Philly Shipyard ASA (Oslo: PHLY)
Q1 2023 Results

4 May 2023

Key Events and Highlights

- ✓ On 8 February 2023, a new four-year collective bargaining agreement was ratified by the Philadelphia Metal Trades Council (PMTC)
- ✓ Continued progress on the National Security Multi-Mission Vessel (NSMV) and Subsea Rock Installation Vessel (SRIV) newbuild programs
- ✓ Robust order backlog of USD 2,030.5 million on 31 March 2023 with last contractual delivery date in 2027
- ✓ Total cash and cash equivalents of USD 118.9 million at 31 March 2023, excluding USD 55.8 million of restricted cash
- ✓ First quarter 2023 operating revenues and other income of USD 113.8, compared to USD 71.8 million in the same period in 2022
- ✓ First quarter 2023 net loss after tax of USD 18.3 million, compared to net income after tax of USD 3.5 million in the same period in 2022

Operations

Shipbuilding

Final outfitting as well as testing and commissioning activities continue on NSMV 1 with an expected Q2 2023 delivery. Production activities on NSMV 2 continue with activity mainly in the dock. NSMV 3 production activities are in the fabrication and paint shops. NSMV 4 production activities have begun in the fabrication shops. Pre-production activities on NSMV 5 continue to progress.

Pre-production activities and design work on the SRIV continue to progress and production is scheduled to commence in Q3 2023.

Philly Shipyard has commenced pre-production activities on the Matson 3600 TEU Aloha Class LNG fueled containership vessels (CVs) and anticipates having long lead items on order by Q2 2023.

As of 31 March 2023, Philly Shipyard's workforce consisted of 1,751 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 most recent cohort starting on 1 May 2023. Philly Shipyard was awarded a government grant of USD 750 thousand for this program in April 2023. Philly Shipyard is seeking additional government grants to help fund this program.

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. COVID driven labor shortages continue to impede Philly Shipyard's efforts to efficiently maintain its workforce. Pandemic related supply chain disruptions have slowed progress on the NSMVs. Notwithstanding ongoing mitigation efforts, these factors are contributing to schedule impacts, productivity loss and increased costs.

Industry Design Studies

Philly Shipyard concluded 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)/Sustainability/ESG
On 21 March 2023, a production worker suffered a fall-related fatality at the shipyard. The incident is being investigated by Philly Shipyard, Inc.'s (PSI) safety team and by the Occupational Safety and Health Administration (OSHA).

PSI's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR) was 0.22 at the end of Q1 2023 compared to 0.29 at the end of Q1 2022. LTIFR is based on lost time incidents (LTI) per 200,000 hours as defined by OSHA.

PSI's 12-month trailing average for its Other Recordable Incident Frequency Rate (ORIFR) was 3.13 at the end of Q1 2023 compared to 2.48 at the end of Q1 2022. ORIFR is based on recordable incidents other than LTIs per 200,000 hours as defined by OSHA.

PSI continues to work proactively to further improve safety and reduce the number of incidents at the shipyard. PSI also continues to execute on its sustainability and environmental, social, and governance (ESG) program as laid out in the Company's 2022 annual report.

Financial Information

First Quarter 2023 Results
Operating revenue and other income for Q1 2023 was USD 113.8 million compared to operating revenue and other income of USD 71.8 million for Q1 2022. In Q1 2023, there was revenue from progress on NSMVs 1-5, the SRIV, CVs 1-3 and the T-AS(X) government design study, whereas in Q1 2022 there was revenue from progress on the NSMVs 1-4, the SRIV and 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.

EBITDA for Q1 2023 was negative USD 18.3 million compared to EBITDA of USD 0.9 million for Q1 2022. EBITDA for Q1 2023 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 T-AS(X) government design study. EBITDA for Q1 2022 was driven primarily by the profit recognized on NSMVs 1-4 and government design studies, partially offset by under-recovered overhead costs (i.e., overhead expenses incurred and not allocated to projects) and SG&A costs. The cost increases in Q1 2023 are primarily related to increased labor costs, turnkey costs, and overhead costs driven by the ongoing lack of skilled workers, resulting in schedule delays and compression.

Net loss after tax for Q1 2023 was USD 18.3 million compared to net income after tax of USD 3.5 million for Q1 2022. Net loss after tax for Q1 2023 primarily consists of EBITDA of negative USD 18.3 million and depreciation expense of USD 1.7 million, partially offset by net financial income of USD 1.7 million. Net income after tax for Q1 2022 primarily consists of an income tax benefit of USD 4.0 million.

Statement of Financial Position
Total assets were USD 343.2 million at 31 March 2023 compared to USD 350.5 million at 31 December 2022.

Cash and cash equivalents (unrestricted) was USD 118.9 million at 31 March 2023 compared to USD 137.6 million at 31 December 2022. The decrease of USD 18.7 million was due primarily to spending on goods and services related to the vessel projects underway net of customer milestone payments, investments in property, plant and equipment and SG&A costs, partially offset by favorable working capital and net financial income items.

Total restricted cash as of 31 March 2023 amounted to USD 55.8 million, of which USD 45.8 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 55.5 million at 31 March 2023 from USD 73.8 million at 31 December 2022 due to net loss of USD 18.3 million.

Outlook

On 31 March 2023, Philly Shipyard had a strong order backlog of USD 2,030.5 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 provides 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.

Philly Shipyard still forecasts to be profitable on the five ship NSMV series taken as a whole. However, the forecast has been impacted by increased costs of labor, turnkey suppliers and overhead. These impacts are mainly a consequence of COVID driven labor shortages, resulting in schedule delays and compression. Although 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 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. While Philly Shipyard still forecasts to be profitable on the five-ship NSMV series taken as a whole, there is still a risk that these vessels will end up as a loss-making project.

Philly Shipyard's productivity and profitability depends substantially on its ability to attract and retain skilled workers at forecasted rates. COVID driven labor shortages 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 goods and services purchased in certain foreign currencies.

Other risks

The legacy of the risks related to the COVID-19 pandemic (including labor shortages and supply chain disruptions) continues to impact the Company's shipbuilding projects.

The Russia-Ukraine military conflict, as well as the economic sanctions targeting Russia, increases 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 inflation, rising interest rates, market volatility and recession concerns.

For a further analysis of risks, please refer to the Company's 2022 annual report.

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Note	Q1 Unaudited 2023	Q1 2022	Full Year Audited 2022 *
Operating revenues and other income	11	113.8	71.8	393.8
Operating expenses		(132.1)	(70.9)	(411.9)
Operating (loss)/income before depreciation (EBITDA)		**(18.3)**	**0.9**	**(18.1)**
Depreciation		(1.7)	(1.4)	(6.2)
Operating loss (EBIT)		**(20.0)**	**(0.5)**	**(24.3)**
Net financial items		1.7	-	2.0
Loss before tax		**(18.3)**	**(0.5)**	**(22.3)**
Tax benefit	6	-	4.0	10.6
(Loss)/income after tax **		**(18.3)**	**3.5**	**(11.7)**
Weighted average number of shares	7	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted (loss)/income per share (USD)	7	**(1.51)**	**0.29**	**(0.97)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q1 Unaudited 2023	Q1 2022	Full Year Audited 2022 *
(Loss)/income after tax	(18.3)	3.5	(11.7)
Other comprehensive income, net of income tax	-	-	-
Total comprehensive (loss)/income for the period **	**(18.3)**	**3.5**	**(11.7)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Note	Unaudited 31 Mar. 2023	31 Dec. 2022 *
Assets			
Non-current assets			
Property, plant and equipment		42.3	42.2
Right-of-use assets		15.1	13.5
Restricted cash long-term		45.8	45.4
Deferred tax asset long-term	6	27.7	26.2
Income tax receivable long-term	6	13.7	13.7
Other non-current assets		0.5	0.5
Total non-current assets		**145.1**	**141.5**
Current assets			
Cash and cash equivalents (unrestricted)		118.9	137.6
Vessels-under-construction receivable	10	21.2	4.9
Prepayments and other receivables		45.7	52.4
Restricted cash short-term		10.0	10.0
Income tax receivable short-term	6	2.3	4.1
Total current assets		**198.1**	**209.0**
Total assets		**343.2**	**350.5**
Equity and liabilities			
Total equity	7	**55.5**	**73.8**
Non-current liabilities			
Lease liability long-term		3.5	2.3
Income tax payable long-term	6	1.2	1.2
Total non-current liabilities		**4.7**	**3.5**
Current liabilities			
Customer advances (net)	10	225.2	230.6
Trade payables, accrued liabilities and provisions		57.0	42.0
Lease liability short-term		0.8	0.3
Other contract liabilities		-	0.3
Total current liabilities		**283.0**	**273.2**
Total liabilities		**287.7**	**276.7**
Total equity and liabilities		**343.2**	**350.5**

* Annual 2022 financial information is derived from audited financial statements.
** All attributed to the equity holders of PHLY.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	3 months ended 31 Mar.	
	Unaudited	
Amounts in USD millions	**2023**	**2022 ***
As of beginning of period	73.8	85.5
Total comprehensive (loss)/income for the period *	(18.3)	3.5
As of end of period	**55.5**	**89.0**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		3 months ended 31 Mar.	
		Unaudited	
Amounts in USD millions	**Note**	**2023**	**2022 ***
Loss before tax		(18.3)	(0.5)
Add back depreciation		1.7	1.4
Taxes paid	6	-	(2.0)
Change in restricted cash		(0.4)	-
Change in prepayments and other receivables		6.7	2.6
Change in vessels-under-construction receivable	10	(16.3)	-
Change in customer advances (net)	10	(5.4)	(55.9)
Change in trade payables, accrued liabilities and provisions		15.0	(13.4)
Change in other working capital		0.2	0.6
Net cash used in operating activities		(16.8)	(67.2)
Investment in property, plant & equipment		(1.8)	(3.0)
Net cash used in investing activities		(1.8)	(3.0)
Repayment of lease liability		(0.1)	(0.1)
Net cash used in financing activities		(0.1)	(0.1)
Net change in cash and cash equivalents		**(18.7)**	**(70.3)**
Cash and cash equivalents at beginning of period		137.6	255.0
Cash and cash equivalents at end of period		**118.9**	**184.7**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 1st quarter 2023

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 periods ended 31 March 2023 and 31 March 2022 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 2022, 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 first quarter 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.

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 2022.

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 2022.

There have not been any new IFRS standards or interpretations which were effective 1 January 2023 that have had a significant impact on Q1 2023.

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 2022 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.

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 March 2023 and 31 March 2022, 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 the quarters ended 31 March 2023 and 31 March 2022. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for the quarters ended 31 March 2022 and 31 March 2021.

8. Interest-bearing debt

At 31 March 2023 and 31 March 2022, 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 March 2023. 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 March 2023. 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 March 2023 were USD 195 thousand (USD 170 thousand for the same period in 2022).

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 March 2023, Philly Shipyard has paid fees of USD 128 thousand for further payment to Aker Capital AS pursuant to this arrangement.

10. Construction contracts

Order backlog of USD 2,030.5 million at 31 March 2023 represents a contractual shipbuilding obligation to deliver newly built vessels (NSMVs 1-5, the SRIV 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 0.4 million at 31 March 2023 represents combined change orders on NSMV 1 and the SRIV. Order backlog and order intake on long-term construction contracts are as follows:

Amounts in USD millions	Order backlog 31 Mar. 2023	Order intake 3 months to 31 Mar. 2023	Order backlog 31 Dec. 2022
	2,030.5	**0.4**	**2,143.8**

The recognized combined profit/(loss) on long-term construction contracts in process (NSMVs 1-5, the SRIV and CVs 1-3) as of 31 March 2023 is as follows:

Amounts in USD millions	**31 Mar. 2023**
Construction contracts revenue recognized to date	723.6
Construction contracts expense recognized to date	(748.3)
Construction contracts loss recognized to date	**(24.7)**

As of 31 March 2023, the Company has USD 43.4 million as prepayments to suppliers for materials and equipment for the construction of NSMVs 1-5 and the SRIV 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 March 2023, 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 March 2023, the NSMV projects for NSMVs 1-2, NSMVs 3-4 and NSMV 5 are 81.3%, 29.9% and 2.4% complete, respectively.

Philly Shipyard also has a shipbuilding contract in place for the Subsea Rock Installation Vessel (SRIV) program, which was awarded in November 2021. PSI is building one SRIV for Great Lakes, scheduled for delivery in 2025. As of 31 March 2023, the SRIV project is 4.7% complete.

Philly Shipyard also has a 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 March 2023, the CVs 1-3 project is 0.3% complete.

Philly Shipyard's accounting policy for projects following NSMVs 3-4 (i.e., NSMV 5, the SRIV and CVs 1-3) is to not recognize profit on projects until they are 5.0% complete or such later time when the cost to complete can be measured with reasonable certainty.

Vessels-under-construction receivable as of 31 March 2023 and 31 December 2022 totaled USD 21.2 million and USD 4.9 million, respectively. Vessels-under-construction receivable represents the difference between (i) cash advances received from customers for NSMVs 1-2 plus accounts receivable and (ii) revenue recognized for NSMVs 1-2.

Customer advances (net) as of 31 March 2023 and 31 December 2022 totaled USD 225.2 million and USD 230.6 million, respectively. Customer advances (net) represents the difference between (i) cash advances received from customers for NSMVs 3-5, the SRIV and CVs 1-3 plus accounts receivable and (ii) revenue recognized for NSMVs 3-5, the SRIV and CVs 1-3.

As of 31 March 2023, Philly Shipyard has USD 307.6 million in unpaid non-cancellable purchase commitments for materials, equipment and design fees for the construction of NSMVs 1-5, the SRIV and CVs 1-3.

11. Operating revenues and other income

	Q1	
Amounts in USD millions	**2023**	**2022**
Shipbuilding	113.6	70.7
Government design studies	0.2	1.1
Operating revenues and other income	**113.8**	**71.8**

12. Financial instruments
As of 31 March 2023, 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 74 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 March 2023.

14. Subsequent events after 31 March 2023
There are no events after 31 March 2023 that require disclosure.

Contact information:

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

Steinar Nerbøvik
President and CEO
Tel: +1 215 875 2600
steinar.nerbovik@phillyshipyard.com

Jeffrey Theisen
Chief Financial Officer
Tel: +1 215 875 2600
jeffrey.theisen@phillyshipyard.com

Kristine Damli
Vice President
Tel: +47 23 11 91 00
kristine.damli@phillyshipyard.com

Disclaimer

This 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, the Russia-Ukraine war and related sanctions against Russia, 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 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 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 this 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 this report.

Philly Shipyard ASA undertakes no obligation to publicly update or revise any forward-looking information or statements in this 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 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.