Philly Shipyard ASA (XOAX: PHLY)
Q4 2022 and Full Year 2022 Results

13 February 2023

Key Events and Highlights

- ✓ Awarded contract by Matson to build three 3,600 TEU Aloha Class LNG-fueled containerships with a total contract value of approximately USD 1.0 billion; the series will follow NSMV 5 with contractual delivery dates in 2026 and 2027

- ✓ Continued progress on the National Security Multi-Mission Vessel (NSMV) and Subsea Rock Installation Vessel (SRIV) newbuild programs

- ✓ Record high order backlog of USD 2,143.8 million on 31 December 2022 with last contractual delivery date in 2027 for the third Matson containership vessel

- ✓ Total cash and cash equivalents of USD 137.6 million at 31 December 2022, excluding USD 55.4 million of restricted cash

- ✓ Fourth quarter and full year 2022 operating revenues and other income of USD 109.7 million and USD 393.8 million, respectively, compared to USD 90.2 million and USD 214.1 million in the same periods in 2021

- ✓ Fourth quarter and full year 2022 net losses of USD 8.3 million and USD 11.7 million, respectively, compared to fourth quarter net income of USD 3.1 million and full year net loss of USD 7.3 million in the same periods in 2021

Subsequent Events and Highlights

- ✓ On 8 February 2023, a new four-year collective bargaining agreement was ratified by the Philadelphia Metal Trades Council (PMTC)

Operations

Shipbuilding

On 1 November 2022, Philly Shipyard was awarded a contract by Matson Navigation Company, Inc. (Matson) to build three 3,600 TEU Aloha Class LNG-fueled containership vessels (CVs). The award is valued at approximately USD 1.0 billion. These vessels are contracted for delivery in 2026 and 2027 and will not require external financing by Philly Shipyard. Philly Shipyard has commenced pre-production activities on these vessels.

Final outfitting continues on NSMV 1 with an expected Q2 2023 delivery. Production activities on NSMV 2 continue with activity mainly in the dock and paint shop. NSMV 3 production activities are still mainly in the fabrication shops. Philly Shipyard cut steel on NSMV 4 on 18 January 2023. Pre-production activities on NSMV 5 continue to progress.

Pre-production activities on the SRIV continue to progress and long lead equipment has been ordered for this ship. As of 31 December 2022, Philly Shipyard has firm commitments for approximately 40% of the total budgeted third party costs for the SRIV.

As of 31 December 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 January 2023.

On 1 February 2023, Avalotis Industrial Services (AIS) assumed full operational control of PSI's plate priming facility. AIS will service all of PSI's plate priming requirements for its shipbuilding projects at this facility.

On 8 February 2023, a new four-year collective bargaining agreement (CBA) was ratified by the Philadelphia Metal Trades Council (PMTC), which represents the nine unions at the shipyard. This new labor contract will extend until 31 January 2027.

Philly Shipyard continues to take mitigating actions and seek relief for operational disruptions arising from 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. The pandemic also continues to disrupt Philly Shipyard's global supply chain. Notwithstanding ongoing mitigation efforts, these factors are contributing to significant delays, productivity loss and increased costs.

Industry Design Studies

Philly Shipyard continues its participation 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 0.39 at the end of Q4 2022 compared to 0.00 at the end of Q4 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 2.16 at the end of Q4 2022 compared to 2.73 at the end of Q4 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.

Financial Information

Fourth Quarter 2022 Results

Operating revenue and other income for Q4 2022 was USD 109.7 million compared to operating revenue and other income of USD 90.2 million for Q4 2021. In Q4 2022, there was revenue from progress on the five NSMVs (NSMVs 1-5), the SRIV (SRIV 1), and the three CVs (CVs 1-3) and profit in equity-accounted investment for Philly Shipyard's proportionate share of the final distribution from the Philly Tankers escrow account, whereas in Q4 2021 there was revenue from progress on NSMVs 1-4 and ship repair and maintenance work.

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.

EBITDA for Q4 2022 was negative USD 5.3 million compared to EBITDA of USD 1.3 million for Q4 2021. EBITDA for Q4 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 and the profit in equity-accounted investment described above. EBITDA for Q4 2021 was driven primarily by the gross profit recognized on NSMVs 1-4 and ship repair and maintenance work, 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 Q4 2022 was USD 8.3 million compared to net income of USD 3.1 million for Q4 2021. Net loss for Q4 2022 primarily consists of EBITDA of negative USD 5.3 million, depreciation expense of USD 1.6 million and tax expense of USD 2.7 million, partially offset by net financial income of USD 1.3 million. Net income for Q4 2021 primarily consists of an income tax benefit of USD 3.1 million.

Full Year 2022 Results

Operating revenue and other income in 2022 ended at USD 393.8 million compared to operating revenues and other income of USD 214.1 million in 2021. Operating revenues and other income in 2022 were primarily driven by revenues from progress on NSMVs 1-5, SRIV 1, CVs 1-3 and two government design studies as well as the profit in equity-accounted investment described above, whereas operating revenues and other income in 2021 were primarily driven by revenues from progress on NSMVs 1-4, ship repair and maintenance work and four government design studies.

EBITDA for 2022 was negative USD 18.1 million compared to EBITDA of negative USD 7.0 million for 2021. The variance is primarily driven by increased costs on the NSMV project.

Net loss for 2022 was USD 11.7 million compared to net loss of USD 7.3 million for 2021. Net loss for 2022 primarily consists of EBITDA of negative USD 18.1 million and depreciation expense of USD 6.2 million, partially offset by an income tax benefit of USD 10.6 million and net financial income of USD 2.0 million. Net loss for 2021 primarily consists of EBITDA of negative USD 7.0 million and depreciation expense of USD 5.4 million, partially offset by an income tax benefit of USD 4.9 million and net financial income of USD 0.2 million.

Statement of Financial Position
Total assets were USD 350.5 million at 31 December 2022 compared to USD 437.0 million at 31 December 2021, with the decrease resulting primarily from a decrease of USD 117.4 million in cash and cash equivalents (unrestricted).

Cash and cash equivalents (unrestricted) was USD 137.6 million at 31 December 2022 compared to USD 255.0 million at 31 December 2021. The decrease of USD 117.4 million was due primarily to spending on materials and services related to the vessel projects underway, timing of customer milestone payments, and investment in property, plant and equipment (PP&E).

Total restricted cash as of 31 December 2022 amounted to USD 55.4 million, of which USD 45.4 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 3, and USD 10.0 million (short-term) pertains to reserve accounts required for NSMVs 1-2. 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 vessel.

Total equity decreased to USD 73.8 million at 31 December 2022 from USD 85.5 million at 31 December 2021 due to net loss of USD 11.7 million.

Outlook
On 31 December 2022, Philly Shipyard had a record high order backlog of USD 2,143.8 million. With the award of the Matson contract, Philly Shipyard has nine vessels, consisting of five NSMVs, one SRIV and three CVs, in its order book. Philly Shipyard's current order book is the largest in its 25-year history, providing pipeline visibility and stability into 2027.

Philly Shipyard continues to pursue prospects in the government and commercial newbuild markets and is presently targeting shipbuilding programs with building slots following the third CV. 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. 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.

Philly Shipyard 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.

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

Risks
Market risks
While Philly Shipyard now has an order backlog for ship newbuilds 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 entered into fixed-price subcontracts for a significant portion of its scope of work on its active shipbuilding programs, including the design and major equipment for the NSMV and SRIV programs and the design for the CV program. Philly Shipyard intends to enter into fixed-price subcontracts for the major equipment for the CV 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, SRIV and CV 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 COVID-19 pandemic and the federal contractor vaccine mandate 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 containership vessels previously 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 CV vessel contracts include liquidated damage clauses for late delivery exclusive of excusable delays. The CV vessel contract includes performance guarantee clauses similar to those included in the vessel contracts for the prior series of Aloha Class containership vessels.

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, and Philly Shipyard has furnished all bonds and security that are required, to support its active shipbuilding 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 CV 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 subcontract for the detailed design for the CV program is payable in U.S. dollars. The SRIV contract includes an exchange rate adjustment clause for material and equipment purchases made in certain foreign currencies.

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.

COVID-19 related 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, productivity loss 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.

Philly Shipyard is seeing substantial uncertainty in the macroeconomic environment throughout the world due to the above contributing factors as well as rising interest rates, market volatility and recession concerns.

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	Q4 Unaudited 2022	Q4 2021	12 months ended 31 Dec. Unaudited 2022	12 months ended 31 Dec. 2021 *
Operating revenues and other income	11	109.7	90.2	393.8	214.1
Operating expenses		(115.0)	(88.9)	(411.9)	(221.1)
Operating (loss)/income before depreciation - EBITDA		**(5.3)**	**1.3**	**(18.1)**	**(7.0)**
Depreciation		(1.6)	(1.4)	(6.2)	(5.4)
Operating loss - EBIT		**(6.9)**	**(0.1)**	**(24.3)**	**(12.4)**
Net financial items		1.3	0.1	2.0	0.2
Loss before tax		**(5.6)**	**-**	**(22.3)**	**(12.2)**
Tax (expense)/benefit	6	(2.7)	3.1	10.6	4.9
(Loss)/income after tax **		**(8.3)**	**3.1**	**(11.7)**	**(7.3)**
Weighted average number of shares	7	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted (loss)/income per share (USD)	7	**(0.69)**	**0.26**	**(0.97)**	**(0.61)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q4 Unaudited 2022	Q4 2021	12 months ended 31 Dec. Unaudited 2022	12 months ended 31 Dec. 2021 *
(Loss)/income after tax	(8.3)	3.1	(11.7)	(7.3)
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive (loss)/income for the period **	**(8.3)**	**3.1**	**(11.7)**	**(7.3)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Note	Unaudited 31 Dec. 2022	31 Dec. 2021 *
Assets			
Non-current assets			
Property, plant and equipment		42.7	36.0
Right-of-use assets		13.0	12.8
Restricted cash long-term		45.4	43.1
Deferred tax asset long-term	6	26.2	13.1
Income tax receivable long-term	6	13.7	0.1
Other non-current assets		0.5	0.4
Total non-current assets		**141.5**	**105.5**
Current assets			
Cash and cash equivalents (unrestricted)		137.6	255.0
Vessels-under-construction receivable	10	4.9	-
Prepayments and other receivables		52.4	61.2
Restricted cash short-term		10.0	1.4
Income tax receivable short-term	6	4.1	13.6
Contract assets		-	0.3
Total current assets		**209.0**	**331.5**
Total assets		**350.5**	**437.0**
Equity and liabilities			
Total equity	7	**73.8**	**85.5**
Non-current liabilities			
Lease liability long-term		2.3	1.6
Income tax payable long-term	6	1.2	1.2
Total non-current liabilities		**3.5**	**2.8**
Current liabilities			
Customer advances, net	10	230.6	296.4
Trade payables, accrued liabilities and provisions		42.0	51.8
Lease liability short-term		0.3	0.3
Income tax payable short-term	6	-	0.2
Other contract liabilities		0.3	-
Total current liabilities		**273.2**	**348.7**
Total liabilities		**276.7**	**351.5**
Total equity and liabilities		**350.5**	**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

	12 months ended 31 Dec.	
	Unaudited	
Amounts in USD millions	**2022**	**2021 ***
As of beginning of period	85.5	92.8
Total comprehensive loss for the period *	(11.7)	(7.3)
As of end of period	**73.8**	**85.5**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	12 months ended 31 Dec.		
		Unaudited	
Amounts in USD millions	**Note**	**2022**	**2021 ***
Loss before tax		(22.3)	(12.2)
Add back depreciation		6.2	5.4
Taxes (paid)/refunded	6	(7.0)	6.2
Change in restricted cash		(10.9)	(18.1)
Change in prepayments and other receivables		8.8	(15.8)
Change in vessels-under-construction receivable	10	(4.9)	-
Change in customer advances, net	10	(65.8)	165.5
Change in trade payables, accrued liabilities and provisions		(9.8)	42.1
Change in other working capital		0.6	(0.4)
Net cash (used in)/from operating activities		(105.1)	172.7
Investment in P,P&E and right-of-use assets		(13.0)	(14.8)
Net cash used in investing activities		(13.0)	(14.8)
Investment in/(repayment of) lease liability		0.7	(0.3)
Net cash from/(used in) financing activities		0.7	(0.3)
Net change in cash and cash equivalents		**(117.4)**	**157.6**
Cash and cash equivalents at beginning of period		255.0	97.4
Cash and cash equivalents at end of period		**137.6**	**255.0**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 4th quarter and full year 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 full year periods ended 31 December 2022 and 31 December 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 full year periods are not necessarily indicative of the results that may be expected for any subsequent quarter or period.

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

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

3. **Statement of compliance**
   These condensed interim consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of PHLY as of and for the year ended 31 December 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 Q4 2022 or the full year ending 31 December 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 31 December 2022 full year deferred income tax benefit of USD 10.6 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, 2019 and 2020 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 first quarter of 2024.

7. Share capital and equity

At 31 December 2022 and 31 December 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 fourth quarter and full year periods ended 31 December 2022 and 31 December 2021. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for both the fourth quarter and full year periods ended 31 December 2022 and 31 December 2021.

8. Interest-bearing debt

At 31 December 2022 and 31 December 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 31 December 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 31 December 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 (including service fees and insurance premiums) 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 31 December 2022 were USD 34 thousand (USD 33 thousand for the same period in 2021) and for the full year period ending 31 December 2022 were USD 495 thousand (USD 288 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 31 December 2022, Philly Shipyard has paid fees of USD 544 thousand for further payment to Aker Capital AS pursuant to this arrangement.

10. Construction contracts

Order backlog of USD 2,143.8 million at 31 December 2022 represents a contractual shipbuilding obligation to deliver newly built vessels (NSMVs 1-5, SRIV 1 and CVs 1-3) that have not yet been produced for the Company's customers (TOTE Services, Great Lakes and Matson, 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 1,332.1 million at 31 December 2022 represents the new orders for NSMV 5 and CVs 1-3 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 31 Dec. 2022	Order intake 12 months to 31 Dec. 2022	Order backlog 31 Dec. 2021
	2,143.8	**1,332.1**	**1,203.2**

The recognized combined profit/(loss) on long-term construction contracts in process (NSMVs 1-5, SRIV 1 and CVs 1-3) as of 31 December 2022 is as follows:

Amounts in USD millions	31 Dec. 2022
Construction contracts revenue recognized to date	610.0
Construction contracts expenses recognized to date	(616.4)
Construction contracts loss recognized to date	**(6.4)**

As of 31 December 2022, the Company has USD 50.4 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 31 December 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 2025, respectively, and the final vessel (NSMV 5) scheduled for delivery in 2025. As of 31 December 2022, the NSMV projects for NSMVs 1-2, NSMVs 3-4 and NSMV 5 are 75.5%, 18.1% and 2.3% complete, respectively.

Philly Shipyard has another 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 2025. As of 31 December 2022, the SRIV 1 project is 4.0% complete.

Philly Shipyard also has one other shipbuilding contract with Matson in place for the containership vessel program, which was awarded in November 2022. PSI is building three CVs (CVs 1-3) for Matson, scheduled for deliveries in 2026 and 2027. As of 31 December 2022, the CVs 1-3 project is 0.1% complete.

Philly Shipyard's accounting policy for projects following NSMVs 3-4 is to not recognize profit on projects until they are 5.0% complete.

Vessels-under-construction receivable as of 31 December 2022 and 31 December 2021 totaled USD 4.9 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 31 December 2022 and 31 December 2021 totaled USD 230.6 million and USD 296.4 million, respectively. Customer advances, net represents the difference between (i) cash advances received from customers for NSMVs 3-5, SRIV 1 and CVs 1-3 and (ii) revenue recognized for NSMVs 3-5, SRIV 1 and CVs 1-3.

As of 31 December 2022, Philly Shipyard has USD 340.3 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 and other income

	Q4		12 months ended 31 Dec.	
Amounts in USD millions	**2022**	**2021**	**2022**	**2021**
Shipbuilding	108.6	87.5	391.6	189.3
Profit in equity-accounted investment	1.1	-	1.1	-
Government design studies	-	-	1.1	19.8
Ship repair and maintenance	-	2.7	-	5.0
Operating revenues and other income	**109.7**	**90.2**	**393.8**	**214.1**

12. Financial instruments

As of 31 December 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 is in compliance with this lease condition as of 31 December 2022.

14. Subsequent events after 31 December 2022

On 8 February 2023, a new four-year collective bargaining agreement was ratified by the Philadelphia Metal Trades Council (PMTC).

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