Philly Shipyard ASA (Oslo: PHLY)
Q4 2023 and Full Year 2023 Results

15 February 2024

Key Events and Highlights

- ✓ Celebrated keel laying of NSMV 4 in November 2023 and steel cutting of NSMV 5 in January 2024
- ✓ Order backlog of USD 1,719.1 million on 31 December 2023 with last contractual delivery date in 2027
- ✓ Total cash and cash equivalents of USD 79.5 million at 31 December 2023, excluding USD 44.2 million of restricted cash
- ✓ Fourth quarter and full year 2023 operating revenue of USD 86.5 million and USD 441.8 million, respectively, compared to USD 109.7 million and USD 393.8 million in the same periods in 2022
- ✓ Fourth quarter and full year 2023 net losses of USD 18.8 million and USD 67.9 million, respectively, compared to net losses of USD 8.3 million and USD 11.7 million in the same periods in 2022

Operations

Shipbuilding

Outfitting continues on the second National Security Multi-Mission Vessel (NSMV) in the outfitting dock, with delivery expected in Q2 2024. NSMV 3 production activities are well underway, with launch scheduled in Q1 2024. Philly Shipyard achieved significant construction milestones on the fourth and fifth NSMVs with keel laying of NSMV 4 in November 2023 and steel cutting of NSMV 5 in January 2024.

Production activities continue in the fabrication shops on the Subsea Rock Installation Vessel (SRIV). As of 31 December 2023, Philly Shipyard has firm commitments for approximately 61% of the total budgeted third-party material costs for the SRIV.

Pre-production activities on the 3600 TEU Aloha Class LNG fueled container vessels (CVs) continue to progress and long lead equipment continues to be ordered for these ships. As of 31 December 2023, Philly Shipyard has firm commitments for approximately 32% of the total budgeted third-party material costs for the CVs.

As of 31 December 2023, Philly Shipyard's workforce consists of 1,679 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 29 January 2024. As of 31 December 2023, 125 apprentices are active in this program. Philly Shipyard continues to seek government grants to help fund this program.

Despite aggressive recruiting efforts, the COVID-19 pandemic and the federal contractor vaccine mandate prevented Philly Shipyard from ramping-up its workforce in accordance with plan. The lingering effects of the COVID-19 pandemic (including skilled labor shortages and supply chain disruptions) continue to impede Philly Shipyard's efforts to efficiently maintain its workforce and progress on the NSMVs. Notwithstanding ongoing mitigation efforts, these factors are still contributing to schedule impacts, productivity loss and increased costs.

Philly Shipyard has been granted four months of schedule relief across the NSMV series on account of excusable delay due mainly to COVID-19 related impacts. Philly Shipyard is also seeking a schedule extension for the SRIV on account of various delays.

Industry Design Studies

Philly Shipyard continues to progress on the industry design study for hospital ships for the U.S. Navy. Philly Shipyard has teamed up with VARD Marine to work on this six-month study. This study is expected to be completed in Q1 2024.

Health, Safety, Security and Environment (HSSE)/Sustainability/ESG

Philly Shipyard's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR) was 0.17 at the end of Q4 2023 compared to 0.39 at the end of Q4 2022. LTIFR is based on lost time incidents (LTI) per 200,000 hours as defined by OSHA.

Philly Shipyard's 12-month trailing average for its Other Recordable Incident Frequency Rate (ORIFR) was 2.49 at the end of Q4 2023 compared to 2.16 at the end of Q4 2022. 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. Philly Shipyard 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

Fourth Quarter 2023 Results

Operating revenue and other income for Q4 2023 was USD 86.5 million compared to operating revenue and other income of USD 109.7 million for Q4 2022. In Q4 2023, there was revenue from progress on NSMVs 1-5, the SRIV and CVs 1-3, whereas in Q4 2022 there was revenue from progress on NSMVs 1-5, the SRIV, CVs 1-3 and the profit in equity-accounted investment for Philly Shipyard's proportionate share of the final distribution from the Philly Tankers escrow account.

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 2023 was negative USD 15.2 million compared to EBITDA of negative USD 5.3 million for Q4 2022. EBITDA for Q4 2023 was driven primarily by increased costs on NSMVs 2-4 and selling, general and administrative (SG&A) costs. EBITDA for Q4 2022 was driven primarily by increased costs on NSMVs 1-2 and SG&A costs, partially offset by the gross profit recognized on NSMVs 3-4 and the profit in equity-accounted investment described above. The unanticipated cost increases in Q4 2023 are mainly 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 Q4 2023 was USD 18.8 million compared to net loss after tax of USD 8.3 million for Q4 2022. Net loss after tax for Q4 2023 primarily consists of EBITDA of negative USD 15.2 million, depreciation expense of USD 2.1 million and income tax expense of USD 3.1 million, partially offset by net financial income of USD 1.6 million. Net loss after tax 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.

Full Year 2023 Results

Operating revenue and other income in 2023 ended at USD 441.8 million compared to operating revenue and other income of USD 393.8 million in 2022. Operating revenue and other income in 2023 was primarily driven by progress on NSMVs 1-5, the SRIV, CVs 1-3 and a government design study, whereas operating revenue and other income in 2022 was primarily driven by progress on NSMVs 1-5, the SRIV, CVs 1-3 and two government design studies as well as the profit in equity-accounted investment described above.

EBITDA for 2023 was negative USD 63.9 million compared to EBITDA of negative USD 18.1 million for 2022.

Net loss after tax for 2023 was USD 67.9 million compared to net loss after tax of USD 11.7 million for 2022. Net loss after tax for 2023 primarily consists of EBITDA of negative USD 63.9 million, depreciation expense of USD 7.7 million and income tax expense of USD 3.1 million, partially offset by net financial items of USD 6.8 million. Net loss after tax 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 items of USD 2.0 million.

Statement of Financial Position

Total assets were USD 294.5 million at 31 December 2023 compared to USD 350.5 million at 31 December 2022, with the decrease in total assets mainly resulting from a decrease in cash and cash equivalents as noted below.

Cash and cash equivalents (unrestricted) was USD 79.5 million at 31 December 2023 compared to USD 137.6 million at 31 December 2022. The decrease of USD 58.1 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 December 2023 amounted to USD 44.2 million, of which USD 34.2 million (long-term) represents the total cash deposited in an escrow account for the bonds required for NSMVs 2-5, and USD 10.0 million (short-term) pertains to reserve accounts required for NSMVs 2 and 3. 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. The reserve account required for NSMV 1 was released upon the delivery of that vessel in September 2023, and a portion (i.e., USD 8.0 million) of the cash collateral for the bonds was released in October 2023.

Total equity decreased to USD 5.9 million at 31 December 2023 from USD 73.8 million at 31 December 2022 due to net loss of USD 67.9 million.

Outlook

At 31 December 2023, Philly Shipyard continues to maintain a strong order backlog of USD 1,719.1 million. Philly Shipyard has eight vessels, consisting of four 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 delivered NSMV 1 within one month of the contract delivery date, as extended for excusable delay. This nearly on-time delivery is a rare feat for a government shipbuilding program, and is especially remarkable for a first-in-class vessel that was built largely in the midst of a public health emergency.

Following the delivery of NSMV 1, there is an increased focus on the ongoing implementation of Philly Shipyard's continuous improvement program. The lessons learned and experience gained from construction of NSMV 1 is expected to result in improved performance on subsequent vessels in the NSMV series.

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 the U.S. Congress in the NSMV contract model and its potential applicability to government shipbuilding programs, such as the sealift recapitalization, to reduce costs, accelerate delivery times, and build more vessels.

Philly Shipyard continues to forecast the five-ship NSMV series to be a loss-making contract. As of the end of Q4 2023, Philly Shipyard has recognized more loss on the NSMV contract to date than it anticipates to recognize when the five-ship contract is completed. Therefore, in accordance with IFRS, no loss provision has been recorded to date for an onerous contract.

As previously reported, the forecast has and continues to be impacted by increased costs of labor, turnkey suppliers and overhead driven by schedule delays and compression. While, as previously noted, Philly Shipyard has obtained four months of schedule relief for the NSMVs, Philly Shipyard continues to pursue all options available to obtain cost relief for COVID-19 related impacts. The current forecast excludes any potential recoveries as well as claims for back charges against certain underperforming subcontractors and suppliers.

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 and certain long lead items 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. COVID driven labor shortages have adversely impacted, and are expected to 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 prototype vessels, such as the NSMV and SRIV, compared to the construction of vessels based on a proven design, such as the product tankers and container vessels previously built by Philly Shipyard. These risks increase the current construction cost estimation uncertainty and the likelihood of occurrence of contract contingencies. Following the delivery of NSMV 1, these risks have been reduced for the remaining vessels in the NSMV series.

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 container 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. As Philly Shipyard has no current debt facilities, delays in achieving milestones could result in the need for external interim financing. 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. As of the end of Q4 2023, 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. Philly Shipyard 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 and the design and certain long lead items for the CV program are 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 lingering effects of the COVID-19 pandemic (including skilled labor shortages and supply chain disruptions) continue to impact the Company's shipbuilding projects. Ongoing global military conflicts increase the risk of rising commodity prices, material shortages and transportation delays that could adversely impact Philly Shipyard's business. Although improved from prior quarters, Philly Shipyard continues to see uncertainty in the global macroeconomic environment as well as continuing inflation, high interest rates and market volatility.

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	Q4 Unaudited 2023	Q4 2022	12 months ended 31 Dec. Unaudited 2023	12 months ended 31 Dec. 2022 *
Operating revenues and other income	11	86.5	109.7	441.8	393.8
Operating expenses		(101.7)	(115.0)	(505.7)	(411.9)
Operating loss before depreciation (EBITDA)		**(15.2)**	**(5.3)**	**(63.9)**	**(18.1)**
Depreciation		(2.1)	(1.6)	(7.7)	(6.2)
Operating loss (EBIT)		**(17.3)**	**(6.9)**	**(71.6)**	**(24.3)**
Net financial items		1.6	1.3	6.8	2.0
Loss before tax		**(15.7)**	**(5.6)**	**(64.8)**	**(22.3)**
Tax (expense)/benefit	6	(3.1)	(2.7)	(3.1)	10.6
Loss after tax **		**(18.8)**	**(8.3)**	**(67.9)**	**(11.7)**
Weighted average number of shares	7	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted loss per share (USD)	7	**(1.55)**	**(0.69)**	**(5.61)**	**(0.97)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q4 Unaudited 2023	Q4 2022	12 months ended 31 Dec. Unaudited 2023	12 months ended 31 Dec. 2022 *
Loss after tax	(18.8)	(8.3)	(67.9)	(11.7)
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive loss for the period **	**(18.8)**	**(8.3)**	**(67.9)**	**(11.7)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Note	Unaudited 31 Dec. 2023	31 Dec. 2022 *
Assets			
Non-current assets			
Property, plant and equipment		43.7	42.2
Right-of-use assets		16.8	13.5
Restricted cash long-term		34.2	45.4
Deferred tax asset long-term	6	25.3	26.2
Income tax receivable long-term	6	0.1	13.7
Other non-current assets		0.5	0.5
Total non-current assets		**120.6**	**141.5**
Current assets			
Cash and cash equivalents (unrestricted)		79.5	137.6
Vessels-under-construction receivable	10	-	4.9
Prepayments and other receivables		68.4	52.4
Restricted cash short-term		10.0	10.0
Income tax receivable short-term	6	16.0	4.1
Total current assets		**173.9**	**209.0**
Total assets		**294.5**	**350.5**
Equity and liabilities			
Total equity	7	**5.9**	**73.8**
Non-current liabilities			
Lease liability long-term		6.8	2.3
Income tax payable long-term	6	1.2	1.2
Total non-current liabilities		**8.0**	**3.5**
Current liabilities			
Customer advances (net)	10	212.2	230.6
Trade payables, accrued liabilities and provisions		67.2	42.0
Lease liability short-term		1.0	0.3
Other contract liabilities		0.2	0.3
Total current liabilities		**280.6**	**273.2**
Total liabilities		**288.6**	**276.7**
Total equity and liabilities		**294.5**	**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

Amounts in USD millions	12 months ended 31 Dec. Unaudited 2023	2022 *
As of beginning of period	73.8	85.5
Total comprehensive loss for the period *	(67.9)	(11.7)
As of end of period	**5.9**	**73.8**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Note	12 months ended 31 Dec. Unaudited 2023	2022 *
Loss before tax		(64.8)	(22.3)
Add back depreciation		7.7	6.2
Taxes paid	6	(0.5)	(6.8)
Change in restricted cash		11.2	(10.9)
Change in prepayments and other receivables		(16.0)	8.8
Change in vessels-under-construction receivable	10	4.9	(4.9)
Change in customer advances (net)	10	(18.4)	(65.8)
Change in trade payables, accrued liabilities and provisions		25.2	(9.8)
Change in other working capital		-	0.6
Net cash used in operating activities		(50.7)	(104.9)
Investment in property, plant & equipment		(8.2)	(12.1)
Net cash used in investing activities		(8.2)	(12.1)
Lease liability incurred/(lease liability repaid)		0.8	(0.4)
Net cash from/(used) in financing activities		0.8	(0.4)
Net change in cash and cash equivalents		**(58.1)**	**(117.4)**
Cash and cash equivalents at beginning of period		137.6	255.0
Cash and cash equivalents at end of period		**79.5**	**137.6**

* Annual 2022 financial information is derived from audited financial statements.

Notes to the condensed interim consolidated financial statements for the 4th quarter and full year 2023

1. Introduction – Philly Shipyard ASA

Philly Shipyard ASA (PHLY) is a company domiciled in Norway. These condensed interim consolidated financial statements for the quarter and full year periods ended 31 December 2023 and 31 December 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 quarter 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.

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 Q4 2023 or the full year ending 31 December 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 and deferred tax assets are dependent on estimated future profits.

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 third quarter of 2024.

7. Share capital and equity

At 31 December 2023 and 31 December 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 both the quarter and full year periods ended 31 December 2023 and 31 December 2022. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for both the quarter and full year periods ended 31 December 2023 and 31 December 2022.

8. Interest-bearing debt

At 31 December 2023 and 31 December 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 December 2023. Kristian Røkke, the Chairman of the Board of Directors of PHLY, is a board member of TRG Holding AS, which owns 68.2% of the total outstanding shares of Aker ASA as of 31 December 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 December 2023 were USD 38 thousand (USD 34 thousand for the same period in 2022) and for the full year period ending 31 December 2023 were USD 534 thousand (USD 495 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. For the full year period ending 31 December 2023, Philly Shipyard paid fees of USD 507 thousand (USD 544 thousand for the same period in 2022) for further payment to Aker Capital AS pursuant to this arrangement.

10. Construction contracts

Order backlog of USD 1,719.1 million at 31 December 2023 represents a contractual shipbuilding obligation to deliver newly built vessels (NSMVs 2-5, 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 16.9 million at 31 December 2023 represents combined change orders on NSMVs 1-5, the SRIV and CVs 1-3. Order backlog and order intake on long-term construction contracts are as follows:

Amounts in USD millions	Order backlog 31 Dec. 2023	Order intake 12 months to 31 Dec. 2023	Order backlog 31 Dec. 2022
	1,719.1	**16.9**	**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 December 2023 is as follows:

Amounts in USD millions	**31 Dec. 2023**
Construction contracts revenue recognized to date	1,051.6
Construction contracts expense recognized to date	(1,121.8)
Construction contracts loss recognized to date	**(70.2)**

As of 31 December 2023, the Company has USD 58.9 million as prepayments to suppliers for materials and equipment for the construction of NSMVs 1-5, the SRIV and CVs 1-3 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 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 under the NSMV contract are treated as three separate performance obligations that are reported as three separate projects for revenue recognition. Each of these projects is being accounted for using the percentage-of-completion method per IFRS 15 *Revenue from Contracts with Customers*. PSI is building four NSMVs (NSMVs 2-5) for TOTE Services, with NSMV 2 scheduled for delivery in 2024, the next two vessels (NSMVs 3-4) scheduled for deliveries in 2024 and 2025, respectively, and the final vessel (NSMV 5) scheduled for delivery in 2026. As of 31 December 2023, the NSMV projects for NSMVs 1-2, NSMVs 3-4 and NSMV 5 are 93.4%, 61.7% and 9.9% 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 December 2023, the SRIV project is 19.4% complete.

Philly Shipyard also has a shipbuilding contract in place for the container 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 2023, the CVs 1-3 project is 0.8% complete.

Philly Shipyard's accounting policy 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. No profit on NSMV 5, the SRIV or CVs 1-3 has been recognized as of 31 December 2023.

Vessels-under-construction receivable as of 31 December 2023 and 31 December 2022 totaled USD 0 million and USD 4.9 million, respectively. Vessels-under-construction receivable represents the difference between (i) cash advances received from customers for vessels under construction and (ii) revenue recognized for those vessels.

Customer advances (net) as of 31 December 2023 and 31 December 2022 totaled USD 212.2 million and USD 230.6 million, respectively. Customer advances (net) represents the difference between (i) cash advances received from customers for vessels under construction and (ii) revenue recognized for those vessels

As of 31 December 2023, Philly Shipyard has USD 299.6 million in unpaid non-cancellable purchase commitments for materials, equipment and design fees for vessels under construction.

11. Operating revenues and other income

	Q4		12 months ended 31 Dec.	
Amounts in USD millions	**2023**	**2022**	**2023**	**2022**
Shipbuilding	86.5	108.6	441.6	391.6
Government design studies	-	-	0.2	1.1
Profit in equity-accounted investment	-	1.1	-	1.1
Operating revenues and other income	**86.5**	**109.7**	**441.8**	**393.8**

12. Financial instruments

As of 31 December 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 December 2023.

14. Subsequent events after 31 December 2023

There are no events after 31 December 2023 that require disclosure.

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