Philly Shipyard ASA (XOAX: PHLY)
Q3 2022 and First Nine Months 2022 Results

2 November 2022

Key Events and Highlights

- ✓ Continued progress on the National Security Multi-Mission Vessel (NSMV) and Subsea Rock Installation Vessel (SRIV) new build programs
- ✓ Achieved significant milestones on the NSMV program, including the launch of NSMV 1 and keel laying of NSMV 2
- ✓ Order backlog of USD 1,243.3 million on 30 September 2022 with last contractual delivery date in 2026 for NSMV 5
- ✓ Total cash and cash equivalents of USD 86.6 million at 30 September 2022, excluding USD 50.2 million of restricted cash
- ✓ Third quarter and first nine months 2022 operating revenue of USD 92.6 million and USD 284.1 million, respectively, compared to USD 70.3 million and USD 123.8 million in the same periods in 2021
- ✓ Third quarter and first nine months 2022 net loss of USD 10.0 million and USD 3.4 million, respectively, compared to net loss of USD 1.0 million and USD 10.5 million in the same periods in 2021

Subsequent Events and Highlights

- ✓ Awarded contract by Matson to build three LNG-installed Aloha Class containerships with a contract value of approximately USD 1.0 billion; the ships will follow NSMV 5 with contractual delivery dates in 2026 and 2027

Operations

Shipbuilding

NSMV 1 was successfully launched on 24 September 2022. Keel laying on NSMV 2 occurred on 29 September 2022. Philly Shipyard cut steel on NSMV 3 on 11 July 2022. Pre-production activities on NSMVs 4 and 5 continue to progress.

Pre-production activities on the SRIV project continue to progress and long lead equipment has been ordered for this ship.

As of 30 September 2022, Philly Shipyard's workforce consisted of 1,406 employees and subcontractors. Philly Shipyard continues to increase the size and breadth of its apprenticeship program as more cohorts are added to this program, with the latest cohort starting at the end of October.

Industry Design Studies

Philly Shipyard is participating in an industry design study as a subcontractor to L3Harris Technologies for the U.S. Navy's T-AS(X) submarine tender program.

Health, Safety, Security and Environment (HSSE)

Philly Shipyard's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR) was 0.21 at the end of Q3 2022 compared to 0.00 at the end of Q3 2021. LTIFR is based on lost time incidents (LTI) per 200,000 hours as defined by the Occupational Safety and Health Administration (OSHA).

Philly Shipyard's 12-month trailing average for its Other Recordable Incident Frequency Rate (ORIFR) was 2.00 at the end of Q3 2022 compared to 2.17 at the end of Q3 2021. ORIFR is based on recordable incidents other than LTIs per 200,000 hours as defined by OSHA. Philly Shipyard continues to work proactively to further improve safety and reduce the number of incidents at the shipyard.

COVID-19

Philly Shipyard continues to take mitigating actions and seek relief, as appropriate, under its contracts for operational disruptions due to the impacts of the COVID-19 pandemic and the federal contractor vaccine mandate. Despite aggressive recruiting efforts, the pandemic and mandate prevented Philly Shipyard from ramping-up its workforce in accordance with plan. These conditions continue to impede Philly Shipyard's efforts to efficiently maintain its workforce as well as disrupt its global supply chain. Many of Philly Shipyard's suppliers continue to face labor and raw material shortages, leading to significant inflation and delays. Notwithstanding ongoing mitigation efforts, all of these factors are hindering Philly Shipyard's ability to achieve expected productivity levels on the first two NMSVs.

Philly Shipyard strictly follows all applicable guidelines by federal, state and local authorities, including the Centers for Disease Control and Prevention (CDC), to minimize the risk of transmission of the coronavirus in its production facility as well as in its offices. Philly Shipyard also strongly encourages all of its workers to get the initial vaccination and boosters for COVID-19 and its recent variants.

Financial Information

Third Quarter 2022 Results

Operating revenue for Q3 2022 was USD 92.6 million compared to operating revenue of USD 70.3 million for Q3 2021. In Q3 2022, there was revenue from progress on the five NSMV vessels (NSMVs 1-5) and the one SRIV vessel (SRIV 1), whereas in Q3 2021 there was revenue from progress on the first four NSMV vessels (NSMVs 1-4), ship repair and maintenance work on the USNS *Charlton* and three government design studies.

EBITDA, defined as earnings before interest, taxes, depreciation and amortization, is considered a relevant earnings indicator for Philly Shipyard as it measures the operational performance of the shipyard.

Philly Shipyard has discontinued reporting Adjusted EBITDA, defined as EBITDA plus under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects), plus one-time startup costs. This alternative performance measure is no longer considered a relevant earnings indicator for Philly Shipyard now that it is operating at full capacity for the NSMV program and expects to fully cover its overhead costs for the foreseeable future.

EBITDA for Q3 2022 was negative USD 14.8 million compared to EBITDA of USD 0.2 million for Q3 2021. EBITDA for Q3 2022 was driven primarily by increased costs on NSMVs 1-2 and selling, general and administrative (SG&A) costs, partially offset by the gross profit recognized on NSMVs 3-4. EBITDA for Q3 2021 was driven primarily by the gross profit recognized on the first four NSMV vessels (NSMVs 1-4) and ship repair and maintenance work on the USNS *Charlton*, partially offset by under-recovered overhead costs (i.e., overhead expenses incurred and not allocated to projects), one-time start-up costs and SG&A costs.

Net loss for Q3 2022 was USD 10.0 million compared to net loss of USD 1.0 million for Q3 2021. Net loss for Q3 2022 primarily consists of EBITDA of negative USD 14.8 million and depreciation expense of USD 1.7 million, partially offset by net financial income of USD 0.6 million and an income tax benefit of USD 5.9 million. Net loss for Q3 2021 primarily consists of EBITDA of USD 0.2 million and depreciation expense of USD 1.3 million, partially offset by net financial income of USD 0.1 million.

Year-to-Date 2022 Results

Operating revenue in the first nine months of 2022 ended at USD 284.1 million compared to operating revenues of USD 123.8 million in the first nine months of 2021. September 2022 year-to-date operating revenue was primarily driven by progress on the five NSMV vessels (NSMVs 1-5), the one SRIV vessel (SRIV 1) and government design studies, whereas September 2021 year-to-date operating revenue was primarily driven by progress on the first four NSMV vessels (NSMVs 1-4), ship repair and maintenance work on the USNS *Charlton* and government design studies.

EBITDA for the first nine months of 2022 was negative USD 12.8 million compared to EBITDA of negative USD 8.4 million in the same period of 2021.

Net loss for the first nine months of 2022 was USD 3.4 million compared to net loss of USD 10.5 million in the same period of 2021. Net loss for the first nine months of 2022 primarily consists of EBITDA of negative USD 12.8 million and depreciation expense of USD 4.6 million, partially offset by an income tax benefit of USD 13.3 million and net financial income of USD 0.7 million. Net loss for the first nine months of 2021 primarily consists of EBITDA of negative USD 8.4 million and depreciation expense of USD 4.0 million, partially offset by an income tax benefit of USD 1.8 million and net financial income of USD 0.1 million.

Statement of Financial Position

Total assets were USD 315.0 million at 30 September 2022 compared to USD 437.0 million at 31 December 2021, with the decrease resulting primarily from a decrease of USD 168.4 million in cash and cash equivalents (unrestricted).

Cash and cash equivalents (unrestricted) was USD 86.6 million at 30 September 2022 compared to USD 255.0 million at 31 December 2021. The decrease of USD 168.4 million was due primarily to net spending on materials and services related to the NSMV and SRIV projects and investment in property, plant and equipment (PP&E).

Total restricted cash as of 30 September 2022 amounted to USD 50.2 million, of which USD 45.2 million (long-term) represents the total cash deposited in an escrow account for the bonds required for NSMVs 1-5 and a reserve account required for NSMV 2, and USD 5.0 million (short-term) pertains to a reserve account required for NSMV 1. The USD 1.4 million held in escrow for claims related to the second Matson vessel was released in the beginning of Q3 2022 as a final warranty settlement was reached at the end of Q2 2022. It is anticipated that the cash collateral for the bonds and the reserve account funds will be released in tranches following the delivery of each NSMV.

Total equity decreased to USD 82.1 million at 30 September 2022 from USD 85.5 million at 31 December 2021 due to net loss of USD 3.4 million.

Outlook

On 30 September 2022, Philly Shipyard had an order backlog of USD 1,243.3 million. Since then, Philly Shipyard was awarded a contract by Matson Navigation Company (Matson) to design and construct three 3,600 TEU LNG-installed Aloha Class containerships (CV3600 vessels) with an order intake of approximately USD 1.0 billion and contracted deliveries in 2026 and 2027. With the award of the Matson contract, Philly Shipyard has nine vessels, consisting of five NSMVs, one SRIV, and three CV3600 vessels, in its order book. Philly Shipyard's current order book is the largest in its 25-year history.

Over the past several years, Philly Shipyard has pivoted toward a more diversified order backlog 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 third CV3600 vessel.

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 potential new construction projects for U.S.-built vessels. Philly Shipyard continues to promote variants based on existing ship designs as potential cost-effective solutions for both government and commercial customers.

Additionally, Philly Shipyard continues to seek opportunities to replicate the NSMV contract model for other government shipbuilding programs following the three CV3600 vessels. This innovative approach enables Philly Shipyard to apply commercial best practices for design and construction to government vessels. There is growing interest in Congress in the NSMV contract model and its potential applicability to government shipbuilding programs to reduce costs and build more vessels.

Due to Philly Shipyard's current record order backlog, it does not foresee excess capacity in its drydocks or fabrication shops for ship maintenance, repair, overhaul and conversion (MROC) projects in the foreseeable future. A substantial capital investment would be required in order for the Company to opportunistically pursue future MROC projects before the Matson contract is completed.

Philly Shipyard still forecasts to be profitable on the five-ship NSMV series taken as a whole. The forecast, however, has been negatively impacted by increased costs of labor, materials and logistics issues as well as related productivity loss. These increased costs and productivity loss are mainly attributable to the tight labor pool and supply chain disruptions resulting from the COVID-19 pandemic and federal contractor vaccine mandate. While it remains too soon to quantify the full extent of these impacts, Philly Shipyard is pursuing all options available to recoup unforeseen costs related to these factors.

Risks

Market risks

Philly Shipyard's revenue is derived primarily from contracts awarded on a project-by-project basis. It is difficult to predict whether or when Philly Shipyard will be awarded a new contract due to, among other things, changes in existing or forecast market or political conditions, uncertainty regarding the timing and amount of budget appropriations, the complex bidding and selection processes, potential for contract award protests and challenges, and governmental regulations.

While Philly Shipyard now has an order backlog for ship new builds with contractual delivery dates into 2027, it faces future risks if it is unable to secure new orders and/or financing for major commercial or government shipbuilding programs to follow its existing backlog.

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 and SRIV programs.

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, SRIV and CV3600 vessel contracts are fixed-price contracts.

Philly Shipyard's productivity and profitability depends substantially on its ability to attract and retain skilled workers at forecasted rates. The federal COVID-19 vaccine mandates have adversely impacted, and could continue to adversely impact, the Company's ability to attract and retain skilled workers at forecasted rates.

There is a higher technical design risk and a higher project execution risk for the NSMV and SRIV compared to the construction of vessels based on a proven design, such as the series of product tankers or Aloha Class containerships built by Philly Shipyard. These risks increase 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, SRIV and CV3600 vessel contracts impose liquidated damages for late delivery.

The Company faces risk of significant financial, business and intelligence loss if there are cyber security breaches. Philly Shipyard has invested significant resources to provide a more secure computing environment over the last several years, resulting in improved security and business resiliency. Philly Shipyard maintains a continued high awareness of its risk profile regarding cyber security because new threats can emerge quickly.

Entry into, or further development of, lines of business in which the Company has not historically operated may expose Philly Shipyard to business and operational risks that are different from those it has experienced historically. For example, U.S. Government projects generally are subject to suspension, termination or a reduction in scope at the option of the customer, although the customer is typically required to pay for work performed and materials purchased through the date of termination. The NSMV contract has a termination for convenience clause at the option of the U.S. Government.

Financial risks
Philly Shipyard is dependent upon having access to construction financing facilities and other loans and debt facilities to the extent its own cash flow from operations and milestone payments from customers are insufficient to fund its operations and capital expenditures. In turn, Philly Shipyard must secure and maintain sufficient equity capital to support debt facilities. Additionally, Philly Shipyard may be required to obtain bonding capacity in case there is need for payment or performance bonds, or to furnish letters of credit, refund guarantees or other forms of security, to support major commercial or government shipbuilding programs. Philly Shipyard may not be able to obtain sufficient debt facilities or bonding capacity or furnish sufficient security if and when needed with favorable terms, if at all. No third-party financing is needed for the NSMV, SRIV or CV3600 vessel programs, and Philly Shipyard has furnished the bonds and security required to support the NSMV and SRIV programs.

The Company is exposed to changes in prices of 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 cost escalation and increased taxes on imported goods by passing these risks on to its end customers. The NSMV, SRIV and CV3600 vessel contracts include price adjustment clauses for steel as defined in the respective contracts.

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. The subcontracts for the detailed design and major equipment for the NSMV and SRIV programs are payable in U.S. dollars. The SRIV contract includes an exchange rate adjustment clause for material and equipment purchases made in certain foreign currencies.

COVID-19 and other risks

The 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. 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. While the COVID-19 pandemic may be viewed as in retreat in some areas of the world, the legacy of these risks is expected to continue into the future.

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

For a further analysis of risks, please refer to the Company’s 2021 annual report.

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Note	Q3 Unaudited 2022	Q3 2021	9 months ended 30 Sept. Unaudited 2022	9 months ended 30 Sept. 2021 *	Full Year Audited 2021 *
Operating revenues	11	92.6	70.3	284.1	123.8	214.1
Operating expenses		(107.4)	(70.1)	(296.9)	(132.2)	(221.1)
Operating (loss)/income before depreciation - EBITDA		**(14.8)**	**0.2**	**(12.8)**	**(8.4)**	**(7.0)**
Depreciation		(1.7)	(1.3)	(4.6)	(4.0)	(5.4)
Operating loss - EBIT		**(16.5)**	**(1.1)**	**(17.4)**	**(12.4)**	**(12.4)**
Net financial items		0.6	0.1	0.7	0.1	0.2
Loss before tax		**(15.9)**	**(1.0)**	**(16.7)**	**(12.3)**	**(12.2)**
Tax benefit	6	5.9	-	13.3	1.8	4.9
Loss after tax **		**(10.0)**	**(1.0)**	**(3.4)**	**(10.5)**	**(7.3)**
Weighted average number of shares	7	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted loss per share (USD)	7	**(0.83)**	**(0.09)**	**(0.28)**	**(0.87)**	**(0.61)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q3 Unaudited 2022	Q3 2021	9 months ended 30 Sept. Unaudited 2022	9 months ended 30 Sept. 2021 *	Full Year Audited 2021 *
Loss after tax	(10.0)	(1.0)	(3.4)	(10.5)	(7.3)
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive loss for the period **	**(10.0)**	**(1.0)**	**(3.4)**	**(10.5)**	**(7.3)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Note	Unaudited 30 Sept. 2022	31 Dec. 2021 *
Assets			
Non-current assets			
Property, plant and equipment		41.9	36.0
Right-of-use assets		12.5	12.8
Restricted cash long-term		45.2	43.1
Deferred tax asset long-term	6	28.7	13.1
Income tax receivable long-term	6	0.1	0.1
Other non-current assets		0.5	0.4
Total non-current assets		**128.9**	**105.5**
Current assets			
Cash and cash equivalents (unrestricted)		86.6	255.0
Vessels-under-construction receivable	10	13.6	-
Prepayments and other receivables		67.3	61.2
Restricted cash short-term		5.0	1.4
Income tax receivable short-term	6	13.6	13.6
Contract assets		-	0.3
Total current assets		**186.1**	**331.5**
Total assets		**315.0**	**437.0**
Equity and liabilities			
Total equity	7	**82.1**	**85.5**
Non-current liabilities			
Lease liability long-term		1.3	1.6
Income tax payable long-term	6	1.2	1.2
Total non-current liabilities		**2.5**	**2.8**
Current liabilities			
Customer advances, net	10	180.9	296.4
Trade payables, accrued liabilities and provisions		48.6	51.8
Lease liability short-term		0.3	0.3
Income tax payable short-term	6	-	0.2
Other contract liabilities		0.6	-
Total current liabilities		**230.4**	**348.7**
Total liabilities		**232.9**	**351.5**
Total equity and liabilities		**315.0**	**437.0**

* Annual 2021 financial information is derived from audited financial statements.
** All attributed to the equity holders of PHLY.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	9 months ended 30 Sept.	
	Unaudited	
Amounts in USD millions	**2022**	**2021 ***
As of beginning of period	85.5	92.8
Total comprehensive loss for the period *	(3.4)	(10.5)
As of end of period	**82.1**	**82.3**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	9 months ended 30 Sept.		
		Unaudited	
Amounts in USD millions	**Note**	**2022**	**2021 ***
Loss before tax		(16.7)	(12.3)
Add back depreciation		4.6	4.0
Taxes (paid)/refunded	6	(6.9)	6.3
Change in restricted cash		(5.7)	(18.1)
Change in prepayments and other receivables		(6.1)	(23.2)
Change in vessels-under-construction receivable	10	(13.6)	-
Change in customer advances, net	10	(115.5)	219.2
Change in trade payables, accrued liabilities and provisions		(3.2)	32.1
Change in other working capital		5.1	2.9
Net cash (used in)/from operating activities		(158.0)	210.9
Investment in property, plant and equipment		(10.2)	(11.5)
Net cash used in investing activities		(10.2)	(11.5)
Repayment of lease liability		(0.2)	(0.2)
Net cash used in financing activities		(0.2)	(0.2)
Net change in cash and cash equivalents		**(168.4)**	**199.2**
Cash and cash equivalents at beginning of period		255.0	97.4
Cash and cash equivalents at end of period		**86.6**	**296.6**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the third quarter and year-to-date 2022

1. Introduction – Philly Shipyard ASA

Philly Shipyard ASA (PHLY) is a company domiciled in Norway. These condensed interim consolidated financial statements for the three-month and year-to-date periods ended 30 September 2022 and 30 September 2021 are comprised of PHLY and its direct and indirect wholly-owned subsidiaries (collectively referred to herein as the Group), including Philly Shipyard, Inc. (PSI).

This interim report has not been subject to audit or review by independent auditors.

The audited consolidated financial statements of PHLY as of and for the year ended 31 December 2021, which include a detailed description of accounting policies and significant estimates, are available at www.phillyshipyard.com.

2. Basis of preparation

These condensed interim consolidated financial statements reflect all adjustments, in the opinion of PHLY's management, that are necessary for a fair presentation of the results of operations for the periods presented. Operating results for the three-month and year-to-date periods are not necessarily indicative of the results that may be expected for any subsequent quarter or period.

The going concern assumption

These condensed interim consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realization of assets and settlement of liabilities in the normal course of business.

The world is continuing to be impacted by the COVID-19 pandemic, and how it will continue to unfold is uncertain. Philly Shipyard is continuing to take measures to mitigate substantial negative impact for the Company. However, in a worst-case scenario, the COVID-19 pandemic may have devastating effects for the world economy, including Philly Shipyard.

3. Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of PHLY as of and for the year ended 31 December 2021.

4. Significant accounting principles

The accounting policies applied by PHLY in these condensed interim consolidated financial statements are substantially the same as those applied by PHLY in its audited consolidated financial statements as of and for the year ended 31 December 2021.

There have not been any new IFRS standards or interpretations which were effective 1 January 2022 that have had a significant impact on Q3 2022 or the year-to-date period ending 30 September 2022.

5. Use of estimates

The preparation of these condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The most significant judgments made by management in preparing these condensed interim consolidated financial statements in applying PHLY's accounting policies, and the key sources of estimation uncertainty, are the same as those that are applied to the audited consolidated financial statements as of and for the year ended 31 December 2021 unless described elsewhere in this report.

6. Tax estimates

Income tax (expense)/benefit is recognized in each interim period based on the best estimate of the expected annual income tax rates. The 30 September 2022 year-to-date deferred income tax benefit of USD 13.3 million was primarily driven by temporary differences regarding stranded overhead and the newly enacted research and development (R&D) expense capitalization rules.

Beginning in 2022, R&D expenses must be capitalized and amortized over 60 months, as required by the 2017 Tax Cuts and Jobs Act. The Company expects that the R&D costs incurred in 2022 and beyond could impact the amount of cash taxes owed in the near term. The Company is monitoring the legislative activity to defer the implementation of the capitalization provision within the U.S. tax law with retroactive effect.

Enacted by the U.S. Congress on 27 March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act allows for the carryback of net operating losses (NOL) arising in taxable years beginning after 31 December 2017, and before 1 January 2021, to the five taxable years preceding the loss year. This rule allows corporate taxpayers the opportunity to carry back NOLs to tax years as far back as 2013. As the Company had qualifying taxable losses in 2018, 2019 and 2020, these losses were carried back to previous tax years and resulted in an income tax receivable 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 second quarter of 2023.

7. Share capital and equity

At 30 September 2022 and 30 September 2021, PHLY had 12,107,901 ordinary shares (excluding 466,865 own shares) at a par value of NOK 10 per share. There were no share issuances or repurchases for both the third quarter and year-to-date periods ended 30 September 2022 and 30 September 2021. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for both the third quarter and year-to-date periods ended 30 September 2022 and 30 September 2021.

8. Interest-bearing debt

At 30 September 2022 and 30 September 2021, Philly Shipyard had no external debt.

9. Related party transactions

Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder of PHLY, owning 57.6% of its total outstanding shares as of 30 September 2022. Kristian Røkke, the Chairman of the Board of Directors of PHLY, is a board member of TRG Holding AS, which owns 66.7% of the total outstanding shares of Aker ASA as of 30 September 2022. TRG Holding AS is controlled by Kjell Inge Røkke through The Resource Group TRG AS.

Philly Shipyard has service agreements with Aker ASA and certain of its affiliates which provide specified consulting, tax, financial, 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 costs and financial statement amounts for the three-month period ending 30 September 2022 were USD 34 thousand (USD 32 thousand for the same period in 2021) and for the nine-month period ending 30 September 2022 were USD 461 thousand (USD 250 thousand for the same period in 2021).

On 4 March 2022, PSI obtained a USD 25.0 million standby letter of credit from a bank to fulfill its contractual obligation under the SRIV contract. The standby letter of credit is secured by a first priority lien in the shares and material assets of PSI, subject to certain exclusions, has normal and customary fees, and accrues interest quarterly in arrears at 4.0% per annum. Aker Capital AS holds 50.0% of the commitment. As of 30 September 2022, Philly Shipyard has paid fees of USD 416 thousand for payment to Aker Capital AS pursuant to this arrangement.

10. Construction contracts

Order backlog of USD 1,243.3 million at 30 September 2022 represents a contractual shipbuilding obligation to deliver newly built vessels (NSMVs 1-5 and SRIV 1) that have not yet been produced for the Company's customers - TOTE Services and Great Lakes (respectively). Order backlog consists of future construction contract revenues and is subject to adjustment based on change orders as defined in the construction contracts. Order intake of USD 323.0 million at 30 September 2022 represents the new order for NSMV 5 plus change orders on NSMVs 1-4 and SRIV 1. Order backlog and order intake on long-term construction contracts are as follows:

Amounts in USD millions	Order backlog 30 Sept. 2022	Order intake 9 months to 30 Sept. 2022	Order backlog 31 Dec. 2021
	1,243.3	**323.0**	**1,203.2**

The recognized profit on long-term construction contracts in process (NSMVs 1-2, NSMVs 3-4, NSMV 5 and SRIV 1) as of 30 September 2022 is as follows:

Amounts in USD millions	**30 Sept. 2022**
Construction contract revenue recognized to date	501.3
Construction contract expenses recognized to date	(500.9)
Recognized construction contract profit to date	**0.4**

As of 30 September 2022, the Company has USD 61.1 million as prepayments to suppliers for materials and equipment for the construction of NSMVs 1-5 and SRIV 1, included in prepayments and other receivables on the statement of financial position.

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

As of 30 September 2022, Philly Shipyard has three separate awards under one shipbuilding contract in place for the NSMV program. NSMVs 1-2 were awarded at contract signing in April 2020; NSMVs 3-4 were awarded upon the exercise of an option in January 2021, and NSMV 5 was awarded upon the exercise of an option in April 2022. Therefore, the three awards are treated as three 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 five NSMVs (NSMVs 1-5) for TOTE Services, with the first two vessels (NSMVs 1-2) scheduled for delivery in 2023, the next two vessels (NSMVs 3-4) scheduled for delivery in 2024 and the final vessel (NSMV 5) scheduled for delivery in 2025. As of 30 September 2022, the NSMV projects for NSMVs 1-2, NSMVs 3-4 and NSMV 5 are 69.4%, 7.4% and 2.3% complete, respectively.

Philly Shipyard also has one additional shipbuilding contract in place for the Subsea Rock Installation Vessel (SRIV) program, which was awarded in November 2021. PSI is building one SRIV (SRIV 1) for Great Lakes, scheduled for delivery in 2024. As of 30 September 2022, SRIV 1 is 2.7% complete.

Commencing with SRIV 1 and NSMV 5, Philly Shipyard's accounting policy is to not recognize profit on projects until they are five percent (5.0%) complete.

Vessels-under-construction receivable as of 30 September 2022 and 31 December 2021 totaled USD 13.6 million and USD 0, respectively. Vessels-under-construction receivable represents the difference between (i) cash advances received from customers for NSMVs 1-2 and (ii) revenue recognized for NSMVs 1-2.

Customer advances, net as of 30 September 2022 and 31 December 2021 totaled USD 180.9 million and USD 296.4 million, respectively. Customer advances, net represents the difference between (i) cash advances received from customers for NSMVs 3-5 and SRIV 1 and (ii) revenue recognized for NSMVs 3-5 and SRIV 1.

As of 30 September 2022, Philly Shipyard has USD 384.1 million in unpaid non-cancellable purchase commitments for materials, equipment and design fees for the construction of NSMVs 1-5 and SRIV 1.

11. Operating revenues

	Q3		**9 months ended 30 Sept.**	
Amounts in USD millions	**2022**	**2021**	**2022**	**2021**
Shipbuilding	92.6	56.3	283.0	101.7
Government design studies	-	13.2	1.1	19.8
Ship repair and maintenance	-	0.8	-	2.3
Operating revenues	**92.6**	**70.3**	**284.1**	**123.8**

12. Financial instruments

As of 30 September 2022, the Company has no forward exchange contracts or other financial instruments.

13. Commitments and contingencies

Pursuant to the shipyard lease between PSI and Philadelphia Shipyard Development Corporation (PSDC), if PSI fails to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, then the lease term (i.e., a 99-year lease with approximately 75 years remaining including options) is automatically converted to month-to-month and PSDC has the right to terminate the lease, subject to the right of PSI to complete work-in-process projects and a one-time, limited cure right which allows PSI to restore the lease to a five-year term under certain circumstances. PSI was in compliance with this lease condition as of 30 September 2022.

14. Subsequent events after 30 September 2022

Philly Shipyard was awarded a contract by Matson Navigation Company (Matson) to design and construct three LNG-installed Aloha Class containerships with a contract value of approximately USD 1.0 billion. The ships will follow NSMV 5 with contractual delivery dates in 2026 and 2027.

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