared to USD 237.7 million at 31 December 2020.

Current assets as of 31 December 2021 of USD 331.5 million consists of restricted cash short-term, prepayments and other receivables, income tax receivable short-term, contract assets and cash and cash equivalents. The corresponding figure for 31 December 2020 is USD 159.2 million and consists of restricted cash short-term, prepayments and other receivables, income tax receivable short-term and cash and cash equivalents. The increase of USD 172.3 million in current assets is primarily due to the increase in cash and cash equivalents and the increase in prepayments and other receivables mostly for suppliers for the NSMV program.

Non-current assets as of 31 December 2021 of USD 105.5 million consists of property, plant and equipment, right-of-use assets, restricted cash long-term, income tax receivable long-term, deferred tax asset and other non-current assets. The corresponding figure for 31 December 2020 is USD 78.5 million and consists of property, plant and equipment, right-of-use assets, restricted cash long-term, income tax receivable long-term, deferred tax asset and other non-current assets. The increase of USD 27.0 million in non-current assets is primarily driven by the net investment in property, plant and equipment and the additional cash deposited in escrow accounts described above.

Current liabilities as of 31 December 2021 of USD 348.8 million consists of trade payables and accrued liabilities, warranties, customer advances, net, income tax payable short-term and lease liability short-term. The corresponding figure for 31 December 2020 is USD 141.8 million and consists of trade payables and accrued liabilities, warranties, customer advances, net, other contract liabilities, income tax payable short-term and lease liability short-term. The increase of USD 207.0 million in current liabilities is primarily due to customer advances received net of ship costs for NSMVs 1-4 and the one SRIV and an increase in trade payables and accrued liabilities.

Non-current liabilities as of 31 December 2021 of USD 2.8 million consists of income tax payable long-term and lease liability long-term. The corresponding figure for 31 December 2020 is USD 3.1 million and consists of income tax payable long-term and lease liability long-term. The decrease of USD 0.3 million in non-current liabilities is primarily due to a reduction in lease liability long-term.

Total equity at 31 December 2021 amounts to USD 85.5 million and the equity ratio (total equity divided by total assets) was 20%. Corresponding figures for 31 December 2020 are USD 92.8 million and 39%, respectively. The USD 7.3 million decrease in equity is the result of the current year's net loss.

The Board deems that the Company as of 31 December 2021 is financially sound and has an appropriate financing structure subject to the risks discussed in the Risks section below.

RISKS

Market risks

The overall market risk for construction of commercial vessels is related to the Jones Act. Repeal of or significant changes to the Jones Act could, among other things, increase competition from foreign (non-U.S.) shipbuilders with lower costs or require increased use of higher priced domestic content, and as a result reduce the demand for U.S.-built vessels. In order to address this risk, the Company has continuous engagement with local, state and federal government officials.

Philly Shipyard is also exposed to market risk related to imbalance between supply and demand for vessels in the Jones Act and U.S. Government markets, which may result in a reduction of vessel prices and/or a delay in new projects. PSI faces risks related to the contracts for its vessels, including the risk that those contracts are cancelled and the underlying vessels are ultimately sold to third parties for less favorable terms.

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. Because Philly Shipyard's revenue is derived from contract awards, the Company's revenues, results of operations and cash flows can fluctuate materially from period to period.

While Philly Shipyard now has an order backlog for ship 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 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 SRIV contract includes a steel weight adjustment clause.

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.

The Company furthermore faces challenges related to the construction of new classes of vessels, as well as managing multiple projects at the same time. These challenges sometimes tend to impact quality, timely delivery and cost efficiencies. In order to reduce these risks, the Shipyard enters into contracts with design and procurement partners.

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 Shipyard depends on unionized labor for construction of vessels. Work stoppages or other labor disturbances could have a material adverse effect on the Company's business, results of operations and financial condition. In order to mitigate this risk, the Shipyard has signed a four-year collective bargaining agreement with the Unions which is effective through January 2023. The collective bargaining agreement includes a no-strike clause.

PSI's success also depends to a great degree on the abilities of its key management personnel, particularly its executives and other key employees who have significant experience within PSI's industry. The loss of the services of one or more of these individuals could adversely affect PSI.

PSI's ability to perform under its contracts depends to some degree on the performance of third parties under subcontracts. PSI depends upon subcontractors for a variety of reasons, including: to perform work as a result of scheduling demands or capacity constraints that PSI would otherwise perform with its employees; to supervise and/or perform certain aspects of the contract more efficiently considering the conditions of the contract; and to perform certain types of skilled work. PSI works closely with these subcontractors to monitor progress and address its customer requirements. PSI generally has the ability to pursue back charges for costs it incurs or liabilities it assumes as a result of a subcontractor's lack of performance. However, the inability of PSI's subcontractors to perform under the terms of their contracts could cause PSI to incur additional costs that reduce profitability or create losses on projects.

The Shipyard further depends upon a 99-year lease agreement for the shipyard facility and the future operations of the yard will accordingly be dependent upon PSI fulfilling its obligations under this lease agreement. Failure to maintain certain employment levels may result in early termination of this lease. For more details regarding this lease, see "The Master Agreement, Shipyard Lease and Authorization Agreement with PSDC" on page 13.

The Shipyard's operations are subject to the usual hazards inherent in shipbuilding, such as the risk of equipment failure and work accidents. Despite the Shipyard's best efforts to eliminate these hazards, they can sometimes cause personal injury, business interruption, construction delays, property and equipment damage, pollution and environmental damage. PSI continues to implement its Health, Safety and Environment (HSE) management system and provide training to its workforce to mitigate these risks. The Shipyard's policy of covering these risks through contractual limitations of liability and indemnities and through insurance may not always be effective, and customers and subcontractors may not have adequate financial resources to meet their indemnity obligations to PSI.

PSI relies heavily on computer information and communications technology and related systems in order to properly operate its business. From time to time, PSI experiences occasional system interruptions and delays. In the event PSI is unable to regularly deploy software and hardware, effectively upgrade its systems and network infrastructure, and take other steps to maintain or improve the efficiency and efficacy of its systems, the operation of such systems could be interrupted or result in the loss, corruption or release of data, and the cost associated with responding to such events and restoring compliance could be significant.

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.

The Shipyard's operations are subject to numerous international, national, state and local environmental, health and safety laws, regulations, treaties and conventions, including, inter alia, those controlling the permitted and unpermitted discharge of materials into the environment, requiring removal and clean-up of environmental contamination, establishing certification, licensing, health and safety, labor and training standards or otherwise relating to the protection of human health and the environment. Sanctions for failure to comply with these requirements, which may be applied retroactively, may include: administrative, civil and criminal liabilities, revocation of permits to conduct business and corrective action orders, including orders to investigate and clean up contamination.

Philly Shipyard's operations historically focused primarily on construction of new vessels for the U.S. Jones Act market. Philly Shipyard is continuing to develop and implement the policies and procedures required to be a fully compliant U.S. Government contractor. 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's activities expose it to a variety of financial risks: market risk (including commodity pricing risk, currency risk and price risk), credit risk and cash flow interest rate risk. Philly Shipyard's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Philly Shipyard's financial performance. Philly Shipyard uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out under policies and protocols approved by the Board of Directors. The Board of Directors provides principles for overall financial risk management as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and use of derivative financial instruments and non-derivative financial instruments.

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.

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 security required to support NSMVs 1-4 and SRIV 1.

Philly Shipyard regularly monitors the financial health of its construction financing lenders (if any) as well as the financial health of the financial institutions, which it uses for cash management services and in which it makes deposits and other investments.

Through construction financing (if any), the Company is exposed to fluctuations in interest rates.

The credit risk of ship owners is evaluated upon contract signing. Typically, ship owners have financing approvals in place before they enter into contracts with PSI. During the construction period, Philly Shipyard continually evaluates the credit risk associated with ship owners and, except in cases where PSI arranges construction financing, manages this risk by requiring payment for substantially the entire contractual amount prior to delivering a vessel, including milestone payments upon completion of specified milestones. At the completion of a vessel, transfer of ownership takes place upon settlement. Should a ship owner fail to pay, PSI may attempt to dispose of the vessel in the open market to recover its construction costs. The ultimate customer of the NSMV program is the U.S. Government.

PSI accrues an estimate for future warranty claims on its delivered vessels. This estimate is examined during the warranty period and adjusted as necessary. In order to mitigate the risk of warranty claims exceeding warranty provisions, PSI has secured back-to-back warranties for most major components on the vessels.

COVID-19 and other 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.

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 and reduce risk of outbreaks and its consequences, both in its production facility as well as in its offices. Even though the development is followed closely, a worst-case scenario with outbreak in the Philadelphia facility may have a significant operational and financial impact.

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. During 2021, Philly Shipyard offered multiple on-site COVID-19 vaccination clinics for its workforce.

The COVID-19 pandemic and vaccine mandate for federal contractors has impeded PSI's efforts to ramp-up its workforce in accordance with plan. The mandate was announced in early September 2021 and 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.

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 passed on to the end customer for steel plates under the NSMV contract and all structural steel under the SRIV contract.

No additional credit risk is expected to arise from any impact of the COVID-19 crisis on the ultimate customers for the NSMV and SRIV programs.

The COVID-19 crisis should not increase Philly Shipyard's liquidity risk. The NSMV and SRIV programs are fully funded by customer milestone payments and Philly Shipyard has no external debt.

The Russia-Ukraine military conflict, as well as the economic sanctions targeting Russia, could exacerbate the inflationary environment and supply-chain disruptions resulting from the COVID-19 pandemic. These conditions may further increase the risk of rising commodity prices, material shortages and transportation delays that could adversely impact Philly Shipyard's business.

SUBSEQUENT EVENTS AFTER 31 DECEMBER 2021

There are no events after 31 December 2021 that require disclosure.

THE GOING CONCERN ASSUMPTION

The 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.

PARENT COMPANY ACCOUNTS AND ALLOCATION OF LOSS FOR THE YEAR

The income/(loss) account of Philly Shipyard ASA for the year 2021 shows a loss of USD 1.4 million. The Board of Directors proposes that the loss for the year be allocated as shown below:

Dividend payment	USD 0
Other equity	USD (1.4) million
Total allocated	USD (1.4) million

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.

The parent company's only assets are cash and the investment in subsidiary, PSI.

CORPORATE SOCIAL RESPONSIBILITY

Maintaining a healthy and safe workplace and being friendly to the environment is an essential part of the Company's strategy. Philly Shipyard develops policies to comply with or exceed all federal, state, and local requirements.

Philly Shipyard is located in the former Philadelphia Naval Shipyard. PSI believes that being a good corporate citizen is good business. As a platform for these beliefs, PSI developed the WeCare program which provides support for its employees and for its community through teambuilding, volunteering, and educational initiatives. Through the WeCare program, PSI works with its employees and community-based organizations to understand and address issues that the Company can assist with. PSI employees are encouraged to become involved in the WeCare program.

As 2021 presented continued challenges for the entire world, PSI remained steadfast in its approach to weathering the storm. The Company's safety initiatives to curb the spread of COVID-19 included installing additional hand sanitizers throughout the shipyard, adding portable hand washing stations near the dock, strongly encouraging all workers to get vaccinated, and arranging multiple on-site COVID-19 vaccine clinics for employees, subcontractors and family members.

During this time, PSI was not able to fully engage in volunteer opportunities due to COVID-19 restrictions. Instead, PSI made multiple charitable donations in the form of money or food to several local groups, including Children's Hospital of Philadelphia, Nemours Children's Hospital of Delaware, the Philadelphia Animal Welfare Society, and Camp Out for Hunger. The PSI community also banded together to help raise funds and donate baby supplies and household items for an employee whose family tragically lost a young mother.

PSI is committed to its community and environment because it's right for the company, right for its people, and right for the world. And the Company's commitment to this belief is stronger than ever. PSI uses best management practices to ensure as much material as possible is diverted from landfills and used for better purposes. PSI recycled 100% of its wood and metal products and up to 80% of its industrial debris. PSI continues to "Go Green" with the purchase of electric golf carts for maintenance and production management staff.

Additionally, PSI continues to collect and donate magazines and books for the Seaman's Church Institute in Philadelphia, which then get distributed to the various seamen that enter Philadelphia's port. In addition, PSI continued to donate funds to local charities in lieu of mailing holiday greeting cards.

PSI seeks to be an attractive employer and maintains a human relations policy that is open and fair. PSI is committed to providing equal employment opportunity to all employees and applicants for employment, regardless of race, color, ethnic background, gender, religion, age, marital status, sexual orientation, national origin, citizenship status, disability, veteran status, or any other legally protected status. Diversity strengthens the Shipyard's overall capacity and skills. In support of this diversity, at 31 December 2021 approximately 37% of PSI's employees were minorities.

The maritime industry has traditionally been male-dominated. The entire industry faces the challenge of increasing the proportion of female employees. PSI has taken some affirmative steps to address this challenge. For example, the Shipyard encourages female applicants and has seen increased interest among potential female employees to pursue a career with PSI. To further this goal, PSI participates in available government programs that encourage women in manufacturing and has recruited at schools and training programs with more women. PSI has also continued to train supervisors, managers, and employees in its Equal Employment Opportunity policy.

At year-end 2021, approximately 10% of PSI's employees were women. While there were no women on PSI's senior management team, women held key positions such as HR/Communications Director, Manager of Project Estimating and Cost Control, Controller, Payroll/Benefits Supervisor and Purchasing Manager. In addition, two of the three members of PHLY's Board of Directors are women.

The Shipyard is committed to maintaining a work environment that is free of discrimination, harassment and hostilities. In keeping with this commitment, PSI maintains a strict Harassment Free Environment Policy and does not tolerate unlawful harassment of employees by anyone.

Philly Shipyard believes all people share the same fundamental human rights. The Company follows legal and responsible sourcing practices and expects its suppliers to uphold the same standards. In 2021, the Company did not have a formal policy regarding human rights as its sole operating company is located in the United States, which has extensive human rights laws in place.

At the operating subsidiary in Philadelphia, workers' rights are protected by federal, state and local laws. In addition, approximately 41% of PSI's employees are members of the Philadelphia Metal Trades Council (PMTC) union and are covered under the collective bargaining agreement between the PMTC and the Shipyard. This agreement is effective until 31 January 2023.

Under this collective bargaining agreement, union employees are granted vacation and personal time, and most union employees receive shutdown pay during the week of the Fourth of July holiday and in between the Christmas and New Year's holidays. In addition, union employees may take up to 6 unpaid days within a 12-month period. Traditional sick days are not part of the collective bargaining agreement. Non-union employees accrue sick time on a monthly basis and may maintain a balance of up to 200 hours. During 2021, 218 non-union employees used 4,762 hours of total sick time (3,678 hours of sick time and 1,084 hours of COVID-19 time), representing 1.3% of total non-union work hours. Comparably, in 2020, 75 non-union employees used 3,035 hours of total sick time (2,180 hours of sick time and 855 hours of COVID-19 time), representing 1.3% of total non-union work hours.

At the Shipyard, HSE is not just a priority, but is a mindset embedded in all decisions and actions. The Union-Management Safety and Environmental Board reviews the various HSE programs, and makes recommendations on policies and procedures. The HSE system includes safety training of employees and subcontractors, safety inspections, industrial health and wellness programs, drug testing, emergency response and environmental programs. PSI expects to implement new initiatives to continuously improve its HSE mindset during 2022.

PSI had zero lost time injuries (LTI) in 2021; however, there were 13 recordable injuries reported for the year. The incidents came from a total of 952,613 hours worked by

PSI employees and subcontractors in 2021, compared to 470,175 hours worked by PSI employees and subcontractors in 2020. The Other Recordable Incident Frequency Rate (ORIFR) was 2.73 in 2021, compared to 2.13 in 2020. ORIFR is based on recordable incidents other than LTIs per 200,000 hours as defined by the Occupational Safety and Health Administration (OSHA).

Philly Shipyard takes its environmental responsibilities seriously beginning with the vessel design. The Shipyard uses the latest International Maritime Organization requirements as guidance for environmental protection and efficiency during the design and production process. The industrial nature of the Shipyard's activities requires the use of significant amounts of energy, both electrical and gas, as well as the release of particulate and volatile organic compound (VOC) emissions. During 2021, PSI used approximately 16.7 GWh of electricity and approximately 416,000 ccf of natural gas. Its VOC emissions were approximately 10 tons for the reporting period ending in 2021. PSI had no reported discharges into the surrounding waterways.

Environmental status reporting is an integral part of the Shipyard's reporting system, on par with reporting on financial matters and operations. This commitment extends to evaluating and adopting environmentally beneficial improvements in production processes, alternative materials and services. PSI promotes open communication on environmental issues with employees, neighbors, public authorities and other interested parties and has implemented a system through which employees can make observations and suggestions about the Shipyard's environmental performance.

In 2021, PSI generated approximately 14 tons of hazardous waste and recycled approximately 413 tons of wood and 1,508 tons of steel. Philly Shipyard has continued its program to gather and sort waste to promote environmentally responsible handling, disposal and recovery of any residual value.

A basic principle of ethical business conduct requires that each employee of the Shipyard support positively, both on and off the job, the Shipyard's business activities. One important way PSI satisfies this responsibility is to ensure that its business dealings are never influenced by – or even appear to be influenced by – its own personal interests. The Company has zero tolerance for corruption and has adopted an Anti-Corruption Policy that is in line with the anti-corruption policies at other Aker ASA-related companies. The Company also maintains a strict Conflict of Interests policy, which is reflected in PSI's employee handbook, as well as its Terms and Conditions to outside suppliers.

In support of the above initiatives and policies, the Shipyard maintains a formal policy for the disclosure of wrongful conduct and protection from retaliation (the "Whistleblower Policy"). This policy is available to all employees and is administered by the Vice President of Human Resources. The Company has implemented a process that allows anonymous reports of violations through a third party administrator. In 2021, there was one case reported using this process and it was not considered material.

ORGANIZATION

On 31 December 2021, Philly Shipyard's workforce consisted of 343 direct employees and 630 subcontracted personnel. The Shipyard experiences higher turnover amongst its union and production subcontractor employees compared to other employees. As production on the NSMV program continues to ramp up, Philly Shipyard will continue to increase its workforce, including through its reinvigorated apprenticeship program.

CORPORATE GOVERNANCE

Philly Shipyard's corporate governance policy exists to ensure an appropriate division of roles among the Company's owners, Board of Directors and Management Team. Such a separation of roles ensures that goals and strategies are prepared, that adopted corporate strategies are implemented, and that the results achieved are subject to verification and follow-up. Applying these principles also contributes to satisfactory group-wide monitoring and verification of activities. An appropriate division of responsibilities and satisfactory controls will contribute to the greatest possible value creation over time, to the benefit of shareholders and other interest groups. Philly Shipyard's corporate governance guidelines are presented in greater detail on pages 73-77 of this annual report.

The directors and officers of Philly Shipyard ASA are covered under an Aker group Directors and Officers liability insurance policy (D&O). The insurance covers personal legal liabilities including defense and legal costs. The officers and directors of the parent company and all subsidiaries globally (owned more than 50%) are covered by the insurance. The cover also includes employees in managerial positions or employees who become named in a claim or investigation.

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.

On 15 March 2022, President Biden signed the USD 1.5 billion omnibus appropriations bill for fiscal year 2022. This federal spending package includes full funding for the fifth NSMV. Now that this funding is secured, Philly Shipyard anticipates that NSMV 5 will be ordered in Spring 2022.

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 recently concluded industry design studies for two government shipbuilding programs. Philly Shipyard intends to pursue opportunities to participate in more studies in the future. Participating in the design phase is key if the Shipyard chooses to compete for the detail design and construction (DD&C) contract when requests for proposals (RFPs) are issued.

Philly Shipyard's objective remains to secure a mix of commercial and government 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 remains committed to working with its clients to build the most cost-efficient and environmentally friendly vessels in the markets it serves. A substantial capital investment would be required in order for the Company to dedicate a drydock for future ship maintenance, repair, overhaul, and conversion (MROC) 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.

Oslo, Norway - 18 March 2022
Board of Directors Philly Shipyard ASA

Kristian Røkke	Amy Humphreys	Elin Karfjell	Steinar Nerbøvik
Board Chairman	*Deputy Board Chairperson*	*Board Member*	*President and CEO*

Directors' Responsibility Statement

Today, the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' report and the consolidated and separate annual financial statements for Philly Shipyard ASA, as of and for the year ending 31 December 2021 (annual report 2021).

The Philly Shipyard ASA consolidated financial statements have been prepared in accordance with IFRS, as adopted by the European Union, and additional disclosure requirements in the Norwegian Accounting Act, and that should be used as of 31 December 2021. The separate financial statements for Philly Shipyard ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian Accounting Standards as of 31 December 2021. The Board of Directors' report for Philly Shipyard and the parent company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian accounting standard no. 16, as of 31 December 2021.

To the best of our knowledge:

- The consolidated and separate annual financial statements for 2021 have been prepared in accordance with applicable accounting standards

- The consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position and income/(loss) as a whole as of 31 December 2021 for Philly Shipyard and the parent company

- The Board of Directors' report for Philly Shipyard and the parent company includes a true and fair review of:

  - The development and performance of the business and the position of Philly Shipyard and the parent company

  - The principal risks and uncertainties Philly Shipyard and the parent company face

Oslo, Norway - 18 March 2022
Board of Directors Philly Shipyard ASA

Kristian Røkke	Amy Humphreys	Elin Karfjell	Steinar Nerbøvik
Board Chairman	*Deputy Board Chairperson*	*Board Member*	*President and CEO*


IMG
IMG

Consolidated Income Statement

Amounts in USD thousands (except share amounts and earnings per share)	Note	2021	2020
Operating revenues	2	214 060	54 144
Operating revenues		**214 060**	**54 144**
Cost of vessel construction		(194 149)	(47 712)
Wages and other personnel expenses (SG&A)	3	(2 851)	(2 700)
Other operating expenses (SG&A)	4	(4 659)	(3 722)
Under-recovered overhead costs	4	(19 437)	(21 578)
Operating loss before depreciation (EBITDA)		**(7 036)**	**(21 568)**
Depreciation	7	(5 417)	(6 190)
Operating loss before interest and taxes (EBIT)		**(12 453)**	**(27 758)**
Financial income	5	363	661
Financial expense	5	(178)	(546)
Loss before tax		**(12 268)**	**(27 643)**
Income tax benefit	6	4 886	29 222
(Loss)/income after tax		**(7 382)**	**1 579**
Weighted average number of ordinary shares	11	12 107 901	12 107 901
Basic (loss)/income per share (USD)	11	(0.61)	0.13
Diluted (loss)/income per share (USD)	11	(0.61)	0.13

Consolidated Statement of Comprehensive Income

Amounts in USD thousands	2021	2020
(Loss)/income after tax for the year	(7 382)	1 579
Other comprehensive income, net of income tax	-	-
Total comprehensive (loss)/income for the year *	**(7 382)**	**1 579**

* All attributable to equity holders of the parent company.

Consolidated Statement of Financial Position

as of 31 December

Amounts in USD thousands	Note	2021	2020
ASSETS			
Property, plant and equipment	7	36 002	25 432
Right-of-use assets	7	12 769	13 986
Restricted cash long-term	10	43 096	25 028
Deferred tax asset	6	13 081	8 448
Income tax receivable long-term	6	82	5 150
Other non-current assets		495	495
Total non-current assets		105 525	78 539
Prepayments and other receivables	8	61 123	45 441
Restricted cash short-term	10	1 396	1 394
Income tax receivable short-term	6	13 624	14 990
Contract assets	2	345	-
Cash and cash equivalents	9	255 003	97 361
Total current assets		331 491	159 186
TOTAL ASSETS		437 016	237 725
EQUITY AND LIABILITIES			
Paid in capital	12	35 206	35 206
Other equity		50 257	57 639
Total equity attributable to equity holders of the parent company		85 463	92 845
Total equity		85 463	92 845
Income tax payable long-term	6	1 200	1 200
Lease liability long-term	7, 13	1 582	1 904
Total non-current liabilities		2 782	3 104
Trade payables and accrued liabilities	16	49 879	7 974
Other provisions - warranties	15	1 973	1 787
Customer advances, net	2	296 398	130 894
Other contract liabilities	2	-	151
Income tax payable short-term	6	199	661
Lease liability short-term	7, 13	322	309
Total current liabilities		348 771	141 776
Total liabilities		351 553	144 880
TOTAL EQUITY AND LIABILITIES		437 016	237 725

Oslo, Norway - 18 March 2022
Board of Directors Philly Shipyard ASA

Kristian Røkke
Board Chairman

Amy Humphreys
Deputy Board Chairperson

Elin Karfjell
Board Member

Steinar Nerbøvik
President and CEO

Consolidated Statement of Changes in Equity

Amounts in USD thousands	Share capital	Share premium	Treasury shares	Other equity	Total equity
Balance at 31 December 2019	22 664	22 511	(9 969)	56 060	91 266
Total comprehensive income for the year 2020	-	-	-	1 579	1 579
Balance at 31 December 2020	22 664	22 511	(9 969)	57 639	92 845
Total comprehensive loss for the year 2021	-	-	-	(7 382)	(7 382)
Balance at 31 December 2021	**22 664**	**22 511**	**(9 969)**	**50 257**	**85 463**

Consolidated Cash Flow Statement

Amounts in USD thousands	Note	2021	2020
Loss before tax		(12 268)	(27 643)
Unrealized foreign exchange loss	5	-	29
Depreciation	7	5 417	6 190
Amortization of fees of Welcome Fund loan		-	72
Net financial expense	5	(182)	(144)
(Increase)/decrease in:			
Contract assets	2	(345)	1 608
Restricted cash	10	(18 070)	(20 866)
Prepayments materials deposits	8	(17 210)	(39 620)
Prepayments other and other receivables	8	1 528	(2 319)
Other non-current assets		-	(261)
Increase/(decrease) in:			
Trade payables and accrued liabilities	15,16	42 091	1 341
Customer advances, net	2	165 504	130 894
Other contract liabilities	2	(151)	151
Income taxes refunded	6	6 225	449
Interest paid, net of capitalized interest	5	(178)	(517)
Interest received	5	360	661
Net cash flow from operating activities		172 721	50 025
Investments in property, plant and equipment	7	(14 770)	(4 036)
Net cash flow used in investing activities		(14 770)	(4 036)
Receipt of loan escrow amount		-	60 919
Repayment of Welcome Fund loan		-	(60 000)
Payment of lease liability	7,13	(309)	(220)
Net cash flow (used in)/from financing activities		(309)	699
Net change in cash and cash equivalents		157 642	46 688
Cash and cash equivalents as of 1 January		97 361	50 673
Cash and cash equivalents as of 31 December	9	255 003	97 361

Notes to the Consolidated Accounts

NOTE 1: ACCOUNTING PRINCIPLES

STATEMENT OF COMPLIANCE

The consolidated financial statements of Philly Shipyard ASA and its subsidiaries (referred to herein as a group as Philly Shipyard, the Group or the Company) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union in effect at each financial reporting period.

These accounts have been approved for issue by the Board of Directors on 18 March 2022. The annual accounts will be submitted to Philly Shipyard's annual general meeting on 20 April 2022 for final approval.

BACKGROUND AND BASIS FOR PREPARATION

Philly Shipyard ASA (referred to herein as PHLY) was formed on 16 October 2007 to be the holding company of Philly Shipyard, Inc. (referred to herein as PSI or the Shipyard) which operates a shipyard located in Philadelphia, Pennsylvania, USA. PSI owns certain dormant subsidiaries in connection with its former investments in shipping assets.

PHLY is domiciled in Oslo, Norway. PSI is domiciled in the Commonwealth of Pennsylvania, USA. The subsidiaries of PSI are domiciled in the State of Delaware, USA. These consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in USD (thousands), except when indicated otherwise.

ESTIMATES, ASSUMPTIONS AND SIGNIFICANT JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts in the consolidated financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

In addition, the preparation of consolidated financial statements in conformity with IFRS requires management to make judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

Estimates, underlying assumptions and significant judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects that period or in the period of revision and future periods if the revision affects both current and future periods.

Critical accounting estimates, assumptions and significant judgments are as follows:

Revenue Recognition

Philly Shipyard recognizes revenue over time in accordance with IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). This approach requires Philly Shipyard to measure the progress of contract activity at each statement of financial position date and estimate the ultimate outcome of costs and profit on contracts. Progress towards satisfying performance obligations is measured based on project costs incurred compared to the total forecasted project costs. In case of a loss-making project, a loss provision will be made when it is estimated that total contract costs will exceed total contract revenues. Revenue and cost estimates from shipbuilding activities depend, amongst others, on variables such as steel prices, supplier and subcontractor costs, labor costs and availability, and other production inputs. Philly Shipyard must also evaluate and estimate the outcome of variation orders, liquidated damages, contract claims and requests from customers to modify contractual terms which can involve complex negotiations with customers. Generally, estimates are subject to a greater level of uncertainty when a vessel design is new to the Shipyard than if a vessel is being constructed later in a series (see note 2 for further discussion).

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 and 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. 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.

Cost Forecast of the NSMV Project

The cost forecast of the total NSMV project can be judgmental and sensitive to changes. The cost estimates can significantly impact revenue recognition for contracts using cost progress, particularly in lump sum construction contracts. Forecasting the total NSMV project cost depends on the ability to properly execute the engineering and design phase, availability of skilled resources, manufacturing capacity, productivity and quality factors, steel prices and performance of subcontractors. Experience, systematic use of the project execution model and focus on core competencies reduce, but do not eliminate, the risk that cost estimates may change significantly.

Fair Value of its Cash Generating Unit

Philly Shipyard has concluded that it has only one primary cash generating unit and must determine the recoverable amount of its cash generating unit in order to perform impairment tests of its long-lived assets when impairment indicators are present. The Company reviewed certain indicators and determined that there were no indicators of impairment. As such the Company has not performed an impairment test (see note 7 for further discussion).

Tax Uncertainty
Tax positions subject to uncertainty are identified and assessed either individually or in groups based on an estimate of the probability that the tax authorities will accept or reject a certain treatment. Where it is assessed that it is not probable the tax authorities will accept an uncertain tax treatment, the effect of the uncertainty is reflected in the calculation of the taxable profit, tax bases, unused tax losses or credits, or tax rates. The effect of the uncertainty is calculated by applying the most appropriate method (most likely amount or expected value). Changes in circumstances are assessed and reflected at each reporting date.

Deferred Income Taxes
Deferred income tax assets are recognized when it is probable that they will be realized. Determining probability requires Philly Shipyard to estimate the sources of future taxable income from operations, including reversing taxable temporary differences. Determining these amounts is subject to uncertainty and is based primarily upon historical earnings, reversals of taxable temporary differences and expected earnings due to contracts in progress and contract order backlog. The recognition of deferred tax assets is primarily applicable to U.S. taxes where Philly Shipyard has a net deferred tax asset position (see note 6 for further discussion).

R&D Tax Credit
Since 2015, PSI has qualified for the research and development (R&D) tax credit for both federal and Pennsylvania state tax purposes. The Shipyard qualified for the credit because of the research it undertook to discover information that is technological in nature and intended to be useful in the development of a new or improved business component. The Company recognizes the R&D tax credit estimate as part of the income tax benefit based on a calculation of qualifying research expenses using available guidance and the applicable rules and regulations.

The Going Concern Assumption
The 2020 and 2021 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 due to the firm order backlog which takes operations into 2024.

COVID-19
The world remains in the COVID-19 pandemic, and how it will continue to unfold is uncertain. Philly Shipyard is taking measures to mitigate substantial negative impact for the Company. Please refer to pages 18-19 of the Board of Directors' report for a discussion of COVID-19 risks. 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. Based on the Company's assessment of these risks and mitigating factors, it is not anticipated that the COVID-19 pandemic will have a material adverse impact on estimates and judgments about the future of Philly Shipyard. However, in a worst-case scenario, the COVID-19 pandemic could continue to significantly impede PSI's efforts to ramp-up its workforce in accordance with plan and significantly impact the Company's global supply chain for material and equipment used in the production of vessels.

PHILLY SHIPYARD ACCOUNTING AND CONSOLIDATION PRINCIPLES

Subsidiaries
The consolidated financial statements include the financial statements of the parent company, Philly Shipyard ASA, and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability affect those returns through its power over the entity.

Transactions Eliminated on Consolidation
Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

Functional Currency
Items included in the financial statements of each entity in Philly Shipyard are initially recorded in the entity's functional currency, i.e. the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity.

The consolidated financial statements are presented in United States dollars (USD), rounded to the nearest thousand, which is the reporting currency for the consolidated accounts and the functional currencies for all the entities within Philly Shipyard.

Transactions and Balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rates in effect on the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Foreign exchange differences arising in respect of operating items are included in operating income or loss in the consolidated income statement, and those arising in respect of financial assets and liabilities are recorded net as a financial item.

INCOME STATEMENT PRESENTATION

Operating related expenses in the consolidated income statement are presented as a combination of function and nature in conformity with industry practice. Depreciation is presented on a separate line based on its nature, while cost of vessel construction, wages and other personnel expenses (SG&A), other operating expenses (SG&A), and under-recovered overhead costs are presented on a functional basis. Significant expenses such as salaries, pensions, etc. are presented by their nature in the notes to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

General
Property, plant and equipment and right-of-use assets acquired by the Shipyard is

stated at cost at the date of acquisition. Depreciation is calculated on a straight-line basis and adjusted for impairment charges, if any. The carrying value of the property, plant and equipment and right-of-use assets on the consolidated statement of financial position represents the cost net of government grants and subsidies received (if applicable) less accumulated depreciation and any impairment charges. Cost includes expenditures that are directly attributable to the asset. The cost of self-constructed assets includes the costs of material and direct labor, and any other costs directly attributable to bringing the asset to working condition for its intended use. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Land is not depreciated, but other property, plant, and equipment in use and right-of-use assets are depreciated on a straight-line basis. Expected useful lives of long-lived assets are reviewed annually and, where they differ significantly from previous estimates, depreciation periods are changed accordingly.

Ordinary repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred. The cost of improvements is included in the asset's carrying amount when it is probable that the Shipyard will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset. Improvements are depreciated over the useful lives of the related assets.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating income or loss. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

Component Cost Accounting

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment and right-of-use assets to its significant components and depreciates separately each such component part over its useful life.

IMPAIRMENT OF LONG-LIVED ASSETS

Property, plant and equipment, right-of-use assets and other non-current assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable, mainly independent, cash inflows. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the higher of the asset's net selling price and its value in use. The value-in-use is determined by discounted cash flows and fair market value is based on recent third party appraisals.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not to an extent higher than the carrying amount that would have been determined had no impairment loss been recognized in prior years.

FAIR VALUE OF ITS CASH GENERATING UNIT

Philly Shipyard has concluded that it has only one primary cash generating unit and must determine the recoverable amount of its cash generating unit in order to perform impairment tests of its long-lived assets when impairment indicators are present. The Company reviewed certain indicators and determined that there were no indicators of impairment. As such the Company has not performed an impairment test (see note 7 for further discussion).

REVENUE FROM CONTRACTS WITH CUSTOMERS

Philly Shipyard principally generates revenues from activities relating to long-term shipbuilding construction contracts, and also generated revenue from the performance of industry studies for the U.S. Navy and U.S. Coast Guard and for the ship repair and maintenance of U.S. Government-owned vessels. A detailed review of customer contracts occurred for contracts which were open from 1 January 2021 to 31 December 2021.

Construction Contracts

The vessel construction contracts and ship repair and maintenance projects were assessed according to IFRS 15 to evaluate whether the revenue from such contracts shall be recognized over time or at a point in time. As a result of the assessment, the Company concluded that the principle of revenue recognition over time method was appropriate for these contracts based on the fact that the vessels under construction and ship repair and maintenance contracts do not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment from the customer for the work completed to date.

Performance Obligations

Philly Shipyard has two separate awards under one shipbuilding contract in place for the NSMV program (Hulls 033-034 and Hulls 035-036). Per IFRS 15 *Revenue from Contracts with Customers*, these projects are being treated as two separate performance obligations that are being accounted for using the percentage-of-completion over time method based on project costs incurred compared to the total project costs. Progress towards completing ship repair and maintenance is measured over time based on project costs incurred compared to the total forecasted project costs. This is considered to be a faithful depiction of the transfer of goods as it accurately reflects the underlying transactions and progress.

Constraint of Variable Consideration

Variable considerations are included in estimated contract revenue to the extent that it is highly probable that a significant reversal of revenue in a subsequent period will not occur when the uncertainties are resolved.

Onerous Contracts

Onerous revenue contracts are accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. A provision is recognized when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits to be received.

Project revenue is classified as operating revenues in the consolidated income statement. Vessels-under-construction are presented net of advances from customers as vessels-under-construction receivable or customer advances, net on a contract by contract basis.

Other revenues such as design studies and ship repair and maintenance work are classified as contract assets and/or other contract liabilities and are classified as current or non-current based on the expected timing of recognition of revenue.

GOVERNMENT GRANTS AND SUPPORT

Government grants and support are recognized at their fair value where there is reasonable assurance that amounts will be received and conditions have been met. In some cases, recognition occurs over a period of time as restrictions lapse or as conditions are met. Grants and support related to capital expenditures or construction of assets for the Shipyard's account are recognized as a reduction of the related asset cost. For assets held for use, this results in a lower depreciation charge over the useful life of the asset. Grants related to specific programs or projects are recognized as reductions in expense over the period in which work that relates to the grant or support is performed.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

INTEREST-BEARING LIABILITIES

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period the interest bearing liabilities are outstanding. Amortized cost is calculated by taking into account any issuance costs, and any discount or premium.

Gains and losses are recognized in net income or loss when the liabilities are derecognized as well as through the amortization process.

INCOME TAXES

Current Income Taxes

Income taxes receivable and payable for the current period are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws as used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Deferred Income Taxes

Deferred income tax is recognized using the asset/liability method on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except upon initial recognition of an asset or a liability that does not impact income.

Deferred income tax assets are recognized for all deductible temporary differences, and carry-forward of unused tax losses and credits, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry-forward of unused tax losses and credits can be utilized. The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is not probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. The expected utilization of tax losses is not discounted when calculating the deferred tax asset.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

PENSION OBLIGATIONS

The Shipyard has a pension plan that covers its non-union employees whereby contributions are paid to a qualifying pension plan. The Shipyard's union employees are participants in a multi-employer union selected pension plan (Union Plan). Although the Union Plan is a defined benefit pension plan, because the union does not provide information on the Shipyard's employees and their share of the pension assets and obligations, the Union Plan is accounted for in accordance with the requirements of a defined contribution plan under IAS 19 *Employee Benefits* revised. Under defined contribution pension plans, contributions are charged to the consolidated income statement in the period to which the contributions relate.

PROVISIONS

A provision is recognized when Philly Shipyard has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current estimate.

The amount of the provision is the present value of the risk adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the carrying amount of provision increases in each period and is recognized as interest expense.

LEASES AND RIGHT-OF-USE ASSETS

At the lease commencement date, the Group recognizes a lease liability and corresponding right-of-use asset for all lease agreements in which it is the lessee, except for short-term leases (defined as twelve months or less) and low-value assets, for which the Group recognizes the lease payments as other operating expenses in the consolidated income statement when they are incurred.

The Group measures the lease liability at the present value of the lease payments for the right to use the underlying asset during the lease term that are not paid at the commencement date, by using the Group's incremental borrowing rate. The lease term represents the non-cancellable period of the lease, together with periods covered by an option either to extend or to terminate the lease when the Group is reasonably certain to exercise this option. The lease payments included in the measurement comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- The exercise price of a purchase option, if the Group is reasonably certain to exercise that option;
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The Group does not include variable lease payments in the lease liability. Instead, the Group recognizes these variable lease expenses in the consolidated income statement when they are incurred.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect adjustments in lease payments due to an adjustment in an index or rate. The Group presents its lease liabilities as separate line items in the consolidated statement of financial position.

The Group measures the right-of-use asset at cost, less any accumulated depreciation and impairment losses, adjusted for any remeasurement of lease liabilities. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability recognized, any lease payments made at or before the commencement date, less any incentives received, and any initial direct costs incurred by the Group.

The Group applies the depreciation requirements in IAS 16 *Property, Plant and Equipment* in depreciating the right-of-use asset, except that the right-of-use asset is depreciated from the commencement date to the earlier of the lease term and the remaining useful life of the right-of-use asset. The Group assesses at the lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

As part of the 2011 Authorization Agreement, PSI's landlord, Philadelphia Shipyard Development Corporation (PSDC), purchased certain shipyard assets from PSI for a purchase price of USD 42.0 million with funds provided by the Commonwealth of Pennsylvania. PSI leases back those same assets from PSDC subject to the terms of its Shipyard lease and the Authorization Agreement. For accounting purposes, the transaction was accounted for as a sale/leaseback, and no adjustments were made to the accounting value of the assets at closing.

The net book value of assets under leasing agreements recorded in the consolidated statement of financial position at 31 December 2021 amounts to USD 12.8 million. Included in this are the assets PSDC purchased from PSI in 2011, which at 31 December 2021 the net book value amounts to USD 10.9 million.

RELATED PARTY TRANSACTIONS

The Company's policy is that all transactions, agreements and business activities with related parties are conducted on an arm's length basis according to ordinary business terms and conditions.

SEGMENT INFORMATION

Philly Shipyard currently has one business segment which is building and repairing vessels for both the U.S. Jones Act market and the U.S. Government.

BASIC AND DILUTED INCOME/(LOSS) PER SHARE

The calculation of basic income/(loss) per share is based on the income or loss attributable to ordinary shareholders using the weighted average number of shares outstanding during the year (not including the treasury shares). The calculation of diluted income/(loss) per share is consistent with the calculation of basic income/(loss) per share while giving effect to all potential dilutive ordinary shares that were outstanding during the period. Philly Shipyard currently has no potentially dilutive shares outstanding.

SUBSEQUENT EVENTS AFTER 31 DECEMBER 2021

A distinction is made between events both favorable and unfavorable that provide evidence of conditions that existed at the statement of financial position date (adjusting events) and those that are indicative of conditions that arose after the statement of financial position date (non-adjusting events). Financial statements will only be adjusted to reflect adjusting events and not non-adjusting events (although there are disclosure requirements for such events).

NEW STANDARDS AND INTERPRETATIONS ADOPTED

The Group has adopted the amendments to IAS 1 *Presentation of Financial Statements* (IAS 1) and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8) for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the International Accounting Standards Board (IASB) amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Company has not early adopted new or amended standards in preparing these consolidated financial statements as of 31 December 2021.

The following amended standards and interpretations are not expected to have a significant impact on the Company's consolidated financial statements:

Amendments to IAS 37: *Onerous contracts – Cost of Fulfilling a Contract.*

Amendments to IAS 12: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction.*

Amendments to IFRS 16: *COVID-19-Related Rent Concessions beyond 30 June 2021.*

Annual Improvements to IFRS Standards 2018-2020.

Amendments to IAS 16: *Property, Plant and Equipment: Proceeds Before Intended Use.*

Amendments to IFRS 3: *Reference to Conceptual Framework.*

Amendments to IAS 1: *Classification of Liabilities as Current or Non-current.*

IFRS 17: *Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*

Amendments to IAS 1 and IFRS Practice Statement 2: *Disclosure of Accounting Policies.*

Amendments to IAS 8: *Definition of Accounting Estimates.*

NOTE 2: CONSTRUCTION CONTRACTS

The order backlog of USD 1,203.2 million at 31 December 2021 represents a contractual shipbuilding obligation to deliver newly built vessels (Hulls 033-036 and Hull 038) that have not yet been been produced for the Company's customers: TOTE Services and Great Lakes. 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 intake of USD 790.6 million at 31 December 2021 represents the shipbuilding contracts awarded for NSMVs 3 and 4 plus the one SRIV vessel plus change orders.

The order backlog and order intake on long-term construction contracts are as follows:

Amounts in USD thousands	Order backlog 31 Dec 2021	Order intake 2021	Order backlog 31 Dec 2020	Order intake 2020
Total	1 203 243	790 637	601 881	631 006

Amounts in USD thousands	Accumulated recognized revenue 31 Dec. 2021	Remaining performance obligation 31 Dec. 2021	Revenue recognition principle	Estimated year of completion
Hulls 033-034 (NSMVs 1-2)	212 679	423 012	Over time	2023
Hulls 035-036 (NSMVs 3-4)	5 721	583 159	Over time	2024
Hull 038 (SRIV 1)	-	197 072	Over time	2024
Total	218 400	1 203 243		

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. 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.

Progress towards completing the NSMV contract performance obligations are measured based on project costs incurred compared to the total forecasted project costs. Construction contract revenue and income recognized in 2021 includes revenue and income for Hulls 033-034 and Hulls 035-036 since the contract for these vessels was accounted for using the principle-over-time revenue recognition method according to IFRS 15.

Operating revenues are detailed below:

Amounts in USD thousands	2021	2020
Shipbuilding	189 275	29 125
Ship repair and maintenance	19 788	19 815
Government design studies	4 997	5 204
Total operating revenue	**214 060**	**54 144**

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

Amounts in USD thousands	31 Dec 2021
Construction contract revenue recognized	218 400
Construction contract expenses recognized	(207 650)
Recognized construction contract profit-to-date	**10 750**

Progress towards completing the NSMV contract performance obligations are measured based on project costs incurred compared to the total forecasted project costs. Construction contract revenue and income recognized in 2020 includes revenue and income for Hulls 033-034 since the contract for these vessels was accounted for using the principle-over-time revenue recognition method according to IFRS 15.

The recognized profit on long-term construction contracts in process (Hulls 029-030) as of 31 December 2020 is as follows:

Amounts in USD thousands	31 Dec 2020
Construction contract revenue recognized	29 125
Construction contract expenses recognized	(27 431)
Recognized construction contract profit	**1 694**

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

Customer milestone payments as of 31 December 2021 and 31 December 2020 totaled USD 514.9 million and USD 160.0 million, respectively. Customer milestone payments received from TOTE Services for Hulls 033-036 and from Great Lakes for Hull 038 were made at intervals that were intended to be cash neutral and to not require any external financing.

The Company's construction contract with TOTE Services prohibits the payment of dividends by PSI until the delivery of NSMV 3. Thereafter, the payment of dividends is limited based on the Company's earnings.

Contract assets

Contract assets as of 31 December 2021 and 31 December 2020 totaled USD 345 thousand and USD 0, respectively. Contract assets represents the difference between (i) revenue recognized on government design studies and (ii) cash advances received from the customers.

Contract liabilities

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 and (ii) revenue recognized for the two NSMV shipbuilding projects (Hulls 033-034 and Hulls 035-036).

Other contract liabilities as of 31 December 2021 and 31 December 2020 totaled USD 0 and USD 151 thousand, respectively. Other contract liabilities represents the difference between (i) cash advances received plus accounts receivable from customers and (ii) revenue recognized for ship repair and maintenance work plus government design studies.

As of 31 December 2021, Philly Shipyard has USD 320.7 million in unpaid non-cancellable purchase commitments for materials, equipment and design fees for the construction of Hulls 033-036.

NOTE 3: WAGES AND OTHER PERSONNEL EXPENSES (SG&A)

Wages and other personnel expenses (SG&A) consist of:

Amounts in USD thousands (except number of employees)	2021	2020
Wages	24 905	16 738
Social security contributions	2 040	1 336
Pension costs (note 14)	934	247
Other expenses (1)	4 318	3 031
Total gross expense	**32 197**	**21 352**
Expenses charged to vessel construction	(17 618)	(8 560)
Expenses charged to under-recovered overhead costs	(11 728)	(10 092)
Wages and other personnel expenses (SG&A)	**2 851**	**2 700**
Average number of employees	268	161
Number of employees at year-end	343	182

(1) Other expenses relate primarily to workers' compensation and employee benefits.

NOTE 4: OTHER OPERATING EXPENSES

Other operating expenses consist of:

Amounts in USD thousands	2021	2020
Under-recovered overhead costs	19 437	21 578
Other operating expenses (SG&A)	4 659	3 722
Total	24 096	25 300

In 2021 and 2020, PSI operated at below normal operating levels and under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects) were expensed in 2021 and 2020. Other operating expenses (SG&A) primarily relate to non-payroll selling, general and administrative expenses.

Fees to auditors for Philly Shipyard are as follows:

Amounts in USD thousands	2021	2020
Audit fees	152	142
Other audit and attestation fees	55	63
Total	207	205

NOTE 5: FINANCIAL INCOME AND FINANCIAL EXPENSE

Amounts in USD thousands	2021	2020
Interest income	360	661
Foreign exchange gain	3	-
Financial income	363	661
Interest expense	(178)	(517)
Foreign exchange loss	-	(29)
Financial expense	(178)	(546)
Net financial items	185	115

NOTE 6: TAXES

Income tax expense/(benefit)

Recognized in the consolidated income statement

Amounts in USD thousands	2021	2020
Current income tax (benefit)/expense:		
Current year - U.S.	(134)	(18 988)
Current year - Norway	(119)	-
Total current income tax (benefit)/expense	(253)	(18 988)
Deferred tax (benefit)/expense:		
Origination and reversal of temporary differences - U.S.	(4 633)	(10 436)
Origination and reversal of temporary differences - Norway	-	202
Total deferred tax (benefit)/expense	(4 633)	(10 234)
Total income tax (benefit)/expense in the consolidated income statement	(4 886)	(29 222)

Reconciliation of effective tax rate:

Amounts in USD thousands	2021	2020
Loss before tax	(12 268)	(27 643)
Nominal Norwegian tax rate	22.0%	22.0%
Expected tax (benefit)/expense using nominal Norwegian tax rate	(2 699)	(6 081)
Effect of differences between nominal Norwegian tax rate and U.S. federal, state and city tax rate	(1 287)	(3 130)
Expenses not deductible for tax purposes	113	199
R&D tax credits	(4 825)	21
Net operating loss carryback claim rate differential	-	(7 429)
Other differences	292	295
Valuation allowance	3 520	(13 097)
Total income tax (benefit)/expense in the consolidated income statement	(4 886)	(29 222)

The effective tax rate differs from the expected tax rate primarily due to the difference between the nominal Norwegian tax rate and U.S. federal, state and city tax rates, and income that was not taxable in Norway, in addition to the reversal of the valuation allowance and net operating loss (NOL) carryback rate differential.

Income tax receivable/(income tax payable)

Amounts in USD thousands	2021	2020
Beginning of the period	18 279	148
Taxes payable	253	18 988
Taxes refunded	(6 225)	(857)
End of the period	12 307	18 279

Income tax receivable and income tax payable are offset when there is a legally enforceable right to offset the taxes; however, when the taxes relate to different tax authorities, they cannot be offset. The Company's income tax receivable at 31 December 2021 relates to U.S. tax authorities.

Deferred tax asset/deferred tax liability

Deferred tax asset and deferred tax liability are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority, which through 31 December 2021 for the Company was primarily Norway, the United States, the State of Delaware, the Commonwealth of Pennsylvania and the City of Philadelphia.

The offset amounts for U.S. items are as follows:

Amounts in USD thousands	31 Dec 2021	31 Dec 2020
Deferred tax assets - U.S. tax jurisdictions	13 081	8 448
Deferred tax liabilities - U.S. tax jurisdictions	-	-
Net deferred tax asset/(liability)	**13 081**	**8 448**

The gross movement in the deferred income tax account for U.S. tax jurisdictions is as follows:

Amounts in USD thousands	31 Dec 2021	31 Dec 2020
Beginning of the period	8 448	(1 988)
Deferred tax benefit	4 633	10 436
Net deferred tax asset/(liability)	**13 081**	**8 448**

Based on award of the NSMV and SRIV contracts, and estimated future taxable profits, the Company has included a deferred tax asset.

The movement in deferred tax asset and deferred tax liability during the year for the U.S. tax jurisdictions is as follows:

Deferred tax asset

Amounts in USD thousands	Other assets	Work-in-process	Total
31 December 2020	12 474	-	12 474
(Charged)/credited to the consolidated income statement	6 124	-	6 124
31 December 2021	**18 598**	**-**	**18 598**

Deferred tax liability

Amounts in USD thousands	P,P&E	Other	Total
31 December 2020	(3 943)	(83)	(4 026)
(Charged)/credited to the consolidated income statement	(539)	(952)	(1 491)
31 December 2021	**(4 482)**	**(1 035)**	**(5 517)**

The movement in deferred tax asset and deferred tax liability during the year for the Norwegian tax jurisdiction is as follows:

Deferred tax liability

Amounts in USD thousands	Other liabilities	Total
31 December 2020	-	-
Change in deferred tax liability	-	-
31 December 2021	-	-

PSI has USD 5.0 million of federal tax losses in carryforward as of 31 December 2021. The 2018, 2019 and 2020 losses were carried back.

PSI has state and city tax losses in carryforwards as of 31 December 2021 of USD 79.9 million and USD 76.2 million, respectively, in the U.S. The state tax losses expire in 20 years and the city tax losses expire in 3 years. At this time, the Company has not recognized USD 50.5 million of state NOLs and USD 38.2 million of city NOLs due to uncertainty of the Company's ability to utilize the losses.

Income tax benefit/(expense) is recognized on the best estimate of the expected annual income tax rates. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted by the U.S. Congress on 27 March 2020, allows for the carryback of NOLs arising in taxable years beginning after 31 December 2017, and before 1 January 2021, to the five taxable years preceding the loss year. This rule allows corporate taxpayers the opportunity to carry back NOLs to tax years as far back as 2013. As the Company had qualifying taxable losses in 2018, 2019 and 2020, these losses 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.

The Company incurred prototype costs surrounding a research and development (R&D) project that generated a federal and state R&D tax credit. Although the Company believes its methodology for determining the R&D tax credit is fully compliant with the tax law, the issue is whether the nature of some portion of the prototype costs and activities engaged in giving rise to qualified research expenditures is acceptable to the IRS. At 31 December 2020, the Company created a reserve related to this issue. The beginning balance of this reserve at 1 January 2021 was USD 3.5 million. The Company reserved an additional USD 1.4 million in 2021. The reserve at 31 December 2021 is USD 4.9 million.

The Norwegian deferred tax assets of USD 3.5 million have not been recorded because the Company does not believe that they will be able to use them.

NOTE 7: PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Movements in property, plant and equipment and right-of-use assets for 2021 are shown below:

Amounts in USD thousands	Machinery and vehicles	Buildings	Land improvements	Assets under construction	Total
Cost at 1 January 2021	59 572	63 958	20 583	3 229	147 342
Additions - PP&E	-	-	-	14 770	14 770
Transfers	4 801	-	-	(4 801)	-
Cost at 31 December 2021	64 373	63 958	20 583	13 198	162 112
Depreciation and impairment losses at 1 January 2021	58 841	37 213	11 870	-	107 924
Depreciation - PP&E	3 503	545	152	-	4 200
Depreciation - Right-of-use assets	72	723	422	-	1 217
Depreciation and impairment losses at 31 December 2021	62 416	38 481	12 444	-	113 341
Net book value at 31 December 2021 (1)	1 957	25 477	8 139	13 198	48 771
(1) Net book value of right-of-use assets under lease agreements recorded in the statement of financial position (see note 13):	144	7 085	5 540	-	12 769
Depreciation period	3-12 years	7-30 years	20 years		
Depreciation method	Straight-line	Straight-line	Straight-line		

Movements in property, plant and equipment and right-of-use assets for 2020 are shown below:

Amounts in USD thousands	Machinery and vehicles	Buildings	Land improvements	Assets under construction	Total
Cost at 1 January 2020	58 726	61 525	20 570	52	140 873
Additions - PP&E	-	-	-	4 036	4 036
Additions - Right-of-use assets	-	2 433	-	-	2 433
Transfers	846	-	13	(859)	-
Cost at 31 December 2020	59 572	63 958	20 583	3 229	147 342
Depreciation and impairment losses at 1 January 2020	55 597	35 553	10 584	-	101 734
Depreciation - PP&E	3 133	794	781	-	4 708
Depreciation - Right-of-use assets	111	866	505	-	1 482
Depreciation and impairment losses at 31 December 2020	58 841	37 213	11 870	-	107 924
Net book value at 31 December 2020 (2)	731	26 745	8 713	3 229	39 418
(2) Net book value of right-of-use assets under lease agreements recorded in the statement of financial position (see note 13):	216	7 808	5 962	-	13 986
Depreciation period	3-12 years	7-30 years	20 years		
Depreciation method	Straight-line	Straight-line	Straight-line		

Leased plant and machinery

The Shipyard leases production equipment and land improvements under a number of lease agreements. At the end of each of the leases, the Shipyard has the option to purchase the equipment at a beneficial price. The leased equipment secures lease obligations (see note 13).

Property, plant and equipment under construction

Assets-under-construction primarily relate to upgrades in facilities and equipment. Total committed capital expenditure costs at 31 December 2021 amount to USD 5.4 million.

Depreciation

Philly Shipyard's practice is to present its annual depreciation expense on a separate line item in its consolidated income statement when it is building vessels under contract.

Sale leaseback

As part of the 2011 Authorization Agreement, PSDC purchased certain shipyard assets from PSI for a purchase price of USD 42.0 million with funds provided by the Commonwealth of Pennsylvania. PSI leases back those same assets from PSDC subject to the terms of its Shipyard Lease and the Authorization Agreement. For accounting purposes, the transaction was accounted for as a sale/leaseback, and no adjustments were made to the accounting value of the assets at closing.

Right-of-use assets (assets under lease agreements)

The net book value of the assets PSDC purchased from Philly Shipyard in 2011, and subsequently leased to PSI, amounts to USD 10.9 million at 31 December 2021 (USD 11.8 million at 31 December 2020).

The right-of-use asset lease is treated as a government grant under IAS 20 *Accounting for Government Grants* and Disclosure (IAS 20). Upon transition to IFRS 16, the Shipyard will continue to use this policy to record the government grant under IAS 20 against the investment. This gives a USD 947 thousand balance for the right-of-use asset and a USD 996 thousand balance for the lease liability at 31 December 2021, as the grant is deducted to arrive at the carrying amount of the right-of-use asset. For more details regarding the shipyard lease, see note 20.

Upon the award of the NSMV contract in April 2020, the Company did a reassessment of the lease term of both its shipyard and plate priming facility leases, both of which were treated as short-term in nature in 2019. Based upon this reassessment of the lease term, the Company is treating each of these leases as long-term due to the option to lease the premises over a longer lease period. Given the backlog, the Company recorded a right-of-use asset and a lease liability representing its obligation to make lease payments. The combined net book value of these right-of-use assets at 31 December 2021 is USD 1.9 million (USD 2.2 million at 31 December 2020).

Determination of recoverable amounts/fair values

Due to the market and company specific developments, including operating results, cash flows and backlog, no impairment indicators were identified in 2021 for property, plant and equipment.

NOTE 8: PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables consist of the following items:

Amounts in USD thousands	31 Dec 2021	31 Dec 2020
Prepayments materials deposits	56 830	39 620
Trade receivables	2 511	2 501
Inventory	924	1 799
Prepayments other	858	1 492
Claims receivable	-	29
Total	61 123	45 441

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.

NOTE 9: CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following items:

Amounts in USD thousands	31 Dec 2021	31 Dec 2020
Cash and bank deposits	255 003	97 361
Cash and cash equivalents in the statement of cash flows	255 003	97 361

Cash and bank deposits are invested in overnight deposits.

NOTE 10: RESTRICTED CASH

Restricted cash consists of the following items:

Amounts in USD thousands	31 Dec 2021	31 Dec 2020
Restricted cash (long-term)	43 096	25 028
Restricted cash (short-term)	1 396	1 394
Total	44 492	26 422

Restricted cash (long-term) represents cash collateral as required for the NSMV program for the payment and performance (P&P) bonds related to Hulls 033-036 and cash deposited into a reserve fund per the contract. Restricted cash (short-term) represents cash escrow accounts established for Matson pertaining to a holdback in escrow for claims related to the second Matson vessel (Hull 030).

In 2020, in conjunction with the award of Hulls 033 and 034, the Company secured P&P bonds in the aggregate amount of USD 120.0 million and in 2021, in conjunction with the award of Hulls 035 and 036, the Company secured P&P bonds in the aggregate amount of USD 60.0 million. As a condition of issuing the P&P bonds, the Company was required to post cash collateral in the aggregate amount of USD 25.0 million and USD 8.0 million in 2020 and 2021, respectively. It is anticipated that a portion of the total security will be released following the delivery of each vessel. Pursuant to the P&P bonds, PSI is not permitted to pay any dividends without the surety's consent.

In 2021, the Company deposited USD 10.0 million into a reserve fund as contractually required for NSMVs 1 and 2. It is anticipated that the full reserve amounts will be released following the delivery of each vessel.

In 2019, PSI deposited USD 4.3 million into a cash escrow account upon delivery of Hull 030 as a holdback for Matson. USD 0.1 million was released in 2019 and an additional USD 2.8 million was released in 2020. The timing of the release of the remaining holdback of USD 1.4 million is uncertain due to the impacts of the COVID-19 pandemic, including quarantine and travel restrictions, on closing out the underlying claims.

NOTE 11: INCOME/(LOSS) PER SHARE

Basic and diluted

Basic and diluted income/(loss) per share is calculated by dividing the total comprehensive income/(loss) attributable to equity holders of PHLY by the weighted average number of ordinary shares.

Amounts in USD thousands (except share amounts and earnings per share)	2021	2020
Total comprehensive (loss)/income attributable to equity holders of PHLY	(7 382)	1 579
Weighted average number of ordinary shares	12 107 901	12 107 901
Basic and diluted income/(loss) per share (USD)	(0.61)	0.13

At 31 December 2021 and 31 December 2020, PHLY had 12,107,901 ordinary shares (excluding 466,865 treasury shares) at a par value of NOK 10 per share. There were no share issuances or repurchases in 2021 or 2020.

There were no potentially dilutive securities outstanding as of 31 December 2021 and 31 December 2020.

NOTE 12: PAID IN CAPITAL

The current share capital (excluding 466,865 treasury shares) is 12,107,901 shares issued and outstanding as of 31 December 2021, each with a par value of NOK 10, fully paid. As of 31 December 2021, there are no additional authorized shares.

Amounts in USD thousands	Share capital	Share premium	Paid in capital
31 December 2019	22 664	22 511	45 175
Dividend paid	-	-	-
31 December 2020	22 664	22 511	45 175
Dividend paid	-	-	-
31 December 2021	**22 664**	**22 511**	**45 175**

Summary of purchases of treasury shares:

Amounts in USD thousands (except number of shares)	Number of shares	Consideration
Treasury shares at 31 December 2019	466 865	(9 969)
Purchases	-	-
Treasury shares at 31 December 2020	466 865	(9 969)
Purchases	-	-
Treasury shares at 31 December 2021	**466 865**	**(9 969)**

NOTE 13: LEASES

Lease liabilities are payable as follows as of 31 December:

Amounts in USD thousands	Payments 2021	Interest 2021	Principal 2021	Payments 2020	Interest 2020	Principal 2020
Less than one year	392	70	322	392	83	309
More than one year	1 726	144	1 582	2 118	214	1 904
Total	2 118	214	1 904	2 510	297	2 213

PSI operates on land leased from PSDC through April 2038. Annual payments under the shipyard lease include rent, taxes and operating expenses (operating expenses are subject to an annual revision based on PSDC's operating expenses). PSI has options to renew the shipyard lease for three consecutive periods of 20 years each and one final period of 19 years. At expiration of the first lease period in 2018, the shipyard lease was renewed for the first of the three 20 years' option periods. PSI can acquire the land for USD 1 after the expiration of all renewal periods. Lease payments for rent due under the shipyard lease were USD 1 per year. Upon the award of the NSMV program in 2020, the annual rent under the shipyard lease agreement increased to USD 200 thousand per annum.

The shipyard lease is treated as a government grant under IAS 20. This gives a USD 947 thousand balance for the right-of-use asset and a USD 996 thousand balance for the lease liability at 31 December 2021, as the grant is deducted to arrive at the carrying amount of the right-of-use asset. For more details regarding the shipyard lease, see note 20.

NOTE 14: PENSION COSTS

Pension costs recognized in the consolidated income statement:

Amounts in USD thousands	31 Dec 2021	31 Dec 2020
Contribution plans (employer's contribution)	934	247
Total	934	247

PSI has a defined contribution plan for its non-union employees which provides for a PSI contribution based on a fixed percentage of certain employee contributions plus a discretionary percentage of salaries. In addition, PSI's union employees are participants in a multi-employer union selected pension plan (Union Plan). PSI contributes a fixed amount per hour worked to the Union Plan. If PSI were to terminate its relationship with the Union Plan, PSI could be statutorily liable for a termination liability calculated at the termination date. The termination liability at 31 December 2021 was USD 5.3 million. Currently, PSI has no plans to terminate this relationship. Thus, no termination liability has been recognized in the consolidated financial statements. However, the termination liability will be incurred in the event the company permanently ceases its operation. PSI estimates that it will contribute approximately USD 1.1 million to the Union Plan in 2022.

NOTE 15: OTHER PROVISIONS - WARRANTIES

Amounts in USD thousands	31 Dec 2021	31 Dec 2020
Current balance as of 1 January	1 787	2 137
Provisions made during the period	282	1 205
Provisions released during the period	-	(1 353)
Provisions used during the period	(96)	(202)
Current balance as of 31 December	1 973	1 787

The normal warranty period for a new vessel is typically twelve months after delivery, but can be extended in cases where there are specific issues that have not been fully resolved within the normal warranty period.

The warranty provisions made in 2020 relates to the warranty work for Hull 030 to account for the pending Matson claims.

NOTE 16: TRADE PAYABLES AND ACCRUED LIABILITIES

Trade payables and accrued liabilities comprise the following items:

Amounts in USD thousands	31 Dec 2021	31 Dec 2020
Ship material and subcontracting accruals	25 492	2 701
Employee-related cost accruals	2 920	1 915
Trade payables	15 277	2 168
Overhead and capital projects accruals	6 190	1 190
Total	49 879	7 974

NOTE 17: FINANCIAL INSTRUMENTS

Philly Shipyard's activities are exposed to a variety of financial risks: credit and investment risk, liquidity risk, foreign exchange risk, and capital management risk. PSI's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Philly Shipyard's financial performance. The Company may use derivative financial instruments to hedge certain risk exposures. As of 31 December 2021, there were no foreign exchange contracts in place.

Risk management is carried out under policies approved by the Board of Directors. The Board of Directors provides principles for overall financial risk management as as well as policies covering specific areas such as foreign exchange risk, credit risk and use of derivative financial instruments and non-derivative financial instruments.

Credit and investment risk

Due to the nature of the Shipyard's operations, revenues and related receivables are typically concentrated amongst a few customers. The Company continually evaluates the credit risk associated with customers and their assignees and manages this risk by requiring payment for substantially the entire contractual amount prior to delivering a vessel, including milestone payments upon completion of specified milestones.

Additionally, PSI monitors the financial condition of the financial institutions which it uses for cash management services and in which it makes deposits and other investments. Philly Shipyard responds to changes in conditions affecting its deposit relationships as situations warrant.

The carrying amount of financial assets represents the maximum credit exposure. At 31 December 2021 and 31 December 2020, the maximum exposure to credit risk is as follows:

Amounts in USD thousands	31 Dec 2021	31 Dec 2020
Cash and cash equivalents	255 003	97 361
Restricted cash	44 492	26 422
Trade receivables	2 511	2 501
Total	302 006	126 284

Liquidity risk

Liquidity risk is the risk that Philly Shipyard will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. PSI's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Philly Shipyard attempts to mitigate this risk through project financing and working capital facilities, progress payments from its customers, and material supplied and paid directly by its customers.

The following are the contractual maturities of financial liabilities including interest payments:

	31 December 2021						
Amounts in USD thousands	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities:							
Lease liability	1 904	(2 118)	(196)	(196)	(392)	(1 229)	(105)
Trade payables	15 277	(15 277)	(15 277)	-	-	-	-
Total	17 181	(17 395)	(15 473)	(196)	(392)	(1 229)	(105)

Amounts in USD thousands	31 December 2020						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities:							
Lease liability	2 213	(2 510)	(196)	(196)	(392)	(1 199)	(527)
Trade payables	2 168	(2 168)	(2 168)	-	-	-	-
Total	4 381	(4 678)	(2 364)	(196)	(392)	(1 199)	(527)

Book values included in the above tables are gross loan amounts.

Foreign exchange risk

Philly Shipyard is exposed to foreign exchange risk for purchases made in currencies other than the U.S. dollar which primarily relates to materials, supplies and costs related to the services of expatriate workers purchased from Norway and other countries in Europe. Philly Shipyard attempts to mitigate this risk through its foreign exchange hedging program or passing this risk onto its end customers by having them purchase certain materials directly in foreign currency or agree to exchange rate adjustment clauses for purchases made in foreign currency.

The Company incurs foreign currency risk on purchases that are denominated in a currency other than USD. The currencies giving rise to this risk are primarily EUR (Euro) and NOK (Norwegian Kroner).

The Company had no forward contracts as of 31 December 2021 and 31 December 2020.

Exposure to foreign exchange risk

The Company's exposure to foreign exchange risk at 31 December 2021 and 31 December 2020 was as follows based on the following notional amounts:

	2021		2020	
Amounts in USD thousands	EUR	NOK	EUR	NOK
Trade payables (-)	(141)	(39)	(240)	-
Cash	-	56	-	46
Gross balance sheet exposure	(141)	17	(240)	46
Estimated forecast expenses (-)	(3 769)	-	(3 327)	-
Net balance sheet exposure	(3 910)	17	(3 567)	46

Sensitivity analysis

In managing currency risks, the Company aims to reduce the impact of short-term fluctuations on its earnings. Over the longer term, however, permanent changes in foreign exchange rates would have an impact on consolidated earnings.

It is estimated that a 10% strengthening of the USD against other foreign currencies would not have significantly impacted the Company's loss before tax for 2021 and for 2020.

Fair values

Carrying amount of the Group's financial assets and financial liabilities is a reasonable approximation of their fair value. There were no financial instruments measured at fair value as of 31 December 2021 or 31 December 2020.

NOTE 18: SHARES OWNED OR CONTROLLED BY AND REMUNERATION TO THE PRESIDENT AND CHIEF EXECUTIVE OFFICER, BOARD OF DIRECTORS AND SENIOR MANAGEMENT OF PHILLY SHIPYARD

Shares owned in Philly Shipyard ASA as of 31 December 2021 and 31 December 2020

Name	Position	2021 number of shares held	2020 number of shares held
Elin Karfjell	Board Member	1 200	1 200
Steinar Nerbøvik	President and CEO	1 000	1 000

There is no share option agreement between Philly Shipyard ASA and Senior Management or Directors.

Remuneration to the Board of Directors for the years ended 31 December 2021 and 31 December 2020

		2021 remuneration		2020 remuneration	
Name	Position	(NOK)	(USD)	(NOK)	(USD)
James H. Miller	Board Chairman (1)	-	-	-	-
Kristian Røkke	Board Chairman (2)	475 000	53 859	475 000	55 669
Amy Humphreys	Deputy Board Chairperson	375 000	42 520	375 000	43 949
Elin Karfjell	Board Member	375 000	42 520	375 000	43 949
Total Directors' fees		1 225 000	138 898	1 225 000	143 567

(1) James H. Miller was the Board Chairman from 1 January 2019 - 21 April 2020.
(2) Kristian Røkke has been the Board Chairman from 22 April 2020 - 31 December 2021.

No Board members received any remuneration other than Directors' fees, except James H. Miller, who received USD 31,250 for 2020, related to consulting services through the company SeaJay Consulting LLC. The Board remuneration for Kristian Røkke is paid to his employer Aker Horizons AS.

Remuneration to the audit committee

The audit committee of PHLY is comprised of Elin Karfjell (Chairperson) and Amy Humphreys. Remuneration for the Chairperson is NOK 55,000 (USD 6,236) and for each member is NOK 45,000 (USD 5,102). This is in addition to the amounts shown in the Board of Directors' table above.

Remuneration to the nomination committee

The nomination committee of Philly Shipyard ASA has the following members: Leif-Arne Langøy (Chairperson) and Ove A. Taklo. Remuneration earned by each member of the committee in 2021 was NOK 34,000 (USD 3,855). The nomination committee remuneration for Ove A. Taklo is paid to his employer Aker ASA.

Guidelines for remuneration to the President and CEO and other members of the Management Team

The President and CEO and other members of PSI's Management Team that report directly to the President and CEO receive a base salary. In addition, a variable pay as further described below may be awarded.

The President and CEO receives monthly pension contributions. The other members of the Management Team participate in the standard Company 401K plan (employer-sponsored retirement account), applicable to all employees.

The President and CEO and other members of the Management Team participate in the standard Company insurance schemes, applicable to all employees.

The Company practices standard employment contracts and standard terms and conditions regarding notice period and severance pay for the President and CEO and other members of the Management Team.

The Company does not offer share option programs to the President and CEO or other members of the Management Team.

HSE incentive/retention program for 2020

In 2020, the variable pay program was made in accordance with a new HSE incentive/retention program. This system of reward was designed to improve Health, Safety and Environment (HSE) performance while retaining key employees during a crucial business cycle.

The 2020 HSE incentive/retention program was based on the achievement of HSE performance targets and continued employment with Philly Shipyard.

The 2020 HSE incentive/retention program for the President and CEO represented a potential for an additional variable pay up to 27% of base salary. The 2020 HSE incentive/retention program for other members of the Management Team represented a potential for an additional variable pay in the range of 23% to 27% of base salary.

The 2020 HSE incentive/retention program had minimal effects on the Company and the shareholders on the basis that remuneration was not granted in the form of shares (i.e., no risk of dilution effect) and had reduced cash payments compared to the previous program.

Incentive/retention program for 2021

In 2021, the variable pay program was developed to be in line with, and build off of, the 2020 HSE incentive/retention program. This system of reward is designed to improve HSE performance and attain key project objectives while retaining key employees.

The 2021 incentive/retention program is based on the achievement of HSE targets and key project targets, as well as retention.

The 2021 incentive/retention program for the President and CEO and other members of the Management Team represents a potential for an additional variable pay up to 28% of base salary.

The 2021 incentive/retention program has minimal effects on the Company and the shareholders on the basis that remuneration is not granted in the form of shares (i.e., no risk of dilution effect) and has reduced cash payments compared to the program in place prior to 2020.

Annual variable pay program for 2022

In 2022, the Board has resumed the "traditional" annual variable pay (AVP) program, which was in place prior to the introduction of the incentive/retention program in 2020 and developed in order to create a performance-based system. The system of reward is designed to contribute to the achievement of good financial results and increase shareholder value.

The 2022 AVP program is based on the achievement of defined annual results such as financial targets (profit and working capital), order intake, project targets, development of commercial solutions, alignment with Company's values and improvement of HSE results.

The 2022 AVP program for the President and CEO represents a potential for an additional variable pay up to 70% of base salary. The 2022 AVP program for other members of the Management Team represents a potential for an additional variable pay up to 60% of base salary.

The 2022 AVP program includes two payments, i.e., a base award (calculated as provided above) and a deferred payment. The deferred payments, which are designed to incentivize and retain key personnel, are equal to 50% of the base awards and are payable 12-21 months after the base awards.

The 2022 AVP program has minimal effects on the Company and the shareholders on the basis that remuneration is not granted in the form of shares (i.e., no risk of dilution effect).

Remuneration paid to Senior Management for 2021 (1)

Amounts in USD			Base salary	Variable pay (2)	Pension contri-bution	Other benefits	Total remun-eration	Severance pay
Steinar Nerbøvik	President and CEO	1 Jan - 31 Dec	435 999	137 340	32 000	73 097	678 436	12 months
Jeffrey Theisen	CFO	1 Jan - 31 Dec	275 000	20 472	9 263	15 723	320 458	12 months

(1) PHLY has no employees. The Senior Management is employed in the operating company.

(2) Mr. Nerbøvik's variable pay in 2021 consisted of a payment under the 2020 variable pay program, as well as a deferred payment under the 2019 variable pay program (USD 106,820 and USD 30,520, respectively). Mr. Theisen's variable pay in 2021 consisted of a prorated payment under the 2020 variable pay program.

Remuneration paid to Senior Management for 2020 (3)

Amounts in USD			Base salary	Variable pay (4)	Pension contri-bution	Other benefits	Total remun-eration	Severance pay
Steinar Nerbøvik	President and CEO	1 Jan - 31 Dec	452 768	101 560	33 231	75 565	663 124	12 months
Jeffrey Theisen	CFO	6 Sept - 31 Dec	83 558	-	1 837	5 023	90 418	12 months
Brian Leathers	CFO	1 Jan - 10 Aug	190 731	149 100	4 482	3 425	347 738	12 months

(3) PHLY has no employees. The Senior Management is employed in the operating company.

(4) Mr. Nerbøvik's variable pay in 2020 consisted of a payment under the 2019 variable pay program, as well as a deferred payment under the 2018 variable pay program (USD 71,040 and USD 30,520, respectively). Mr. Leathers' variable pay in 2020 consisted of a payment under the 2019 variable pay program, as well as an accelerated payment under the 2020 HSE incentive/retention program (USD 66,120 and USD 82,980, respectively).

NOTE 19: PHLY COMPANIES

Company name	Incorporation State	Incorporation Country	Ownership %
Philly Shipyard, Inc.	Pennsylvania	USA	100.0%
APSI Tanker Holdings II, LLC	Delaware	USA	100.0%
PSI Containership Holdings, Inc.	Delaware	USA	100.0%

NOTE 20: GOVERNMENT GRANTS, OTHER COMMITMENTS AND CONTINGENCIES AND LEGAL MATTERS

Government grants

For the year ended 31 December 2021, the Shipyard received USD 29 thousand for reimbursement of employee training costs from various governmental agencies (USD 14 thousand in 2020).

For the year ended 31 December 2021, the Shipyard received USD 640 thousand in grant funds for capital and infrastructure improvements under the Small Shipyard Grant Program (USD 0 in 2020).

Other commitments and contingencies

PSI is required to pay a common area maintenance charge each month of approximately USD 55 thousand, subject to escalation, through the term of its shipyard lease.

On 29 November 2017, PSI finalized a new long-term agreement with the City of Philadelphia (and others), whereby the parties agreed to the Real Estate and Use and Occupancy Tax for the years 2018 through 2025. PSI is committed to a fixed payment-in-lieu-of-taxes (PILOT) of approximately USD 863 thousand per year.

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.

Legal matters

The Company is involved in various legal disputes in the ordinary course of business related primarily to personal injury matters, employment matters and commercial matters. Provisions have been made to cover the expected outcomes when it is probable that a liability has been incurred and the amount is reasonably estimable. Although the final outcome of these matters is subject to uncertainty, in the Company's opinion the ultimate resolution of such legal matters will not have a material adverse effect on the Company's financial position or results of operations.

NOTE 21: TRANSACTIONS AND AGREEMENTS WITH RELATED PARTIES

Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder in 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.

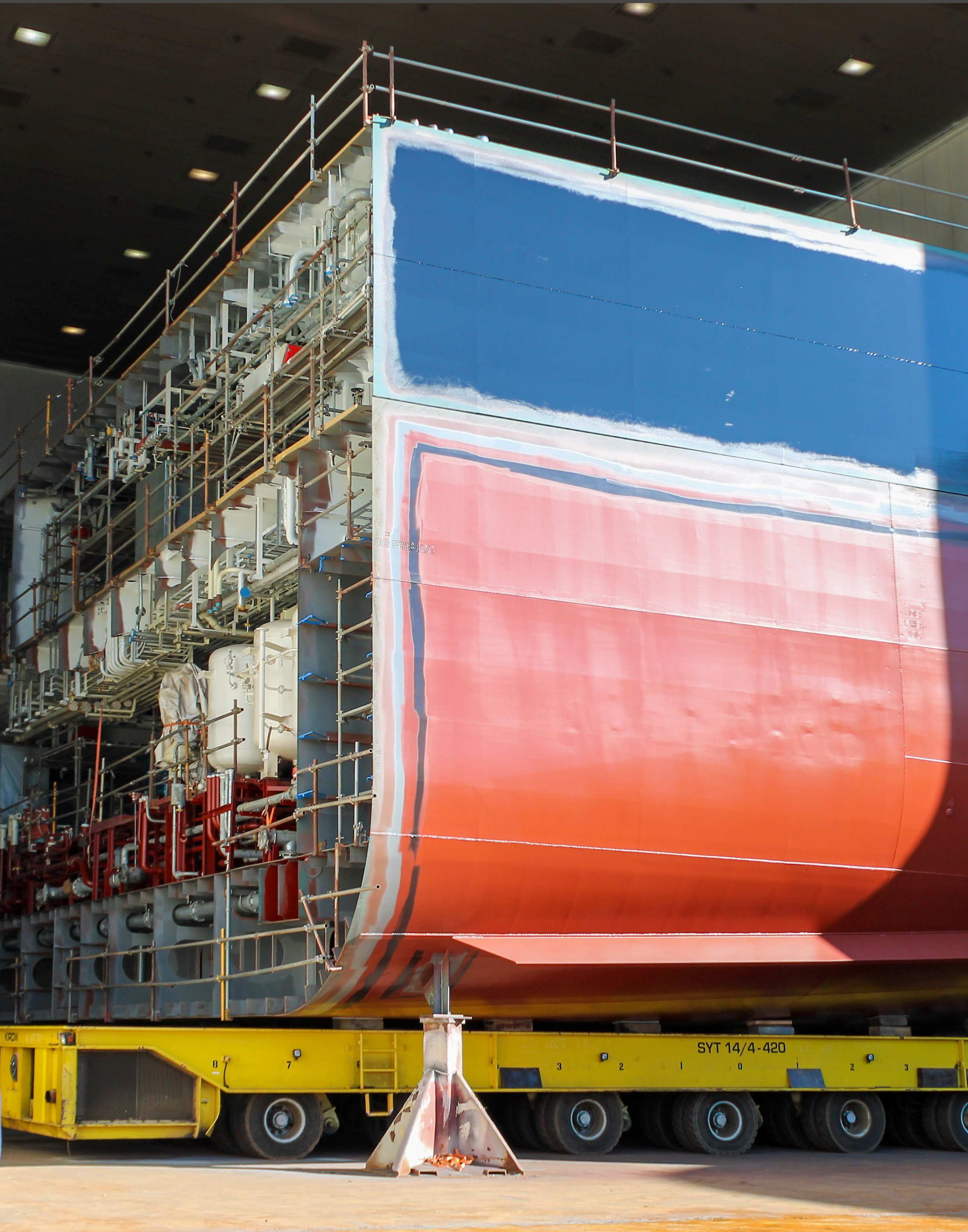
Transactions

Philly Shipyard has service agreements with Aker ASA and certain of its affiliates which provide specified consulting, tax, financial, insurance 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 are as follows:

Amounts in USD thousands	Expenses 2021	Expenses 2020
Aker U.S. Services LLC	125	103
Aker Insurances AS	228	280
Aker ASA	6	5

NOTE 22: SUBSEQUENT EVENTS AFTER 31 DECEMBER 2021

There are no events after 31 December 2021 that require disclosure.


SYT 14/4-420

Income Statement

Amounts in USD thousands	Note	2021	2020
Operating revenues		-	-
Operating expenses	2	(473)	(581)
Operating loss		**(473)**	**(581)**
Interest income earned from subsidiaries		-	367
Interest expense payable to subsidiaries		(1 017)	(1 289)
Other interest income and financial income		11	4
Other interest expense and financial expense		(42)	(43)
Loss before tax		**(1 521)**	**(1 542)**
Income tax benefit/(expense)	4	119	(201)
Net loss after tax		**(1 402)**	**(1 743)**
Allocation of net loss:			
Net loss after tax		(1 402)	(1 743)
Other equity	5	1 402	1 743

Statement of Financial Position

as of 31 December

Amounts in USD thousands	Note	2021	2020
ASSETS			
Shares in subsidiary	6	67 000	67 000
Total non-current assets		67 000	67 000
Prepayments and other receivables		14	75
Cash and cash equivalents	6	159	376
Total current assets		173	451
TOTAL ASSETS		67 173	67 451
EQUITY AND LIABILITIES			
Share capital		22 664	22 664
Share premium reserve		12 542	12 542
Total paid in capital		35 206	35 206
Other equity		5 616	7 018
Total equity	5	40 822	42 224
Loan from subsidiary	8	26 160	24 493
Total non-current liabilities		26 160	24 493
Trade payables and accrued liabilities		191	321
Income tax payable	4	-	413
Total current liabilities		191	734
Total liabilities		26 351	25 227
TOTAL EQUITY AND LIABILITIES		67 173	67 451

Oslo, Norway - 18 March 2022
Board of Directors Philly Shipyard ASA

Kristian Røkke
Board Chairman

Amy Humphreys
Deputy Board Chairperson

Elin Karfjell
Board Member

Steinar Nerbøvik
President and CEO

Cash Flow Statement

Amounts in USD thousands	2021	2020
Loss before tax	(1 521)	(1 542)
Unrealized foreign exchange loss	-	29
Payment-in-kind interest expense payable to subsidiary	1 017	493
Income taxes (paid)/received	(294)	7
Change in prepayments and other receivables	61	(60)
Change in trade payables and accrued liabilities	(130)	(56)
Net cash flow used in operating activities	**(867)**	**(1 129)**
Net cash flow used in investing activities	**-**	**-**
Loan proceeds from subsidiary	650	-
Net cash flow from financing activities	**650**	**-**
Net change in cash and cash equivalents	**(217)**	**(1 129)**
Cash and cash equivalents as of 1 January	376	1 505
Cash and cash equivalents as of 31 December	**159**	**376**

Notes to the Parent Company Accounts

NOTE 1: BASIS FOR PREPARATION

The accounts of Philly Shipyard ASA (referred to herein as PHLY) are presented in conformity with Norwegian legislation and generally accepted accounting principles in Norway. PHLY's functional and reporting currency is the U.S. dollar (USD), except when indicated otherwise.

Subsidiaries

Subsidiaries are presented on a historical cost basis in the parent company accounts. The investment is valued at historical cost for the shares unless impairment write-downs have been deemed necessary. The shares are written down to fair value if the impairment is not of a temporary nature and is necessitated by generally accepted accounting principles. Write-downs are reversed when the basis for the write-down no longer exists.

Dividends and other payments are taken to income in the year they are accrued in the subsidiary. If dividends exceed retained earnings after the purchase, the excess represents repayment of invested capital and the payments are deducted from the invested value in PHLY's statement of financial position.

Classification and valuation of statement of financial position items

Current assets and current liabilities include items that have less than one year to maturity, and other items that are deemed operational working capital. Other items are classified as non-current assets/non-current liabilities.

Current assets are valued at the lower of historical cost and fair value. Current liabilities are valued at their nominal historical value at the time the liability arises.

Non-current assets are valued at historical cost, but are written down to fair value if impairment is deemed to be of a permanent nature. Non-current liabilities are valued at nominal historical values.

Tax

Tax benefit/(expense) in the income statement comprises both current payable taxes and the change in deferred tax. Payable tax is calculated on the basis of the profit for the period in Norwegian Kroner (NOK). Deferred tax at 31 December 2021 is calculated using a 22% income tax rate utilizing the difference that exists between book values and tax values and the net operating losses that can be carried forward at the statement of financial position date. Tax-increasing and tax-reducing temporary differences that are reversing or can reverse in the same period are offset against each other. Net tax assets are shown in the statement of financial position to the extent it is probable that these assets can be utilized.

Cash flow statement

The cash flow statement is shown using the indirect method. Cash and cash equivalents comprises cash, bank deposits and other short-term liquid placements.

Use of estimates

Preparation of financial statements in conformity with generally accepted accounting principles in Norway requires management to make estimates and assumptions that affect the income statement, the reported amounts of assets and liabilities and also the disclosure of contingent assets and liabilities on the statement of financial position date.

Contingent losses that are probable and quantifiable are expensed when they are identified.

Going concern

As noted in note 1 of the consolidated financial statements, the 2021 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.

NOTE 2: OTHER OPERATING EXPENSES

Fees to the auditors for ordinary audit and other audit and attestation fees have been expensed.

Amounts in USD thousands	2021	2020
Audit fees	35	32
Other audit and attestation fees	-	-
Total	35	32

PHLY has no employees. The Senior Management is employed in the operating company. Fees to the Board of Directors of USD 171 thousand and USD 233 thousand were expensed in 2021 and 2020, respectively.

NOTE 3: SHARES IN SUBSIDIARY

This item comprises the following as of 31 December 2021:

Amounts in USD thousands	Ownership and voting rights (%)	Business address	Historical cost	Book value
Philly Shipyard, Inc. (PSI)	100%	Philadelphia, PA	67 000	67 000
Total shares in subsidiary			67 000	67 000

PSI's results after-tax in 2021 and equity at the end of 2021 are (in USD thousands):

Results after-tax 2021	(5 980)
Equity at 31 December 2021	111 642

Based on the net asset position of PSI (the investment in subsidiary) as well as the cash on hand at PSI, PHLY has concluded that no impairment indicators have been identified at 31 December 2021.

NOTE 4: TAXES

The table below shows the difference between book and tax values by the end of 2021 and 2020 and the amounts of deferred taxes at these dates and the change in deferred taxes.

Amounts in USD thousands	2021	2020
Losses carried forward	1 424	-
Other temporary differences	2 091	1 740
Total differences	**3 515**	**1 740**
Net deferred tax asset/(liability), 22%/22%	**-**	**-**
Foreign currency impact	-	-
Deferred tax asset/(liability) in the statement of financial position	**-**	**-**

Estimated result for tax purposes:

Amounts in USD thousands	2021	2020
Loss before tax measured in NOK for taxation purposes	(1 521)	(1 542)
Change in temporary differences	(53)	2 244
Interest limitation	1 025	371
Utilization of carried forward tax losses	-	(98)
Foreign currency impact	549	901
Estimated income for tax purposes	**-**	**1 876**
Income tax payable, 22%/22%	**-**	**413**

Income tax benefit in the income statement:

Amounts in USD thousands	2021	2020
Income tax payable	-	(413)
Change in deferred tax liability	-	205
Foreign currency impact	-	7
Excessive accrued income tax payable from prior year	119	-
Income tax benefit/(expense)	**119**	**(201)**

The Norwegian deferred tax assets of USD 3.5 million have not been recorded because the Company does not believe that they will be able to use them.

NOTE 5: TOTAL EQUITY

Changes in equity are:

Amounts in USD thousands	Share capital	Share premium	Treasury shares	Total paid in capital	Other equity	Total equity
Equity as of 1 January 2021	22 664	22 511	(9 969)	35 206	7 018	42 224
Net loss for the year 2021	-	-	-	-	(1 402)	(1 402)
Equity as of 31 December 2021	22 664	22 511	(9 969)	35 206	5 616	40 822

The share capital of NOK 125,747,660 consists of 12,574,766 shares (including 466,865 treasury shares) with a par value of NOK 10 as of 31 December 2021.

PHLY is a part of the consolidated accounts of Aker ASA, Oksenøyveien 10, NO-1366 Lysaker, Norway.

Twenty largest shareholders

(as of 31 December 2021)

Shareholders	Number of shares held	Ownership (in %)
Aker Capital AS	7 237 631	57.6%
J.P. Morgan Securities LLC	1 131 223	9.0%
Goldman Sachs & Co. LLC	1 041 689	8.3%
Philly Shipyard ASA	466 865	3.7%
Nordnet Livsforsikring AS	198 973	1.6%
Interactive Brokers LLC	120 806	1.0%
Citibank	76 045	0.6%
Nordnet Bank AB	52 594	0.4%
Lars Ro	50 000	0.4%
Karsten Ellingsen AS	40 000	0.3%
Peter Myhre	38 000	0.3%
Sivert Berg	37 575	0.3%
Ramadan Kovaci	35 005	0.3%
Kristian Falnes AS	35 000	0.3%
Ronny Kandal	31 150	0.2%
Tor-Fredrik Naevdal	30 460	0.2%
Inge Holter	28 500	0.2%
Heggum Holding AS	27 820	0.2%
J.P. Morgan Chase Bank	27 000	0.2%
Trading Partner AS	25 000	0.2%
Total, 20 largest shareholders	10 731 336	85.3%
Other shareholders	1 843 430	14.7%
Total	12 574 766	100.0%

NOTE 6: CASH AND CASH EQUIVALENTS

There is no restricted cash.

NOTE 7: SHARES OWNED BY THE BOARD OF DIRECTORS AND THE SENIOR MANAGEMENT

For information regarding shares owned by the members of the Board of Directors and the Senior Management, please see note 18 to the consolidated accounts.

NOTE 8: RELATED PARTY TRANSACTIONS AND GUARANTEES

PHLY supplied a parent company guarantee for the obligations of PSI under the construction contract with Great Lakes Dredge & Dock Company, LLC for the SRIV project.

PHLY supplied a parent company guarantee for the obligations of PSI under the construction contract with TOTE Services, LLC for the NSMV program. This guarantee prohibits the payment of dividends by PHLY until the delivery of NSMV 3. Thereafter, the payment of dividends is limited based on the Company's earnings.

PHLY supplied a parent company guarantee for the obligations of PSI under the payment and performance bonds (P&P bonds) related to Hulls 033-036. The maximum liability of PHLY under this guarantee is USD 195.0 million.

PHLY has service agreements with Aker ASA and certain of its affiliates which provide certain administrative services. All payables under these agreements are paid within the normal course of business. Total expenses incurred under these agreements in 2021 and 2020 were USD 112 thousand and USD 51 thousand, respectively.

As of 1 January 2020, PSI had a USD 31.0 million loan due to PHLY, and PHLY had a USD 55.0 million loan due to PSI. In March 2020, the USD 31.0 million loan due to PHLY was canceled and the USD 55.0 million loan due to PSI was reduced by an equal amount. Additionally, on 30 September 2020, the remaining USD 24.0 million loan due to PSI was amended to allow for payment-in-kind quarterly interest payments at the option of PHLY. As of 31 December 2021, USD 26.2 million is outstanding under the facility.

Auditor's Report

KPMG AS
Sørkedalsveien 6
Postboks 7000 Majorstuen
0306 Oslo

Telephone +47 45 40 40 63
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the General Meeting of Philly Shipyard ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philly Shipyard ASA, which comprise:

- The financial statements of the parent company Philly Shipyard ASA (the Company), which comprise the statement of financial position as at 31 December 2021, the income statement, statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Philly Shipyard ASA and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2021, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- the financial statements comply with applicable statutory requirements,
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and
- the financial statements give a true and fair view of the financial position of the Group as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Our opinion is consistent with our additional report to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, no prohibited non-audit services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided.

We have been the auditor of the Company for 15 years from the election by the general meeting of the shareholders on 16 October 2007 for the accounting year 2007.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition on construction contracts
Refer to Board of Directors report, Note 1 (Accounting Principles), and Note 2 (Construction Contracts)

The key audit matter	***How the matter was addressed in our audit***
Accounting for construction contracts is considered a key audit matter due to the significant estimates and judgments applied by management, and the degree of complexity relating to project execution risk of meeting forecasted costs and timelines underlying the cost-to-cost percentage of completion method. As of 31 December 2021 the Group is building four National Security Multi-Mission Vessels (NSMV) the first two to be delivered in 2023 and the last two to be delivered in 2024. The contract is accounted for as two separate performance obligations. Revenue is recognized over time based on total costs incurred relative to total forecast costs in accordance with IFRS 15 *Revenue from contracts with customers*. The key judgments and estimates applied by management to assess the contract revenue and costs include: • forecasting the total cost on the project based on an estimate of contract costs to complete, including contingencies for uncertain costs; • assessing if the two vessels awarded in 2021 should be treated as a separate contract and series of distinct goods and recognized as one performance obligation, separately from the first two vessels; and • assessing the measure of progress of the project, which determines the revenue to be recognized based on the project forecast. These management estimates and judgments are often complex and involve assumptions regarding future events for which there may be limited internal or external corroborative data.	For the vessel construction project in process as at 31 December 2021, our response included: • with the use of assistance from our internal Major Project Advisory construction specialists, challenging the Company's measure of progress estimate, and evaluating the appropriateness of the Company's assumptions used to develop total cost estimates, with a focus on risk contingencies, delivery dates and estimates to complete; • corroborating the Company's contractual revenue amounts included in project forecasts by agreeing to the related signed contracts; • evaluating costs to complete with reference to contract terms, actual and forecasted costs, and the construction schedule, based on internal documentation, and external documentation if available; • considering the overall consistency of information presented in the project forecasts, including the interrelationships between performance according to schedule, cost, revenues, any penalty forecasts and incorporating any other events or information received after the reporting date; • evaluating factors during the year that could result in significant changes in contract revenues and estimated total costs, such as change orders or unexpected construction delays or costs, and considering our assessment of the risk of management bias in forecasted costs; • obtaining the Company's IFRS 15 assessment and evaluating if the criteria for series of distinct goods are met and that the exercise of the option in the contract should be treated as a separate performance obligation; • performing procedures to agree actual costs incurred to supporting documentation, such as third party invoices, and assessing if the appropriate inputs of actual costs and forecasted costs are used to assess percentage of completion; and • recalculating revenue to be recognized for construction contract revenue, based on these aforementioned inputs.

Other Information

The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report and the other information accompanying the financial statements. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the information in the Board of Directors' report nor the other information accompanying the financial statements.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report and the other information accompanying the financial statements. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the other information accompanying the financial statements and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report and the other accompanying information otherwise appears to be materially misstated. We are required to report if there is a material misstatement in the Board of Directors' report or the other information accompanying the financial statements. We have nothing to report in this regard.

Based on our knowledge obtained in the audit, it is our opinion that the Board of Directors' report

- is consistent with the financial statements and
- contains the information required by applicable legal requirements.

Our opinion on the Board of Director's report applies correspondingly to the statements on Corporate Governance and Corporate Social Responsibility.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Report on compliance with Regulation on European Single Electronic Format (ESEF)

Opinion
We have performed an assurance engagement to obtain reasonable assurance that the financial statements with file name 549300HMTSHZZD4YR890-2021-12-31-en have been prepared in accordance with Section 5-5 of the Norwegian Securities Trading Act (Verdipapirhandelloven) and the accompanying Regulation on European Single Electronic Format (ESEF).

In our opinion, the financial statements have been prepared, in all material respects, in accordance with the requirements of ESEF.

Management's Responsibilities
Management is responsible for preparing, tagging and publishing the financial statements in the single electronic reporting format required in ESEF. This responsibility comprises an adequate process and

the internal control procedures which management determines is necessary for the preparation, tagging and publication of the financial statements.

Auditor's Responsibilities
Our responsibility is to express an opinion on whether the financial statements have been prepared in accordance with ESEF. We conducted our work in accordance with the International Standard for Assurance Engagements (ISAE) 3000 – "Assurance engagements other than audits or reviews of historical financial information". The standard requires us to plan and perform procedures to obtain reasonable assurance that the financial statements have been prepared in accordance with the European Single Electronic Format.

As part of our work, we performed procedures to obtain an understanding of the company's processes for preparing its financial statements in the European Single Electronic Format. We evaluated the completeness and accuracy of the iXBRL tagging and assessed management's use of judgement. Our work comprised reconciliation of the financial statements tagged under the European Single Electronic Format with the audited financial statements in human-readable format. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Oslo, 22 March 2022
KPMG AS

Gunnar Sotnakk

Gunnar Sotnakk
State Authorised Public Accountant


1.2
KRANENDONK
Holland

Good Dialogue

Philly Shipyard ASA (referenced to herein as "PHLY") is committed to maintaining an open and direct dialogue with its shareholders, potential investors, analysts, brokers and the financial community in general.

The timely release of information to the market that could affect PHLY's share price helps ensure that Philly Shipyard ASA's share price reflects its underlying value.

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.

Given the award of the contract for the National Security Multi-Mission Vessel (NSMV) program and related capital requirements, on 14 July 2020, the PHLY Board revised the Company's dividend policy as follows:

"The Company's objective is to provide its shareholders with a competitive return on its shares over time based on the Company's earnings. The Company's focus is on long-term profitability, and its current priorities are to retain a strong balance sheet and cash position. Accordingly, no dividends are contemplated until further notice."

In 2021, PHLY did not pay any dividends. The PHLY Board does not foresee payment of shareholder distributions, including dividends and share buybacks, sooner than the delivery of the third NSMV.

The Norwegian Public Limited Liability Companies Act allows for the Board of Directors to pay dividends on the basis of an authorization from the annual general meeting. The Board of Directors will therefore propose to the annual general meeting in 2022 that the Board of Directors is granted an authorization to pay dividends based on PHLY's annual accounts for 2021, valid up to PHLY's annual general meeting in 2023. Such authorization will facilitate potential payments of dividends by the Board of Directors in accordance with PHLY's dividend policy.

SHARES AND SHARE CAPITAL

As of 31 December 2021, Philly Shipyard ASA has 12,574,766 ordinary shares; each share has a par value of NOK 10 (see note 5 to the Parent company's 2021 accounts). As of 31 December 2021, PHLY had 1,543 shareholders, of whom 62 shareholders, or 4.0%, were non-Norwegian shareholders.

PHLY has a single share class. Each share is entitled to one vote. PHLY holds 466,865 of its own (treasury) shares, constituting approximately 3.71% of the shares outstanding, as of 31 December 2021.

STOCK EXCHANGE LISTING

Philly Shipyard ASA was listed on the Euronext Expand Oslo (formerly known as Oslo Axess) on 17 December 2007 (ticker: PHLY). PHLY's shares are registered in the Norwegian Central Securities Depository; the shares have the securities registration number ISIN NO 0010395577. DNB Bank ASA is PHLY's registrar.

MAJORITY SHAREHOLDER

Philly Shipyard ASA's majority shareholder is Aker Capital AS, a wholly-owned subsidiary of Aker ASA. Companies that are part of Aker are legally and financially independent units. Aker Capital AS exercises active ownership as part of systematic efforts to create value for all PHLY shareholders.

From time to time, agreements are entered into between the Company and one or more Aker companies. The Boards of Directors and other parties involved in the decision-making processes related to such agreements are all critically aware of the need to handle such matters in the best interests of the involved

SHARE CAPITAL DEVELOPMENT OVER THE PAST THREE YEARS

	Change in share capital (in NOK)	Share capital (in NOK)	Number of shares	Par value (in NOK)
Change in 2019	-	-	-	-
31 December 2019	-	125 747 660	12 574 766	10.00
Change in 2020	-	-	-	-
31 December 2020	-	125 747 660	12 574 766	10.00
Change in 2021	-	-	-	-
31 December 2021	-	125 747 660	12 574 766	10.00

companies, in accordance with good corporate governance practice. If needed, external, independent opinions are sought.

CURRENT BOARD AUTHORIZATIONS

As of 31 December 2021, the Board of Directors of Philly Shipyard ASA has an authorization to pay dividends, an authorization to increase the share capital and two separate authorizations to acquire own shares. All of these current Board authorizations are valid up until the next annual general meeting in 2022. For more details, please see "Board authorizations" on pages 73-74.

STOCK OPTION PLANS

As of 31 December 2021, Philly Shipyard ASA has no stock option program.

INVESTOR RELATIONS

Philly Shipyard ASA seeks to maintain an open and direct dialogue with shareholders, financial analysts and the financial market in general.

All Philly Shipyard press releases and investor relations publications, including archived material, are available at the Company's web site: www.phillyshipyard.com. This online resource includes PHLY's quarterly and annual reports, prospectuses, articles of association, financial calendar and its Investor Relations and Corporate Governance policies, along with other information.

Shareholders can contact the Company at contactus@phillyshipyard.com.

ELECTRONIC INTERIM AND ANNUAL REPORTS

Philly Shipyard ASA encourages its shareholders to subscribe to the electronic version of PHLY's annual reports. Annual reports are published on the Company's website at the same time as they are made available via website release by the Oslo Stock Exchange/ Euronext Expand: https://live.euronext.com/en/markets/oslo (ticker: PHLY). Subscribers to this service receive annual reports in PDF format by email.

TWENTY LARGEST SHAREHOLDERS
(as of 31 December 2021)

Shareholders	Number of shares held	Ownership (in %)
Aker Capital AS	7 237 631	57.6%
J.P. Morgan Securities LLC	1 131 223	9.0%
Goldman Sachs & Co. LLC	1 041 689	8.3%
Philly Shipyard ASA	466 865	3.7%
Nordnet Livsforsikring AS	198 973	1.6%
Interactive Brokers LLC	120 806	1.0%
Citibank	76 045	0.6%
Nordnet Bank AB	52 594	0.4%
Lars Ro	50 000	0.4%
Karsten Ellingsen AS	40 000	0.3%
Peter Myhre	38 000	0.3%
Sivert Berg	37 575	0.3%
Ramadan Kovaci	35 005	0.3%
Kristian Falnes AS	35 000	0.3%
Ronny Kandal	31 150	0.2%
Tor-Fredrik Naevdal	30 460	0.2%
Inge Holter	28 500	0.2%
Heggum Holding AS	27 820	0.2%
J.P. Morgan Chase Bank	27 000	0.2%
Trading Partner AS	25 000	0.2%
Total, 20 largest shareholders	10 731 336	85.3%
Other shareholders	1 843 430	14.7%
Total	12 574 766	100.0%

OWNERSHIP STRUCTURE BY NUMBER OF SHARES HELD
(as of 31 December 2021)

Shares owned	Number of shareholders	% of share capital
1 - 100	475	0.1%
101 - 1 000	675	2.4%
1 001 - 10 000	344	8.5%
10 001 - 100 000	43	7.9%
100 001 - 500 000	3	6.3%
Over 500 000	3	74.8%
Total	1 543	100.0%

Quarterly reports, which are generally only distributed electronically, are available from the Company's website and other sources. Shareholders who are unable to receive the electronic version of quarterly and annual reports may subscribe to the printed version by contacting Philly Shipyard's investor relations staff.

NOMINATION COMMITTEE

PHLY's nomination committee has the following members: Leif-Arne Langøy and Ove A. Taklo. Shareholders who wish to contact Philly Shipyard's nomination committee may do so using the following address:

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

ANNUAL SHAREHOLDERS' MEETING

Philly Shipyard ASA's annual shareholders' meeting is normally held in March or April. Written notification is sent to all shareholders individually or to shareholders' nominees. To vote at shareholders' meetings, shareholders (or their duly authorized representatives) must either be physically present or vote by proxy.

2021 SHARE DATA

PHLY's total market capitalization as of 31 December 2021 was NOK 692 million. During 2021, a total of 5,907,671 Philly Shipyard ASA shares traded, corresponding to 0.470 times PHLY's freely tradable stock.The shares traded on 252 trading days in 2021.

GEOGRAPHIC DISTRIBUTION OF SHAREHOLDERS

(as of 31 December 2021)

Shareholders	Number of shares held	Ownership (in %)
Norwegian shareholders	9 936 974	79.0%
Non-Norwegian shareholders	2 637 792	21.0%
Total	12 574 766	100.0%

SHARE PRICE DEVELOPMENT IN 2021

(2021 share data)

Highest traded (in NOK)	79.0
Lowest traded (in NOK)	51.2
Share price as of 31 December (in NOK)	55.0
Shares issued as of 31 December	12 574 766
Own (treasury) shares as of 31 December	466 865
Shares issued and outstanding as of 31 December	12 574 766
Market capitalization as of 31 December (in NOK millions)	692
Proposed share dividend (NOK per share)	-

SHARE PRICE DEVELOPMENT

(2019 - 2021)

NOK / share

Corporate Governance

Philly Shipyard ASA (referenced to herein as "PHLY") aims to create maximum value for its shareholders over time. Good corporate governance will help to reduce risk and ensure sustainable value creation.

The Board of Directors (the "Board") of PHLY has reviewed and updated PHLY's principles for corporate governance. The principles are based on the Norwegian Code of Practice for Corporate Governance, dated 17 October 2018 (the "Code of Practice"), the principles set out in the continuing obligations of companies listed on the Oslo Stock Exchange, and the relevant Norwegian background law such as the Norwegian Accounting Act and the Norwegian Public Limited Liability Companies Act. The Code of Practice is available at www.nues.no and the continuing obligations of stock exchange listed companies may be found at www.oslobors.no.* The principles also apply to PHLY's subsidiaries when relevant. The following presents the current practice of PHLY regarding each of the recommendations contained in the Code of Practice. Any deviations from the recommendations are explained under the item in question. In addition to the Code of Practice, the Norwegian Accounting Act section 3-3b stipulates that companies must provide a report on their policies and practices for corporate governance either in the annual report or in a document referred to in the annual report. This report is integrated in this corporate governance statement.

Purpose

PHLY's Corporate Governance principles ensure an appropriate division of roles and responsibilities among PHLY's owners, its Board, and its executive management, and that business activities are subject to satisfactory control. The appropriate division of roles and satisfactory control contribute to the greatest possible value creation over time, to the benefit of owners and other stakeholders.

Values and ethical guidelines

The Board has adopted corporate values and ethical guidelines. The Company's corporate values are presented on page 8 of this annual report. Philly Shipyard has zero tolerance for corruption and, in 2015, the Board approved an Anti-Corruption Policy that is in-line with the anti-corruption policies in place at other Aker ASA-related companies. Philly Shipyard works to promote a sustainable and responsible company that is driven by good results and the demands for social responsibility.

PHLY has not adopted specific guidelines on equality and diversity due to its limited number of employees. The Company is focused however on carrying on its business in line with the principles of equality and diversity with respect to the composition of its management and Board, and its Board currently comprise of three members where two are female.

Business

PHLY's business purpose clause in the articles of association is as follows:

"The Company's business is to own and manage industry and other related business related to building of ships, capital management and other operations for the group, including participating in or acquiring other business."

The function of the business purpose clause is to ensure that shareholders have control of the business and its risk profile, without limiting the Board or management's ability to carry out strategic and financially viable decisions within the defined purpose. PHLY's goals and main strategies and risks for its business activities are presented in the Board's report. PHLY's vision is for Philly Shipyard "To be – and be recognized as – a leading shipyard in America that delivers on its commitments, every time" and its supporting strategies for 2022 are securing new orders for major shipbuilding programs and pursuing a mix of commercial and government work. When carrying out this work, the Board of Directors and management will take into account financial, social and environmental considerations.

EQUITY AND DIVIDENDS

Equity

PHLY's equity as of 31 December 2021 amounted to USD 85.5 million, which corresponds to an equity ratio (total equity divided by total assets) of approximately 20%. PHLY regards its current equity structure as appropriate and adapted to its objectives, strategy and risk profile.

Dividends

PHLY's dividend policy is included in the section "Shares and shareholder matters" (see page 70). As stated in that policy:

"The Company's objective is to provide its shareholders with a competitive return on its shares over time based on the Company's earnings. The Company's focus is on long-term profitability, and its current priorities are to retain a strong balance sheet and cash position. Accordingly, no dividends are contemplated until further notice."

At this time, the Board does not foresee payment of shareholder distributions, including dividends and share buybacks, sooner than the delivery of the third National Security Multi-Mission Vessel (NSMV).

Board authorizations

It is the intention that the Board's proposals for future Board authorizations to issue shares and to undertake share buy backs are to be limited

* The Issuer Rules / Regulations / Oslo Børs / Home - Oslo Børs (oslobors.no)

to defined purposes and to be valid only until the next annual shareholders' meeting.

To facilitate the potential payment of dividends in accordance with PHLY's dividend policy, the Board has an authorization to pay dividends based on PHLY's annual accounts for 2020.

The Board has an authorization to increase the share capital by up to NOK 12,574,766, which can only be used to raise equity capital for new shipbuilding projects or other future investments within the Company's scope of operations.

The Board has an authorization to acquire own shares with a total nominal value of NOK 12,574,766, which can only be used for the purpose of utilizing PHLY's shares as transaction currency in acquisitions, mergers, de-mergers or other transactions.

The Board has an authorization to acquire own shares with a total nominal value of NOK 12,574,766, which can only be used for the purpose of investment or subsequent sale or deletion of such shares.

All of these Board authorizations are valid up to the annual shareholders' meeting in 2022.

The Board currently has no other authorizations to issue shares or undertake share buybacks. The Board will propose to the annual shareholders' meeting in 2022 that the Board is granted an authorization for payment of dividends, an authorization to increase the share capital and two authorizations to acquire own shares similar to the authorizations described above.

Equal treatment of shareholders

PHLY has a single class of shares, and all shares carry the same rights in PHLY. Equal treatment of all shareholders is crucial. If existing shareholders' pre-emptive rights are proposed waived upon an increase in share capital, the Board will justify the waiver. The Board will also publicly disclose such justification in a stock exchange announcement issued in connection with such increase in share capital. Transactions in own (treasury) shares are executed on the Oslo Stock Exchange or by other means at the listed price.

Shares and negotiability

There are no limitations on any party's ability to own, trade or vote for shares in PHLY. No restrictions on transferability are found in PHLY's articles of association.

General meetings

The Board encourages shareholders to participate in shareholders' meetings. It is PHLY's priority to hold the annual shareholders' meeting as early as possible after the year-end. Notices of shareholders' meetings are sent physically by post and comprehensive supporting information, including the recommendations of the nomination committee, are made available for the shareholders on PHLY's home page www.phillyshipyard.com, in each case not later than 21 days prior to the annual shareholders' meeting. The Board seeks to ensure that the resolutions and supporting information are sufficiently detailed and comprehensive to enable the shareholders to form a view on all matters to be considered at the meeting. The deadline for shareholders to register to the shareholders' meetings is set as close to the date of the meeting as possible and the deadline for registration may not expire earlier than five days prior to the date of the shareholders' meeting. The notice materials include a thorough explanation of all procedures for registration, voting and attendance. In addition, information on how to propose a resolution to the items on the agenda at the annual shareholders' meeting will be included in the notice. If a general meeting is held as a physical meeting, the shareholders will also be given the opportunity to participate virtually unless the Board of Directors finds there is sufficient cause for it to refuse to allow this. The proxy form includes instructions for representation at the meeting through a proxy or by virtual participation and allows shareholders to nominate a person who will be available to vote on behalf of the shareholders. In addition, to the extent possible, the proxy form includes separate voting instructions to be given for each matter to be considered by the meeting. The shareholders may also vote electronically in advance of the general meeting.

Pursuant to PHLY's articles of association, the Chairman of the Board, or any other person appointed by the Chairman, chairs the shareholders' meetings. Although the Code of Practice recommends an independent chair for annual general meetings, it is the view of PHLY that the procedure followed by PHLY provides efficient and well prepared annual general meetings and is in the interests of the shareholders. The shareholders are invited to make a joint voting on the composition of the Board as proposed by the nomination committee and not on each Board member separately. Hence, PHLY deviates from the Code of Practice in this regard as the nomination committee emphasizes that the Board's composition shall reflect a variety of experience, knowledge and qualifications.

To the extent possible, the CEO/general manager, nomination committee leader and auditor attend annual shareholders' meetings.

Minutes of shareholders' meetings are published as soon as practically possible on the Oslo Stock Exchange, https.newsweb.oslobors.no (ticker: PHLY) and on PHLY's home page www.phillyshipyard.com, under the heading "News Room".

NOMINATION COMMITTEE

PHLY has a nomination committee, as set forth in section 7 of PHLY's articles of association. Pursuant to the articles of association, the nomination committee is to comprise no fewer than two members. Each member is normally elected for a two-year period. The composition of the nomination committee reflects the interests of the shareholders, and its members are independent from the Board and executive management. The members and Chairman of the nomination committee are elected by PHLY's annual shareholders' meeting, which also approves the remuneration payable to committee members.

Pursuant to PHLY's articles of association, the nomination committee recommends candidates for members of the Board. The nomination committee also makes recommendations as to remuneration of the members of the Board and the nomination committee. The nomination committee will justify its recommendation and such justification will address the criteria specified in section 8 of the Code of Practice on the composition of the Board.

The nomination committee comprises the following members:

– Leif-Arne Langøy, Chairman (2021-2023)
– Ove A. Taklo (2020-2022)

Neither of the members of the nomination committee is a member of the Board. Neither the CEO/general manager nor any other senior executive is a member of the nomination committee.

The shareholders' meeting has stipulated guidelines for the duties of the nomination committee.

PHLY provides the shareholders with information on how to submit proposals to the nomination committee for candidates for election to the Board on PHLY's home page www.phillyshipyard.com.

BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

Pursuant to section 4 of PHLY's articles of association, the Board comprises between three and seven members. The Board is currently comprised of a total of three members. PHLY's shareholders elect the Chairman of the Board at the annual shareholders' meeting. The Board may elect its own Deputy Board Chairman. Board members are elected for a period of two years.

The composition of the Board is designed to ensure that it can operate independently of any special interests and function effectively as a collegiate body. A majority of the shareholder-elected Board members are independent of PHLY's executive management and its significant business associates. The Board does not include any executive personnel. Further, two of the three shareholder-elected Board members are independent of PHLY's main shareholder, Aker ASA. Kristian Røkke, the Chairman of the Board of PHLY, is Chief Executive Officer of Aker Horizons ASA.

The current composition of the Board, as well as the Board members' expertise, capabilities, and experience, are presented on page 78 of this annual report. The shareholder-elected Board members represent a combination of expertise, capabilities, and experience from various businesses and industries.

The Board members' shareholdings are presented in note 18 to the consolidated accounts. PHLY encourages the Board members to invest in PHLY's shares.

Two of the three shareholder-elected Board members are up for election in 2022. PHLY will provide the relevant information regarding such Board members in accordance with the Code of Practice guidelines in advance of the annual general meeting.

THE WORK OF THE BOARD OF DIRECTORS

The Board of PHLY annually adopts a plan for its work, emphasizing the goals, strategies, and risk profile of the Company's business activities. The plan also recognizes the Company's corporate social responsibility, and how the Board shall handle agreements with related parties. If there are material transactions between the Company and a shareholder, Board member, member of executive management, or a party closely related to any of the aforementioned, the Board shall ensure that independent valuations are available.

See additional information on transactions and agreements with related parties in note 21 to the consolidated accounts. As of 31 December 2021, 57.6% of the shares in PHLY are owned by Aker Capital AS, a wholly-owned subsidiary of Aker ASA. For further details on the relationship between Philly Shipyard and Aker ASA, see note 21 to the consolidated accounts.

Also, the Board has adopted instructions that regulate areas of responsibility, tasks, and division of roles of the Board, Board Chairman, and the CEO/general manager. These instructions feature rules governing Board schedules, rules for notice and chairing of Board meetings, decision-making rules, the CEO's/general manager's duty and right to disclose information to the Board, professional secrecy, impartiality, and other issues.

In order to ensure a more independent consideration of matters of a material character in which the Board Chairman is, or has been, personally involved, the Board's consideration of such matters are chaired by the Deputy Board Chairman, if there is one serving at the time, or some other member of the Board in the absence of a Deputy Board Chairman.

The Board of PHLY established an audit committee in 2010. The audit committee consists of two members elected by and among the Board's members, Elin Karfjell (Chairperson) and Amy Humphreys. Both members are independent from operations of the Company and neither member is linked to PHLY's main shareholder, Aker ASA.

PHLY does not have any other active Board committees at this time. In particular, PHLY does not have a remuneration committee because all members of the Board are independent of PHLY's executive personnel.

PHLY has prepared guidelines designed to ensure that members of the Board and executive management notify the Board of any direct or indirect stake they may have in agreements entered into by the Company. The Board evaluates its own performance and expertise once a year.

Risk management and internal control
The Board is to ensure that the Company maintains solid in-house control practices and protocols and appropriate risk management systems tailored to the Company's business activities. These practices and systems encompass the Company's guidelines for how it integrates considerations related to stakeholders into its creation of value. PHLY's policy regarding corporate social responsibility is set forth on pages 19-21 of this annual report. The Board annually reviews the Company's most important risk areas and internal control systems and procedures, and these risk areas are mentioned in the Board's report. Through the use of a risk matrix and log, the Board also monitors the key risks related to the Company's business goals and assesses those risks, taking into account mitigating actions, on a quarterly basis. The issue is further described in notes 1 and 17 to the consolidated accounts.

Audit committee
The audit committee has reviewed the Company's financial reporting systems, systems for internal control and risk management and had dialogue with PHLY's auditor. The audit committee has also considered the auditor's independence.

PHLY's financial policies ensure follow-up of financial risk. Key targets are identified by the Board and management to ensure timely follow-up of currency exposure, interest rate exposure and compliance with covenants.

PHLY has prepared an authorization matrix and approval procedures for costs included in PHLY's governing documents.

From 1 January 2021, a new Audit Act was implemented in Norway. The mandate for the Audit Committee was updated in line with the principles and requirements of the new act.

FINANCIAL STATEMENT CLOSE PROCESS

PHLY has implemented Aker ASA's accounting and reporting guidelines which contains requirements and procedures for the preparation of both quarterly and annual reporting. The reporting is done quarterly through PHLY's reporting and consolidation system. Consolidation and control over the financial statement close process is the CFO's responsibility. Financial results and cash development are analyzed and compared to the budget by the CEO/general manager and CFO and reported to the Board monthly.

REMUNERATION OF THE BOARD OF DIRECTORS

Board remuneration reflects the Board's responsibility, expertise, time spent, and the complexity of the business. Remuneration does not depend on PHLY's financial performance and PHLY does not grant share options to members of its Board. Board members and companies with whom they are associated are not to take on special tasks for the Company beyond their Board appointments unless such assignments are disclosed to the full Board and the remuneration for such additional duties is approved by the Board.

Additional information on remuneration paid to Board members for 2021 is presented in note 18 to the consolidated accounts.

REMUNERATION OF EXECUTIVE MANAGEMENT

The Board has adopted guidelines for remuneration of executive management in accordance with section 6-16a of the Norwegian Public Limited Company Act which was presented to the annual general meeting in 2021 and approved by the shareholders for a period of four years. The guidelines for remuneration of executive management will be presented to the annual general meeting and be subject to the shareholders' approval every fourth year, as a minimum. The guidelines currently approved by the shareholders are available on the Company's website. Salary and other remuneration of the CEO/general manager of PHLY are determined in a Board meeting. The basis of remuneration of executive management has been developed in order to create a system based on performance and retention.

The system of reward is designed to contribute to the achievement of good financial results and increase shareholder value.

PHLY does not have stock option plans or other such share award programs for employees. Further information on remuneration for 2021 for members of the Company's executive management is presented in note 18 to the consolidated accounts. PHLY's guidelines for remuneration to executive management are discussed on pages 50-52 of this annual report and will be presented to the shareholders at the annual shareholders' meeting. The maximum size of any payment under the existing performance-related remuneration program to any executive is linked to the size of the executive's base salary.

The Board of Directors will prepare and present a report on remuneration of executive management every year as part of the annual general meeting, in accordance with the Norwegian Public Limited Company Act section 6-16b. This report is subject to the shareholders' advisory vote only.

INFORMATION AND COMMUNICATIONS

PHLY's reporting of financial and other information is based on openness and on equal treatment of shareholders, the financial community, and other interested parties.

The long-term purpose of PHLY's investor relations activities is to ensure PHLY's access to capital at competitive terms and to ensure shareholders' correct pricing of shares. These goals are to be accomplished through correct and timely distribution of information that can affect PHLY's share price. PHLY is also to comply with current rules and market practices, including the requirement of equal treatment.

All stock exchange notifications and press releases are made available on PHLY's home page www.phillyshipyard.com; stock exchange notices are also available from www.newsweb.oslobors.no. All information that is distributed to shareholders is simultaneously published on PHLY's home page.

PHLY's financial calendar is found on the inside front cover of this annual report and its home page www.phillyshipyard.com.

PHLY's investor relations staff is responsible for maintaining regular contact with PHLY's shareholders, potential investors, analysts and other financial market stakeholders. The Board is regularly informed about PHLY's investor relations activities. For more information regarding PHLY's guidelines for reporting of financial and other information, see pages 70-72.

TAKEOVERS

PHLY has not produced special principles for how it will act in the event of a takeover bid. However, if a takeover bid occurred the Board would follow the overriding principle of equal treatment for all shareholders. Unless the Board has particular reasons for so doing, the Board will not take steps to prevent or obstruct a takeover bid for PHLY's business or shares, nor use share issue authorizations or other measures to hinder the progress of the bid, without such actions being approved by a shareholders' meeting after the takeover offer has become public knowledge.

PHLY will not enter into any agreement with a bidder that acts to limit PHLY's ability to arrange other bids for PHLY's business or shares unless it is self-evident that such an agreement is in the common interest of PHLY and its shareholders. This provision shall also apply to any agreement on the payment of financial compensation to the bidder if the bid does not proceed. Any financial compensation will be limited to the costs the bidder has incurred in making the bid.

Agreements entered into between PHLY and a bidder that are material to the market's evaluation of the bid will be announced to the public no later than at the same time as the disclosure that the bid has been made is published.

Upon the issuance of an offer for PHLY's shares, the Board will make a statement to the shareholders that provides an assessment of the bid, the Board's recommendations and reasons for these recommendations. If the Board cannot recommend to the shareholders whether they should or should not accept the bid, the Board will explain the reasons for this. The Board's statement on the offer will make it clear whether the views expressed are unanimous, and if this is not the case, it will explain the basis on which specific members of the Board have excluded themselves from the Board's statement.

For each instance, an assessment will be made as to the necessity of bringing in independent expertise and obtaining a third party valuation. If a third party valuation is obtained, such valuation will include an explanation, and the Board will aim at recording such valuation in its statement. It may be necessary to obtain a valuation from an independent expert where a competing bid is made and the bidder either is the main shareholder or has a connection to the Board members or executive personnel.

Transactions that have the effect of sale of PHLY or a major component of it are to be decided on by shareholders at a shareholders' meeting.

AUDITOR

The auditor makes an annual presentation to the Board of a plan for the auditing work for the year. Further, the auditor has provided the Board with a written confirmation that the requirement of independence is met.

The auditor participates in the Board meeting that deals with the annual accounts, and the auditor has reviewed PHLY's internal control with the Board. At these meetings, the auditor reviews any material changes to PHLY's accounting principles, comments on any material estimated accounting figures and reports all matters on which there have been disagreement between the auditor and PHLY's executive personnel. Once a year a meeting is held between the auditor and the Board, at which no representatives of executive management are present. In addition to the presentations to the full Board, the auditor is present at all quarterly audit committee meetings which occur throughout the year and presents both its preliminary and final audit findings to the committee during such meetings.

Presentation of the Board of Directors

KRISTIAN RØKKE
Board Chairman

Kristian Røkke (b. 1983) is Chief Executive Officer of Aker Horizons AS, an investment company dedicated to creating value and reducing emissions from renewable energy and decarbonization technologies. Mr. Røkke has previously been Chief Investment Officer of Aker ASA and has extensive experience from operations and M&A. Mr. Røkke is Chair of the board of Akastor ASA, a Director of TRG Holding AS, American Shipping ASA, Aker Carbon Capture AS, Aker Offshore Wind AS, and Abelee AS. Mr. Røkke has an MBA from The Wharton School, University of Pennsylvania. Mr. Røkke holds both Norwegian and American citizenships. Mr. Røkke owns no shares in the company and has no stock options. Mr. Røkke has been elected for the period 2020-2022.

AMY HUMPHREYS
Deputy Board Chairperson

Amy Humphreys (b. 1966) currently serves as board director for several companies spanning a multitude of industries. Ms. Humphreys previously held the position of President and CEO at Bristol Bay Seafood Investments, a subsidiary of Bristol Bay Native Corporation. Prior to her current roles, Ms. Humphreys was Chief Financial Officer of Darigold, one of the largest dairy cooperatives in the United States. Prior to Darigold, Ms. Humphreys was President and CEO of Icicle Seafoods, Inc., a multi-species seafood processor and marketer. Prior to joining Icicle Seafoods, Ms. Humphreys served as CFO of North Star Petroleum Group and President of Delta Western, both organizations were within the Petroleum Division of Saltchuk Resources. From 1995 to 2006, Ms. Humphreys held various leading positions in her 11 year tenure with American Seafoods Group, including VP Corporate Development and Treasurer. For many years, Ms. Humphreys has worked within companies operating under the Jones Act. Ms. Humphreys holds a Master of Business Administration (MBA), with honors, from University of Washington, is a Certified Public Accountant (CPA) and holds a Bachelor of Arts (BA) in Accounting and Finance, magna cum laude, from University of Puget Sound. Ms. Humphreys is a U.S. citizen. Ms. Humphreys holds zero shares in the company and has no stock options. Ms. Humphreys has been elected for the period 2020-2022.

ELIN KARFJELL
Board Member

Elin Karfjell (b. 1965) is the EVP Property Management and Development of Statsbygg, a Norwegian government agency that manages central parts of the real estate portfolio of the government of Norway, where she previously held the position of CFO. Prior to that, Ms. Karfjell was CEO of Atelika AS and Fabi Group and Director of Finance and Administration of Atea AS. Ms. Karfjell is a former partner at Ernst & Young AS. Ms. Karfjell joined Ernst & Young AS in 2002. Prior to this, Ms. Karfjell held various positions including partner at Arthur Andersen. At Ernst & Young/Arthur Andersen, Ms. Karfjell held various leading positions, both within advisory and audit, and Ms. Karfjell has experience from a broad specter of industries. Ms. Karfjell is also a Board member of North Energy ASA, DNO ASA and Contesto AS. Previously, Ms. Karfjell was a Board member of Hent AS, Sevan Drilling Ltd., Norse Energy Corporation ASA, Aktiv Kapital ASA and Aker Floating Production ASA. Ms. Karfjell is a state authorized public accountant. Ms. Karfjell has a Bachelor of Science in Accounting from Okonomisk College (Hoyskolen i Oslo) and a CPA from the Norwegian School of Economics and Business Administration. Ms. Karfjell is a Norwegian citizen. Ms. Karfjell holds 1,200 shares in the company and has no stock options. Ms. Karfjell has been elected for the period 2021-2023.

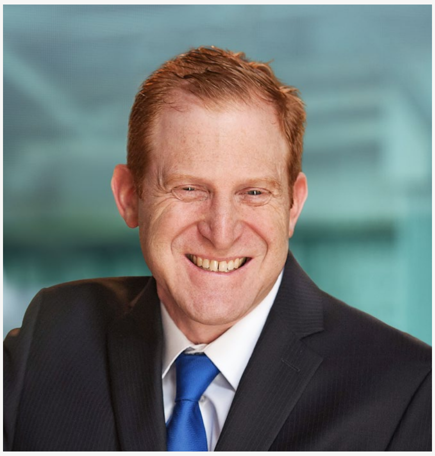
Presentation of the Management Team

STEINAR NERBØVIK
President and CEO

Steinar Nerbøvik (b. 1961) was appointed President and Chief Executive Officer of Philly Shipyard ASA and Philly Shipyard, Inc. in November 2014 after serving as Managing Director since April 2014. Previously, Mr. Nerbøvik served as SVP Operations from October 2013. Prior to that, Mr. Nerbøvik served as SVP Yard Director for Norwegian Shipyard Vard Langsten (former Aker Yards and STX OSV Langsten), a leading provider of sophisticated offshore support vessels. Mr. Nerbøvik first joined Philly Shipyard in 2003 as Vice President Projects. Mr. Nerbøvik has held other management positions as combined Design Manager and Project Manager at Aker Langsten from 1991-2003. Mr. Nerbøvik holds a Master of Science in Ship Naval Engineering from the Norwegian Institute of Technology (NTNU) in Trondheim, Norway. Mr. Nerbøvik lives in Wilmington, DE, USA. Mr. Nerbøvik is a Norwegian citizen. As of 1 February 2022, Mr. Nerbøvik holds 1,000 shares in the company and has no stock options.

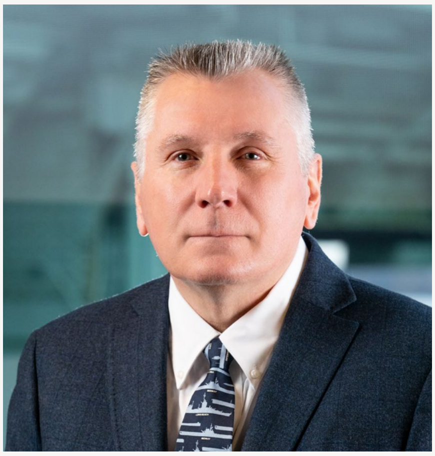
JEFFREY THEISEN
Chief Financial Officer

Jeffrey Theisen (b. 1968) rejoined Philly Shipyard, Inc. as Chief Financial Officer in September 2020. Mr. Theisen previously served as CFO from 2007-2015. Mr. Theisen has over 30 years of experience in financial and strategic planning, organizational leadership, growth and expansion strategies, debt and equity financing, investor and banking relations, and budgeting and cost accounting. Mr. Theisen has held finance roles with Arthur Andersen, The Regulus Group, Philly Shipyard and most recently, People 2.0. Mr. Theisen holds a Bachelor of Science in Accounting from Villanova University and is a certified public accountant in the state of Pennsylvania. Mr. Theisen lives in Blue Bell, PA, USA. Mr. Theisen is a U.S. citizen. As of 1 February 2022, Mr. Theisen holds zero shares in the company and has no stock options.



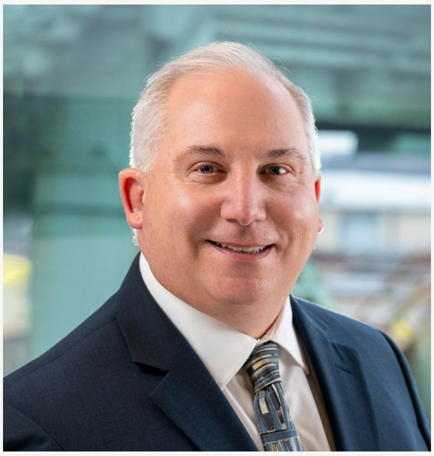
DEAN GRABELLE
Senior Vice President and General Counsel

Dean Grabelle (b. 1970) was appointed Senior Vice President and General Counsel of Philly Shipyard, Inc. (PSI) in November 2016, after serving as PSI's General Counsel since May 2008. Prior to joining the shipyard, Mr. Grabelle was employed with the law firm Faegre Drinker Biddle & Reath LLP in Philadelphia, PA, USA where he established a legal career in the Business and Finance Department spanning 12 years. Past experience includes mergers and acquisitions, business counseling, lending, private equity and corporate finance. Mr. Grabelle graduated from Duke University with a Bachelor of Arts in Economics and Public Policy Studies. Mr. Grabelle also holds a Juris Doctor from the University of Pennsylvania Carey Law School. Mr. Grabelle lives in Voorhees, NJ, USA. Mr. Grabelle is a U.S. citizen. As of 1 February 2022, Mr. Grabelle holds zero shares in the company and has no stock options.



ROBERT FITZPATRICK
Vice President Production

Robert Fitzpatrick (b. 1964) joined Philly Shipyard, Inc. in 2001 and had held numerous key positions including Prefabrication Manager and Senior Production Manager before being promoted to Vice President Production in January 2007. Prior to coming to the shipyard, Mr. Fitzpatrick amassed 20 years of experience in industrial manufacturing including 12 years as a production manager responsible for the fabrication of naval circuit breakers and switchgear at L-3 Communications. Mr. Fitzpatrick holds a Bachelor of Science in Mechanical Engineering from Spring Garden College in Philadelphia, PA, USA. Mr. Fitzpatrick lives in Burlington, NJ, USA. Mr. Fitzpatrick is a U.S. citizen. As of 1 February 2022, Mr. Fitzpatrick holds zero shares in the company and has no stock options.

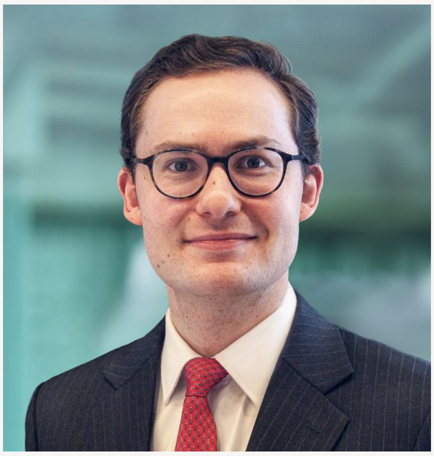


MICHAEL GIANTOMASO
Vice President Human Resources

Michael Giantomaso (b. 1966) joined Philly Shipyard, Inc. as Human Resources Manager in May 1998. Mr. Giantomaso was promoted to Vice President Human Resources in August 2001. Mr. Giantomaso has more than 30 years of human resources experience in the manufacturing and health care fields. Mr. Giantomaso holds a Bachelor of Arts in Business Administration and Human Resources from Temple University. Mr. Giantomaso lives in Huntingdon Valley, PA, USA. Mr. Giantomaso is a U.S. citizen. As of 1 February 2022, Mr. Giantomaso holds zero shares in the company and has no stock options.

JAMES H. MILLER
Senior Advisor

James H. Miller (b. 1955) was appointed Senior Advisor to Philly Shipyard, Inc. in April 2020 following previous tenures as CEO from 2008-2011 and Chairman of the Board from 2011-2014 and 2016-2020. Mr. Miller has significant executive experience in shipbuilding and large industrial engineering/construction projects and services. Mr. Miller currently sits on the Board of Directors for three U.S. public companies. Mr. Miller holds a Bachelor of Arts from the University of Edinboro (PA). Mr. Miller lives in Washington, PA, USA. Mr. Miller is a U.S. citizen. As of 1 February 2022, Mr. Miller holds zero shares in the company and has no stock options.



THOMAS GRUNWALD
Vice President

Thomas Grunwald (b. 1978) joined Philly Shipyard, Inc. in the role of Senior Consultant in May 2019 before being promoted in July 2020 to Commercial Director. In September 2021, Mr. Grunwald was elevated to his current position of Vice President in which he is responsible for sales and business development for commercial ship newbuilding and ship repairs, as well as shipyard capital investments. Mr. Grunwald previously held the position of President and Board Member at R&M Ship Technologies USA, Inc. which included oversight of the company's U.S. ship newbuilding and repair activities. Mr. Grunwald holds a Diploma in Business Administration with a specialization in International Business Administration from the Catholic University of Eichstaett-Ingolstadt, Germany. Mr. Grunwald lives in Media, PA, USA. Mr. Grunwald is a German citizen. As of 1 February 2022, Mr. Grunwald holds zero shares in the company and has no stock options.

NICOLAI HAUGLAND
Vice President

Nicolai Haugland (b. 1993) is Vice President of Philly Shipyard ASA. In addition to this responsibility Mr. Haugland serves as Investment Associate for Aker ASA. Prior to joining Aker ASA in 2019, Mr. Haugland worked for two years as an Associate in Investment Banking at Pareto Securities. Mr. Haugland holds an MSc in Finance from The London School of Economics (LSE) and a BSc in Economics (Honors) from The University of Warwick. Mr. Haugland lives in Oslo, Norway. Mr. Haugland is a Norwegian citizen. As of 1 February 2022, Mr. Haugland owns 700 shares in the company through his private company Elysium AS and has no stock options.

READ REPORTS ONLINE

The annual reports of Philly Shipyard ASA are available via the Internet:
www.phillyshipyard.com.
Alternatively, Philly Shipyard ASA encourages its shareholders to subscribe to the company's annual reports via the electronic delivery system of the Norwegian Central Securities Depository (VPS). Please note that VPS services (VPS Investortjenester) are designed primarily for Norwegian shareholders. Subscribers to this service receive annual reports in PDF format by email. VPS distribution takes place at the same time as distribution of the printed version of Philly Shipyard's annual report to shareholders who have requested it.

Electronic distribution is the fastest channel for accessing company information; it is also cost-effective and environmentally friendly.

DISCLAIMER

This annual report includes and is based, inter alia, on forward-looking information and statements that are subject to risks and uncertainties that could cause actual results to differ. Such forward-looking information and statements are based on current expectations, estimates and projections about global economic conditions, the economic conditions of the regions and industries that are major markets for Philly Shipyard ASA and its subsidiaries and affiliates (the "Philly Shipyard Group") lines of business. These expectations, estimates, and projections are generally identifiable by statements containing words such as "expects", "believes", "estimates," "anticipates," "intends" or similar expressions. Important factors that could cause actual results to differ materially from those expectations include, among others, economic, market and political conditions in the geographic areas and industries that are or will be major markets for the Philly Shipyard Group's businesses, oil prices, market acceptance of new products and services, changes in governmental regulations, interest rates, fluctuations in currency exchange rates, the COVID-19 pandemic and subsequent economic effects, and such other factors as may be discussed from time to time. Although Philly Shipyard ASA believes that its expectations and the information in this annual report were based upon reasonable assumptions at the time when they were made, it can give no assurance that those expectations will be achieved or that the actual results will be as set out in this annual report. Neither Philly Shipyard ASA nor any other company within the Philly Shipyard Group is making any representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of the information in the annual report, and neither Philly Shipyard ASA, any other company within the Philly Shipyard Group nor any of their directors, officers or employees will have any liability to you or any other persons resulting from your use of the information in the annual report.

Philly Shipyard ASA undertakes no obligation to publicly update or revise any forward-looking information or statements in the annual report, other than what is required by law.

The Philly Shipyard Group consists of various legally independent entities, constituting their own separate identities. Philly Shipyard is used as the common brand or trademark for most of these entities. In this annual report we may sometimes use the "Company," "Philly Shipyard", "Group", "we" or "us" when we refer to Philly Shipyard companies in general or where no useful purpose is served by identifying any particular Philly Shipyard company.

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

Photos/illustrations:
All photos courtesy of:
Philly Shipyard, Inc. (Matt Cassidy),
HYTHA.CG (Chris Hytha),
Jaywalk Media (Margo Reed)
and Pap Studio.

Design/production:
www.report.no

Philly Shipyard ASA
Vika Atrium, Munkedamsveien 45,
NO-0250 Oslo, Norway
Tel: + 47 23 11 91 00; Fax: + 47 23 11 91 01

Philly Shipyard, Inc.
2100 Kitty Hawk Avenue
Philadelphia, PA 19112 USA
Tel: +1 (215) 875 2600; Fax: +1 (215) 875 2700

website: www.phillyshipyard.com
email: info@phillyshipyard.com

Philly Shipyard ASA
Annual Report 2021

www.phillyshipyard.com

Philly Shipyard