Philly Shipyard ASA (OSE: PHLY)

Q3 2020 and First Nine Months 2020 Results

1 November 2020

Key Events and Highlights

- ✓ Continued positive progress on engineering, procurement and planning work for the National Security Multi-Mission Vessel (NSMV) program
- ✓ Awarded a subcontract to participate in industry studies for a third government shipbuilding program, the U.S. Navy's Auxiliary General Ocean Surveillance (T-AGOS) program
- ✓ Completed ship repair and maintenance work on a second government vessel, the FSS *Pollux*
- ✓ Order backlog of USD 608.5 million on 30 September 2020 with last delivery in 2023
- ✓ Total cash and cash equivalents of USD 87.3 million at 30 September 2020, excluding USD 26.4 million of restricted cash
- ✓ Third quarter and first nine months 2020 operating revenues and other income of USD 13.9 million and USD 46.5 million, respectively, compared to USD 3.7 million and USD 22.7 million in the same periods in 2019
- ✓ Third quarter 2020 net loss and first nine months 2020 net income of USD 6.0 million and USD 2.3 million, respectively, including a favorable income tax benefit resulting from the CARES Act, compared to net losses of USD 9.0 million and USD 15.2 million in the same periods in 2019
- ✓ As the COVID-19 pandemic develops across the world, Philly Shipyard continues to take measures to mitigate the risk for operational disruptions

Operations

Efforts are continuing on the National Security Multi-Mission Vessel (NSMV) program, with Philly Shipyard and its team advancing the engineering, procurement and planning work in accordance with plan. Philly Shipyard expects to start production on NSMV 1 by Q1 2021 and NSMV 2 by Q2 2021. Recruiting efforts are progressing to mobilize and ramp up the workforce in time for this work. The NSMVs will be constructed using commercial design standards and commercial construction practices consistent with the best interests of the U.S. Government.

Ship repair and maintenance activity continued in Q3 2020 with the dry docking of the FSS *Pollux*, a U.S. Government cargo ship, which arrived in January 2020. The FSS *Pollux* is owned by the U.S. Department of Transportation's Maritime Administration (MARAD) and managed by TOTE Services, LLC (TOTE Services). The FSS *Pollux* was redelivered by Philly Shipyard to TOTE Services in Q3 2020.

The vessel repair and maintenance contracts for the *FSS Pollux* and its sister ship, the FSS *Antares*, allowed Philly Shipyard to recall some of its laid-off workers. During these projects, the total workforce reached approximately 300 at its peak. This number decreased to approximately 175 by the end of Q3 2020, following the completion of work on the FSS *Pollux*.

Philly Shipyard began work on a new industry study in Q3 2020 for the U.S. Navy's Auxiliary General Ocean Surveillance (T-AGOS) program under a subcontract from its teammate, BMT Designers & Planners, Inc. (BMT), a leading vessel designer. Philly Shipyard continues to work on two other industry studies, one supporting the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program and the other supporting the U.S. Coast Guard's Offshore Patrol Cutter (OPC) program.

Notwithstanding the COVID-19 pandemic, operations are continuing and ongoing projects are moving forward. However, the impacts of the coronavirus on the shipyard's workforce and suppliers, including quarantine restrictions, contributed to schedule delay of the FSS *Pollux*. Philly Shipyard continues to take precautionary measures to safeguard employees and subcontractors against the coronavirus and reduce the risk of outbreaks.

Health, Safety, Security and Environment (HSSE)
Philly Shipyard's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR), based on Lost Time Incidents (LTI) per 200,000 hours as defined by the Occupational Safety and Health Administration (OSHA), was 0.00 at the end of Q3 2020 compared to 0.34 at the end of Q3 2019. The most recent LTI occurred in Q4 2018; there were zero LTIs in 2019 and in the first nine months of 2020.

Philly Shipyard's 12-month trailing average for its Other Recordable Incident Frequency Rate (ORIFR), based on recordable incidents other than LTIs per 200,000 hours as defined by OSHA, was 2.44 at the end of Q3 2020 compared to 2.04 at the end of Q3 2019. Philly Shipyard continues to work proactively to further improve safety and reduce the number of incidents at the shipyard.

Philly Shipyard strictly follows all applicable guidelines by federal, state and local authorities, including the Centers for Disease Control and Prevention (CDC), to minimize the risk of transmission of the coronavirus. Currently, the implementation of these guidelines includes, without limitation, the use of teleworking when possible, additional cleaning and sanitizing staff, limitations on the size of meetings, limitations on the number of visitors, restrictions on travel, training on proper hygiene and hand washing, requiring face coverings and social distancing, and monitoring the temperatures of everyone entering the shipyard. A total of 133 sick and FMLA (Family and Medical Leave Act) days have been reported as coronavirus-related for 19 Philly Shipyard direct employees through 30 September 2020.

Financial Information

Third quarter 2020 Results
Operating revenues and other income for Q3 2020 was USD 13.9 million compared to operating revenues and other income of USD 3.7 million for Q3 2019. In Q3 2020, there was recognized shipbuilding revenue on the first two NSMV vessels (Hulls 033 & 034), the remaining ship repair and maintenance work on the FSS *Pollux,* as well as government design studies for the CHAMP and OPC programs, whereas in Q3 2019 there was no shipbuilding activity but there was ship repair and maintenance work on the FSS *Antares*. For further details on operating revenues and other income, please see notes 11 and 12.

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 Q3 2020 was negative USD 6.4 million compared to EBITDA of negative USD 7.4 million for Q3 2019. EBITDA for Q3 2020 was driven primarily by (a) under-recovered overhead costs (i.e., overhead expenses incurred and not allocated to projects), (b) SG&A costs and (c) the margins recognized on the NSMV shipbuilding project, ship repair and maintenance activity and government study work. EBITDA for Q3 2019 was mainly driven by (a) under-recovered overhead costs, (b) SG&A costs and (c) a forecasted loss on the first ship repair and maintenance project, the FSS *Antares*. The under-recovery of overhead costs in these periods is attributable to the lack of shipbuilding activity. It is anticipated this under-recovery will decline as employment levels continue to ramp up to full capacity for the NSMV program.

Net loss for Q3 2020 was USD 6.0 million compared to net loss of USD 9.0 million for Q3 2019. Net loss for Q3 2020 consists of (a) EBITDA of negative USD 6.4 million and (b) depreciation expense of USD 1.3 million, offset partially by (c) net financial income of USD 0.1 million and (d) an income tax benefit of USD 1.6 million. Net loss for Q3 2019 consists of (1) EBITDA of negative USD 7.4 million and (2) depreciation expense of USD 1.8 million, offset partially by (3) net financial income of USD 0.2 million.

Year-to-Date 2020 Results
Operating revenues and other income in the first nine months of 2020 amounted to USD 46.5 million compared to operating revenues and other income of USD 22.7 million in the first nine months of 2019. September 2020 year-to-date operating revenues and other income was primarily driven by continued progress on the first two NSMV vessels (Hulls 033 & 034), ship repair and maintenance work on the FSS *Pollux* and government study work for the CHAMP and OPC programs, whereas September 2019 year-to-date operating revenues and other income was primarily driven by the remaining progress on the Matson project (Hulls 029 & 030) and ship repair and maintenance work on the FSS *Antares*.

EBITDA for the first nine months of 2020 was negative USD 14.5 million compared to EBITDA of negative USD 12.3 million in the same period of 2019. EBITDA for the first nine months of 2019 was improved by the release of USD 3.2 million of provisions for ship liabilities and the reversal of USD 2.2 million of previously incurred cancellation costs.

Net income for the first nine months of 2020 was USD 2.3 million compared to net loss of USD 15.2 million in the same period of 2019. Net income for 2020 is impacted by a USD 21.3 million income tax benefit resulting from passage of The Coronavirus Aid, Relief, and Economic Security (CARES) Act. Please see note 6 for further details.

Statement of Financial Position

Total assets were USD 222.5 million at 30 September 2020 compared to USD 161.8 million at 31 December 2019, with the increase resulting mainly from (a) an increase in cash and cash equivalents (unrestricted) of USD 36.6 million, (b) a net decrease in restricted cash of USD 40.1 million, (c) an increase in other current assets of USD 47.0 million, including USD 39.6 million due to prepayments to suppliers for the NSMV program and (d) an increase in income tax receivable (long-term plus short-term) of USD 21.0 million due to the passage of the CARES Act. The key factors contributing to the changes in cash and cash equivalents (unrestricted) and restricted cash are described below.

Total interest-bearing debt was USD 0 at 30 September 2020 compared to USD 59.9 million at 31 December 2019. The Welcome Fund loan of USD 60.0 million was fully repaid at maturity in March 2020.

Cash and cash equivalents (unrestricted) were USD 87.3 million at 30 September 2020 compared to USD 50.7 million at 31 December 2019. The increase of USD 36.6 million was due to (a) net customer advances on the two NSMV vessels of USD 104.1 million and (b) a net increase of USD 0.9 million of net cash released from a collateral account upon payoff of the Welcome Fund loan, offset partially by (c) operational spending of USD 1.9 million, (d) USD 39.6 million in prepayments to suppliers for the NSMV program, (e) USD 25.0 million deposited in an escrow account as cash collateral for the performance and payment bonds required by the NSMV program and (f) capex spending of USD 1.9 million.

Total restricted cash as of 30 September 2020 amounted to USD 26.4 million, of which USD 25.0 million (long-term) represents the cash collateral deposit described above and USD 1.4 million (short-term) pertains to a holdback in escrow for claims related to guarantees, deficiencies and disputed items for Hull 030. The timing of the release of the holdback is uncertain due to impacts of the COVID-19 pandemic, including quarantine and travel restrictions, on closing-out the underlying claims.

USD 4.2 million of the restricted cash amount of USD 5.6 million at year-end 2019 for the Matson project was released from escrow in 2020. The restricted cash amount of USD 60.9 million at year-end 2019 for the Welcome Fund loan was used for repayment of the USD 60.0 million Welcome Fund loan at its maturity in March 2020; the USD 0.9 million balance was released to Philly Shipyard. For further details on the Welcome Fund loan and payoff of the loan, please see note 8.

Right-of-use asset in the amount of USD 12.0 million at 30 September 2020 represents the net book value of the assets that Philly Shipyard's landlord, Philadelphia Shipyard Development Corporation (PSDC), purchased from Philly Shipyard in 2011.

Total equity increased to USD 93.6 million at 30 September 2020 from USD 91.3 million at 31 December 2019 due to net income of USD 2.3 million.

Outlook

Shipbuilding and Repair, Maintenance, Modernization and Conversion Work

As of 30 September 2020, Philly Shipyard had a USD 608.5 million order backlog for two National Security Multi-Mission Vessels (NSMVs). These vessels were ordered under the contract for the construction of up to five NSMVs from TOTE Services, LLC (TOTE Services), as the vessel construction manager for the U.S. Department of Transportation's Maritime Administration (MARAD). If all five ships are ordered and built in series, then the total contract value of the 5-ship program would be approximately USD 1.5 billion and this project would span the next five years.

Philly Shipyard expects it will continue to incur operating losses in 2020 and into 2021 due to the shipyard operating at less than full capacity during the ramp up of production for the NSMV program. It is expected that employment at Philly Shipyard will reach full capacity in the second half of 2021.

Philly Shipyard's objective remains to secure a mix of government and commercial new build contracts, while also opportunistically pursuing ship repair and maintenance contracts that allow the shipyard to utilize its drydocks.

Philly Shipyard's main focus is securing awards for the three option vessels (NSMVs 3, 4 and 5) in the NSMV program. Philly Shipyard is closely monitoring the funding situation for these vessels. The U.S House of Representatives' appropriations bill for fiscal year 2021 includes sufficient funding for the U.S. Government to order NSMVs 3 and 4, but at this time the budget process is on hold with a continuing resolution to temporarily fund the federal government lasting into mid-December 2020. The timing and certainty of these budget appropriations and follow-on orders remain unclear.

Philly Shipyard is now participating in industry studies for three U.S. Government shipbuilding programs, consisting of the CHAMP, OPC and T-AGOS programs. These industry studies are the precursors for the future detail design and construction (DD&C) contracts for these programs. Philly Shipyard intends to pursue each of these programs when requests for proposals (RFPs) for the DD&C contracts are issued. The DD&C schedule for any of these programs could potentially dovetail after the delivery of NSMV 5, if all five ships in the NSMV program are built in series.

Philly Shipyard also continues to explore a variety of other government and commercial projects to ensure continuous shipbuilding activities at the shipyard following the delivery of the last NSMV built in series.

Risks

Market risks

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

While Philly Shipyard now has an order backlog for ship newbuilds, it faces future risks if it is unable to secure new orders and/or financing for major commercial or government shipbuilding programs to follow the NSMV program. There can be no assurance that Philly Shipyard will obtain such new orders or financing for vessels.

The delay Philly Shipyard experienced in securing new orders following Hull 030 interrupted its building program, resulting in the idling of all production activities in its facility except for those associated with ship repair and maintenance efforts, and a decrease of more than 80% of its workforce (including direct employees and subcontracted personnel) since the beginning of 2018. The decrease in the shipyard's workforce may make it more difficult for the shipyard to increase its workforce to desirable levels as production ramps up on the NSMV program. The shipyard's productivity and profitability depends substantially on its ability to attract and retain skilled workers. Philly Shipyard will not fully cover its overhead costs until employment ramps up to full capacity for the NSMV program.

Operational risks

Given the NSMVs are prototype vessels, there is a higher technical design risk and a higher project execution risk compared to the construction of vessels based on a proven design, such as the series of product tankers built by the shipyard. This prototype risk increases 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.

Philly Shipyard's operations historically focused primarily on construction of new vessels for the U.S. Jones Act market. Philly Shipyard is continuing to develop and implement the policies and procedures required to be a fully compliant U.S. Government contractor. Philly Shipyard is aggressively pursuing U.S. Government opportunities for future ship design and construction programs, as well as vessel maintenance, modernization, conversion and repair projects. 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, 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.

Philly Shipyard has entered the ship repair and maintenance market and is continuing to adjust its estimating and planning methods and operating processes in order to be cost competitive and profitable in this market segment. The lessons it learns and experience it gains from the first two ship repair and maintenance contracts should result in improved performance on any subsequent ship repair and maintenance contracts. However, there is risk that these “lessons learned” will not result in improvements and that Philly Shipyard will face additional challenges as it bids on and performs repair and maintenance work on future ships. Additionally, the decrease in the shipyard’s workforce following the completion of the FSS *Pollux* may make it more difficult for the shipyard to increase its workforce to desirable levels as production ramps up on any subsequent ship repair and maintenance contracts.

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 shipyard must secure and maintain sufficient equity capital to support debt facilities. Additionally, the 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 the bonds required by TOTE Services, to support the construction of NSMVs 1 and 2.

Legislation has been proposed that could result in the reversal of some or all of the income tax benefit to Philly Shipyard from The Coronavirus Aid, Relief, and Economic Security (CARES) Act. The Company is closely monitoring the situation.

COVID-19 risks

The ongoing COVID-19 pandemic inherently increases many of the aforementioned risk factors. Markets become more uncertain, operations become more vulnerable to interruptions and policy makers around the world may gravitate towards stricter regulations impacting international trade. At the time of this report, Philly Shipyard is facing new and emerging COVID-19 related risks and the ultimate severity of the outbreak, and its effect on the Company's business in the future, is uncertain.

There is a risk of adverse impacts on shipyard operations due to the COVID-19 pandemic. Regarding the NSMV program, the initial period of performance of approximately twelve months is focused on design, engineering and procurement activities. It is expected that personnel involved in this pre-production phase (including subcontractors) could operate using remote operations and coordinate via video conferencing, communication portals, email and telephone. Following this initial phase, it is expected that the work on the NSMV program would qualify as essential services and, as such, operations in the shipyard would be permitted.

For a further analysis of risks, please refer to the Company’s 2019 annual report.

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Q3 Unaudited 2020	Q3 2019	9 Months Ended 30 Sept. Unaudited 2020	9 Months Ended 30 Sept. 2019 *	Full Year 2019 *
Operating revenues and other income	13.9	3.7	46.5	22.7	28.2
Operating expenses	(20.3)	(11.1)	(61.0)	(35.0)	(45.5)
Operating loss before depreciation - EBITDA	**(6.4)**	**(7.4)**	**(14.5)**	**(12.3)**	**(17.3)**
Depreciation	(1.3)	(1.8)	(4.6)	(5.3)	(7.1)
Reversal of impairment of assets	-	-	-	2.2	3.1
Operating loss - EBIT	**(7.7)**	**(9.2)**	**(19.1)**	**(15.4)**	**(21.3)**
Net financial items	0.1	0.2	0.1	0.2	0.1
Loss before tax	**(7.6)**	**(9.0)**	**(19.0)**	**(15.2)**	**(21.2)**
Tax benefit	1.6	-	21.3	-	1.0
(Loss)/income after tax **	**(6.0)**	**(9.0)**	**2.3**	**(15.2)**	**(20.2)**
Weighted average number of shares	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted (loss)/income per share (USD)	**(0.49)**	**(0.74)**	**0.19**	**(1.25)**	**(1.67)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q3 Unaudited 2020	Q3 2019	9 Months Ended 30 Sept. Unaudited 2020	9 Months Ended 30 Sept. 2019 *	Full Year 2019 *
(Loss)/income after tax	(6.0)	(9.0)	2.3	(15.2)	(20.2)
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive (loss)/income for the period **	**(6.0)**	**(9.0)**	**2.3**	**(15.2)**	**(20.2)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 30 Sept. 2020	31 Dec. 2019 *
Assets		
Non-current assets		
Property, plant and equipment	24.4	26.1
Right-of-use asset	12.0	13.0
Restricted cash - TOTE Services	25.0	-
Income tax receivable (long-term)	8.2	-
Other non-current assets	0.7	0.3
Total non-current assets	**70.3**	**39.4**
Current assets		
Cash and cash equivalents (unrestricted)	87.3	50.7
Contract asset	0.1	1.6
Restricted cash - Welcome Fund loan	-	60.9
Restricted cash - Matson	1.4	5.6
Income tax receivable (short-term)	13.0	0.2
Other current assets	50.4	3.4
Total current assets	**152.2**	**122.4**
Total assets	**222.5**	**161.8**
Equity and liabilities		
Total equity	**93.6**	**91.3**
Non-current liabilities		
Deferred tax liability	2.2	2.2
Total non-current liabilities	**2.2**	**2.2**
Current liabilities		
Interest-bearing debt - Welcome Fund loan	-	59.9
Trade payables, accrued liabilities and provisions	22.6	8.4
Customer advances, net	104.1	-
Total current liabilities	**126.7**	**68.3**
Total liabilities	**128.9**	**70.5**
Total equity and liabilities	**222.5**	**161.8**

* Annual 2019 financial information is derived from audited financial statements.

** All attributed to the equity holders of PHLY.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	9 Months Ended 30 Sept.	
	Unaudited	
Amounts in USD millions	**2020**	**2019 ***
As of beginning of period	91.3	111.5
Total comprehensive income/(loss) for the period *	2.3	(15.2)
As of end of period	**93.6**	**96.3**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	9 Months Ended 30 Sept.	
	Unaudited	
Amounts in USD millions	**2020**	**2019 ***
Net cash from/(used in) operating activities	37.6	(22.9)
Investment in property, plant and equipment	(1.9)	(0.3)
Dividend received from equity-accounted investments	-	44.6
Net cash (used in)/from investing activities	(1.9)	44.3
Welcome Fund loan escrow received back/(portion held in escrow)	60.9	(20.2)
Repayment of the Welcome Fund loan	(60.0)	-
Net cash from/(used in) financing activities	0.9	(20.2)
Net change in cash and cash equivalents	**36.6**	**1.2**
Cash and cash equivalents at beginning of period	50.7	49.6
Cash and cash equivalents at end of period	**87.3**	**50.8**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 3rd quarter and year-to-date 2020

1. Introduction – Philly Shipyard ASA

Philly Shipyard ASA (PHLY) is a company domiciled in Norway. These condensed interim consolidated financial statements for the three-month and nine-month periods ended 30 September 2020 and 30 September 2019 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 2019, which include a detailed description of accounting policies and significant estimates, are available at www.phillyshipyard.com.

2. Basis of preparation

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

The going concern assumption

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

The world is currently in the middle of the COVID-19 pandemic, and how it will unfold is uncertain. Philly Shipyard is taking measures to mitigate substantial negative impact for the Company. However, in a worst-case scenario, the COVID-19 pandemic may have devastating effects for the world economy, including Philly Shipyard.

3. Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of PHLY as of and for the year ended 31 December 2019.

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 2019.

There have not been any new IFRS standards or interpretations which were effective 1 January 2020 that have had a significant impact on Q3 2020 or the year-to-date period.

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 2019 unless described elsewhere in this report.

6. Tax estimates

Income tax benefit/(expense) is recognized in each interim period based on the best estimate of the expected annual income tax rates. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted by the U.S. Congress on 27 March 2020, 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 the first nine months of 2020, these losses will be carried back to previous tax years and result in an income tax benefit of approximately USD 21.3 million.

7. Share capital and equity

At 30 September 2020 and 30 September 2019, 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 and year-to-date periods ended 30 September 2020 and 30 September 2019. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for the quarters and year-to-date periods ended 30 September 2020 and 30 September 2019.

8. Interest-bearing debt

The following shows changes in interest-bearing debt during 2020:

Amounts in USD millions	Non-current debt	Current debt	Total interest-bearing debt
Balance 31 December 2019	-	**59.9**	**59.9**
Reclass of debt	-	0.1	0.1
Repayment of debt	-	(60.0)	(60.0)
Balance 30 September 2020	-	-	-

PSI had a secured term loan of up to USD 60.0 million with PIDC Regional Center, LP XXXI, a partnership between CanAm Enterprises and the Philadelphia Industrial Development Corporation (PIDC). The 5-year loan had a fixed interest rate of 2.625% per annum through maturity in March 2020. This loan was made through the Welcome Fund loan program, a source of low-cost capital generally available to commercial, retail, industrial and non-profit firms that create significant job growth and are located in or planning to locate to the City of Philadelphia. The loan was defeased in June 2019 and was secured by a first lien on USD 60.9 million of restricted cash as of 31 December 2019 to cover all remaining debt service, including repayment in full at maturity. Substantially all loan covenants, including all financial covenants, were released in connection with the defeasance of the loan. On 16 March 2020, Philly Shipyard paid off the USD 60.0 million outstanding Welcome Fund loan together with all accrued interest thereon.

9. Related party transactions

Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder of PHLY, owning 57.6% of its total outstanding shares as of 30 September 2020. Kristian Røkke, the Chairman of the Board of Directors of PHLY, is a Board member of TRG Holding AS, which owns 66.7% of the total outstanding shares of Aker ASA as of 30 September 2020.

Philly Shipyard has a service agreement with an affiliate of Aker ASA which provides specified tax services. All payables under this agreement 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 administrative costs and financial statement amounts for the three-month period ending 30 September 2020 were USD 28 thousand (USD 28 thousand for the same period in 2019) and for the nine-month period ending 30 September 2020 were USD 73 thousand (USD 88 thousand for the same period in 2019).

10. Capitalized interest

	Q3		9 Months Ended 30 Sept.	
Amounts in USD millions	**2020**	**2019**	**2020**	**2019**
Interest expense	-	(0.4)	(0.3)	(1.2)
Interest capitalized on construction contracts	-	-	-	-
Net interest expense	**-**	**(0.4)**	**(0.3)**	**(1.2)**

11. Correction of prior period misstatement

During Q3 2020, the Company discovered that it had capitalized certain advance payments to its suppliers in the costs incurred in Q2 2020 for the NSMV program. Subsequently, these advance payments were reclassified as prepayments/deposits. Accordingly, these advance payments were excluded from the costs incurred per Q3 2020. This one-time reclassification resulted in a reduction-in-progress under the percentage-of-completion (P-O-C) method per IFRS 15 *Revenue from Contracts with Customers*, as the ratio of cost incurred to total forecasted cost was reduced. The adjustment is treated according to IAS 8.41-49 as a prior period misstatement, and not as a profit and loss adjustment for Q3 2020. The table below reflects the impact on the condensed consolidated income statement for Q2 2020 and year-to-date June 2020.

Amounts in USD millions	Q2 2020			6-months ended 30 June 2020		
(except number of shares and earnings per share)	Reported	Correction	Restated	Reported	Correction	Restated
Operating revenues and other income	46.2	(21.2)	25.0	53.7	(21.2)	32.5
Operating expenses	(47.2)	19.8	(27.4)	(60.5)	19.8	(40.7)
Operating loss before depreciation - EBITDA	**(1.0)**	**(1.4)**	**(2.4)**	**(6.8)**	**(1.4)**	**(8.2)**
Depreciation	(1.6)	-	(1.6)	(3.3)	-	(3.3)
Operating loss - EBIT	**(2.6)**	**(1.4)**	**(4.0)**	**(10.1)**	**(1.4)**	**(11.5)**
Net financial items	0.1	-	0.1	-	-	-
Loss before tax	**(2.5)**	**(1.4)**	**(3.9)**	**(10.1)**	**(1.4)**	**(11.5)**
Tax benefit	4.2	0.5	4.7	19.2	0.5	19.7
Income/(loss) after tax	**1.7**	**(0.9)**	**0.8**	**9.1**	**(0.9)**	**8.2**
Weighted average number of shares	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted income/(loss) per share (USD)	**0.14**	**(0.07)**	**0.07**	**0.75**	**(0.07)**	**0.68**

The above restatements have no impact on the overall profitability or funding of the NSMV project and merely defer revenue and profit which will be recognized in future quarters.

12. Construction contracts

The order backlog for ship newbuilds is USD 608.5 million at 30 September 2020 and represents an obligation to deliver vessels (Hulls 033-034) that have not yet been produced for the Company's customer: TOTE Services. Order backlog consists of future construction contract revenues and is subject to adjustment based on change orders as defined in the construction contract. Vessels under contract for ship repair and maintenance work are not included in the order backlog.

Amounts in USD millions	**Order backlog 30 Sept. 2020**	**Order intake 9 months to 30 Sept. 2020**	**Order backlog 31 Dec. 2019**
	608.5	**631.0**	**-**

The recognized profit on long-term construction contracts in process (Hulls 033-034) as of 30 September 2020 is as follows:

Amounts in USD millions	**30 Sept. 2020**
Contract revenue recognized to date	22.5
Less: contract expenses recognized to date	(21.0)
Recognized profit to date (Hulls 033-034)	**1.5**
Contract costs incurred to date (Hulls 033-034)	**21.0**

As of 30 September 2020, the Company also has USD 39.6 million as prepayments to suppliers for materials and equipment for the construction of Hulls 033-034.

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

As of 30 September 2020, the Company has one contract in progress that is accounted for using the percentage-of-completion method per IFRS 15 *Revenue from Contracts with Customers*. The Company is building two NSMVs for TOTE Services (Hulls 033-034) scheduled for delivery in 2023. Philly Shipyard will recognize contract revenues and expenses for the two-vessel order from TOTE Services as one project. As of 30 September 2020, the TOTE Services project is approximately 3.6% complete. As of 30 June 2020, the TOTE Services project was reported as approximately 5.7% complete. The reduction from last quarter was caused by the correction of the prior period misstatement described in note 11 above.

Customer advances, net as of 30 September 2020 and 31 December 2019 totaled USD 104.1 million and USD 0. Customer advances, net represents the difference between cash advances received from the customer for newbuild vessels and revenue recognized. Prepayments to suppliers for those same vessels is presented as other current assets.

As of 30 September 2020, Philly Shipyard has non-cancellable purchase commitments for materials and equipment (unpaid liabilities) of approximately USD 193.2 million for the construction of Hulls 033 and 034.

13. Operating revenues and other income

	Q3		9 Months Ended 30 Sept.	
Amounts in USD millions	**2020**	**2019**	**2020**	**2019**
Shipbuilding	7.6	-	22.5	19.0
Ship repair and maintenance	3.8	3.7	19.9	3.7
Government study (CHAMP)	1.7	-	2.4	-
Government study (OPC)	0.8	-	1.7	-
Operating revenues and other income	**13.9**	**3.7**	**46.5**	**22.7**

(a) Shipbuilding revenue of USD 22.5 million in 2020 results from the first two National Security Multi-Mission Vessels (Hulls 033 & 034) being constructed for the U.S. Department of Transportation's Maritime Administration (MARAD). Shipbuilding revenue of USD 19.0 million in 2019 results from the remaining progress on the two-vessel CV3600 containership project built for Matson (Hulls 029 & 030).

(b) Ship repair and maintenance revenue of USD 19.9 million in 2020 is from PSI's second drydocking contract, the FSS *Pollux*. Ship repair and maintenance revenue of USD 3.7 million in 2019 is from PSI's first drydocking contract, the FSS *Antares.*

(c) Government study revenue of USD 2.4 million in 2020 results from PSI's prime contract for design studies supporting the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program.

(d) Government study revenue of USD 1.7 million in 2020 results from PSI's prime contract for design studies supporting the U.S. Coast Guard's Offshore Patrol Cutter (OPC) program.

14. Financial instruments

As of 30 September 2020, the Company had no forward exchange contracts or other financial instruments.

15. 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 77 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. Due to the gap in shipbuilding activity following the delivery of the last vessel (Hull 030) in Q3 2019, Philly Shipyard obtained a temporary conditional waiver of this minimum employment condition until 31 December 2019. This waiver has been extended and, with the award of the NSMV program, now remains in effect until PSI reaches the 200 full-time employee (FTE) requirement.

16. Subsequent events

None

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

Nicolai Haugland
Vice President
Tel: +47 23 11 91 00
nicolai.haugland@phillyshipyard.com

Disclaimer

This press release 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, 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 press release 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 press release. 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 the press release, 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 the press release.

Philly Shipyard ASA undertakes no obligation to publicly update or revise any forward-looking information or statements in the press release, 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 press release 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.