Philly Shipyard ASA (Oslo: PHLY)
Q1 2024 Results

6 May 2024

Key Events and Highlights

- ✓ Celebrated the launch of NSMV 3 in April 2024 and steel cutting of NSMV 5 in February 2024
- ✓ Discussed the NSMV contract model and its potential applicability to Navy shipbuilding programs with the Chief of Naval Operations during a shipyard visit in February 2024
- ✓ Order backlog of USD 1,603.4 million on 31 March 2024 with last contractual delivery date in 2027
- ✓ Total cash and cash equivalents of USD 55.3 million at 31 March 2024, excluding USD 44.6 million of restricted cash
- ✓ First quarter 2024 operating revenue of USD 118.3 million, compared to USD 113.8 million in the same period in 2023
- ✓ First quarter 2024 EBITDA of negative USD 3.7 million, compared to EBITDA of negative USD 18.3 million in the same period in 2023
- ✓ First quarter 2024 net loss after tax of USD 8.5 million, compared to net loss after tax of USD 18.3 million in the same period in 2023

Subsequent Key Events and Highlights

- ✓ On 12 April 2024, signed a Memorandum of Understanding (MOU) with HD Hyundai Heavy Industries Co., Ltd. (HHI) relating to cooperation on future U.S. government shipbuilding and maintenance, repair and overhaul (MRO) projects
- ✓ On 15 April 2024, the PHLY Annual General Meeting was held. All proposals were approved and the Board of Directors is unchanged

Operations

Shipbuilding

Final outfitting continues on the second National Security Multi-Mission Vessel (NSMV) in the outfitting dock, with delivery expected in Q3 2024. NSMV 3 was launched on 5 April 2024. Philly Shipyard continues construction activities on the fourth and fifth NSMVs, with steel cutting of NSMV 5 on 9 February 2024.

Production activities continue in the fabrication shops on the Subsea Rock Installation Vessel (SRIV), with keel laying scheduled to occur in mid-May.

Pre-production activities on the 3600 TEU Aloha Class LNG fueled container vessels (CVs) continue to progress and long lead equipment has been ordered for these ships.

As of 31 March 2024, Philly Shipyard's workforce consists of 1,507 employees and subcontractors. The Company 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 April 2024. As of 31 March 2024, 127 apprentices are active in this program. The costs of this program are partially offset by government grants.

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 the Company'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. The Company is seeking additional schedule relief for NSMVs 2-5.

Industry Design Studies
Philly Shipyard completed the industry design study for hospital ships for the U.S. Navy in Q1 2024. The Company teamed up with VARD Marine to work on this six-month study.

Health, Safety, Security and Environment (HSSE)/Sustainability/ESG
Philly Shipyard's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR) was 0.48 at the end of Q1 2024 compared to 0.22 at the end of Q1 2023. LTIFR is based on lost time incidents (LTI) per 200,000 hours as defined by OSHA.

The Company's 12-month trailing average for its Other Recordable Incident Frequency Rate (ORIFR) was 2.63 at the end of Q1 2024 compared to 3.13 at the end of Q1 2023. 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 2023 annual report.

Financial Information

First Quarter 2024 Results
Operating revenue for Q1 2024 was USD 118.3 million compared to operating revenue of USD 113.8 million for Q1 2023. In both Q1 2024 and Q1 2023, revenue was derived from progress on the NSMVs, the SRIV, the CVs and a government design study.

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 2024 was negative USD 3.7 million compared to EBITDA of negative USD 18.3 million for Q1 2023. EBITDA for Q1 2024 was driven primarily by increased costs on the NSMVs 3-4 project and selling, general and administrative (SG&A) costs. EBITDA for Q1 2023 was driven primarily by increased costs on the NSMVs 1-2 project and SG&A costs. Despite unforeseen cost increases, Philly Shipyard has experienced improvement in operations year-over-year (EBITDA of negative USD 3.7 million in Q1 2024 compared to negative USD 18.3 million in Q1 2023) as well as quarter-over-quarter (EBITDA of negative USD 3.7 million in Q1 2024 compared to negative USD 15.2 million in Q4 2023).

Net loss after tax for Q1 2024 was USD 8.5 million compared to net loss after tax of USD 18.3 million for Q1 2023. Net loss after tax for Q1 2024 primarily consists of EBITDA of negative USD 3.7 million, depreciation expense of USD 2.1 million and income tax expense of USD 3.6 million due to first quarter adjustments, partially offset by net financial income of USD 0.9 million. 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.

Statement of Financial Position
Total assets were USD 257.7 million at 31 March 2024 compared to USD 294.5 million at 31 December 2023, 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 55.3 million at 31 March 2024 compared to USD 79.5 million at 31 December 2023. The decrease of USD 24.2 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 2024 amounted to USD 44.6 million, of which USD 34.6 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.

Total equity decreased to negative USD 2.6 million at 31 March 2024 from USD 5.9 million at 31 December 2023 due to net loss of USD 8.5 million. PHLY anticipates that its equity level will increase over time as the Company returns to sustained profitability.

Outlook

At 31 March 2024, Philly Shipyard continues to maintain a strong order backlog of USD 1,603.4 million. The Company 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 into 2027.

Since the delivery of NSMV 1, there has been an increased focus on the ongoing implementation of the Company's continuous improvement program. The lessons learned and experience gained from construction of NSMV 1 is expected to result in continued 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, the Company 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. The Company 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, which utilizes a vessel construction manager (VCM), enables the Company 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 other government shipbuilding programs, such as the sealift recapitalization, to reduce costs, accelerate delivery times, and build more vessels. The U.S. Congress recently appropriated USD 12.0 million in FY 2024 funds to complete the initial design for 10 new sealift ships for the national defense reserve fleet using a VCM. In addition, Admiral Lisa Franchetti, Chief of Naval Operations (CNO), the highest ranking officer of the Navy, visited the shipyard in February to discuss the NSMV contract model.

Last month, Philly Shipyard signed a non-binding, non-exclusive memorandum of understanding (MOU) with HD Hyundai Heavy Industries Co., Ltd. ("HHI"), a subsidiary of HD Hyundai Group, to explore a potential business relationship relating to future U.S. government shipbuilding projects as well as maintenance, repair and overhaul (MRO) projects. The Company previously partnered with HD Hyundai for design and procurement support during construction of 22 commercial product tankers from the years 2005-2017. HHI is the world's largest shipbuilding company and a world leader in the heavy industries sector.

Philly Shipyard continues to forecast the five-ship NSMV series to be a loss-making contract. As of the end of Q1 2024, the Company 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 reported, Philly Shipyard has obtained four months of schedule relief for the NSMVs, the Company continues to pursue all contractual and non-contractual 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. The Company'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. The Company'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, SRIV and CV programs.

As is common in the shipbuilding industry, the Company'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 the Company'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. Due to COVID-driven labor shortages, the Shipyard has experienced schedule impacts, productivity loss and increased costs.

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. The Company maintains a continued high awareness of its risk profile regarding cyber security because new threats can emerge quickly.

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, the Company must secure and maintain sufficient equity capital to support debt facilities. As Philly Shipyard has no current debt facilities, delays in achieving milestones or modifications to existing milestone schedules could result in the need for external interim financing. Additionally, the Company 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 Q1 2024, 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 years, the Company 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 2023 annual report.

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Note	Q1 Unaudited 2024	Q1 Unaudited 2023	Full Year Audited 2023 *
Operating revenues	11	118.3	113.8	441.8
Operating expenses		(122.0)	(132.1)	(505.7)
Operating loss before depreciation (EBITDA)		**(3.7)**	**(18.3)**	**(63.9)**
Depreciation		(2.1)	(1.7)	(7.7)
Operating loss (EBIT)		**(5.8)**	**(20.0)**	**(71.6)**
Net financial items		0.9	1.7	6.8
Loss before tax		**(4.9)**	**(18.3)**	**(64.8)**
Tax expense	6	(3.6)	-	(3.1)
Loss after tax **		**(8.5)**	**(18.3)**	**(67.9)**
Weighted average number of shares	7	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted loss per share (USD)	7	**(0.70)**	**(1.51)**	**(5.61)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q1 Unaudited 2024	Q1 Unaudited 2023	Full Year Audited 2023 *
Loss after tax	(8.5)	(18.3)	(67.9)
Other comprehensive income, net of income tax	-	-	-
Total comprehensive loss for the period **	**(8.5)**	**(18.3)**	**(67.9)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Note	Unaudited 31 Mar. 2024	31 Dec. 2023 *
Assets			
Non-current assets			
Property, plant and equipment		41.9	42.7
Right-of-use assets		17.3	17.8
Restricted cash long-term		34.6	34.2
Deferred tax asset long-term	6	21.8	25.3
Income tax receivable long-term	6	0.1	0.1
Other non-current assets		0.5	0.5
Total non-current assets		**116.2**	**120.6**
Current assets			
Cash and cash equivalents (unrestricted)		55.3	79.5
Prepayments and other receivables		61.0	68.4
Restricted cash short-term		10.0	10.0
Income tax receivable short-term	6	15.2	16.0
Total current assets		**141.5**	**173.9**
Total assets		**257.7**	**294.5**
Equity and liabilities			
Total equity	7	**(2.6)**	**5.9**
Non-current liabilities			
Lease liability long-term		6.5	6.8
Income tax payable long-term	6	1.2	1.2
Total non-current liabilities		**7.7**	**8.0**
Current liabilities			
Customer advances (net)	10	184.4	212.2
Trade payables, accrued liabilities and provisions		67.1	67.2
Lease liability short-term		1.1	1.0
Other contract liabilities		-	0.2
Total current liabilities		**252.6**	**280.6**
Total liabilities		**260.3**	**288.6**
Total equity and liabilities		**257.7**	**294.5**

* Annual 2023 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	3 months ended 31 March Unaudited 2024	2023 *
As of beginning of period	5.9	73.8
Total comprehensive loss for the period *	(8.5)	(18.3)
As of end of period	**(2.6)**	**55.5**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Note	3 months ended 31 March Unaudited 2024	2023 *
Loss before tax		(4.9)	(18.3)
Add back depreciation		2.1	1.7
Change in restricted cash		(0.4)	(0.4)
Change in prepayments and other receivables		7.4	6.7
Change in vessels-under-construction receivable	10	-	(16.3)
Change in customer advances (net)	10	(27.8)	(5.4)
Change in trade payables, accrued liabilities and provisions		(0.1)	15.0
Change in other working capital		0.6	0.2
Net cash used in operating activities		(23.1)	(16.8)
Investment in property, plant & equipment		(0.8)	(1.8)
Net cash used in investing activities		(0.8)	(1.8)
Lease liability repaid		(0.3)	(0.1)
Net cash used in financing activities		(0.3)	(0.1)
Net change in cash and cash equivalents		**(24.2)**	**(18.7)**
Cash and cash equivalents at beginning of period		79.5	137.6
Cash and cash equivalents at end of period		**55.3**	**118.9**

* Annual 2023 financial information is derived from audited financial statements.

Notes to the condensed interim consolidated financial statements for the 1st quarter 2024

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 2024 and 31 March 2023 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 2023, 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 year-to-date periods are not necessarily indicative of the results that may be expected for any subsequent quarter or period.

The going concern assumption
These condensed interim consolidated financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and realization of assets and settlement of liabilities in the normal course of business. PHLY anticipates that its equity level will increase over time as the Company returns to sustained profitability.

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 2023.

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 2023.

There have not been any new IFRS standards or interpretations which were effective 1 January 2024 that have had a significant impact on the year-to-date period ending 31 March 2024.

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 2023 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 fourth quarter of 2024.

7. Share capital and equity

At 31 March 2024 and 31 March 2023, 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 2024 and 31 March 2023. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for the quarters ended 31 March 2024 and 31 March 2023.

8. Interest-bearing debt

At 31 March 2024 and 31 March 2023, 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 2024. 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 March 2024. 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 2024 were USD 233 thousand (USD 195 thousand for the same period in 2023).

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 year-to-date period ending 31 March 2024, Philly Shipyard paid fees of USD 126 thousand (USD 128 thousand for the same period in 2023) for further payment to Aker Capital AS pursuant to this arrangement.

10. Construction contracts

Order backlog of USD 1,603.4 million at 31 March 2024 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 1.5 million at 31 March 2024 represents combined change orders on NSMVs 2-5, 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 Mar. 2024	Order intake 3 months to 31 Mar. 2024	Order backlog 31 Dec. 2023
	1,603.4	**1.5**	**1,719.1**

The recognized accumulated combined profit/(loss) on long-term construction contracts in process (NSMVs 1-5, the SRIV and CVs 1-3) as of 31 March 2024 is as follows:

Amounts in USD millions	**31 Mar. 2024**
Construction contracts revenue recognized to date	1,168.7
Construction contracts expense recognized to date	(1,242.4)
Construction contracts loss recognized to date	**(73.7)**

As of 31 March 2024, the Company has USD 52.0 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 March 2024, 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* (IFRS 15). Philly Shipyard 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 March 2024, the NSMV projects for NSMVs 1-2, NSMVs 3-4 and NSMV 5 are 95.7%, 69.1% and 19.3% 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 2024, the SRIV project is 32.6% complete.

Philly Shipyard also has a shipbuilding contract in place for the container vessel (CV) 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 2024, the CVs 1-3 project is 1.0% complete.

Progress towards completing the NSMV, SRIV and CV contract performance obligations are measured based on project costs incurred compared to the total forecasted project costs. Construction contract revenue recognized in Q1 2024 includes revenue for NSMVs 1-2, NSMVs 3-4, NSMV 5, the SRIV and CVs 1-3 since the contract for these vessels was accounted for using the principle-over-time revenue recognition method according to IFRS 15.

Philly Shipyard's accounting policy is to not recognize profit on projects until they are at least 5.0% complete or such later time when the cost to complete can be measured with reasonable certainty. Due to the continued uncertainty regarding cost increases, no profit was recognized on the NSMV series, the SRIV or the CV series in Q1 2024. The Company will reassess profit recognition in the second quarter of 2024.

Customer advances (net) as of 31 March 2024 and 31 December 2023 totaled USD 184.4 million and USD 212.2 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 March 2024, Philly Shipyard has USD 273.9 million in unpaid non-cancellable purchase commitments for materials, equipment and design fees for vessels under construction.

11. Operating revenues

	Q1	
Amounts in USD millions	**2024**	**2023**
Shipbuilding	117.2	113.6
Government design studies	1.1	0.2
Operating revenues	**118.3**	**113.8**

12. Financial instruments

As of 31 March 2024, 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 73 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 incompliance with this lease condition as of 31 March 2024.

14. Subsequent events after 31 March 2024

There are no events after 31 March 2024 that require disclosure.

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