Annual Report

2020

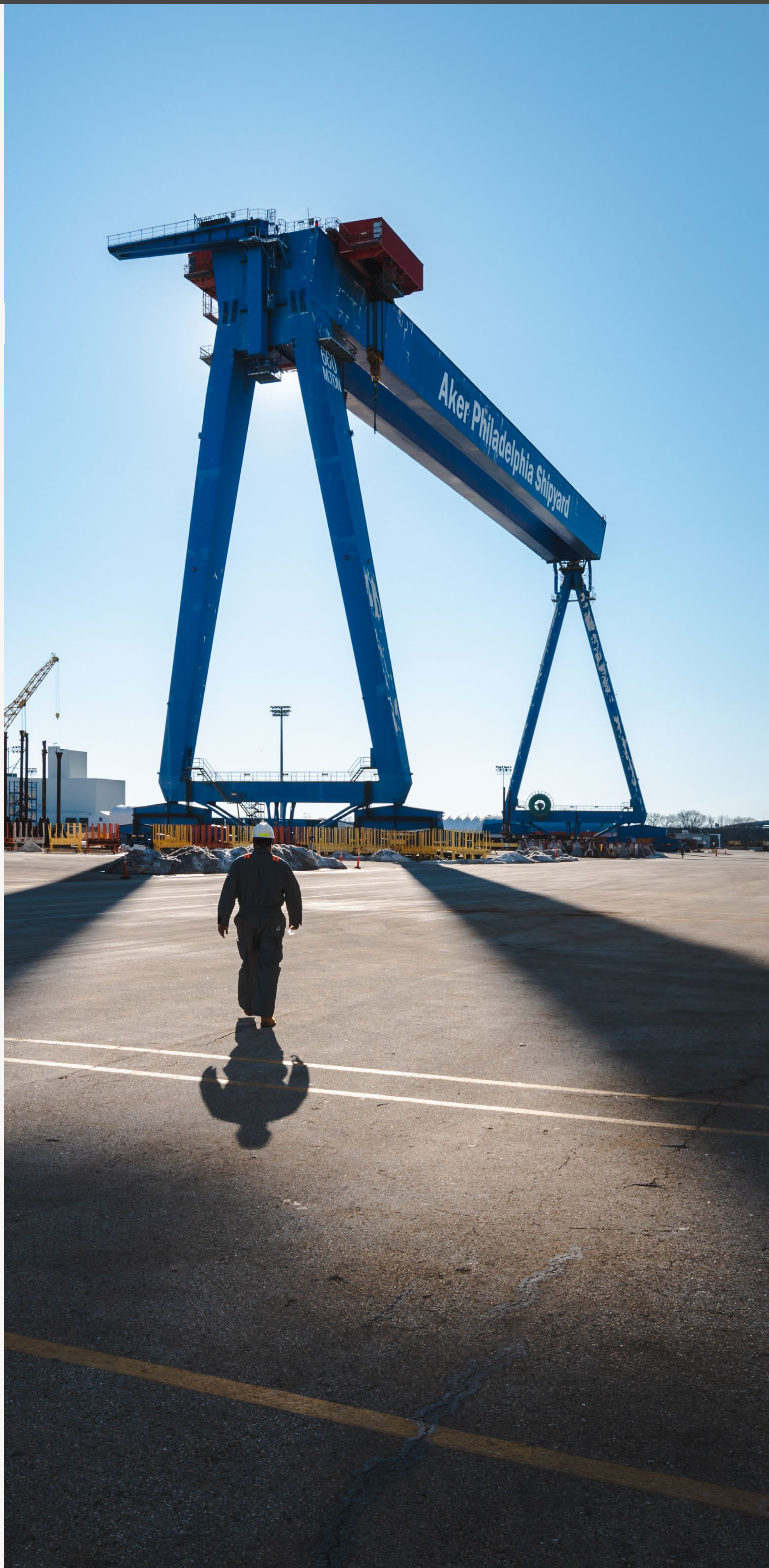
Philly Shipyard

Contents

FINANCIAL CALENDAR 2021

2020 annual report	29 March
Annual general meeting	21 April
Interim report Q1 2021	6 May
Interim report Q2 2021	14 July
Interim report Q3 2021	3 November

Dates are subject to change.



This is Philly Shipyard

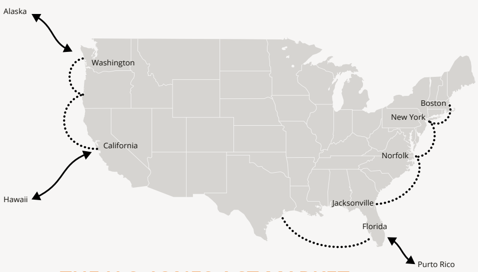
Philly Shipyard is a leading U.S. shipbuilder that is presently pursuing a mix of commercial and government work. It possesses a state-of-the-art shipbuilding facility and has earned a reputation as a preferred provider of ocean-going merchant vessels with a track record of delivering quality ships, having delivered around 50% of all large ocean-going Jones Act commercial ships since 2000.

Philly Shipyard ASA is a holding company with headquarters in Oslo, Norway, and an operating subsidiary in Philadelphia, PA, USA.

Philly Shipyard ASA has been listed on the Oslo Axess since December 2007. Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder, holding 57.56% of the shares as of 31 December 2020.

ELEMENTS CONTRIBUTING TO SUCCESS:

- State-of-the-art shipyard with modern equipment and two of the largest dry docks on the East Coast
- Access to global shipbuilding and design expertise through agreements with partners in North America, Asia, and Europe
- Solid track record demonstrated by the delivery of 30 quality newbuild vessels (6 containerships, 22 product tankers, and 2 Aframax tankers) through 2020
- Skilled workforce consisting of direct and contracted employees with a strong HSE mindset and culture of improvement
- Opportunistic investment approach with respect to the post-delivery economics of the vessels that it builds



THE U.S. JONES ACT MARKET

U.S. coastwise law, commonly referred to as the Jones Act, requires all commercial vessels transporting merchandise between ports in the United States to be built in the United States, owned, operated and manned by U.S. citizens and registered under the U.S. flag. The Jones Act market encompasses all water-borne transportation between U.S. ports, including between the mainland U.S. and non-contiguous areas of Alaska, Hawaii and Puerto Rico, as well as vessels involved in offshore wind development.

THE U.S. GOVERNMENT MARKET

The U.S. Government market for ship construction and ship maintenance, repair, overhaul, and conversion (MROC) work is expansive and cuts across multiple government agencies. Government customers include the U.S. Navy, the Military Sealift Command (MSC), the Maritime Administration (MARAD), the U.S. Coast Guard, the U.S. Army Corps of Engineers and others. Philly Shipyard is well-positioned to build commercial "like" and auxiliary ships in the government market.

Commercial

Commercial "Like"

Auxiliary

Non-Combatants

Combatants

Going Gray: The term – coined because most U.S. Navy hulls are painted gray – means Philly Shipyard is diversifying its offerings by also pursuing work in the government market.

Philly Shipyard:
Our History 1997 - 2020

1997

Founded by public-private partnership between U.S. Government agencies and the Kvaerner Shipbuilding Division

2000

Construction began on first two container vessels

2003 - 2006

Delivered four container vessels to Matson (Hulls 001-004)

2005: Aker American Shipping formed and publicly listed on Oslo Børs

2005: Initiated construction program of 10 product tankers

2007 - 2011

Delivered 12 product tankers to AMSC and OSG (Hulls 005-016)

2007: Two additional product tankers ordered for conversion to shuttle tankers

2007: Aker American Shipping split into ship owning and shipbuilding companies and Aker Philadelphia Shipyard listed on Oslo Axess

2011: Signed contracts with SeaRiver Maritime for two Aframax tankers

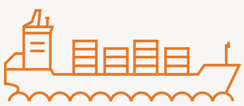
2012 - 2013

Delivered two product tankers to Crowley (Hulls 017-018)

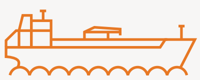
2013: Signed contracts with Matson for two CV3600 container vessels

2013: Signed joint venture agreement with Crowley for four product tankers

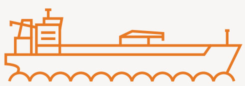
VESSELS BUILT AND REPAIRED BY PHILLY SHIPYARD FROM INCEPTION THROUGH TODAY



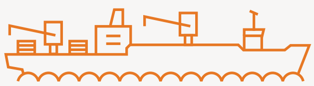
6 Container Vessels



22 Product Tankers



2 Aframax Tankers



2 Repair Vessels

2014 - 2016

Delivered two Aframax tankers to SeaRiver Maritime (Hulls 019-020), four product tankers to Crowley (Hulls 021-024), and one product tanker to Kinder Morgan (Hull 025)

2014: Established Philly Tankers as pure-play Jones Act shipping company

2014-2015: Signed contracts with Philly Tankers for product tankers

2015: Philly Tankers agreed to sell product tanker contracts to Kinder Morgan

2015: Signed agreement with Marathon Petroleum to sell Crowley joint venture interests

2015: Re-branded as Philly Shipyard

2017 - 2018

2017: Delivered three product tankers to Kinder Morgan (Hulls 026-028)

2018: Delivered first CV3600 container vessel to Matson (Hull 029)

2019

Delivered second CV3600 container vessel to Matson (Hull 030)

Awarded first two repair & maintenance contracts for the FSS *Antares* and the FSS *Pollux*, large MARAD sister-ships managed by TOTE Services

Awarded prime contract for design studies for the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program

Completed ship repair and maintenance work on a U.S. Government vessel, the FSS *Antares*

2020

Awarded a contract by TOTE Services for the construction of up to five National Security Multi-Mission Vessels (NSMVs) for the U.S. Department of Transportation's Maritime Administration (MARAD)

Received an order for the first two NSMVs with a total contract value of approximately USD 630 million

Completed ship repair and maintenance work on a U.S. Government vessel, the FSS *Pollux*

Awarded contracts to participate in industry studies for the U.S. Coast Guard's Offshore Patrol Cutter (OPC) program and the U.S. Navy's Auxiliary General Ocean Surveillance (T-AGOS(X)) program

2021

2020 Key Events and Highlights

Awarded a major contract to construct up to five National Security Multi-Mission Vessels (NSMVs), representing Philly Shipyard's first government new build project

Received an order for the first two NSMVs with a total contract value of approximately USD 630 million, giving the shipyard backlog into 2023

Awarded industry design study contracts for two government ship programs - one for the U.S. Coast Guard and the other the U.S. Navy - bringing the total to three

Finished repair and maintenance work on the FSS *Pollux*, concluding the shipyard's second dry docking contract for a government vessel

Reached milestone of 1,000,000 consecutive hours worked without a single lost time incident

Marked the beginning of construction on NSMV I with a virtual steel cutting ceremony

Investment Highlights

1. A leading U.S. shipyard

- State-of-the-art facility with more than USD 650 million invested since founding
- Built around 50% of all large ocean-going Jones Act commercial ships since 2000
- Highly skilled workforce with integrated, fully flexible subcontracting. Union agreement extended to January 2023
- Awarded contract for one of America's most high-profile shipbuilding programs, the NSMV

2. Successful track record in vessel ownership

- 10 of the 30 vessels built since start-up with some ownership or participation by the shipyard
- All stakes in post-delivery economics of vessels have been successfully divested
- PSI benefits from being early mover and initiating projects before positive segment development is fully visible
- PSI will continue to explore potential partnerships that can create a stronger entity to secure new orders and create value

3. Combination of commercial and government work

- Opportunities within specialty and high-end segments of the Jones Act market
- Very promising outlook for high activity in the government sector in the next 5-10 years
- Participating in industry design studies for four government shipbuilding programs
- Completed two repair projects and secured a third to utilize excess dock capacity and compete in the repair segment

4. Well positioned for future growth

- Retained key personnel during idle period to enable the ramp-up back to full capacity
- Strong balance sheet with nearly USD 100 million in cash and debt capacity
- Over USD 1.2 billion in backlog and high pipeline visibility
- Solid positioning for future contract awards in an environment of increased government spending

PHILLY SHIPYARD RECENT SHIP DELIVERIES

Customer	Vessel	Delivery	2016	2017	2018	2019	2020
American Petroleum Tankers	025 PT	30 Nov. 2016	■				
	026 PT	29 Mar. 2017		■			
	027 PT	26 July 2017		■			
	028 PT	20 Nov. 2017		■			
Matson	029 CV3600	31 Oct. 2018			■		
	030 CV3600	28 Mar. 2019				■	

PHILLY SHIPYARD RECENT SHIP REPAIRS

Customer	Vessel	Redelivery	2019	2020
MARAD/ TOTE Services	FSS *Antares*	19 Dec. 2019	■	
	FSS *Pollux*	5 Sept. 2020		■

Our CORE Values

Philly Shipyard's CORE values were designed as a reflection of who we are, and who we aspire to be, as a shipyard, as an organization and as individuals.

They capture the pride, passion, and commitment behind each action we take and decision we make. They are not words on a page, but our stand – a united commitment to conquer all challenges and build long lasting relationships. For years to come we will be united by these values, that give us the platform to deliver on our commitments, every time.

CARING
We make safety personal and take ownership for protecting each other

We are united to ensure our coworkers, our company and our communities succeed

ONE SHIPYARD
We are proud to be part of an inclusive work environment where all feel welcome

We build lasting cooperation based on respect and candid communication

RESPONSIBLE
We are environmental stewards and take care to protect future generations

We do what´s right simply because it´s the right thing to do

EVOLVING
We challenge ourselves and each other to be better than yesterday

We support change that moves the organization into diverse markets

Caring in Action

At Philly Shipyard, the way in which we achieve growth and profitability is as important as the achievements themselves. Our overriding corporate responsibility is concern for the communities that we are a part of. We strive to provide products and services in a safe, environmentally sound, ethical and socially responsible manner.

More information regarding the Company's corporate social responsibility efforts can be found on pages 19-21 of the Board of Directors' report.

HSE 2020:
Navigating COVID-19 and Preparing for Production

At Philly Shipyard, safety is personal and our credo is clear: We fundamentally believe that all incidents are preventable and safety is everyone's responsibility; and we promise to be relentless in our pursuit of an injury-free workforce by creating and maintaining safe working conditions and never compromising safety for anyone, anywhere, at any time.

Like most companies, our biggest challenge in 2020 from a health, safety, and environmental (HSE) point of view was maneuvering the coronavirus pandemic. While working from home became commonplace, Philly Shipyard had to find solutions for its essential workforce who needed to be on-site. There are some jobs that you really can't take home.

In February, we enacted strict procedures including mandatory mask wearing and temperature checks upon arrival to ensure the health and wellness of our staff. Safety briefs on home office housekeeping, office ergonomics, electrical cables and fire safety were sent to our employees who were able to work from home. Through contact tracing, we are able to proudly say that no cases of the virus originated here at PSI. We can thank our dedicated Safety team as well as all managers, supervisors, and employees who followed guidelines in order to keep themselves and their colleagues safe and healthy.

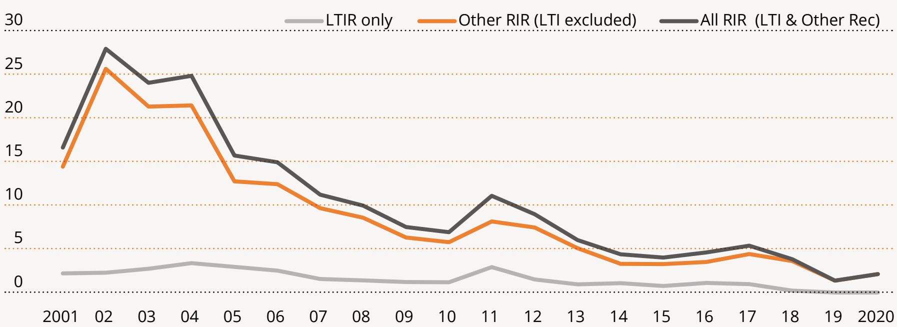
One of the high watermarks of 2020 was reaching the milestone achievement of one million work hours without a lost time incident (LTI), which spans two consecutive years. This accomplishment is truly a testament to all of our dedicated production workers and their commitment to strong professionalism. Statistically, PSI incident rates remain below the industry average for LTIs and Recordable Injuries. During a time of uncertainty for the shipyard and amidst layoffs, our production staff never waned in their responsibility to maintain high safety standards. As we executed repairs on the FSS *Pollux*, our teams were faced with some new challenges which were identified early on in the project and overcome while keeping health and safety at the forefront.

As the year wound down, we began to shift our focus toward planning for the National Security Multi-Mission Vessel (NSMV) program. We were faced with the challenge of adjusting our focus and mindset for full production as we began to hire back a workforce in the midst of a lingering pandemic.

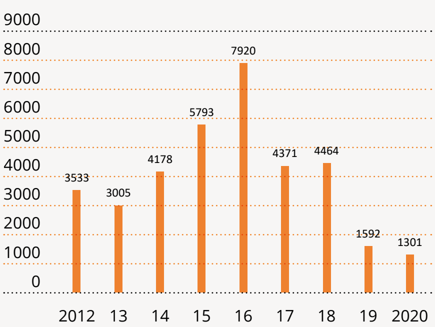
The HSE department, in conjunction with the production department, developed a comprehensive plan with detailed protocols to mitigate the spread of COVID-19 at our shipyard. This plan is dynamically changing as new developments arise (i.e. vaccinations). After evaluating best practice procedures, we implemented a new HSE orientation program for production employees. This new program includes extensive classroom and on-the-job training.

Carl W. Danley
HSE Director

ALL INCIDENT FREQUENCY (2001 - 2020)



OBSERVATIONS (2012 - 2020)



2020: A Year of Evolving and Adapting

Dear Shareholders,

Despite global challenges, Philly Shipyard was able to find optimism in 2020 as transition and opportunity emerged on our horizon.

We confronted the onset of a global health crisis last year with COVID-19 and my heart goes out to all who have lost loved ones or faced adversity. I feel like we all owe a great deal of gratitude to the frontline health workers and first responders who have given so much of themselves – you are all heroes! Here at Philly Shipyard, I was proud of our efforts to combat the virus and its many obstacles.

Our Human Resources and Health, Safety and Environment (HSE) departments responded immediately by organizing a dynamic plan of action to move forward in a safe and responsible manner. Our Information Technology staff drove across the region to deliver office equipment to employees who were able to work from home. Our essential workers on our Production teams continued to work at our facility and adapt to new HSE protocols.

We implemented multiple HSE measures including mandatory temperature checks upon entering our property, added extra handwashing stations, staggered lunch breaks, and introduced socially distanced seating. With hand sanitizer and face masks in short supply in the consumer market, we provided wellness packages to all our employees.

In 2020, we had no COVID-19 cases originating at our 114-acre yard – as proven by contact tracing analysis. We will continue to be diligent and do our part in combatting this awful virus.

Overall, we had a strong HSE performance, with ZERO lost time injuries for the year. In fact, for the first time in our history we surpassed 1,000,000 consecutive work hours without a single lost time injury! This is an exceptional milestone for any company. It could not have occurred without everyone's support and involvement, especially our dedicated workers for their daily efforts.

However, we must not rest on our success. We always have areas to improve upon with our HSE programs, but I am confident we will work together to make Philly Shipyard an industry leader in HSE, and a place where our workers are proud to earn their livelihood.

In last year's letter, I explained that Philly Shipyard's priority was to rebuild our workforce while maintaining our focus on HSE. We entered 2020 with an employee base of approximately 120 people and no new ship order backlog. While the situation appeared increasingly dire, we invested in our core group of employees and maintained our facility in a production-ready state as we competed for new orders.

For the past several years, we have cultivated our "Going Gray" strategy. The term – coined because most Navy hulls are painted gray – means our shipyard is diversifying its business by also pursuing government contracts. Our strategy includes new construction and MROC – an industry acronym for maintenance, repair, overhaul, and conversion. Our roots as a commercial shipbuilder make us well positioned to win and execute commercial-like and auxiliary government projects.

We firmly believed there was a space for us in the "Light Gray" (non-combatant) portion of the government sector and our ability to apply commercial best practices provided an entry ticket into this arena. The culmination of our hard work and efforts was the contract we received in April to build up to five National Security Multi-Mission Vessels (NSMVs) valued at approximately USD 1.5 billion for the U.S. Department of Transportation Maritime Administration (MARAD). The initial order by the program's vessel construction manager, TOTE Services, LLC, for the first two ships gave us firm backlog into 2023.

During the course of the year, we progressed the engineering, planning, and procurement work for NSMVs I and II as anticipated. I am proud to say that we have begun fabrication, with a virtual steel cutting ceremony for NSMV I held on 15 December. With authorization from MARAD, TOTE Services ordered two additional NSMVs in January 2021, giving us a total of four vessels in the backlog. We are hopeful that the fifth will be ordered by the end of the year.

The NSMV contract, combined with the award of multiple industry design studies for government shipbuilding programs – including the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program, the U.S. Coast Guard's Offshore Patrol Cutter (OPC) program, and the U.S. Navy's T-AGOS(X) program – has provided a strong foundation for our "Going Gray" strategy. We also completed two government repair projects – the FSS *Antares* and the FSS *Pollux* – for MARAD through TOTE Services. Moving forward, our business will be balanced upon a "three-legged stool" of 1) commercial new builds, 2) government new builds, and 3) maintenance, repairs, overhaul, and conversions (MROC).

As we continue our revitalization efforts, the shipyard is investing in its facilities and workforce training. These investments will enhance our operational efficiency. Our efforts to recruit experienced engineers, production supervisors, machine operators, shipbuilders, welders, and support staff have been very successful. We are still busy attracting new talent and remain grateful to be an employer of choice in Philadelphia. People are excited to join Philly Shipyard and be part of this tremendous team effort.

As we integrate new employees and welcome back many familiar faces, Philly Shipyard has launched an updated set of CORE Values – see on page 8. While many of our guiding principles remain the same, we have put a new emphasis on the "evolving" pillar. We need to challenge ourselves and our colleagues to be better than yesterday. Just as important, we have a renewed support for change that will move our organization into diverse markets.

It is now time for all of us to live up to our promises and perform in all functional areas, including HSE, quality, cost, and schedule. I would like to thank all of our stakeholders, including our union leaders, our employees, our suppliers, our federal, state and local advocates, and our valued shareholders, for your unwavering support during the past several years. I look forward to continued cooperation and success in 2021 and beyond. Be safe and healthy.

The sun is shining on Philly Shipyard again!

Yours truly,

Steinar Nerbøvik
President and CEO

Philadelphia, PA
18 March 2021

Board of Directors' Report 2020

Philly Shipyard ASA and its subsidiaries (referred to herein as a group as the "Group", the "Company" or "Philly Shipyard") is a leading shipbuilder in the U.S. Jones Act market that is presently pursuing a mix of newbuild and repair opportunities in the commercial and government markets. Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder in Philly Shipyard ASA.

KEY EVENTS AND HIGHLIGHTS

- Implemented measures to mitigate the risk for operational disruptions as the COVID-19 pandemic developed across the world
- Reached milestone of 1,000,000 consecutive hours worked without a single lost time incident
- Awarded a contract by TOTE Services for the construction of up to five National Security Multi-Mission Vessels (NSMVs) for the U.S. Department of Transportation's Maritime Administration (MARAD)
- Received an order for the first two NSMVs with a total contract value of approximately USD 630 million with last delivery in 2023
- Ramped up pre-production activities on the NSMV program and cut steel on the first NSMV
- Completed ship repair and maintenance work on a U.S. Government vessel, the FSS *Pollux*
- Awarded contracts for industry design studies for two major government shipbuilding programs
- Benefited from a USD 19.0 million income tax receivable due to the enactment of the CARES Act by the U.S. Congress
- 2020 operating revenues and other income of USD 54.1 million compared to USD 28.2 million in 2019
- 2020 net income of USD 1.6 million compared to 2019 net loss of USD 20.2 million
- Total cash and cash equivalents of USD 97.4 million at 31 December 2020, excluding USD 26.4 million of restricted cash

ACTIVITIES

The main entities in Philly Shipyard are the Norwegian holding company, Philly Shipyard ASA (referred to herein as "PHLY"), and its U.S. operating subsidiary, Philly Shipyard, Inc. (referred to herein as "PSI" or the "Shipyard"), a leading U.S. commercial shipyard that is presently pursuing a mix of commercial and government work. PHLY is located in Oslo, Norway, while PSI is located in Philadelphia, Pennsylvania, USA.

As of 31 December 2020, PSI's workforce consisted of 202 people, with a breakdown of 182 direct employees and 20 subcontracted personnel.

Philly Shipyard's business strategy for PSI is to build vessels for operation in the U.S. Jones Act and U.S. Government markets while opportunistically performing ship maintenance, repair, overhaul and conversion (MROC) work to fully utilize the shipyard's capacity.

Safe, cost efficient and quality construction of new vessels is critical for the success of Philly Shipyard's business model. There are several factors that position Philly Shipyard to capitalize on this market: a state-of-the-art shipyard with modern equipment and two of the largest dry docks on the East Coast; access to global shipbuilding and design expertise with partners in North America, Asia and Europe; a solid track record demonstrated by the delivery of 30 quality vessels (6 containerships, 22 product tankers and 2 Aframax tankers); and a skilled workforce consisting of direct and contracted employees with a strong HSE mindset and culture of improvement.

THE JONES ACT MARKET

The U.S. Jones Act generally restricts the marine transportation of cargo and passengers between points in the United States to vessels built in the United States, registered under the U.S. flag, manned by predominately U.S. crews, and 75% owned and controlled by U.S. citizens. The ability of the Company to win contracts is in part dependent on its unique ability to construct vessels that are eligible for U.S. Jones Act trades, and the Jones Act requirement for construction of the vessels in the United States limits competition for future contracts by excluding foreign shipyards.

THE U.S. GOVERNMENT MARKET

The U.S. Government market for ship construction and ship maintenance, repair, overhaul and conversion (MROC) work is expansive and cuts across multiple government agencies. Government customers include the U.S. Navy, the Military Sealift Command (MSC), the Maritime Administration (MARAD), the U.S. Coast Guard, the U.S. Army Corps of Engineers and others. The U.S. Navy recently released its 30-year shipbuilding plan which calls for approximately USD 35 billion per year in shipbuilding for the foreseeable future. Planned new ships include vessels operated by the MSC, which has announced its long-term goal of recapitalizing its fleet of support vessels through either new construction or conversion of existing commercial vessels.

THE MASTER AGREEMENT, SHIPYARD LEASE AND AUTHORIZATION AGREEMENT WITH PSDC

PSI currently operates its shipyard under a 99-year lease with Philadelphia Shipyard Development Corporation (PSDC), a government-sponsored non-profit corporation. A Master Agreement, a Shipyard Lease and an Authorization Agreement govern PSI's relationship with PSDC and the various governmental parties that have contributed to the establishment of the Shipyard.

Under the Master Agreement, the governmental parties have provided approximately USD 438 million for the renovation and modernization of the facility and training of the workforce. PSI was required to make certain qualified infrastructure investments totaling USD 135 million, which have been fully satisfied. PSI was also required to match government funding for certain training costs totaling USD 50 million, which has been fulfilled.

Pursuant to the Shipyard Lease, 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 76 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. The minimum employment condition is waived until PSI reaches the 200 full-time employee requirement for the NSMV program.

Pursuant to the Authorization Agreement, PSDC purchased certain shipyard assets from PSI in 2011 for a purchase price of USD 42.0 million, with funds provided by the Commonwealth of Pennsylvania. PSI is leasing back those same assets from PSDC subject to the terms of the Shipyard Lease and the Authorization Agreement.

STRATEGY

Philly Shipyard will, through its unique partnerships and experience obtained during construction of tankers and containerships, strive to be the most efficient shipyard in the U.S. Jones Act and government markets for production of ocean-going vessels. Over the past several years, Philly Shipyard has taken steps to diversify its business beyond the traditional vessels it has built for the commercial market. The NSMV program is a critical step forward in the shipyard's transformation to serve both commercial and government customers. Going forward, PSI's main focus is to pursue major shipbuilding programs in both markets. PSI will also opportunistically pursue maintenance, repair, overhaul and conversion (MROC) work for government ships.

Philly Shipyard's research and development activities are primarily related to two areas. The first area is the development of PSI's building methodology and working methods to ensure that PSI takes maximum benefit of the learning curve and produces each grand block and each vessel more efficiently than the previous one. The second area is work related to the development of new vessels. Ordinarily, PSI will attempt to identify and license existing best-in-class designs and cooperate with the owners of such designs to make such modifications as are necessary. However, when existing designs are unavailable or unsuitable, PSI will develop new designs to meet the needs of the market.

KEY EVENTS 2020

In April 2020, Philly Shipyard was awarded a contract for the construction of up to five National Security Multi-Mission Vessels (NSMVs) by TOTE Services LLC (TOTE Services), as vessel construction manager for the U.S. Department of Transportation's Maritime Administration (MARAD). Concurrently, TOTE Services ordered the first two vessels (NSMVs 1 and 2), with deliveries in spring and winter 2023, and retained options for the next three vessels (NSMVs 3, 4 and 5). The initial award is valued at approximately USD 630 million and supports non-recurring engineering and detail design of the NSMV class as well as procurement of equipment and materials and construction of the first two ships. 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.

During the course of the year, the Company substantially progressed the engineering, procurement and planning activities for the NSMV program, supporting first cutting of steel on 15 December 2020 and the overall project schedule. Recruiting efforts at the Shipyard are underway to mobilize and ramp up the workforce in time to support production requirements. Related to this process, Philly Shipyard is restarting its apprenticeship program and reopening its training facility.

The NSMV contract marked a significant milestone in the Company's strategy to pivot to work on both commercial and government projects. During 2020, Philly Shipyard further enhanced its resume for government work as it was awarded its second and third contracts for industry design studies for major government shipbuilding programs and it completed its second repair and maintenance contract for a government ship.

In March 2020, Philly Shipyard was awarded an industry study contract by the U.S. Coast Guard for the Offshore Patrol Craft (OPC) program. Philly Shipyard was one of eight companies awarded industry study contracts by the U.S. Coast Guard for this program. The OPC vessels are replacements for the aging 270-foot and 210-foot endurance cutters that are 30 years old and 50 years old, respectively.

In July 2020, Philly Shipyard was awarded a subcontract to participate in industry studies for a U.S. Government shipbuilding program, the U.S. Navy's Auxiliary General Ocean Surveillance (T-AGOS(X)) program. The award was made to Philly Shipyard by its teammate and prime contractor, BMT Designers & Planners, Inc. The industry studies are the precursor for the future detail design and construction (DD&C) contract to replace the existing ocean surveillance ships that gather underwater acoustical data. The T-AGOS ships are operated by Military Sealift Command (MSC) to support the anti-submarine warfare mission of the commanders of the Atlantic and Pacific fleets.

In September 2020, Philly Shipyard completed ship repair and maintenance work on the FSS *Pollux*, a U.S. Government cargo ship. The vessel is owned by MARAD and managed by TOTE Services. TOTE Services, as ship manager for MARAD, had awarded the contract to Philly Shipyard in 2019.

In 2020, Philly Shipyard benefited from changes to tax law enacted by the U.S Congress under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This 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. As the Company had qualifying taxable losses in 2018, 2019 and 2020, these losses will be carried back to previous tax years and result in a tax benefit of approximately USD 19.0 million.

Finally, Philly Shipyard repaid all of its remaining external debt in 2020. In March 2020, Philly Shipyard paid off the USD 60.0 million outstanding Welcome Fund loan together with all accrued interest thereon. This loan was repaid with restricted cash that had been deposited in an escrow account when it was fully defeased by Philly Shipyard in 2019.

REVIEW OF THE ANNUAL ACCOUNTS

Philly Shipyard prepares and presents its consolidated accounts according to International Financial Reporting Standards (IFRS) as adopted by the European Union.

PHLY was formed on 16 October 2007 to be the holding company of PSI which operates the shipyard located in Philadelphia, Pennsylvania, USA.

In accordance with IFRS, Philly Shipyard is recognizing the two-vessel order by TOTE Services (Hulls 033 and 034) as a single combined project. As such, revenue and expense for these vessels are being recognized on a combined project basis, whereby the construction progress is being measured together. As of 31 December 2020, the NSMV project was approximately 5% complete.

Also in accordance with IFRS, Philly Shipyard recognized a loss on its second ship repair and maintenance project, the FSS *Pollux*, as the shipyard continued to adjust to a new line of business. Philly Shipyard also recognized a slight profit on the CHAMP and OPC government design studies during the year.

Order backlog

As of 31 December 2020, PSI's order backlog was USD 601.9 million and represents a contractual obligation to deliver vessels that have not yet been produced for PSI's customer: TOTE Services. Order backlog consists of future shipbuilding contract revenues and is subject to adjustment based on change orders as defined in the construction contract(s). At the end of 2020, the order backlog was comprised of the first two National Security Multi-Mission Vessels (Hulls 033-034) under contract with TOTE Services. The net backlog increase of USD 601.9 million from 2019 represents the remaining progress on the NSMV project as of 31 December 2020.

Profit and loss accounts

Operating revenues in 2020 ended at USD 54.1 million compared to operating revenues of USD 28.2 million in 2019. Operating revenues in 2020 were primarily driven by progress on the first two NSMV vessels (Hulls 033-034), ship repair and maintenance work and government design studies. Operating revenues in 2019 were primarily driven by the remaining progress on the second Matson vessel (Hull 030), ship repair and maintenance work and a government design study.

Philly Shipyard's earnings before interest, taxes, depreciation and amortization (EBITDA) was negative USD 21.6 million in 2020, compared to EBITDA of negative USD 17.3 million in 2019. These figures correspond to EBITDA margins of -39.9% and -61.4%, respectively.

Depreciation expense was USD 6.2 million in 2020 and depreciation and reversal of impairment of assets expense was net USD 4.0 million in 2019. Philly Shipyard's earnings before interest and taxes (EBIT) was negative USD 27.8 million in 2020, compared to EBIT of negative USD 21.3 million in 2019. Key contributing factors to EBIT in 2020 were under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects) of USD 21.6 million (compared to USD 14.1 million in 2019), SG&A costs of USD 6.4 million, a loss of USD 1.1 million on a ship repair and maintenance project and miscellaneous expense items of USD 0.4 million, partially offset by a profit of USD 1.7 million recognized on the NSMV project (Hulls 033-034).

In addition to the IFRS financial measures reported above, EBITDA and EBIT are considered relevant earnings indicators for the Company as they measure the operational performance of the shipyard. These non-IFRS measures are included as items in the consolidated income statement.

Net financial items in both 2020 and 2019 were income of USD 0.1 million. Net financial items in 2020 and 2019 were both primarily driven by interest income from bank balances offset by interest expense on debt and bank fees.

Income tax benefit for 2020 was USD 29.2 million, compared to income tax benefit of USD 1.0 million in 2019. USD 19.0 million relates to the net operating loss (NOL) carryback tax provision created by the CARES Act that allowed for a USD 19.0 million net income tax receivable. A USD 10.2 million deferred tax asset due to the NSMV contracts was also booked up. The 2019 income tax benefit of USD 1.0 million relates to the reversal of an IFRS purchase accounting adjustment and further adjustments to the impairment of deferred tax assets.

In comparison, Philly Shipyard's Q4 2020 report showed a preliminary income tax benefit for 2020 of USD 32.5 million. The decrease in income tax benefit of USD 3.3 million for 2020 from the quarterly report is due to incremental tax expense recorded in conjunction with finalizing the year-end tax provision.

In 2020, Philly Shipyard's net income was USD 1.6 million and its basic and diluted income per share was USD 0.13. The corresponding figures for 2019 was net loss of USD 20.2 million and a basic and diluted loss per share of negative USD 1.67. Net income in 2020 was driven by the USD 29.2 million income tax benefit described above.

In comparison, Philly Shipyard's Q4 2020 report showed a preliminary net income for 2020 of USD 4.9 million. The decrease in net income of USD 3.3 million for 2020 from the quarterly report is due to the decrease in income tax benefit noted previously. Equity decreased USD 3.3 million from the Q4 2020 report for the same reason.

Cash flows

The Company's cash flow from operations depends on payment terms for construction and delivery settlement for the vessels sold to external customers.

Net cash flow from operating activities was USD 50.0 million in 2020 and net cash flow used in operating activities was USD 20.2 million in 2019. There are significant changes year-to-year caused by the timing of ship deliveries, the level of completion of vessels and customer and vendor contract payment schedules.

Net cash flow used in investing activities was USD 4.0 million in 2020 and net cash flow from investing activities was USD 42.5 million in 2019. 2020 investment activities were primarily due to capital improvements whereas 2019 investment activities were primarily due to the liquidation of the equity-accounted investments in Philly Tankers of USD 44.6 million offset slightly by capital improvements.

Net cash flow from financing activities was USD 0.7 million in 2020 and net cash flow used in financing activities was USD 21.2 million in 2019. Net inflow in 2020 was primarily from the interest income earned on the USD 60.0 million escrow amount held for the Welcome Fund loan whereas net outflow in 2019 was primarily for restricted cash payment deposited in escrow for the Welcome Fund loan.

Statement of financial position and liquidity

As of 31 December 2020, Philly Shipyard has cash and cash equivalents (excluding restricted cash) of USD 97.4 million. The corresponding figure for 2019 is USD 50.7 million. The increase of USD 46.7 million was primarily due to customer advances, net of project costs on the first two NSMV vessels offset slightly by prepayments to suppliers for the NSMV program, cash deposited in an escrow account as collateral for the performance and payment (P&P) bonds required by the NSMV program and other working capital uses. Philly Shipyard's net working capital (current assets less current liabilities) is USD 17.4 million at 31 December 2020, compared to USD 54.1 million at 31 December 2019.

As of 31 December 2020, Philly Shipyard has restricted cash of USD 26.4 million, of which USD 25.0 million (long-term) represents the cash deposit held as collateral for the P&P bonds (as described above) and USD 1.4 million (short-term) pertains to a holdback in escrow for claims related to the second Matson vessel (Hull 030). The corresponding figure for 2019 is USD 66.5 million. The decrease of USD 40.1 million in restricted cash is primarily due to the release of funds in escrow to repay the Welcome Fund loan and the close-out of the escrow for Hull 029, offset by the USD 25.0 million deposit of the P&P bond collateral described above.

Total assets were USD 237.7 million at 31 December 2020 compared to USD 161.8 million at 31 December 2019.

Current assets as of 31 December 2020 of USD 159.2 million consists of restricted cash short-term, prepayments and other receivables, income tax receivable short-term and cash and cash equivalents. The corresponding figure for 31 December 2019 is USD 122.4 million and consists of contract assets, restricted cash short-term, prepayments and other receivables, income tax receivable short-term and cash and cash equivalents. The increase in current assets is primarily due to USD 39.6 million in prepayments made to suppliers for the NSMV program, USD 15.0 million short-term income tax receivable due to the CARES Act and USD 46.7 million increase in cash and cash equivalents offset slightly by the restricted cash amount of USD 60.9 million at year-end 2019 used for repayment of the USD 60.0 million Welcome Fund loan in 2020.

Non-current assets as of 31 December 2020 of USD 78.5 million consists of property, plant and equipment, right-of-use assets, restricted cash long-term, income tax receivable long-term, deferred tax asset and other long-term assets. The corresponding figure for 31 December 2019 is USD 39.4 million and consists of property, plant and equipment, right-of-use assets and other long-term assets. The increase of USD 39.1 million in non-current assets is primarily driven by the non-current portion of the USD 29.2 million income tax receivable described above and the USD 25.0 million deposit of the P&P bond collateral described above.

Current liabilities as of 31 December 2020 of USD 141.8 million consists of trade payables and accrued liabilities, warranties, customer advances, net, other contract liabilities, lease liability short-term and income tax payable short-term. The corresponding figure for 31 December 2019 is USD 68.3 million and consists of trade payables and accrued liabilities, warranties, interest-bearing short-term debt and income tax payable short-term. The increase in current liabilities is primarily due to customer advances received net of ship costs for NSMVs 1 and 2 offset slightly by repayment of the USD 60.0 million Welcome Fund loan in 2020.

Non-current liabilities as of 31 December 2020 of USD 3.1 million consists of income tax payable long-term and lease liability long-term. The corresponding figure for 31 December 2019 is USD 2.2 million and consists of deferred tax liability.

Total equity at 31 December 2020 amounts to USD 92.9 million and the equity ratio (total equity divided by total assets) was 39%. Corresponding figures for 31 December 2019 are USD 91.3 million and 56%, respectively. The USD 1.6 million increase in equity is the result of the current year's net income.

The Board deems that the Company as of 31 December 2020 is financially sound and has an appropriate financing structure subject to the risks discussed in the Risks section below.

RISKS

Market risks

The overall market risk for construction of commercial vessels is related to the Jones Act. Repeal of or significant changes to the Jones Act could, among other things, increase competition from foreign (non-U.S.) shipbuilders with lower costs or require increased use of higher priced domestic content, and as a result reduce the demand for U.S.-built vessels. In order to address this risk, the Company has continuous engagement with local, state and federal government officials.

Philly Shipyard is also exposed to market risk related to imbalance between supply and demand for vessels in the Jones Act and U.S. Government markets, which may result in a reduction of vessel prices and/or a delay in new projects. PSI faces risks related to the contracts for its vessels, including the risk that those contracts are cancelled and the underlying vessels are ultimately sold to third parties for less favorable terms.

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, changes in existing or forecast market or political conditions, uncertainty regarding the timing and amount of budget appropriations, the complex bidding and selection processes, potential for contract award protests and challenges, and governmental regulations. 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.

Operational risks

Philly Shipyard faces risks related to construction of vessels. The 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. The Shipyard's operations also depend on stable supplier networks and the availability of key vendors for design and procurement services. The Shipyard has fixed-price subcontracts in U.S. dollars for the detailed design and major equipment for the NSMV program.

As is common in the shipbuilding industry, the Shipyard's projects are typically performed on a fixed-price basis. Under fixed-price contracts, PSI 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 properly estimate the costs to complete PSI's project awards; however, PSI's actual costs incurred to complete these projects could exceed its estimates. The NSMV contract is a fixed-price contract.

The Company furthermore faces challenges related to the construction of new classes of vessels, as well as managing multiple projects at the same time. These challenges sometimes tend to impact quality, timely delivery and cost efficiencies. In order to reduce these risks, the Shipyard enters into contracts with design and procurement partners.

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. The NSMV contract imposes liquidated damages for late delivery.

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 the ship repair and maintenance contract for the USNS *Charlton*. The *Charlton* contract is a fixed-price contract with penalties for late delivery.

The Shipyard depends on unionized labor for construction of vessels. Work stoppages or other labor disturbances could have a material adverse effect on the Company's business, results of operations and financial condition. In order to mitigate this risk, the Shipyard has signed a four-year collective bargaining agreement with the Unions which is effective through January 2023. The collective bargaining agreement includes a no-strike clause.

The delay Philly Shipyard experienced in securing new orders following Hull 030 interrupted its building program, resulting in a decrease of more than 80% of its workforce. 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 operations ramp up to full capacity for the NSMV program.

PSI's success also depends to a great degree on the abilities of its key management personnel, particularly its executives and other key employees who have significant experience within PSI's industry. The loss of the services of one or more of these individuals could adversely affect PSI.

PSI's ability to perform under its contracts depends to some degree on the performance of third parties under subcontracts. PSI depends upon subcontractors for a variety of reasons, including: to perform work as a result of scheduling demands or capacity constraints that PSI would otherwise perform with its employees; to supervise and/or perform certain aspects of the contract more efficiently considering the conditions of the contract; and to perform certain types of skilled work. PSI works closely with these subcontractors to monitor progress and address its customer requirements. PSI generally has the ability to pursue back charges for costs it incurs or liabilities it assumes as a result of a subcontractor's lack of performance. However, the inability of PSI's subcontractors to perform under the terms of their contracts could cause PSI to incur additional costs that reduce profitability or create losses on projects.

The Shipyard further depends upon a 99-year lease agreement for the shipyard facility and the future operations of the yard will accordingly be dependent upon PSI fulfilling its obligations under this lease agreement. Failure to maintain certain employment levels may result in early termination of this lease. For more details regarding this lease, see "The Master Agreement, Shipyard Lease and Authorization Agreement with PSDC" on page 13.

The Shipyard's operations are subject to the usual hazards inherent in shipbuilding, such as the risk of equipment failure and work accidents. Despite the Shipyard's best efforts to eliminate these hazards, they can sometimes cause personal injury, business interruption, construction delays, property and equipment damage, pollution and environmental damage. PSI continues to implement its Health, Safety and Environment (HSE) management system and provide training to its workforce to mitigate these risks. The Shipyard's policy of covering these risks through contractual limitations of liability and indemnities and through insurance may not always be effective, and customers and subcontractors may not have adequate financial resources to meet their indemnity obligations to PSI.

PSI relies heavily on computer information and communications technology and related systems in order to properly operate its business. From time to time, PSI experiences occasional system interruptions and delays. In the event PSI is unable to regularly deploy software and hardware, effectively upgrade its systems and network infrastructure, and take other steps to maintain or improve the efficiency and efficacy of its systems, the operation of such systems could be interrupted or result in the loss, corruption or release of data, and the cost associated with responding to such events and restoring compliance could be significant.

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. PSI maintains a continued high awareness of the Company's risk profile regarding cyber security because new threats can emerge quickly.

The Shipyard's operations are subject to numerous international, national, state and local environmental, health and safety laws, regulations, treaties and conventions, including, inter alia, those controlling the permitted and unpermitted discharge of materials into the environment, requiring removal and cleanup of environmental contamination, establishing certification, licensing, health and safety, labor and training standards or otherwise relating to the protection of human health and the environment. Sanctions for failure to comply with these requirements, which may be applied retroactively, may include: administrative, civil and criminal liabilities, revocation of permits to conduct business and corrective action orders, including orders to investigate and clean up contamination.

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, 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's activities expose it to a variety of financial risks: market risk (including commodity pricing risk, currency risk and price risk), credit risk and cash flow interest rate risk. Philly Shipyard's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Philly Shipyard's financial performance. Philly Shipyard uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out under policies and protocols approved by the Board of Directors. The Board of Directors provides principles for overall financial risk management as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and use of derivative financial instruments and non-derivative financial instruments.

The Company is exposed to changes in prices of steel and other materials and duties, tariffs and other taxes imposed on goods imported from foreign (non-U.S.) countries. The Company attempts to mitigate its exposure with respect to steel and other material price escalation and increased taxes on imported goods by attempting to pass these risks on to its end customers. The NSMV contract includes a steel cost adjustment clause for steel plates.

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, PSI will look to secure foreign exchange forward contracts for its known requirements for foreign currency for NSMVs 1 and 2. The Shipyard has fixed-price subcontracts in U.S. dollars for the detailed design and major equipment for the NSMV program.

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 for the NSMV program and Philly Shipyard has furnished the bonds required to support NSMVs 1, 2, 3 and 4.

Philly Shipyard regularly monitors the financial health of its construction financing lenders as well as the financial health of the financial institutions which it uses for cash management services and in which it makes deposits and other investments.

Through construction financing, the Company is exposed to fluctuations in interest rates. There is no construction financing for the NSMV program, as this contract is fully funded by customer milestone payments.

The credit risk of ship owners is evaluated upon contract signing. Typically, ship owners have financing approvals in place before they enter into contracts with PSI. During the construction period, Philly Shipyard continually evaluates the credit risk associated with ship owners and, except in cases where PSI arranges construction financing, manages this risk by requiring payment for substantially the entire contractual amount prior to delivering a vessel, including milestone payments upon completion of specified milestones. At the completion of a vessel, transfer of ownership takes place upon settlement. Should a ship owner fail to pay, PSI may attempt to dispose of the vessel in the open market to recover its construction costs. The ultimate customer of the NSMV program is the U.S. Government.

PSI accrues an estimate for future warranty claims on its delivered vessels. This estimate is examined during the warranty period and adjusted as necessary. In order to mitigate the risk of warranty claims exceeding warranty provisions, PSI has secured back-to-back warranties for most major components on the vessels.

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.

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.

Due to the COVID-19 crisis, there is a risk for delays in the delivery of the NSMVs. However, shipbuilding activities required to meet national security commitments to the federal government have been deemed essential services and, therefore, work on the NSMVs is expected to continue without interruption. Likewise, subcontractors involved in ship repair and maintenance activities for U.S. Government-owned vessels should similarly qualify as performing essential services.

The ongoing industry studies for the U.S. Navy's Common Hull Auxiliary Multi-Mission Platform (CHAMP) program, the U.S. Coast Guard's Offshore Patrol Cutter (OPC) program and the U.S. Navy's Auxiliary General Ocean Surveillance (T-AGOS(X)) program continue unabated. This work is able to be performed remotely by the personnel of Philly Shipyard and its subcontractors.

As the COVID-19 virus develops across the world, Philly Shipyard is taking measures to mitigate the risk for operational disruptions and reduce risk of outbreaks and its consequences, both in its production facility as well as in its offices. Even though the development is followed closely, a worst-case scenario with outbreak in the Philadelphia facility may have a significant operational and financial impact.

For the reasons stated above, at the time of this report, no significant increase in costs, loss of revenues or delays in 2021 is foreseen as a result of the COVID-19 crisis with respect to existing shipbuilding programs or any future repair and maintenance activities. However, as noted above, 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.

As the owner of vessels produced for the NSMV program is the U.S. Government, no additional credit risk is expected to arise from any impact of the COVID-19 crisis on the ultimate customer.

The COVID-19 crisis should not increase Philly Shipyard's liquidity risk. The NSMV program is fully funded by customer milestone payments and Philly Shipyard has no external debt.

EVENTS AFTER 31 DECEMBER 2020

In January 2021, TOTE Services ordered two additional National Security Multi-Mission Vessels (NSMVs 3 and 4) from Philly Shipyard. Construction of the two new vessels is expected to commence in 2022 with planned deliveries in 2024. This award is valued at approximately USD 600 million, bringing the total order intake for the NSMV program to greater than USD 1.2 billion.

Additionally in January 2021, Philly Shipyard was awarded a contract to participate in an industry study for design of the U.S. Navy's Cable Ship T-ARC(X) program – a replacement for the U.S. Navy's only undersea cable installation and repair ship, the USNS *Zeus* (T-ARC-7). The ship's primary mission will be to transport, install, retrieve and repair undersea cables and equipment, with many additional capabilities including ocean surveys and deployment of unmanned underwater vehicles (UUVs). Philly Shipyard partnered with Vard Marine, Inc. as the ship design team on this program. It represents the fourth government design studies contract that Philly Shipyard has been awarded since the beginning of 2019.

In February 2021, Philly Shipyard was awarded a ship repair and maintenance contract by Patriot Contract Services (Patriot) – the ship manager on behalf of the U.S. Navy's Military Sealift Command (MSC) – for the USNS *Charlton* (T-AKR-314). This is another positive step in the Company's ambition to establish a mixed platform of ship maintenance, repair, overhaul and conversion (MROC), along with ship construction, for the commercial and government markets. It also marks the third government repair contract that Philly Shipyard has been awarded since the middle of 2019 and its first contract with Patriot as ship manager.

THE GOING CONCERN ASSUMPTION

The 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.

PARENT COMPANY ACCOUNTS AND ALLOCATION OF LOSS FOR THE YEAR

The income/(loss) account of Philly Shipyard ASA for the year 2020 shows a loss of USD 1.7 million. The Board of Directors proposes that the loss for the year be allocated as shown below:

Dividend payment	USD 0
Other equity	USD (1.7) million
Total allocated	USD (1.7) million

As of 31 December 2020, before receiving any dividends from PSI, the parent company has approximately USD 4.1 million of equity which could be distributed to shareholders by the Board in accordance with PHLY's dividend policy.

With the recent award of NSMVs 3 and 4, the PHLY Board has revisited the company's dividend policy, as announced in the Company's Q2 2020 report. Historically, Philly Shipyard's goal has been that its shareholders will, over time, receive competitive returns on their investments through a combination of dividends and share price growth. In line with this objective, PHLY has paid out significant dividends in the past. However, current priorities are to retain a strong balance sheet and, consequently, the PHLY Board does not foresee payment of shareholder distributions, including dividends and share buybacks, sooner than the delivery of the third NSMV.

The parent company's only assets are cash and the investment in subsidiary (PSI).

CORPORATE SOCIAL RESPONSIBILITY

Maintaining a healthy and safe workplace and being friendly to the environment is an essential part of the Company strategy. Philly Shipyard develops policies to comply with or exceed all federal, state, and local requirements.

The Shipyard is located in the former U.S. Naval Yard in Philadelphia, Pennsylvania. PSI believes that being a good corporate citizen is good business. As a platform for these beliefs, PSI developed the WeCare program which provides support for its employees and for its community through teambuilding, volunteering, and educational initiatives.

Through the WeCare program, PSI works with its employees and community based organizations to understand and address issues that the Company can assist with. PSI employees are encouraged to become involved in the WeCare program.

As 2020 presented new challenges for the entire world, PSI was ready and able to weather the storm. The Company's safety initiatives to curb the spread of COVID-19 included installing additional hand sanitizers throughout the Shipyard, adding portable hand washing stations near the dock, and equipping all employees with masks for themselves and their family members. PSI also held a "Bring Your Own Bottle" event for employees and subcontractors to refill their rations of hand sanitizer. During this time, PSI was not able to volunteer in the local community as the Company has done in years past. Instead, PSI made donations to several local charities, including a nonprofit organization that helps senior citizens, an advocacy organization serving abused and neglected children, a nonprofit organization dedicated to saving homeless and at-risk animals, and a nonprofit organization that assists families recovering from disasters.

PSI is committed to its community and environment because it's right for the company, right for its people, and right for the world. And the Company's commitment to this belief has never been stronger. PSI uses best management practices to ensure as much material as possible is diverted from landfills and used for better purposes. PSI has been able to have 100% wood products recycled, 100% metal products recycled and up to 80% of industrial debris recycled. PSI continues to "Go Green" with the purchase of electric golf carts for maintenance and production management staff.

Additionally, PSI continues to collect and donate cases of magazines and books for the Seaman's Church Institute in Philadelphia, which then get distributed to the various seamen that enter Philadelphia's port. In addition, in lieu of mailing holiday greeting cards last year, PSI continues to donate funds to a local charity.

PSI seeks to be an attractive employer and maintains a human relations policy that is open and fair. PSI is committed to providing equal employment opportunity to all employees and applicants for employment, regardless of race, color, ethnic background, gender, religion, age, marital status, sexual orientation, national origin, citizenship status, disability, veteran status, or any other legally protected status. Diversity strengthens the Shipyard's overall capacity and skills. In support of this diversity, at year-end 2020, approximately 27% of PSI's employees were minorities.

The maritime industry has traditionally been male-dominated. The entire industry faces the challenge of increasing the proportion of female employees. PSI has taken some affirmative steps to address this challenge. For example, the Shipyard encourages female applicants and has seen increased interest among potential female employees to pursue a career with PSI. To further this goal, PSI participates in available government programs that encourage women in manufacturing and has recruited at schools and training programs with more women. PSI has also continued to train supervisors, managers, and employees in its Equal Employment Opportunity (EEO) policy.

At year-end 2020, approximately 9% of PSI's employees were women. While there were no women on PSI's senior management team, women held key positions such as Project Cost Controller, Assistant Controller, Payroll/Benefits Supervisor and HR/Communications Manager. In addition, two of the three members of PHLY's Board of Directors are women.

The Shipyard is committed to maintaining a work environment that is free of discrimination, harassment and hostilities. In keeping with this commitment, PSI maintains a strict Harassment Free Environment Policy and does not tolerate unlawful harassment of employees by anyone.

Philly Shipyard believes all people share the same fundamental human rights. The Company follows legal and responsible sourcing practices and expects its suppliers to uphold the same standards. In 2020, the Company did not have a formal policy regarding human rights as its sole operating company is located in the United States, which has extensive human rights laws in place.

At the operating subsidiary in Philadelphia, worker's rights are protected by federal, state and local laws. In addition, approximately one-third of PSI's employees are members of the Philadelphia Metal Trades Council (PMTC) union and are covered under the collective bargaining agreement between the PMTC and the Shipyard. This agreement is effective until 31 January 2023.

Under this collective bargaining agreement, union employees are granted vacation and personal time, and most union employees receive shutdown pay during the week of the Fourth of July holiday and in between the Christmas and New Year's holidays. In addition, union employees may take up to 6 unpaid days within a 12-month period. Traditional sick days are not part of the collective bargaining agreement. Non-union employees accrue sick time on a monthly basis and may maintain a balance of up to 200 hours. During 2020, 75 non-union employees used 2,180 hours of sick time, representing 1.0% of total non-union work hours. Comparably, in 2019, 133 non-union employees used 3,812 hours of sick time, representing 2.0% of total non-union work hours.

At the Shipyard, HSE is not just a priority, but is a mindset embedded in all decisions and actions. The Union-Management Safety and Environmental Board reviews the various HSE programs, and makes recommendations on policies and procedures. The HSE system includes safety training of employees and subcontractors, safety inspections, industrial health and wellness programs, drug testing, emergency response and environmental programs. PSI expects to implement new initiatives to continuously improve its HSE mindset during 2021.

In 2020, the other recordable incident frequency rate (OSHA-recordable incidents excluding lost time incidents per 200,000 hours worked) was 2.13, compared to 1.38 in 2019. PSI had zero lost time incidents (LTI) in 2020; however, there were five recordable injuries reported for the year. The incidents came from a total of 470,175 hours worked by PSI employees and subcontractors in 2020, compared to 434,655 hours worked by PSI employees and subcontractors in 2019.

Philly Shipyard takes its environmental responsibilities seriously beginning with the vessel design. The Shipyard uses the latest International Maritime Organization requirements as guidance for environmental protection and efficiency during the design and production process. The industrial nature of the Shipyard's activities requires the use of significant amounts of energy, both electrical and gas, as well as the release of particulate and volatile organic compound (VOC) emissions. During 2020, PSI used approximately 12.2 GWh of electricity and approximately 291,000 ccf of natural gas. Its VOC emissions were approximately 5 tons for the reporting period ending in 2020. PSI had no reported discharges into the surrounding waterways.

Environmental status reporting is an integral part of the Shipyard's reporting system, on par with reporting on financial matters and operations. This commitment extends to evaluating and adopting environmentally beneficial improvements in production processes, alternative materials and services. PSI promotes open communication on environmental issues with employees, neighbors, public authorities and other interested parties and has implemented a system through which employees can make observations and suggestions about the Shipyard's environmental performance.

In 2020, PSI generated approximately 3 tons of hazardous waste and recycled approximately 108 tons of wood and 362 tons of steel. Philly Shipyard has continued its program to gather and sort waste to promote environmentally responsible handling, disposal and recovery of any residual value.

A basic principle of ethical business conduct requires that each employee of the Shipyard support positively, both on and off the job, the Shipyard's business activities. One important way PSI satisfies this responsibility is to ensure that its business dealings are never influenced by – or even appear to be influenced by – its own personal interests. The Company has zero tolerance for corruption and has adopted an Anti-Corruption Policy that is in line with the anti-corruption policies at other Aker ASA-related companies. The Company also maintains a strict Conflict of Interests policy, which is reflected in PSI's employee handbook, as well as its Terms and Conditions to outside suppliers.

In support of the above initiatives and policies, the Shipyard maintains a formal policy for the disclosure of wrongful conduct and protection from retaliation (the "Whistleblower Policy"). This policy is available to all employees and is administered by the Vice President of Human Resources. The Company has implemented a process that allows anonymous reports of violations through a third party administrator. In 2020, there were four cases reported using this process, none of which were considered material.

ORGANIZATION

On 31 December 2020, PSI had 182 direct employees and 20 subcontracted personnel. The Shipyard experiences higher turnover amongst its union and production subcontractor employees compared to other employees. As production on the NSMV program ramps up, the Shipyard will continue to adjust its workforce in line with its order backlog.

CORPORATE GOVERNANCE

Philly Shipyard's corporate governance policy exists to ensure an appropriate division of roles among the Company's owners, Board of Directors and Executive Management. Such a separation of roles ensures that goals and strategies are prepared, that adopted corporate strategies are implemented, and that the results achieved are subject to verification and follow-up. Applying these principles also contributes to satisfactory group-wide monitoring and verification of activities. An appropriate division of responsibilities and satisfactory controls will contribute to the greatest possible value creation over time, to the benefit of shareholders and other interest groups. Philly Shipyard's corporate governance guidelines are presented in greater detail on pages 71-75 of this annual report.

OUTLOOK

To date, PSI has received orders for the first four ships in the NSMV program, with a total order intake in excess of USD 1.2 billion. These ships are destined for the state maritime academies in New York, Massachusetts, Maine and Texas. TOTE Services retains an option for the fifth vessel for the state maritime academy in California. If all five NSMVs are ordered, then the contract value would total approximately USD 1.5 billion with the final delivery in 2025.

Philly Shipyard is utilizing its commercial best practices for design and construction for this important shipbuilding program for the U.S. Government. Philly Shipyard is seeking opportunities to replicate this innovative contract model, as well as execute the traditional government contract model, to offer the government a new, high quality, cost-effective solution to help meet its ship program needs.

U.S. Government fleet plans are supportive of cost-effective acquisition strategies, increasing the potential for some future programs to leverage a commercial best practices approach. As a leader in the Jones Act market, Philly Shipyard is well-positioned to benefit from this trend.

Philly Shipyard expects it will continue to incur operating losses in 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 operations at Philly Shipyard will reach full capacity in early 2022.

Securing the NSMV award marked a major milestone in the Company's strategy to reposition the Shipyard for government and commercial projects. Philly Shipyard continues to explore a variety of opportunities in both markets and is presently targeting new shipbuilding programs with building slots following the last NSMV built in series. In the government sector, Philly Shipyard is focused on opportunities for commercial-like and auxiliary ships. In the commercial sector, among other endeavors, Philly Shipyard is exploring interest from owners in building vessels to support the expanding offshore wind industry.

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 until needed for the NSMV program, as well as steel fabrication jobs that enable the Shipyard to take advantage of periodic excess capacity in its fabrication shops while the NSMV program is ongoing. A substantial capital investment would be required in order for the company to dedicate a drydock for future repair, maintenance, overhaul and conversion (MROC) projects or significantly increase throughput.

Philly Shipyard is preparing to commence work later this month on the USNS *Charlton*, its third ship repair and maintenance contract for a government vessel. Philly Shipyard is expanding its customer base in this segment. The *Charlton* contract was awarded by Patriot Contract Services as ship manager for the U.S. Navy's Military Sealift Command (MSC). The prior two contracts were awarded by TOTE Services as ship manager for the U.S. Department of Transportation's Maritime Administration (MARAD).

Philly Shipyard is now participating in industry design studies for four government shipbuilding programs, including three for the U.S. Navy and one for the U.S. Coast Guard. These industry studies are the precursors for the future detail design and construction (DD&C) contracts for these programs. Participating in the design phase is key if the Shipyard chooses to compete for the DD&C contract when requests for proposals (RFPs) are issued.

Philly Shipyard continues to believe it can capitalize on future newbuild opportunities in the commercial and government segments that create value for its shareholders. Philly Shipyard remains committed to working with its clients to build the most cost-efficient and environmentally friendly vessels in the markets it serves. Philly Shipyard sees variants based on existing ship designs as potential cost-effective solutions for its commercial and government customers.

Oslo, Norway - 18 March 2021
Board of Directors Philly Shipyard ASA

Kristian Røkke	Amy Humphreys	Elin Karfjell	Steinar Nerbøvik
Board Chairman	*Deputy Board Chairperson*	*Board Member*	*President and CEO*

Directors' Responsibility Statement

Today, the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' report and the consolidated and separate annual financial statements for Philly Shipyard ASA, as of and for the year ending 31 December 2020 (annual report 2020).

The Philly Shipyard ASA consolidated financial statements have been prepared in accordance with IFRS, as adopted by the European Union, and additional disclosure requirements in the Norwegian Accounting Act, and that should be used as of 31 December 2020. The separate financial statements for Philly Shipyard ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian Accounting Standards as of 31 December 2020. The Board of Directors' report for Philly Shipyard and the parent company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian accounting standard no. 16, as of 31 December 2020.

To the best of our knowledge:

- The consolidated and separate annual financial statements for 2020 have been prepared in accordance with applicable accounting standards
- The consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position and profit/(loss) as a whole as of 31 December 2020 for Philly Shipyard and the parent company
- The Board of Directors' report for Philly Shipyard and the parent company includes a true and fair review of:
  - The development and performance of the business and the position of Philly Shipyard and the parent company
  - The principal risks and uncertainties Philly Shipyard and the parent company face

Oslo, Norway - 18 March 2021
Board of Directors Philly Shipyard ASA

Kristian Røkke	Amy Humphreys	Elin Karfjell	Steinar Nerbøvik
Board Chairman	*Deputy Board Chairperson*	*Board Member*	*President and CEO*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Consolidated Income Statement

Amounts in USD thousands (except share amounts and earnings per share)	Note	2020	2019
Operating revenues	25	54 144	28 207
Operating revenues		**54 144**	**28 207**
Cost of vessel construction		(47 712)	(26 031)
Wages and other personnel expenses (SG&A)	3	(2 700)	(2 318)
Other operating expenses (SG&A)	4	(3 722)	(3 048)
Under-recovered overhead costs	4	(21 578)	(14 122)
Operating loss before depreciation and impairment (EBITDA)		**(21 568)**	**(17 312)**
Depreciation	7	(6 190)	(7 056)
Reversal of impairment of assets	7	-	3 077
Operating loss before interest and taxes (EBIT)		**(27 758)**	**(21 291)**
Financial income	5	661	2 131
Financial expense	5	(546)	(2 021)
Loss before tax		**(27 643)**	**(21 181)**
Income tax benefit	6	29 222	969
Net income/(loss) after tax		**1 579**	**(20 212)**
Weighted average number of ordinary shares	12	12 107 901	12 107 901
Basic income/(loss) per share (USD)	12	0.13	(1.67)
Diluted income/(loss) per share (USD)	12	0.13	(1.67)

Consolidated Statement of Comprehensive Income

Amounts in USD thousands	Note	2020	2019
Net income/(loss) after tax for the year		1 579	(20 212)
Other comprehensive income, net of income tax		-	-
Total comprehensive income/(loss) for the year *		**1 579**	**(20 212)**

* All attributable to equity holders of the parent company.

Consolidated Statement of Financial Position

as of 31 December

Amounts in USD thousands	Note	2020	2019
ASSETS			
Property, plant and equipment	7	25 432	26 104
Right-of-use assets	7	13 986	13 035
Restricted cash long-term	11	25 028	-
Income tax receivable long-term	6	5 150	-
Deferred tax asset	6	8 448	-
Other long-term assets	8	495	234
Total non-current assets		78 539	39 373
Prepayments and other receivables	9	45 441	3 502
Restricted cash short-term	11	1 394	66 475
Income tax receivable short-term	6	14 990	166
Contract assets	2	-	1 608
Cash and cash equivalents	10	97 361	50 673
Total current assets		159 186	122 424
Total assets		237 725	161 797
EQUITY AND LIABILITIES			
Paid in capital	13	35 206	35 206
Other equity		57 639	56 060
Total equity attributable to equity holders of the parent company		92 845	91 266
Total equity		92 845	91 266
Deferred tax liability	6	-	2 193
Income tax payable long-term	6	1 200	-
Lease liability long-term	7	1 904	-
Total non-current liabilities		3 104	2 193
Trade payables and accrued liabilities	18	7 974	6 255
Other provisions - warranties	17	1 787	2 137
Customer advances, net	2	130 894	-
Other contract liabilities	2	151	-
Lease liability short-term	7	309	-
Interest-bearing short-term debt	14	-	59 928
Income tax payable short-term	6	661	18
Total current liabilities		141 776	68 338
Total liabilities		144 880	70 531
Total equity and liabilities		237 725	161 797

Oslo, Norway - 18 March 2021
Board of Directors Philly Shipyard ASA

Kristian Røkke
Board Chairman

Amy Humphreys
Deputy Board Chairperson

Elin Karfjell
Board Member

Steinar Nerbøvik
President and CEO

Consolidated Statement of Changes in Equity

Amounts in USD thousands	Share capital	Share premium	Treasury shares	Other equity	Total equity
Balance at 31 December 2018	22 664	22 511	(9 969)	76 272	111 478
Total comprehensive loss for the year 2019	-	-	-	(20 212)	(20 212)
Balance at 31 December 2019	22 664	22 511	(9 969)	56 060	91 266
Total comprehensive income for the year 2020	-	-	-	1 579	1 579
Balance at 31 December 2020	22 664	22 511	(9 969)	57 639	92 845

Consolidated Cash Flow Statement

Amounts in USD thousands	Note	2020	2019
Loss before tax		(27 643)	(21 181)
Unrealized foreign exchange loss	5	29	66
Depreciation	7	6 190	7 056
Amortization of fees of Welcome Fund loan	14	72	289
Net financial expense	5	(144)	(178)
(Increase)/decrease in:			
Contract assets	2	1 608	(1 608)
Restricted cash	11	(20 866)	(626)
Prepayments materials deposits	9	(39 620)	-
Prepayments other and other receivables	9	(2 319)	(32)
Other non-current assets	8	(261)	(3)
Increase/(decrease) in:			
Trade payables and accrued liabilities	17,18	1 341	(7 595)
Customer advances, net	2	130 894	(1 218)
Other contract liabilities	2	151	-
Income taxes refunded	6	449	3 310
Sale of Pennsylvania R&D tax credit	6	-	1 300
Miscellaneous taxes paid		-	(6)
Interest paid, net of capitalized interest	5	(517)	(1 953)
Interest received	5	661	2 131
Net cash flow from/(used in) operating activities		50 025	(20 248)
Investments in property, plant and equipment	7	(4 036)	(2 111)
Distribution received from equity-accounted investments	22	-	44 641
Net cash flow (used in)/from investing activities		(4 036)	42 530
Receipt of loan escrow amount/(portion of loan held in escrow)	11	60 919	(21 233)
Repayment of Welcome Fund loan	14	(60 000)	-
Payment of lease liability	7	(220)	-
Net cash flow from/(used in) financing activities		699	(21 233)
Net change in cash and cash equivalents		46 688	1 049
Cash and cash equivalents as of 1 January		50 673	49 624
Cash and cash equivalents as of 31 December	10	97 361	50 673

Notes to the Consolidated Accounts

NOTE 1: ACCOUNTING PRINCIPLES

STATEMENT OF COMPLIANCE

The consolidated financial statements of Philly Shipyard ASA and its subsidiaries (referred to herein as a group as Philly Shipyard, the Group or the Company) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union in effect at each financial reporting period.

These accounts have been approved for issue by the Board of Directors on 18 March 2021. The annual accounts will be submitted to Philly Shipyard's annual general meeting on 21 April 2021 for final approval.

BACKGROUND AND BASIS FOR PREPARATION

Philly Shipyard ASA (referred to herein as PHLY) was formed on 16 October 2007 to be the holding company of Philly Shipyard, Inc. (referred to herein as PSI or the Shipyard) which operates a shipyard located in Philadelphia, Pennsylvania, USA. PSI owns certain subsidiaries in connection with its investments in its shipping assets.

PHLY is domiciled in Oslo, Norway. PSI is domiciled in the Commonwealth of Pennsylvania, USA. The subsidiaries of PSI are domiciled in the State of Delaware, USA. These consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in USD (thousands), except when indicated otherwise.

ESTIMATES

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts in the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects that period or in the period of revision and future periods if the revision affects both current and future periods.

Critical accounting estimates and assumptions are as follows:

Revenue Recognition

Philly Shipyard recognizes revenue over time in accordance with IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). This approach requires Philly Shipyard to measure the progress of contract activity at each statement of financial position date and estimate the ultimate outcome of costs and profit on contracts. Progress towards satisfying performance obligations is measured based on project costs incurred compared to the total forecasted project costs. In case of a loss-making project, a loss provision will be made when it is estimated that total contract costs will exceed total contract revenues. Revenue and cost estimates from shipbuilding activities depend, amongst others, on variables such as steel prices, supplier and subcontractor costs, labor costs and availability, and other production inputs. Philly Shipyard must also evaluate and estimate the outcome of variation orders, liquidated damages, contract claims and requests from customers to modify contractual terms which can involve complex negotiations with customers. Generally, estimates are subject to a greater level of uncertainty when a vessel design is new to the Shipyard than if a vessel is being constructed later in a series (see note 2 for further discussion).

Fair Value of its Cash Generating Unit

Philly Shipyard has concluded that it has only one primary cash generating unit and must determine the recoverable amount of its cash generating unit in order to perform impairment tests of its long-lived assets when impairment indicators are present. The Company reviewed certain indicators and determined that there were no indicators of impairment. As such the Company has not performed an impairment test (see note 7 for further discussion).

Deferred Income Taxes

Deferred income tax assets are recognized when it is probable that they will be realized. Determining probability requires Philly Shipyard to estimate the sources of future taxable income from operations, including reversing taxable temporary differences. Determining these amounts is subject to uncertainty and is based primarily upon historical earnings, reversals of taxable temporary differences and expected earnings due to contracts in progress and contract order backlog. The recognition of deferred tax assets is primarily applicable to U.S. taxes where Philly Shipyard has a net deferred tax asset position (see note 6 for further discussion).

R&D Tax Credit

Since 2015, PSI has qualified for the research and development (R&D) tax credit for both federal and Pennsylvania state tax purposes. The Shipyard qualified for the credit because of the research it undertook to discover information that is technological in nature and intended to be useful in the development of a new or improved business component. The Company recognizes the R&D tax credit estimate as part of the income tax benefit based on a calculation of qualifying research expenses using available guidance and the applicable rules and regulations.

Accruals/Provisions

Philly Shipyard has various accruals/provisions which require management to make estimates. Accruals/provisions are typically made for costs that arise after vessel deliveries, including warranty costs, and regular accruals/provisions made at the end of a financial period where costs have been incurred but where an invoice has not yet been received. In addition, accruals/provisions are made if the Company has identified a commitment or event that will trigger a future payment. Management uses all available facts and circumstances when determining these estimates including historical experiences as well as input from outside advisors.

SIGNIFICANT JUDGMENTS

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

The Going Concern Assumption

The 2019 consolidated financial statements were prepared on a going concern basis even though the Group had no new orders and there was inherent uncertainty and no assurance that the Group would successfully secure new customer orders. The 2020 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 due to the firm order backlog which takes operations into 2024.

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. Please refer to page 18 of the Board of Directors' report for a discussion of COVID-19 risks. Based on the Company's assessment of these risks and mitigating factors, it is not anticipated that the COVID-19 pandemic will have a material adverse impact on estimates and judgments about the future of Philly Shipyard. However, in a worst-case scenario, the COVID-19 pandemic may have devastating effects for the world economy, including Philly Shipyard.

PHILLY SHIPYARD ACCOUNTING AND CONSOLIDATION PRINCIPLES

Subsidiaries

The consolidated financial statements include the financial statements of the parent company, Philly Shipyard ASA, and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability affect those returns through its power over the entity.

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

Functional Currency

Items included in the financial statements of each entity in Philly Shipyard are initially recorded in the entity's functional currency, i.e. the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity.

The consolidated financial statements are presented in United States dollars (USD), rounded to the nearest thousand, which is the reporting currency for the consolidated accounts and the functional currencies for all the entities within Philly Shipyard.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rates in effect on the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Foreign exchange differences arising in respect of operating items are included in operating profit or loss in the consolidated income statement, and those arising in respect of financial assets and liabilities are recorded net as a financial item.

INCOME STATEMENT PRESENTATION

Operating related expenses in the consolidated income statement are presented as a combination of function and nature in conformity with industry practice. Depreciation and reversal of impairment of assets are presented in separate lines based on their nature, while cost of vessel construction, other operating expenses (SG&A), wages and other personnel expenses (SG&A), and under-recovered overhead costs are presented on a functional basis. Significant expenses such as salaries, pensions, etc. are presented by their nature in the notes to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

General

Property, plant and equipment and right-of-use assets acquired by the Shipyard is stated at cost at the date of acquisition. Depreciation is calculated on a straight-line basis and adjusted for impairment charges, if any. The carrying value of the property, plant and equipment and right-of-use assets on the statement of financial position represents the cost net of government grants and subsidies received (if applicable) less accumulated depreciation and any impairment charges. Cost includes expenditures that are directly attributable to the asset. The cost of self-constructed assets includes the costs of material and direct labor, and any other costs directly attributable to bringing the asset to working condition for its intended use. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Land is not depreciated, but other property, plant, and equipment in use and right-of-use assets are depreciated on a straight-line basis. Expected useful lives of long-lived assets are reviewed annually and, where they differ significantly from previous estimates, depreciation periods are changed accordingly.

Ordinary repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred. The cost of improvements is included in the asset's carrying amount when it is probable that the Shipyard will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset. Improvements are depreciated over the useful lives of the related assets.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit or loss. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

Component Cost Accounting

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment and right-of-use assets to its significant components and depreciates separately each such component part over its useful life.

IMPAIRMENT OF LONG-LIVED ASSETS

Property, plant and equipment, right-of-use assets and other non-current assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable, mainly independent, cash inflows. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the higher of the asset's net selling price and its value in use. The value in use is determined by discounted cash flows and fair market value is based on recent third party appraisals.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not to an extent higher than the carrying amount that would have been determined had no impairment loss been recognized in prior years.

FAIR VALUE OF ITS CASH GENERATING UNIT

Philly Shipyard has concluded that it has only one primary cash generating unit and must determine the recoverable amount of its cash generating unit in order to perform impairment tests of its long-lived assets when impairment indicators are present. The Company reviewed certain indicators and determined that there were no indicators of impairment. As such the Company has not performed an impairment test (see note 7 for further discussion).

REVENUE FROM CONTRACTS WITH CUSTOMERS

Philly Shipyard principally generates revenues from activities relating to long-term shipbuilding construction contracts, and also generated revenue from the performance of industry studies for the U.S. Navy and for the ship repair and maintenance of U.S. Government-owned vessels. A detailed review of customer contracts occurred for contracts which were open from 1 January 2020 to 31 December 2020.

- ***Construction contracts:***
  The vessel construction contracts and ship repair and maintenance projects were assessed according to IFRS 15 to evaluate whether the revenue from such contracts shall be recognized over time or at a point in time. As a result of the assessment, the Company concluded that the principle of revenue recognition over time method was appropriate for these contracts based on the fact that the vessels under construction and ship repair and maintenance contracts do not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment from the customer for the work completed to date.

- ***Performance obligations:***
  The first two NSMV vessels were treated as a single performance obligation due to their similar nature and the integration of the design and production of the hulls. Progress towards completing the NSMV performance obligation was measured over time based on project costs incurred compared to the total forecasted project costs. Progress towards completing ship repair and maintenance is also measured over time based on project costs incurred compared to the total forecasted project costs. This is considered to be a faithful depiction of the transfer of goods as it accurately reflects the underlying transactions and progress.

- ***Constraint of variable consideration:***
  To include variable consideration in the estimated contract revenue under IFRS 15, the entity has to conclude that it is highly probable that a significant revenue reversal will not occur when the uncertainties related to the variability are resolved.

- ***Onerous contracts:***
  Onerous revenue contracts are accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. A provision is recognized when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits to be received.

Project revenue is classified as operating revenues in the consolidated income statement. Vessels-under-construction are presented net of advances from customers as vessels-under-construction receivable or customer advances, net on a contract by contract basis.

Other revenues such as design studies and ship repair and maintenance work are classified as contract assets and/or other contract liabilities and are classified as current or non-current based on the expected timing of recognition of revenue.

GOVERNMENT GRANTS AND SUPPORT

Government grants and support are recognized at their fair value where there is reasonable assurance that amounts will be received and conditions have been met. In some cases, recognition occurs over a period of time as restrictions lapse or as conditions are met. Grants and support related to capital expenditures or construction of assets for the Shipyard's account are recognized as a reduction of the related asset cost. For assets held for use, this results in a lower depreciation charge over the useful life of the asset. Grants related to specific programs or projects are recognized as reductions in expense over the period in which work that relates to the grant or support is performed.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

INTEREST-BEARING LIABILITIES

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period the interest bearing liabilities are outstanding. Amortized cost is calculated by taking into account any issuance costs, and any discount or premium.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

INCOME TAXES

Current Income Taxes

Income taxes receivable and payable for the current period are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws as used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Deferred Income Taxes

Deferred income tax is recognized using the asset/liability method on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except upon initial recognition of an asset or a liability that does not impact income.

Deferred income tax assets are recognized for all deductible temporary differences, and carry-forward of unused tax losses and credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses and credits can be utilized. The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. The expected utilization of tax losses is not discounted when calculating the deferred tax asset.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

PENSION OBLIGATIONS

The Shipyard has a pension plan that covers its non-union employees whereby contributions are paid to a qualifying pension plan. The Shipyard's union employees are participants in a union selected pension plan. Although the Union Plan is a defined benefit pension plan, because the union does not provide information on the Shipyard's employees and their share of the pension assets and obligations, the plan is accounted for in accordance with the requirements of a defined contribution plan under IAS 19 revised. Under defined contribution pension plans, contributions are charged to the consolidated income statement in the period to which the contributions relate.

PROVISIONS

A provision is recognized when Philly Shipyard has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current estimate.

The amount of the provision is the present value of the risk adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the carrying amount of provision increases in each period and is recognized as interest expense.

FINANCIAL RISK MANAGEMENT

Philly Shipyard's activities are exposed to a variety of financial risks: credit risk, interest rate risk, foreign exchange risk, capital management risk, funding/investment risk and liquidity risk. Philly Shipyard's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Philly Shipyard's financial performance. Philly Shipyard uses derivative financial instruments to hedge certain risk exposures. As of 31 December 2020, there were no foreign exchange contracts in place.

Risk management is carried out under policies approved by the Board of Directors. The Board of Directors provides principles for overall financial risk management as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and use of derivative financial instruments and non-derivative financial instruments.

Credit Risk

Due to the nature of the Shipyard's operations, revenues and related receivables are typically concentrated amongst a few customers. Philly Shipyard continually evaluates the credit risk associated with customers and their assignees and manages this risk by requiring payment for substantially the entire contractual amount prior to delivering a vessel, including milestone payments upon completion of specified milestones.

Interest Rate Risk

Philly Shipyard is exposed to fluctuations in interest rates for its variable interest rate debt related to construction financing and working capital facilities.

Foreign Exchange Risk

Philly Shipyard is exposed to foreign currency risk for purchases made in currencies other than the U.S. dollar which primarily relates to materials, supplies and costs related to the services of expatriate workers purchased from South Korea, Norway and other countries in Europe. Philly Shipyard attempts to mitigate this risk through its foreign exchange hedging program or passing this risk onto its end customers by having them purchase certain materials directly in foreign currency.

Capital Management Risk

Philly Shipyard's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, while maintaining an optimal capital structure to minimize the cost of capital. To meet these capital structure objectives, Philly Shipyard reviews on a quarterly basis with its Board any needs to raise additional equity for future business opportunities or to reduce debt.

The Company's objective is to provide its shareholders with a competitive return on its shares over time based on the Company's earnings. The Company's focus is on long-term profitability, and its current priorities are to retain a strong balance sheet and cash position. Accordingly, no dividends are contemplated until further notice.

Funding/Investment Risk

Philly Shipyard regularly monitors the financial condition of its construction financing lenders. Additionally, Philly Shipyard monitors the financial condition of the financial institutions which it uses for cash management services and in which it makes deposits and other investments. Philly Shipyard responds to changes in conditions affecting its financing sources and deposit relationships as situations warrant.

Liquidity Risk

Liquidity risk is the risk that Philly Shipyard will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Philly Shipyard's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Philly Shipyard's reputation. Philly Shipyard attempts to mitigate this risk through project financing and working capital facilities, progress payments from its customers, and material supplied and paid directly by its customers.

LEASES AND RIGHT-OF-USE ASSETS

The IFRS 16 lease standard (IFRS 16) replaced IAS 17 *Leases* and the related interpretations. IFRS 16 introduced a single, on-balance sheet lease accounting model for lessees, with optional exemptions for short-term leases and leases of low value items. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Based on this, a potential cumulative effect of adopting IFRS 16 was recognized as an adjustment to the opening balance of retained earnings as of 1 January 2019, with no restatement of comparative information. There was no such adjustment of retained earnings as of 1 January 2019, following the implementation of IFRS 16.

As part of the 2011 Authorization Agreement, PSI's landlord, Philadelphia Shipyard Development Corporation (PSDC), purchased certain shipyard assets from PSI for a purchase price of USD 42.0 million with funds provided by the Commonwealth of Pennsylvania. PSI leases back those same assets from PSDC subject to the terms of its Shipyard lease and the Authorization Agreement. For accounting purposes, the transaction was accounted for as a sale/leaseback, and no adjustments were made to the accounting value of the assets at closing.

The net book value of assets under leasing agreements recorded in the statement of financial position at 31 December 2020 amounts to USD 14.0 million. From 1 January 2019, the net book value of the assets PSDC purchased from PSI in 2011 was reclassified from property, plant and equipment to right-of-use assets. The net book value of this right-of-use asset at 31 December 2020 is USD 11.8 million.

The operating leases are for facilities, vehicles and printing and copying equipment. These leases consist of smaller amounts for printers and copiers, and leases that are up to 12 months for a training facility and a vehicle. Based on this, and no material impact from these leases, no right-of-use asset or lease liability was recorded when the new IFRS 16 lease standard became effective 1 January 2019.

The building lease for PSI's plate priming facility has been extended on a month-to-month basis. The base rent is USD 16 thousand per month. This amount is not included in the operating lease rentals recorded above. Due to the short term of the lease, on a month-to-month basis, no right-of-use asset or lease liability was recorded as of 1 January 2019. This lease term was reassessed based on the firm order backlog. Based on this the Company recorded a right–of-use asset and a lease liability representing its obligation to make lease payments.

PSI operates on land leased from PSDC under a 99-year lease consisting of an initial 20-year term and options to renew the lease for three consecutive periods of 20 years each and one final period of 19 years. At expiration of the first 20-year lease period in 2018, the lease was renewed for the first of the three 20-year option periods. PSI can acquire the land for USD 1 after the expiration of all renewal periods. Annual payments under the lease agreement include rent, taxes and operating expenses (operating expenses are subject to an annual revision based on PSDC's operating expenses). Lease payments for rent due under the Shipyard lease had been USD 1 per year. Upon the award of the NSMV program in 2020, the annual rent under the lease agreement increased to USD 200 thousand per annum.

The Shipyard lease is treated as a government grant under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (IAS 20). On transition to IFRS 16, the Shipyard has continued to use this policy to record the government grant under IAS 20 against the investment. This gave a USD 0 balance for the right-of-use asset and the lease liability at 1 January 2019, as the grant was deducted to arrive at the carrying amount of the right-of-use asset. For more details regarding the Shipyard lease, see note 24. The lease terms were reassessed in 2020 upon the award of the NSMV vessels. As such the company has recorded a right-of-use asset and a lease liability representing its obligation to make lease payments.

RELATED PARTY TRANSACTIONS

The Company's policy is that all transactions, agreements and business activities with related parties are conducted on an arm's length basis according to ordinary business terms and conditions.

SEGMENT INFORMATION

Philly Shipyard currently has one business segment which is building and repairing vessels for both the U.S. Jones Act market and the U.S. Government.

BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit or loss attributable to ordinary shareholders using the weighted average number of shares outstanding during the year (not including the treasury shares). The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while giving effect to all potential dilutive ordinary shares that were outstanding during the period. Philly Shipyard currently has no potentially dilutive shares outstanding.

EVENTS AFTER 31 DECEMBER 2020

A distinction is made between events both favorable and unfavorable that provide evidence of conditions that existed at the statement of financial position date (adjusting events) and those that are indicative of conditions that arose after the statement of financial position date (non-adjusting events). Financial statements will only be adjusted to reflect adjusting events and not non-adjusting events (although there are disclosure requirements for such events).

NEW STANDARDS AND INTERPRETATIONS ADOPTED

The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

Standards Issued But Not Yet Effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted new or amended standards in preparing these consolidated financial statements as of 31 December 2020.

The following amended standards and interpretations are not expected to have a significant impact on the Company's consolidated financial statements:

Amendments to IAS 1: *Classification of Liabilities as Current or Non-Current*

Amendments to IAS 16: *Property, Plant and Equipment - Proceeds Before Intended Use*

Amendments to IAS 37: *Onerous Contracts - Cost of Fulfilling a Contract Annual*

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: *Interest Rate Benchmark Reform – Phase 2*

Amendments to IFRS 16: *COVID-19-Related Rent Concessions*

Amendments to IFRS 3: *Reference to Conceptual Framework*

Improvements to IFRS Standards 2018-2020 Cycle: Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

IFRS 9 *Financial Instruments,* IFRS 16 *Leases*, and IAS 41 *Agriculture*

NOTE 2: CONSTRUCTION CONTRACTS

The order backlog is USD 601.9 million at 31 December 2020 and represents a contractual shipbuilding obligation to deliver newly built vessels 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(s). Vessels under contract for ship repair and maintenance work are not included in the order backlog.

The order backlog on long-term construction contracts is as follows:

Amounts in USD thousands	Order backlog 31 Dec 2020	Order intake 2020	Order backlog 31 Dec 2019	Order intake 2019
Total	601 881	631 006	-	350

As of 31 December 2020, the Company had one shipbuilding contract in place where revenue is recognized over time in line with construction progress. For the purposes of revenue recognition under IFRS 15, Hulls 033 and 034 are being treated as a combined contract, with the related performance obligation satisfied over time. As of 31 December 2020, the NSMV project is 4.6% complete.

Progress towards completing the NSMV contract performance obligation is measured based on project costs incurred compared to the total forecasted project costs. Construction contract revenue and income recognized in 2020 includes revenue and income for Hulls 033 and 034 since the contract for these vessels was accounted for using the principle-over-time revenue recognition method according to IFRS 15.

The recognized profit on long-term contracts in process (Hulls 033-034) at year-end 2020 is as follows:

Amounts in USD thousands	31 Dec 2020
Construction contract revenue recognized	29 125
Construction contract expenses recognized	(27 431)
Recognized construction contract profit	**1 694**

Progress towards completing the Matson contract performance obligation was measured based on project costs incurred compared to the total project cost. Construction contract revenue and income recognized thru 2019 includes revenue and income for Hulls 029 and 030 since the contract for these vessels was accounted for using the principle-over-time revenue recognition method according to IFRS 15.

The recognized profit on long-term contracts in process (Hulls 029-030) at year-end 2019 is as follows:

Amounts in USD thousands	31 Dec 2019
Construction contract revenue recognized	408 812
Construction contract expenses recognized	(417 790)
Provision for loss	(559)
Payment received from Matson for inventory items	924
Recognized construction contract loss	**(8 613)**

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

Customer milestone payments as of 31 December 2020 and 31 December 2019 totaled USD 160.0 million and USD 0, respectively. Customer milestone payments from TOTE Services for Hulls 033 and 034 were made at intervals that were intended to be cash neutral and to not require any external financing.

The Company's construction contract with TOTE Services prohibits the payment of dividends by PSI until the delivery of NSMV 3. Thereafter, the payment of dividends is limited based on the Company's earnings.

Contract assets:
Contract assets as of 31 December 2020 and 31 December 2019 totaled USD 0 and USD 1.6 million, respectively. Contract assets as of 31 December 2019 represents revenue recognized on a ship repair and maintenance contract that was not yet billed.

Contract liabilities:
Customer advances, net as of 31 December 2020 and 31 December 2019 totaled USD 130.9 million and USD 0, respectively. Customer advances, net represents the difference between cash advances received from the customer and costs incurred for the NSMV shipbuilding project (Hulls 033-034).

Other contract liabilities as of 31 December 2020 and 31 December 2019 totaled USD 151 thousand and USD 0, respectively. Other contract liabilities as of 31 December 2020 represents the difference between cash advances received from customers and costs incurred for design studies.

As of 31 December 2020, PSI had USD 201.2 million in non-cancellable purchase commitments for materials, equipment and design fees for the construction of Hulls 033-034.

NOTE 3: WAGES AND OTHER PERSONNEL EXPENSES (SG&A)

Wages and other personnel expenses (SG&A) consist of:

Amounts in USD thousands (except number of employees)	2020	2019
Wages	16 738	13 389
Social security contributions	1 336	1 146
Pension costs (note 16)	247	342
Other expenses (1)	3 031	3 112
Total gross expense	**21 352**	**17 989**
Expenses charged to vessel construction	(8 560)	(6 535)
Expenses charged to under-recovered overhead costs	(10 092)	(9 136)
Wages and other personnel expenses (SG&A)	**2 700**	**2 318**
Average number of employees	161	142
Number of employees at year-end	182	119

(1) Other expenses relate primarily to workers' compensation and employee benefits.

NOTE 4: OTHER OPERATING EXPENSES

Other operating expenses consist of:

Amounts in USD thousands	2020	2019
Under-recovered overhead costs	21 578	14 122
Other operating expenses (SG&A)	3 722	3 048
Total	25 300	17 170

In 2020 and 2019, PSI operated at below normal operating levels and under-recovered overhead costs (i.e., overhead costs incurred and not allocated to projects) were expensed in 2020 and 2019. Other operating expenses (SG&A) primarily relate to non-payroll selling, general and administrative expenses.

Fees to auditors for Philly Shipyard are as follows:

Amounts in USD thousands	2020	2019
Audit fees	142	111
Other audit and attestation fees	63	12
Total	205	123

NOTE 5: FINANCIAL INCOME AND FINANCIAL EXPENSE

Amounts in USD thousands	2020	2019
Interest income	661	2 131
Financial income	661	2 131
Interest expense	(517)	(1 953)
Foreign exchange loss	(29)	(2)
Loss on foreign currency forward contracts	-	(66)
Financial expense	(546)	(2 021)
Net financial items	115	110

Details regarding the Company's debt facilities and interest rates are provided in note 14. In 2020, the foreign exchange loss is attributable to certain cash balances which are held in Norwegian Kroner. In 2019, the foreign exchange loss was attributable to certain cash balances which were held in Norwegian Kroner and the loss on foreign currency forward contracts was attributable to mark-to-market of foreign currency forward contracts in Korean Won, Norwegian Kroner and Euro.

NOTE 6: TAXES

Income tax expense/(benefit)

Recognized in the income statement

Amounts in USD thousands	2020	2019
Current income tax (benefit)/expense:		
Current year - U.S.	(18 988)	(366)
Current year - Norway	-	-
Total current income tax (benefit)/expense	**(18 988)**	**(366)**
Deferred tax (benefit)/expense:		
Origination and reversal of temporary differences - U.S.	(10 436)	(398)
Origination and reversal of temporary differences - Norway	202	(205)
Total deferred tax (benefit)/expense	**(10 234)**	**(603)**
Total income tax (benefit)/expense in the income statement	**(29 222)**	**(969)**

Reconciliation of effective tax rate:

Amounts in USD thousands	2020	2019
Loss before tax	(27 643)	(21 181)
Nominal Norwegian tax rate	22.0%	22.0%
Expected tax (benefit)/expense using nominal Norwegian tax rate	(6 081)	(4 660)
Effect of differences between nominal Norwegian tax rate and U.S. federal, state and city tax rate	(3 130)	(2 616)
Expenses not deductible for tax purposes	199	70
R&D tax credits	21	542
NOL carryback claim rate differential	(7 429)	-
Other differences	295	(1 272)
Valuation allowance	(13 097)	6 967
Total income tax (benefit)/expense in the income statement	**(29 222)**	**(969)**

The effective tax rate differs from the expected tax rate primarily due to the difference between the nominal Norwegian tax rate and U.S. federal, state and city tax rates, and income that was not taxable in Norway, in addition to the reversal of the valuation allowance and NOL carryback rate differential.

Income tax receivable/(income tax payable)

Amounts in USD thousands	2020	2019
Beginning of the period	148	3 092
Taxes payable/(refundable)	18 988	366
Taxes refunded	(857)	(3 310)
End of the period	**18 279**	**148**

Income tax receivable and income tax payable are offset when there is a legally enforceable right to offset the taxes; however, when the taxes relate to different tax authorities, they cannot be offset. The Company's income tax receivable and income tax payable at 31 December 2020 relate to different tax authorities and, therefore, cannot be offset. Accordingly, the Company has an income tax receivable of USD 20.140 million and an income tax payable of USD 1.861 million on its statement of financial position at 31 December 2020.

Deferred tax asset/deferred tax liability

Deferred tax asset and deferred tax liability are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority, which through 31 December 2020 for the Company was primarily Norway, the United States, the State of Delaware, the Commonwealth of Pennsylvania and the City of Philadelphia.

The offset amounts for U.S. items are as follows:

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Deferred tax assets - U.S. tax jurisdictions	8 448	-
Deferred tax liabilities - U.S. tax jurisdictions	-	(1 988)
Net deferred tax asset/(liability)	8 448	(1 988)

The gross movement in the deferred income tax account for U.S. tax jurisdictions is as follows:

Amounts in USD thousands	2020	2019
Beginning of the period	(1 988)	(1 086)
Sale of Pennsylvania R&D tax credit	-	(1 300)
Deferred tax benefit	10 436	398
Net deferred tax asset/(liability)	8 448	(1 988)

In 2019, Philly Shipyard sold its Pennsylvania R&D tax credits to a third party, which netted out to USD 1.3 million.

Based on award of the NSMV contract, and estimated future taxable profits, the company has included a deferred tax asset.

The movement in deferred tax asset and deferred tax liability during the year for the U.S. tax jurisdictions is as follows:

Deferred tax asset

Amounts in USD thousands	Other assets	Work-in-process	Total
31 December 2019	1 904	-	1 904
(Charged)/credited to the income statement	10 570	-	10 570
31 December 2020	12 474	-	12 474

Deferred tax liability

Amounts in USD thousands	P,P&E	Other	Total
31 December 2019	(3 892)	-	(3 892)
(Charged)/credited to the income statement	(51)	(83)	(134)
31 December 2020	(3 943)	(83)	(4 026)

The movement in deferred tax asset and deferred tax liability during the year for the Norwegian tax jurisdiction is as follows:

Deferred tax liability

Amounts in USD thousands	Other liabilities	Total
31 December 2019	(205)	(205)
Change in deferred tax liability	205	205
31 December 2020	-	-

PSI has no federal tax losses in carryforward as of 31 December 2020. The 2018, 2019 and 2020 losses were carried back.

PSI has State and City tax losses in carryforward as of 31 December 2020 of USD 73.2 million in the U.S., which expire in 20 years with respect to the State tax losses and expire in 3 years with respect to the City tax losses.

Income tax benefit/(expense) is recognized 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 2020, these losses will be carried back to previous tax years and result in an income tax benefit of approximately USD 19.0 million.

PSI is currently under audit by the Internal Revenue Service (IRS) for its 2018 tax loss carryback claim.

NOTE 7: PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Movements in property, plant and equipment and right-of-use assets for 2020 are shown below:

Amounts in USD thousands	Machinery and vehicles	Buildings	Land improve-ments	Assets under con-struction	Total
Cost at 1 Jan 2020	58 726	61 525	20 570	52	140 873
Additions - PP&E	-	-	-	4 036	4 036
Additions - Right-of-use assets	-	2 433	-	-	2 433
Transfers	846	-	13	(859)	-
Cost at 31 Dec 2020	59 572	63 958	20 583	3 229	147 342
Depreciation and impairment losses at 1 Jan 2020	55 597	35 553	10 584	-	101 734
Depreciation - PP&E	3 133	794	781	-	4 708
Depreciation - Right-of-use assets	111	866	505	-	1 482
Depreciation and impairment losses at 31 Dec 2020	58 841	37 213	11 870	-	107 924
Net book value at 31 Dec 2020 (1)	731	26 745	8 713	3 229	39 418
(1) Net book value of right-of-use assets under lease agreements recorded in the statement of financial position (see note 15):	216	7 808	5 962	-	13 986
Depreciation period	3-12 years	7-30 years	20 years		
Depreciation method	Straight-line	Straight-line	Straight-line		

Movements in property, plant and equipment and right-of-use assets for 2019 are shown below:

Amounts in USD thousands	Machinery and vehicles	Buildings	Land improve-ments	Assets under con-struction	Total
Cost at 1 Jan 2019	54 092	51 287	5 614	42	111 035
Additions - PP&E	-	-	-	2 111	2 111
Additions - Right-of-use assets	4 175	10 238	13 314	-	27 727
Transfers	459	-	1 642	(2 101)	-
Cost at 31 Dec 2019	58 726	61 525	20 570	52	140 873
Depreciation and impairment losses at 1 Jan 2019	47 382	29 680	2 924	-	79 986
Depreciation - PP&E	4 229	1 052	220	-	5 501
Depreciation - Right-of-use assets	138	824	593	-	1 555
Recognition of right-of-use assets on initial appl. of IFRS 16	3 848	3 997	6 847	-	14 692
Depreciation and impairment losses at 31 Dec 2019	55 597	35 553	10 584	-	101 734
Net book value at 31 Dec 2019 (2)	3 129	25 972	9 986	52	39 139
(2) Net book value of right-of-use assets under lease agreements recorded in the statement of financial position (see note 15):	327	6 241	6 467	-	13 035
Depreciation period	3-12 years	7-30 years	20 years		
Depreciation method	Straight-line	Straight-line	Straight-line		

Leased plant and machinery

The Shipyard leases production equipment and land improvements under a number of lease agreements. At the end of each of the leases, the Shipyard has the option to purchase the equipment at a beneficial price. The leased equipment secures lease obligations (see note 15).

Property, plant and equipment under construction

Assets-under-construction primarily relate to upgrades in facilities and equipment.

Depreciation

Philly Shipyard's practice is to present its annual depreciation expense on a separate line item in its consolidated income statement when it is building vessels under contract.

Right-of-use assets (assets under lease agreements)

From 1 January 2019, when the IFRS 16 lease standard took effect, the net book value of the assets PSDC purchased from PSI in 2011 was reclassified from property, plant and equipment to right-of-use assets. The net book value of this right-of-use asset at 31 December 2020 is USD 11.8 million.

The right-of-use asset lease is treated as a government grant under IAS 20. Upon transition to IFRS 16, the Shipyard will continue to use this policy to record the government grant under IAS 20 against the investment. This gives a USD 1 127 balance for the right-of-use asset and a USD 1 153 balance for the lease liability at 31 December 2020, as the grant is deducted to arrive at the carrying amount of the right-of-use asset. For more details regarding the Shipyard lease, see note 24.

Upon the award of the NSMV contract in April 2020, the Company did a reassessment of the lease term of both its shipyard and plate priming facility leases, both of which were treated as short-term in nature in 2019. Based upon this reassessment of the lease term, PHLY is treating each of these leases as long-term due to the option to lease the premises over a longer lease period. Given the backlog, the Company recorded a right-of-use asset and a lease liability representing its obligation to make lease payments. The combined net book value of these right-of-use assets at 31 December 2020 is USD 2.2 million.

Sale leaseback

As part of the 2011 Authorization Agreement, PSDC purchased certain shipyard assets from PSI for a purchase price of USD 42.0 million with funds provided by the Commonwealth of Pennsylvania. PSI leases back those same assets from PSDC subject to the terms of its shipyard lease and the Authorization Agreement. For accounting purposes, the transaction was accounted for as a sale/leaseback, and no adjustments were made to the accounting value of the assets at closing. The proceeds were used for the construction of Hulls 017 and 018, and proportionately recognized as a reduction of vessel cost over the construction of Hulls 017 and 018.

From 1 January 2019, when the new IFRS 16 lease standard took effect, the net book value of the assets PSDC purchased from PSI in 2011 was reclassified from property, plant and equipment to right-of-use assets.

The net book value of assets under lease agreements recorded in the statement of financial position at 31 December 2020 as right-of-use assets amounts to USD 11.8 million (USD 13.0 million at 31 December 2019). See above for further details.

Impairment of assets and reversal of impairment of assets

PSI had been working on a project to build up to four containerships (CV3700 vessels) for delivery to TOTE Maritime in 2020 and 2021. However, this project was placed on hold in early 2018. Based on new order prospects, market conditions and other circumstances, Philly Shipyard cancelled the CV3700 project and an impairment charge of USD 17.6 million was incurred in 2018 due to the write-off of the full amount of the work-in-process assets pertaining to the first two CV3700 vessels (Hulls 031-032). In 2019, approximately USD 3.1 million of previously incurred cancellation costs that were written-off and charged as impairment costs in 2018 for the CV3700 project were recovered from its suppliers. This amount is shown as reversal of impairment of assets in the consolidated income statement.

Determination of recoverable amounts/fair values

Due to the market and company specific developments, including operating results, cash flows and backlog, no impairment indicators were identified in 2020 for property, plant and equipment.

NOTE 8: OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following items:

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Prepaid lease payments and deposits	495	234
Total	495	234

Prepaid lease payments and deposits are unsecured and have no collateral.

NOTE 9: PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables consist of the following items:

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Prepayments materials deposits	39 620	-
Inventory	1 799	2 210
Prepayments other	1 492	768
Trade receivables	2 501	381
Claims receivable	29	143
Total	45 441	3 502

As of 31 December 2020, the Company has USD 39.6 million as prepayments to suppliers for materials and equipment for the construction of Hulls 033-034.

NOTE 10: CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following items:

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Cash and bank deposits	97 361	50 673
Cash and cash equivalents in the statement of cash flows	97 361	50 673

Cash and bank deposits are invested in overnight deposits.

NOTE 11: RESTRICTED CASH

Restricted cash consists of the following items:

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Restricted cash (long-term) - P&P bonds	25 028	-
Restricted cash (short-term) - Matson	1 394	5 556
Restricted cash (short-term) - Welcome Fund	-	60 919
Total	26 422	66 475

Restricted cash (long-term) - P&P bonds represents cash collateral for the payment and performance bonds (P&P bonds) related to Hulls 033 and 034. Restricted cash (short-term) - Matson represents cash escrow accounts established for Matson related to holdbacks for Hulls 029 and 030. Restricted cash (short-term) - Welcome Fund represents a custody account established for the Welcome Fund loan.

In 2020, in conjunction with the award of Hulls 033 and 034, the Company secured P&P bonds in the aggregate amount of USD 120.0 million. As a condition of issuing the P&P bonds, the Company was required to post cash collateral in the aggregate amount of USD 25.0 million. It is anticipated that USD 19.0 million will be released following the delivery of Hull 033 and USD 6.0 million will be released following the delivery of Hull 034. Pursuant to the P&P bonds, PSI is not permitted to pay any dividends without the surety's consent.

As of 31 December 2019, PSI had USD 1.4 million remaining in a cash escrow account for Hull 029 as a holdback for Matson. In 2020, the entire USD 1.4 million was released.

In 2019, PSI deposited USD 4.3 million into a cash escrow account upon delivery of Hull 030 as a holdback for Matson. USD 0.1 million was released in 2019 and an additional USD 2.8 million was released in 2020. The timing of the release of the remaining holdback of USD 1.4 million is uncertain due to the impacts of the COVID-19 pandemic, including quarantine and travel restrictions, on closing out the underlying claims.

As of 31 December 2019, PSI had a restricted cash amount of USD 60.9 million related to the Welcome Fund loan. In March 2020, USD 60.0 million was used to repay the Welcome Fund loan at its maturity together with accrued interest thereon and the balance of USD 0.9 million was released to PSI.

NOTE 12: INCOME/(LOSS) PER SHARE

Basic and diluted

Basic and diluted income/(loss) per share is calculated by dividing the total comprehensive income/(loss) attributable to equity holders of PHLY by the weighted average number of ordinary shares.

Amounts in USD thousands (except share amounts and earnings per share)	2020	2019
Total comprehensive income/(loss) attributable to equity holders of PHLY	1 579	(20 212)
Weighted average number of ordinary shares in issue	12 107 901	12 107 901
Basic and diluted income/(loss) per share (USD)	0.13	(1.67)

At 31 December 2020 and 31 December 2019, PHLY had 12,107,901 ordinary shares (excluding 466,865 treasury shares) at a par value of NOK 10 per share. There were no share issuances or repurchases in 2020 or 2019.

There were no potentially dilutive securities outstanding as of 31 December 2020 and 31 December 2019.

NOTE 13: PAID IN CAPITAL

The current share capital (excluding 466,865 treasury shares) is 12,107,901 shares issued and outstanding as of 31 December 2020, each with a par value of NOK 10, fully paid. As of 31 December 2020, there are no additional authorized shares.

Amounts in USD thousands	Share capital	Share premium	Paid in capital
31 December 2018	22 664	22 511	45 175
Dividend paid	-	-	-
31 December 2019	22 664	22 511	45 175
Dividend paid	-	-	-
31 December 2020	**22 664**	**22 511**	**45 175**

Summary of purchases of treasury shares:

Amounts in USD thousands (except number of shares)	Number of shares	Consideration
Treasury shares at 31 December 2018	466 865	(9 969)
Purchases	-	-
Treasury shares at 31 December 2019	466 865	(9 969)
Purchases	-	-
Treasury shares at 31 December 2020	**466 865**	**(9 969)**

As of 31 December 2020, before receiving any dividends from PSI, the parent company had approximately USD 4.1 million of equity which could be distributed to shareholders by the Board in accordance with PHLY's dividend policy.

NOTE 14: INTEREST-BEARING DEBT

This note provides information about Philly Shipyard's contractual terms of interest-bearing loans and borrowings. For more information about Philly Shipyard's exposure to interest rate and foreign currency risk, see note 20.

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Interest-bearing long-term debt:		
Welcome Fund loan, net of fees (non-current portion)	-	-
Total interest-bearing long-term debt	**-**	**-**
Interest-bearing short-term debt:		
Welcome Fund loan, net of fees (current portion)	-	59 928
Total interest-bearing short-term debt	**-**	**59 928**

PSI had a secured term loan of up to USD 60.0 million (USD 59.9 million on the statement of financial position) at 31 December 2019 which was secured by a first lien on USD 60.9 million of restricted cash amount net of unamortized loan fees) with PIDC Regional Center, LP XXXI, a partnership between CanAm Enterprises and the Philadelphia Industrial Development Corporation (PIDC). The loan had a fixed interest rate of 2.625% per annum through maturity. On 16 March 2020, PSI paid off the USD 60.0 million outstanding Welcome Fund loan together with all accrued interest thereon.

Loan covenants

As of 31 December 2020, Philly Shipyard did not have any loan financial covenants.

Undrawn credit facilities

As of 31 December 2020, Philly Shipyard did not have any undrawn credit facilities with a lending institution.

NOTE 15: LEASES

Short-term leases are payable as follows as of 31 December:

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Annual cost	83	86
Total	83	86

The short-term leases are for the training facility, printing and copying equipment, and a vehicle.

Lease liabilities are payable as follows as of 31 December:

Amounts in USD thousands	Payments 2020	Interest 2020	Principal 2020	Payments 2019	Interest 2019	Principal 2019
Less than one year	392	83	309	-	-	-
More than one year	2 118	214	1 904	-	-	-
Total	2 510	297	2 213	-	-	-

PSI operates on land leased from PSDC through April 2038. Annual payments under the Shipyard lease include rent, taxes and operating expenses (operating expenses are subject to an annual revision based on PSDC's operating expenses). PSI has options to renew the Shipyard lease for three consecutive periods of 20 years each and one final period of 19 years. At expiration of the first lease period in 2018, the Shipyard lease was renewed for the first of the three 20 years' option periods. PSI can acquire the land for USD 1 after the expiration of all renewal periods. Lease payments for rent due under the Shipyard lease were USD 1 per year. Upon the award of the NSMV program in 2020, the annual rent under the Shipyard lease agreement increased to USD 200 thousand per annum.

PHLY has reassessed the leases for its shipyard and its plate priming facility, both of which were treated as short-term in nature in 2019. Based upon this reassessment, PHLY is treating each of these leases as long-term due to the option to lease the premises over a longer lease period and the probability that this option will be exercised. Therefore, a right-of-use asset and lease liability is included in the accompanying 2020 statement of financial position.

The shipyard lease is treated as a government grant under IAS 20. This gives a USD 1 127 balance for the right-of-use asset and a USD 1 153 balance for the lease liability at 31 December 2020, as the grant is deducted to arrive at the carrying amount of the right-of-use asset. For more details regarding the shipyard lease, see note 24.

NOTE 16: PENSION COSTS

Pension costs recognized in the income statement:

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Contribution plans (employer's contribution)	247	342
Total	247	342

PSI has a defined contribution plan for its non-union employees which provides for a PSI contribution based on a fixed percentage of certain employee contributions plus a discretionary percentage of salaries. In addition, PSI's union employees are participants in a multi-employer union selected pension plan (Union Plan). PSI contributes a fixed amount per hour worked to the Union Plan. If PSI were to terminate its relationship with the Union Plan, PSI could be statutorily liable for a termination liability calculated at the termination date. The termination liability at 31 December 2020 was USD 6.2 million. Currently, PSI has no plans to terminate this relationship. Thus, no termination liability has been recognized in the financial statements. However, the termination liability will be incurred in the event the company permanently ceases its operation. PSI estimates that it will contribute approximately USD 0.8 million to the Union Plan in 2021.

NOTE 17: OTHER PROVISIONS - WARRANTIES

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Current balance as of 1 January	2 137	945
Provisions made during the period	1 205	2 635
Provisions released during the period	(1 353)	(168)
Provisions used during the period	(202)	(1 275)
Current balance as of 31 December	1 787	2 137

The warranty provisions made in 2020 relates to the warranty work for Hull 030 to account for the pending Matson claims.

The warranty provisions released in 2019 relates to Hull 029 as all claims for the vessel were closed.

The normal warranty period for a new vessel is typically twelve months after delivery, but can be extended in cases where there are specific issues that have not been fully resolved within the normal warranty period.

NOTE 18: TRADE PAYABLES AND ACCRUED LIABILITIES

Trade payables and accrued liabilities comprise the following items:

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Ship material and subcontracting accruals	2 701	1 883
Employee-related cost accruals	1 915	1 754
Trade payables	2 168	1 072
Overhead and capital projects accruals	1 190	1 546
Total	7 974	6 255

NOTE 19: NET INTEREST-BEARING DEBT

Net interest-bearing debt comprise the following items at 31 December:

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Interest-bearing long-term debt (see note 14)	-	-
Interest-bearing short-term debt (see note 14)	-	59 928
Total interest-bearing debt	-	59 928
Cash and cash equivalents (see note 10)	(97 361)	(50 673)
Restricted cash (see note 11)	(26 422)	(66 475)
Total interest-bearing assets	(123 783)	(117 148)
Net interest-bearing debt	(123 783)	(57 220)

Net interest-bearing debt is defined by the Company to be total interest-bearing debt less total interest-bearing assets.

NOTE 20: FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, currency and interest rate risks arise in the normal course of the Company's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates for business purposes.

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. At 31 December 2020 and 31 December 2019, the maximum exposure to credit risk is as follows:

Amounts in USD thousands	31 Dec 2020	31 Dec 2019
Cash and cash equivalents	97 361	50 673
Restricted cash	26 422	66 475
Trade receivables	2 501	381
Total	126 284	117 529

Liquidity risk

The following are the contractual maturities of financial liabilities including interest payments:

	31 December 2020						
Amounts in USD thousands	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities:							
Lease liability	2 168	(2 168)	(2 168)	-	-	-	-
Trade payables	2 213	(2 510)	(196)	(196)	(392)	(1 199)	(527)
Total	4 381	(4 678)	(2 364)	(196)	(392)	(1 199)	(527)

	31 December 2019						
Amounts in USD thousands	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities:							
Welcome Fund loan	60 000	(60 328)	(60 328)	-	-	-	-
Trade payables	1 072	(1 072)	(1 072)	-	-	-	-
Total	61 072	(61 400)	(61 400)	-	-	-	-

Book values included in the above tables are gross loan amounts.

Currency risk

The Company incurs foreign currency risk on purchases that are denominated in a currency other than USD. The currencies giving rise to this risk are primarily EUR (Euro), KRW (Korean Won) and NOK (Norwegian Kroner).

The Company had no forward contracts as of 31 December 2020 and 31 December 2019.

Exposure to currency risk

The Company's exposure to currency risk at 31 December 2020 and 31 December 2019 was as follows based on the following notional amounts:

	2020			2019		
Amounts in USD thousands	EUR	KRW	NOK	EUR	KRW	NOK
Balance sheet exposure:						
Trade payables (-)	(240)	-	-	-	(35)	(5)
Cash	-	-	46	-	-	223
Gross balance sheet exposure	(240)	-	46	-	(35)	218
Estimated forecast expenses (-)	(3 327)	-	-	-	-	-
Net balance sheet exposure	(3 567)	-	46	-	(35)	218

Sensitivity analysis

In managing interest rate and currency risks, the Company aims to reduce the impact of short-term fluctuations on its earnings. Over the longer term, however, permanent changes in interest and foreign exchange rates would have an impact on consolidated earnings.

It is estimated that a 10% strengthening of the USD against other foreign currencies would not have significantly impacted the Company's loss before tax for 2020 and for 2019.

Exposure to interest rate risk

It is estimated that a general increase of 1.0% in interest rates would not have significantly impacted the Company's loss before tax for 2020 and for 2019.

Fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Amounts in USD thousands	Carrying amount 2020	Fair value 2020	Fair value hierarchy level 2020	Carrying amount 2019	Fair value 2019	Fair value hierarchy level 2019
Lease liability	(2 213)	(2 213)	2	-	-	-
Welcome Fund loan	-	-	-	(60 000)	(59 186)	2

The fair value of fixed-interest long-term debt (i.e. lease liability) is calculated based on the present value of future principal and interest cash flows discounted at a market rate of 4.0% for 2020.

The fair value of the Welcome Fund loan in 2019 was calculated by using the difference between a 4.0% market rate and the actual 2.625% loan rate.

Except for right-of-use asset and lease liability, none of the Company's financials assets and liabilities are measured at fair value.

Financial instruments measured at fair value

There were no financial instruments measured at fair value at 31 December 2020.

NOTE 21: SHARES OWNED OR CONTROLLED BY AND REMUNERATION TO THE PRESIDENT AND CHIEF EXECUTIVE OFFICER, BOARD OF DIRECTORS AND SENIOR MANAGEMENT OF PHILLY SHIPYARD

Shares owned in Philly Shipyard ASA as of 31 December 2020 and 31 December 2019

Name	Position	2020 number of shares held	2019 number of shares held
Elin Karfjell	Board Member	1 200	1 200
Steinar Nerbøvik	President and CEO	1 000	1 000

There is no share option agreement between Philly Shipyard ASA and Senior Management or Directors.

Remuneration to the Board of Directors for the years ended 31 December 2020 and 31 December 2019

		2020 remuneration		2019 remuneration	
Amounts in USD thousands	Position	(NOK)	(USD)	(NOK)	(USD)
James H. Miller	Board Chairman (1)	-	-	350 000	39 223
Kristian Røkke	Board Chairman (2)	475 000	55 669	240 000	27 623
Amy Humphreys	Deputy Board Chairperson	375 000	43 949	240 000	27 623
Elin Karfjell	Board Member	375 000	43 949	240 000	27 623
Total Directors' fees		1 225 000	143 567	1 070 000	122 092

(1) James H. Miller was the Board Chairman from 1 January 2019 - 21 April 2020.
(2) Kristian Røkke has been the Board Chairman from 22 April 2020 - 31 December 2020.

No Board members received any remuneration other than Directors' fees, except James H. Miller, who received USD 31,250 for 2020, related to consulting services through the company SeaJay Consulting LLC. The Board remuneration for Kristian Røkke is paid to Aker ASA.

Remuneration to the audit committee

The audit committee of PHLY is comprised of Elin Karfjell (Chairperson) and Amy Humphreys. Remuneration for the Chairperson is NOK 55,000 (USD 6,446) and for each member is NOK 45,000 (USD 5,274). This is in addition to the amounts shown in the Board of Directors' table above.

Remuneration to the nomination committee

The nomination committee of Philly Shipyard ASA has the following members: Leif Arne Langoy (Chairman) and Ove A. Taklo. Remuneration earned by each member of the committee in 2020 was NOK 34,000 (USD 3,985). The nomination committee remuneration for Ove A. Taklo is paid to Aker ASA.

Guidelines for remuneration to the President and CEO and other members of the Executive Team

The President and CEO and other members of the Executive Team that report directly to the President and CEO receive a base salary. In addition, a variable pay as further described below may be awarded.

The President and CEO and Executive Team participate in the standard Company 401k plan (employer-sponsored retirement account) and insurance schemes, applicable to all employees.

The Company practices standard employment contracts and standard terms and conditions regarding notice period and severance pay for the President and CEO and other members of the Executive Team. The Company does not offer share option programs to the President and CEO or other members of the Executive Team.

2019 variable pay program

In 2019, the variable pay was made in accordance with a variable pay program which was implemented in 2007 and developed in order to create a performance-based system. This system of reward was designed to contribute to the achievement of good financial results and increase shareholder value. This system of reward was adjusted in 2019 to also retain key employees and ensure the delivery of the last two ships in the company's order backlog.

The 2019 variable pay program was based on the achievement of financial and personal performance targets and leadership performance in accordance with the Company's values.

The 2019 variable pay program for the President and CEO represented a potential for an additional variable pay up to 70% of base salary depending on the achievement of defined short-term and long-term results such as financial targets (profit and working capital) and personal targets (project targets, development of commercial solutions, alignment with values and improvement of HSE).

The 2019 variable pay program for other members of the Executive Team represented a potential for an additional variable pay in the range of 20% to 60% of base salary depending on the achievement of the same factors described for the President and CEO.

The 2019 variable pay program for some members of the Executive Team included two payments, i.e., a base award (calculated as provided above) and a deferred payment. The deferred payments, which were designed to incentivize and retain key personnel, were equal to 50% of the base awards and were payable 12 months after the base awards.

HSE incentive/retention program for 2020

In 2020, the variable pay program was made in accordance with a new HSE incentive/retention program. This system of reward was designed to improve Health, Safety and Environment (HSE) performance while retaining key employees during a crucial business cycle.

The 2020 HSE incentive/retention program was based on the achievement of HSE performance targets and continued employment with Philly Shipyard.

The 2020 HSE incentive/retention program for the President and CEO represented a potential for an additional variable pay up to 27% of base salary.

The 2020 HSE incentive/retention program for other members of the Executive Team represented a potential for an additional variable pay in the range of 11% to 27% of base salary.

The 2020 HSE incentive/retention program had minimal effects on the company and the shareholders on the basis that remuneration was not granted in the form of shares (i.e., no risk of dilution effect) and had reduced cash payments compared to the previous program.

Incentive/retention program for 2021

In 2021, the variable pay program was developed to be in line with, and build off of, the 2020 HSE incentive/retention program. This system of reward is designed to improve HSE performance and attain key project objectives while retaining key employees.

The 2021 incentive/retention program is based on the achievement of HSE targets and key project targets, as well as retention.

The 2021 incentive/retention program for the President and CEO and for other members of the Executive Team represents a potential for an additional variable pay up to 28% of base salary.

The 2021 incentive/retention program has minimal effects on the Company and the shareholders on the basis that remuneration is not granted in the form of shares (i.e., no risk of dilution effect) and has reduced cash payments compared to the program in place prior to 2020.

Remuneration paid to Senior Management for 2020 (1)

Amounts in USD			Base salary	Variable pay (2)	Pension contri-bution	Other benefits	Total remun-eration	Severance pay
Steinar Nerbøvik	President and CEO	1 Jan - 31 Dec	452 768	101 560	33 231	75 565	663 124	12 months
Jeffrey Theisen	CFO	6 Sept - 31 Dec	83 558	-	1 837	5 023	90 418	12 months
Brian Leathers	CFO	1 Jan - 10 Aug	190 731	149 100	4 482	3 425	347 738	12 months

(1) PHLY has no employees. The Senior Management is employed in the operating company.

(2) Mr. Nerbovik's variable pay in 2020 consisted of a payment under the 2019 variable pay program, as well as a deferred payment under the 2018 variable pay program (USD 71,040 and USD 30,520, respectively). Mr. Leathers' variable pay in 2020 consisted of a payment under the 2019 variable pay program, as well as an accelerated payment under the 2020 HSE incentive / retention program (USD 66,120 and USD 82,980, respectively).

Remuneration paid to Senior Management for 2019 (3)

Amounts in USD			Base salary	Variable pay (4)	Pension contri-bution	Other benefits	Total remun-eration	Severance pay
Steinar Nerbøvik	President and CEO	1 Jan - 31 Dec	435 999	331 905	32 000	73 342	873 246	12 months
Brian Leathers	CFO	15 July - 31 Dec (5)	231 577	-	2 565	90 920	325 062	12 months
Jan Ivar Nielsen	CFO	1 Jan - 15 July	243 400	188 955	9 808	13 072	455 235	12 months

(3) PHLY has no employees. The Senior Management is employed in the operating company.

(4) A substantial portion of variable pay in 2019 was earned under the variable pay program based on the achievement of defined short-term and long-term results for 2018 and 2017 (USD 104,798 and USD 183,902, respectively). The remainder was paid for achievement of specific project targets related to delivery of Hull 030 (USD 232,160).

(5) The amounts for Mr. Leathers include remuneration from 1 January-14 July while serving as Strategy and Compliance Officer.

NOTE 22: EQUITY-ACCOUNTED INVESTMENTS

Equity-accounted investments with Philly Tankers

PSI held a 53.7% ownership in Philly Tankers. The company did not have the ability to direct activities that significantly affected Philly Tankers returns. Therefore, the Company accounted for the investment under the equity method and did not consolidate Philly Tankers. Philly Tankers' liquidation was approved by its shareholders at an extraordinary general meeting on 13 February 2019, and the liquidation distribution of USD 83.1 million was paid to the shareholders of Philly Tankers the week of 18 February 2019. Philly Shipyard received approximately USD 44.6 million from this distribution, of which USD 13.1 million was deposited in 2019 into a collateral account to secure the Company's five-year term loan from PIDC Regional Center, LP XXXI through the Welcome Fund loan program. The funds were released when the Welcome Fund was repaid at maturity in March 2020. Philly Shipyard has no other equity-accounted investments.

NOTE 23: PHLY COMPANIES

Company name	Incorporation State	Incorporation Country	Ownership %
Philly Shipyard, Inc.	Pennsylvania	USA	100.0%
APSI Tanker Holdings II, LLC	Delaware	USA	100.0%
PSI Containership Holdings, Inc.	Delaware	USA	100.0%

APSI Tanker Holdings II, LLC was formed in May 2014 to hold the Company's shares in Philly Tankers.

PSI Containership Holdings, Inc. was formed in April 2018 to hold the shipbuilding contracts for the cancelled CV3700 project.

NOTE 24: GOVERNMENT GRANTS, OTHER COMMITMENTS AND CONTINGENCIES AND LEGAL MATTERS

Government grants

For the year ended 31 December 2020, the Shipyard received USD 14 thousand as reimbursement of employee training costs from various governmental agencies (USD 0 in 2019).

For the year ended 31 December 2020, the Shipyard did not receive any grant funds for capital and infrastructure improvements under the Small Shipyard Grant Program (USD 0 in 2019).

Other commitments and contingencies

PSI is required to pay a common area maintenance charge each month of approximately USD 54 thousand, subject to escalation, through the term of its shipyard lease.

On 29 November 2017, PSI finalized a new long-term agreement with the City of Philadelphia (and others), whereby the parties agreed to the Real Estate and Use and Occupancy Tax for the years 2018 through 2025. PSI is committed to a fixed payment-in-lieu-of-taxes (PILOT) of approximately USD 863 thousand per year.

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 76 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 2019, Philly Shipyard obtained a temporary conditional waiver of this minimum employment condition. With the award of the NSMV program in 2020, this waiver now remains in effect until PSI reaches the 200 full-time employee requirement.

Legal matters

The Company is involved in various legal disputes in the ordinary course of business related primarily to personal injury matters, employment matters and commercial matters. Provisions have been made to cover the expected outcomes when it is probable that a liability has been incurred and the amount is reasonably estimable. Although the final outcome of these matters is subject to uncertainty, in the Company's opinion the ultimate resolution of such legal matters will not have a material adverse effect on the Company's financial position or results of operations.

NOTE 25: TRANSACTIONS, GUARANTEES AND AGREEMENTS WITH RELATED PARTIES AND CONCENTRATION OF BUSINESS

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 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 31 December 2020. TRG Holdings AS is controlled by Kjell Inge Røkke through The Resource Group TRG AS.

Transactions

Philly Shipyard has service agreements with Aker ASA and certain of its affiliates which provide specified consulting, tax, financial and administrative services. All payables 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 administrative costs and financial statement amounts are as follows:

Amounts in USD thousands	Expenses 2020	Expenses 2019
Aker U.S. Services LLC	103	115
Aker ASA	5	5

Concentrations

Operating revenues are detailed below:

Amounts in USD thousands	Revenue 2020	Revenue 2019
TOTE Services (shipbuilding)	29 125	-
TOTE Services (ship repair)	19 815	8 232
Government studies	5 204	1 041
Matson	-	18 934

NOTE 26: EVENTS AFTER 31 DECEMBER 2020

On 15 January 2021, Philly Shipyard was awarded a contract to participate in an industry study for the development and design of the U.S. Navy's Cable Ship T-ARC(X) program - a replacement for the U.S. Navy's only undersea cable installation and repair ship, the USNS *Zeus* (T-ARC-7).

On 19 January 2021, TOTE Services ordered two additional National Security Multi-Mission Vessels (NSMVs 3 and 4) from Philly Shipyard. Construction of the two new vessels is expected to commence in 2022 with planned deliveries in 2024. This award is valued at approximately USD 600 million.

On 5 February 2021, Philly Shipyard was awarded a ship repair and maintenance contract by Patriot Contract Services - the ship manager on behalf of the U.S. Navy's Military Sealift Command (MSC) - for the USNS *Charlton* (T-AKR-314).


120 MTON
1.2
40 MTON
1.1
2 MTON
80 MTON
1.3A
Philly Shipyard

Income Statement

Amounts in USD thousands	Note	2020	2019
Operating revenues		-	-
Operating expenses	2	(581)	(571)
Operating loss		**(581)**	**(571)**
Interest income earned from subsidiaries		367	1 699
Interest expense payable to subsidiaries		(1 289)	(2 231)
Other interest income and financial income	3	4	423
Other interest expense and financial expense		(43)	(14)
Loss before tax		**(1 542)**	**(694)**
Income tax (expense)/benefit	5	(201)	205
Net loss after tax		**(1 743)**	**(489)**
Allocation of net loss:			
Net loss after tax		(1 743)	(489)
Other equity	6	1 743	489
Total		-	-

Statement of Financial Position

as of 31 December

Amounts in USD thousands	Note	2020	2019
ASSETS			
Shares in subsidiary	4	67 000	67 000
Loan to subsidiary	9	-	31 000
Total non-current assets		**67 000**	**98 000**
Prepayments and other receivables		75	44
Cash and cash equivalents	7	376	1 505
Total current assets		**451**	**1 549**
Total assets		**67 451**	**99 549**
EQUITY AND LIABILITIES			
Share capital		22 664	22 664
Share premium reserve		12 542	12 542
Total paid in capital		**35 206**	**35 206**
Other equity		7 018	8 761
Total equity	6	**42 224**	**43 967**
Deferred tax liability	5	-	205
Loan from subsidiary	9	24 493	55 000
Total non-current liabilities		**24 493**	**55 205**
Trade payables and accrued liabilities		321	377
Income tax payable	5	413	-
Total current liabilities		**734**	**377**
Total liabilities		**25 227**	**55 582**
Total equity and liabilities		**67 451**	**99 549**

Oslo, Norway - 18 March 2021
Board of Directors Philly Shipyard ASA

Kristian Røkke
Board Chairman

Amy Humphreys
Deputy Board Chairperson

Elin Karfjell
Board Member

Steinar Nerbøvik
President and CEO

Cash Flow Statement

Amounts in USD thousands	2020	2019
Loss before tax	(1 542)	(694)
Unrealized foreign exchange loss	29	-
Payment-in-kind interest expense payable to subsidiary	493	-
Income taxes received/(paid)	7	(175)
Change in prepayments and other receivables	(60)	(6)
Change in trade payables and accrued liabilities	(56)	221
Net cash flow used in operating activities	**(1 129)**	**(654)**
Interest expense paid to subsidiary	-	(562)
Net cash flow used in investing activities	**-**	**(562)**
Net change in cash and cash equivalents	(1 129)	(1 216)
Cash and cash equivalents as of 1 January	1 505	2 721
Cash and cash equivalents as of 31 December	**376**	**1 505**

Notes to the Parent Company Accounts

NOTE 1: BASIS FOR PREPARATION

The accounts of Philly Shipyard ASA (referred to herein as PHLY) are presented in conformity with Norwegian legislation and generally accepted accounting principles in Norway. PHLY's functional and reporting currency is the U.S. dollar (USD), except when indicated otherwise.

Subsidiaries

Subsidiaries are presented on a historical cost basis in the parent company accounts. The investment is valued at historical cost for the shares unless impairment write-downs have been deemed necessary. The shares are written down to fair value if the impairment is not of a temporary nature and is necessitated by generally accepted accounting principles. Write-downs are reversed when the basis for the write-down no longer exists.

Dividends and other payments are taken to income in the year they are accrued in the subsidiary. If dividends exceed retained earnings after the purchase, the excess represents repayment of invested capital and the payments are deducted from the invested value in PHLY's statement of financial position.

Classification and valuation of statement of financial position items

Current assets and current liabilities include items that have less than one year to maturity, and other items that are deemed operational working capital. Other items are classified as non-current assets/non-current liabilities.

Current assets are valued at the lower of historical cost and fair value. Current liabilities are valued at their nominal historical value at the time the liability arises.

Non-current assets are valued at historical cost, but are written down to fair value if impairment is deemed to be of a permanent nature. Non-current liabilities are valued at nominal historical values.

Tax

Tax benefit in the income statement comprises both current payable taxes and the change in deferred tax. Payable tax is calculated on the basis of the profit for the period in Norwegian Kroner (NOK). Deferred tax at 31 December 2020 is calculated using a 22% income tax rate utilizing the difference that exists between book values and tax values and the net operating losses that can be carried forward at the statement of financial position date. Tax-increasing and tax-reducing temporary differences that are reversing or can reverse in the same period are offset against each other. Net tax assets are shown in the statement of financial position to the extent it is probable that these assets can be utilized

Cash flow statement

The cash flow statement is shown using the indirect method. Cash and cash equivalents comprises cash, bank deposits and other short-term liquid placements.

Use of estimates

Preparation of financial statements in conformity with generally accepted accounting principles in Norway requires management to make estimates and assumptions that affect the income statement, the reported amounts of assets and liabilities and also the disclosure of contingent assets and liabilities on the statement of financial position date.

Contingent losses that are probable and quantifiable are expensed when they are identified.

Going concern

As noted in note 1 of the consolidated financial statements, the 2020 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. Whereas in 2019 Philly Shipyard had no firm contracts it now has a firm order backlog which takes operations into 2024.

NOTE 2: OTHER OPERATING EXPENSES

Fees to the auditors for ordinary audit and other audit and attestation fees have been expensed.

Amounts in USD thousands	2020	2019
Audit fees	32	38
Other audit and attestation fees	-	-
Total	32	38

PHLY has no employees. The Senior Management is employed in the operating company. Fees to the Board of Directors of USD 233 thousand and USD 122 thousand were expensed in 2020 and 2019, respectively.

NOTE 3: OTHER INTEREST INCOME AND FINANCIAL INCOME

Amounts in USD thousands	2020	2019
Guarantee provisions (1)	-	388
Interest income external	4	35
Total	4	423

(1) Please see note 9 of the parent company accounts for further details pertaining to the guaranty fee agreements.

NOTE 4: SHARES IN SUBSIDIARY

This item comprises the following as of 31 December 2020:

Amounts in USD thousands	Ownership and voting rights (%)	Business address	Historical cost	Book value
Philly Shipyard, Inc. (PSI)	100%	Philadelphia, PA	67 000	67 000
Total shares in subsidiary			67 000	67 000

PSI's results after-tax in 2020 and equity at the end of 2020 are (in USD thousands):

Results after-tax 2020	3 321
Equity at 31 December 2020	117 622

Based on the net asset position of PSI (the investment in subsidiary) as well as the cash on hand at PSI, PHLY has concluded that no impairment indicators have been identified at 31 December 2020.

NOTE 5: TAXES

The table below shows the difference between book and tax values by the end of 2020 and 2019 and the amounts of deferred taxes at these dates and the change in deferred taxes.

Amounts in USD thousands	2020	2019
Losses carried forward	-	176
Other temporary differences	1 740	(1 109)
Total differences	**1 740**	**(933)**
Net deferred tax asset/(liability), 22%/22%	**-**	**(205)**
Foreign currency impact	-	-
Deferred tax asset/(liability) in the statement of financial position	**-**	**(205)**

Estimated result for tax purposes:

Amounts in USD thousands	2020	2019
Loss before tax measured in NOK for taxation purposes	(1 542)	(694)
Change in temporary differences	2 244	250
Interest limitation	371	-
Utilization of carried forward tax losses	(98)	-
Foreign currency impact	901	(235)
Estimated income/(loss) for tax purposes	**1 876**	**(679)**
Income tax payable, 22%/22%	**413**	**-**

Income tax benefit in the income statement:

Amounts in USD thousands	2020	2019
Income tax payable	(413)	-
Change in deferred tax liability	205	205
Foreign currency impact	7	-
Income tax (expense)/benefit	**(201)**	**205**

NOTE 6: TOTAL EQUITY

Changes in equity are:

Amounts in USD thousands	Share capital	Share premium	Treasury shares	Total paid in capital	Other equity	Total equity
Equity as of 1 January 2020	22 664	22 511	(9 969)	35 206	8 761	43 967
Net loss for the year 2020	-	-	-	-	(1 743)	(1 743)
Equity as of 31 December 2020	22 664	22 511	(9 969)	35 206	7 018	42 224

The share capital of NOK 125,747,660 consists of 12,574,766 shares (including 466,865 treasury shares) with a par value of NOK 10 as of 31 December 2020.

PHLY is a part of the consolidated accounts of Aker ASA, Oksenøyveien 10, NO-1366 Lysaker, Norway.

Twenty largest shareholders

(as of 31 December 2020)

Amounts in USD thousands	Number of shares held	Ownership (in %)
Aker Capital AS	7 237 631	57.6%
Goldman Sachs & Co. LLC	2 063 548	16.4%
J.P. Morgan Securities LLC	568 926	4.5%
Philly Shipyard ASA	466 865	3.7%
Morgan Stanley & Co. LLC	450 382	3.6%
Nordnet Livsforsikring AS	110 887	0.9%
Interactive Brokers LLC	105 904	0.8%
Clearstream Banking S.A.	102 910	0.8%
Morgan Stanley & Co. LLC	89 036	0.7%
Citibank, N.A.	75 792	0.6%
J.P. Morgan Securities LLC	52 722	0.4%
Ramadan Kovaci	40 005	0.3%
Even Malvin Norheim	30 500	0.2%
Lars Ro	30 000	0.2%
Heggum Holding AS	27 520	0.2%
Peter Myhre	27 000	0.2%
J.P. Morgan Chase Bank	27 000	0.2%
Espen Einar Dalby	25 500	0.2%
Ronny Kandal	24 500	0.2%
Kim Skailand	22 000	0.2%
Total, 20 largest shareholders	11 578 628	92.1%
Other shareholders	996 138	7.9%
Total	12 574 766	100.0%

NOTE 7: CASH AND CASH EQUIVALENTS

There is no restricted cash.

NOTE 8: SHARES OWNED BY THE BOARD OF DIRECTORS AND THE SENIOR MANAGEMENT

For information regarding shares owned by the members of the Board of Directors and the Senior Management, please see note 21 to the consolidated accounts.

NOTE 9: RELATED PARTY TRANSACTIONS AND GUARANTEES

PHLY supplied a parent company guarantee for the obligations of PSI under the two construction contracts with Matson Navigation Company, Inc. (Hulls 029-030). These guarantees were terminated upon the delivery of Hulls 029 and 030 in October 2018 and March 2019, respectively.

PHLY supplied a parent company guarantee for the Welcome Fund loan in the amount of USD 60.0 million. This guarantee was terminated upon the repayment of the Welcome Fund loan on 16 March 2020. For additional information regarding the Welcome Fund loan facility, please see note 14 to the consolidated accounts.

PHLY supplied a parent company guarantee for the obligations of PSI under the construction contract with TOTE Services, LLC for the NSMV program. This guarantee prohibits the payment of dividends by PHLY until the delivery of NSMV 3. Thereafter, the payment of dividends is limited based on the Company's earnings.

PHLY supplied a parent company guarantee for the obligations of PSI under the payment and performance bonds (P&P bonds) related to Hulls 033-034. The maximum liability of PHLY under this guarantee is USD 130.0 million.

PSI and PHLY were parties to certain guaranty fee agreements related to the Matson project and the Welcome Fund loan. Total revenues of PHLY from PSI under these guaranty fee agreements in 2020 and 2019 were USD 0 and USD USD 0.4 million with fees ranging from 0.15% to 0.30% for performance guarantees and 0.75% for loan guarantees. These agreements were terminated in 2019 upon the delivery of Hull 030 and defeasance of the Welcome Fund loan.

PHLY has service agreements with Aker ASA and certain of its affiliates which provide certain administrative services. All payables under these agreements are paid within the normal course of business. Total expenses incurred under these agreements in 2020 and 2019 were USD 5 thousand for both years.

As of 31 December 2019, PSI had a USD 31.0 million loan due to PHLY, and PHLY had a USD 55.0 million loan due to PSI. In March 2020, the USD 31.0 million loan due to PHLY was canceled and the USD 55.0 million loan due to PSI was reduced by an equal amount. Additionally, on 30 September 2020, the remaining USD 24.0 million loan due to PSI was amended to allow for payment-in-kind quarterly interest payments at the option of PHLY. As of 31 December 2020, USD 24.5 million is outstanding under the facility.

Auditor's Report

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To the Annual General Meeting of Philly Shipyard ASA

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philly Shipyard ASA. The financial statements comprise:

- The financial statements of the parent company Philly Shipyard ASA (the Company), which comprise the statement of financial position as at 31 December 2020, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Philly Shipyard ASA and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2020, and income statement, statement of comprehensive income, statement of changes in equity, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition on construction contracts

Refer to Board of Directors report, Note 1 (Accounting Principles), and Note 2 (Construction Contracts)

The key audit matter	***How the matter was addressed in our audit***
Accounting for construction contracts is considered a key audit matter due to the significant estimates and judgments applied by management, and the degree of complexity relating to project execution risk of meeting forecasted costs and timelines underlying the cost-to-cost percentage of completion method. As of 31 December 2020 the Group is building two National Security Multi-Mission Vessels (NSMV) to be delivered in 2023, which is accounted for as one performance obligation. Revenue is recognized over time based on total costs incurred relative to total forecast costs in accordance with IFRS 15 *Revenue from contracts with customers*. The key judgments and estimates applied by management to assess the contract revenue and costs include: • forecasting the total cost on the project based on an estimate of contract costs to complete, including contingencies for uncertain costs; • assessing if the two vessels in the contract should be treated as series of distinct goods and recognized as one performance obligation; and • assessing the measure of progress of the project, which determines the revenue to be recognized based on the project forecast. These management estimates and judgments are often complex and involve assumptions regarding future events for which there may be limited internal or external corroborative data.	For the vessel construction project in process as at 31 December 2020, our response included: • with the use of assistance from our internal Major Project Advisory construction specialists, challenging the Company's measure of progress estimate, and evaluating the appropriateness of the Company's assumptions used to develop total cost estimates, with a focus on risk contingencies, delivery dates and estimates to complete; • corroborating the Company's contractual revenue amounts included in project forecasts by agreeing to the related signed contracts; • evaluating costs to complete with reference to contract terms, actual and forecasted costs, and the construction schedule, based on internal documentation, and external documentation if available; • considering the overall consistency of information presented in the project forecasts, including the interrelationships between performance according to schedule, cost, revenues, any penalty forecasts and incorporating any other events or information received after the reporting date; • evaluating factors during the year that could result in significant changes in contract revenues and estimated total costs, such as change orders or unexpected construction delays or costs, and considering our assessment of the risk of management bias in forecasted costs; • obtaining the Company's IFRS 15 assessment and evaluating if the criteria for series of distinct goods are met; • performing procedures to agree actual costs incurred to supporting documentation, such as third party invoices, and assessing if the appropriate inputs of actual costs and forecasted costs are used to assess percentage of completion; and • recalculating revenue to be recognized for construction contract revenue, based on these aforementioned inputs.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, with the exception of our report on Other Legal and Regulatory Requirements below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are

responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo,25 March 2021
KPMG AS

Gunnar Sotnakk

Gunnar Sotnakk
State Authorised Public Accountant

Good Dialogue

Philly Shipyard ASA (referenced to herein as "PHLY") is committed to maintaining an open and direct dialogue with its shareholders, potential investors, analysts, brokers and the financial community in general.

The timely release of information to the market that could affect PHLY's share price helps ensure that Philly Shipyard ASA's share price reflects its underlying value.

Historically, Philly Shipyard's goal has been that PHLY's shareholders will, over time, receive competitive returns on their investments through a combination of dividends and share price growth. In line with this objective, PHLY has paid out significant dividends in the past.

Given the award of the contract for the National Security Multi-Mission Vessel (NSMV) program and related capital requirements, on 14 July 2020, the PHLY Board revised the Company's dividend policy as follows:

"The Company's objective is to provide its shareholders with a competitive return on its shares over time based on the Company's earnings. The Company's focus is on long-term profitability, and its current priorities are to retain a strong balance sheet and cash position. Accordingly, no dividends are contemplated until further notice."

In 2020, PHLY did not pay any dividends. The PHLY Board does not foresee payment of shareholder distributions, including dividends and share buybacks, sooner than the delivery of the third NSMV.

The Norwegian Public Limited Liability Companies Act allows for the Board of Directors to pay dividends on the basis of an authorization from the general meeting. The Board of Directors will therefore propose to the annual general meeting in 2021 that the Board of Directors is granted an authorization to pay dividends based on PHLY's annual accounts for 2020, valid up to PHLY's annual general meeting in 2022. Such authorization will facilitate potential payments of dividends by the Board of Directors in accordance with PHLY's dividend policy.

SHARES AND SHARE CAPITAL

As of 31 December 2020, Philly Shipyard ASA has 12,574,766 ordinary shares; each share has a par value of NOK 10 (see note 6 to the parent company's 2020 accounts). As of 31 December 2020, PHLY had 862 shareholders, of whom 60 shareholders, or 7.0%, were non-Norwegian shareholders.

PHLY has a single share class. Each share is entitled to one vote. PHLY holds 466,865 of its own (treasury) shares, constituting approximately 3.71% of the shares outstanding, as of 31 December 2020.

STOCK EXCHANGE LISTING

Philly Shipyard ASA was listed on Oslo Axess on 17 December 2007 (ticker: PHLY). PHLY's shares are registered in the Norwegian Central Securities Depository; the shares have the securities registration number ISIN NO 0010395577. DNB Bank ASA is PHLY's registrar.

MAJORITY SHAREHOLDER

Philly Shipyard ASA's majority shareholder is Aker Capital AS, a wholly-owned subsidiary of Aker ASA. Companies that are part of Aker are legally and financially independent units. Aker Capital AS exercises active ownership as part of systematic efforts to create value for all PHLY shareholders.

From time to time, agreements are entered into between the Company and one or more Aker companies. The Boards of Directors and other parties involved in the decision-making processes related to such agreements are all critically aware of the need to handle such matters in the best interests of the involved

SHARE CAPITAL DEVELOPMENT OVER THE PAST THREE YEARS

Amounts in USD thousands	Change inshare capital (in NOK)	Share capital (in NOK)	Number of shares	Par value (in NOK)
Change in 2018	-	-	-	-
31 December 2018	-	125 747 660	12 574 766	10.00
Change in 2019	-	-	-	-
31 December 2019	-	125 747 660	12 574 766	10.00
Change in 2020	-	-	-	-
31 December 2020	-	125 747 660	12 574 766	10.00

companies, in accordance with good corporate governance practice. If needed, external, independent opinions are sought.

CURRENT BOARD AUTHORIZATIONS

As of 31 December 2020, the Board of Directors of Philly Shipyard ASA has an authorization to pay dividends, an authorization to increase the share capital and two separate authorizations to acquire own shares. All of these current Board authorizations are valid up until the next annual general meeting in 2021. For more details, please see "Board authorizations" on pages 71-72.

STOCK OPTION PLANS

As of 31 December 2020, Philly Shipyard ASA has no stock option program.

INVESTOR RELATIONS

Philly Shipyard ASA seeks to maintain an open and direct dialogue with shareholders, financial analysts and the financial market in general.

All Philly Shipyard press releases and investor relations publications, including archived material, are available at the Company's website: www.phillyshipyard.com. This online resource includes PHLY's quarterly and annual reports, prospectuses, articles of association, financial calendar and its Investor Relations and Corporate Governance policies, along with other information.

Shareholders can contact the Company at contactus@phillyshipyard.com.

ELECTRONIC INTERIM AND ANNUAL REPORTS

Philly Shipyard ASA encourages its shareholders to subscribe to the electronic version of PHLY's annual reports. Annual reports are published on the Company's website at the same time as they are made available via website release by the Oslo Stock Exchange/Oslo Axess: www.newsweb.oslobors.no (ticker: PHLY). Subscribers to this service receive annual reports in PDF format by email.

TWENTY LARGEST SHAREHOLDERS
(as of 31 December 2020)

Shareholders	Number of shares held	Ownership (in %)
Aker Capital AS	7 237 631	57.6%
Goldman Sachs & Co. LLC	2 063 548	16.4%
J.P. Morgan Securities LLC	568 926	4.5%
Philly Shipyard ASA	466 865	3.7%
Morgan Stanley & Co. LLC	450 382	3.6%
Nordnet Livsforsikring AS	110 887	0.9%
Interactive Brokers LLC	105 904	0.8%
Clearstream Banking S.A.	102 910	0.8%
Morgan Stanley & Co. LLC	89 036	0.7%
Citibank, N.A.	75 792	0.6%
J.P. Morgan Securities LLC	52 722	0.4%
Ramadan Kovaci	40 005	0.3%
Even Malvin Norheim	30 500	0.2%
Lars Ro	30 000	0.2%
Heggum Holding AS	27 520	0.2%
Peter Myhre	27 000	0.2%
J.P. Morgan Chase Bank	27 000	0.2%
Espen Einar Dalby	25 500	0.2%
Ronny Kandal	24 500	0.2%
Kim Skailand	22 000	0.2%
Total, 20 largest shareholders	11 578 628	92.1%
Other shareholders	996 138	7.9%
Total	12 574 766	100.0%

OWNERSHIP STRUCTURE BY NUMBER OF SHARES HELD
(as of 31 December 2020)

Shares owned	Number of shareholders	% of share capital
1 – 100	285	0.1%
101 – 1 000	348	1.2%
1 001 – 10 000	193	4.8%
10 000 – 100 000	28	5.6%
100 001 – 500 000	5	9.8%
Over 500 000	3	78.5%
Total	862	100.0%

Quarterly reports, which are generally only distributed electronically, are available from the Company's website and other sources. Shareholders, who are unable to receive the electronic version of interim and annual reports, may subscribe to the printed version by contacting Philly Shipyard's investor relations staff.

NOMINATION COMMITTEE

PHLY's nomination committee has the following members: Leif Arne Langoy and Ove Taklo. Shareholders who wish to contact Philly Shipyard's nomination committee may do so using the following address:

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

ANNUAL SHAREHOLDERS' MEETING

Philly Shipyard ASA's annual shareholders' meeting is normally held in March or April. Written notification is sent to all shareholders individually or to shareholders' nominees. To vote at shareholders' meetings, shareholders (or their duly authorized representatives) must either be physically present or vote by proxy.

2020 SHARE DATA

PHLY's total market capitalization as of 31 December 2020 was NOK 679 million. During 2020, a total of 3,138,109 Philly Shipyard ASA shares traded, corresponding to 0.250 times PHLY's freely tradable stock. The shares traded on 252 trading days in 2020.

GEOGRAPHIC DISTRIBUTION OF SHAREHOLDERS

(as of 31 December 2020)

Shareholders	Number of shares held	Ownership (in %)
Norwegian shareholders	8 884 296	70.7%
Non-Norwegian shareholders	3 690 470	29.3%
Total	12 574 766	100.0%

SHARE PRICE DEVELOPMENT IN 2020

(2020 share data)

Highest traded (in NOK)	89.6
Lowest traded (in NOK)	34.9
Share price as of 31 Dec. (in NOK)	54.0
Shares issued as of 31 Dec.	12 574 766
Own (treasury) shares as of 31 Dec.	466 865
Shares issued and outstanding as of 31 Dec.	12 574 766
Market capitalization as of 31 Dec. (in NOK millions)	679
Proposed share dividend (NOK per share)	-

SHARE PRICE DEVELOPMENT

(2018 - 2020)
NOK / share

Corporate Governance

Philly Shipyard ASA (referenced to herein as "PHLY") aims to create maximum value for its shareholders over time. Good corporate governance will help to reduce risk and ensure sustainable value creation.

The Board of Directors (the "Board") of PHLY has reviewed and updated PHLY's principles for corporate governance. The principles are based on the Norwegian Code of Practice for Corporate Governance, dated 17 October 2018 (the "Code of Practice"), the principles set out in the Continuing Obligations of stock exchange listed companies from the Oslo Stock Exchange, and the relevant Norwegian background law such as the Norwegian Accounting Act and the Norwegian Public Limited Liability Companies Act. The Code of Practice is available at www.nues.no and the Continuing Obligations of stock exchange listed companies may be found at https://www.euronext.com/en/markets/oslo. The principles also apply to PHLY's subsidiaries when relevant. The Board's statement of corporate governance is included in this annual report. The following presents the current practice of PHLY regarding each of the recommendations contained in the Code of Practice. Any deviations from the recommendations are explained under the item in question.

Purpose

PHLY's Corporate Governance principles ensure an appropriate division of roles and responsibilities among PHLY's owners, its Board, and its executive management, and that business activities are subject to satisfactory control. The appropriate division of roles and satisfactory control contribute to the greatest possible value creation over time, to the benefit of owners and other stakeholders.

Values and ethical guidelines

The Board has adopted corporate values and ethical guidelines. The Company's corporate values are presented on page 8 of this annual report. Philly Shipyard has zero tolerance for corruption and, in 2015, the Board approved an Anti-Corruption Policy that is in-line with the anti-corruption policies in place at other Aker ASA-related companies. Philly Shipyard works to promote a sustainable and responsible company that is driven by good results and the demands for social responsibility.

Business

PHLY's business purpose clause in the articles of association is as follows:

"The Company's business is to own and manage industry and other related business related to building of ships, capital management and other operations for the group, including participating in or acquiring other business."

The function of the business purpose clause is to ensure that shareholders have control of the business and its risk profile, without limiting the Board or management's ability to carry out strategic and financially viable decisions within the defined purpose. PHLY's goals and main strategies and risks for its business activities are presented in the Board's report. PHLY's vision is for Philly Shipyard "To be – and be recognized as – a leading shipyard in America that delivers on its commitments, every time" and its supporting strategies for 2021 are securing new orders for major shipbuilding programs and pursuing a mix of commercial and government newbuild and repair and maintenance opportunities.

EQUITY AND DIVIDENDS

Equity

PHLY's equity as of 31 December 2020 amounted to USD 92.9 million, which corresponds to an equity ratio (total equity divided by total assets) of approximately 39%. PHLY regards its current equity structure as appropriate and adapted to its objectives, strategy and risk profile.

Dividends

PHLY's dividend policy is included in the section "Shares and shareholder matters" (see page 68). As stated in that policy:

"The Company's objective is to provide its shareholders with a competitive return on its shares over time based on the Company's earnings. The Company's focus is on long-term profitability, and its current priorities are to retain a strong balance sheet and cash position. Accordingly, no dividends are contemplated until further notice."

At this time, the Board does not foresee payment of shareholder distributions, including dividends and share buybacks, sooner than the delivery of the third National Security Multi-Mission Vessel (NSMV).

Board authorizations

It is the intention that the Board's proposals for future Board authorizations to issue shares and to undertake share buy backs are to be limited to defined purposes and to be valid only until the next annual shareholders' meeting.

To facilitate the potential payment of dividends in accordance with PHLY's dividend policy, the Board has an authorization to pay dividends based on PHLY's annual accounts for 2019.

The Board has an authorization to increase the share capital by up to NOK 12,574,766, which can only be used to raise equity capital for new shipbuilding projects or other future investments within the Company's scope of operations.

The Board has an authorization to acquire own shares with a total nominal value of NOK 12,574,766, which can only be used for the purpose of utilizing PHLY's shares as transaction currency in acquisitions, mergers, de-mergers or other transactions.

The Board has an authorization to acquire own shares with a total nominal value of NOK 12,574,766, which can only be used for the purpose of investment or subsequent sale or deletion of such shares.

All of these Board authorizations are valid up to the annual shareholders' meeting in 2021.

The Board currently has no other authorizations to issue shares or undertake share buybacks. The Board will propose to the annual shareholders' meeting in 2021 that the Board is granted an authorization for payment of dividends, an authorization to increase the share capital and two authorizations to acquire own shares similar to the authorizations described above.

Equal treatment of shareholders and transactions with close associates

PHLY has a single class of shares, and all shares carry the same rights in PHLY. Equal treatment of all shareholders is crucial. If existing shareholders' pre-emptive rights are proposed waived upon an increase in share capital, the Board will justify the waiver. The Board will also publicly disclose such justification in a stock exchange announcement issued in connection with such increase in share capital. Transactions in own (treasury) shares are executed on the Oslo Stock Exchange or by other means at the listed price.

If there are material transactions between the Company and a shareholder, Board member, member of executive management, or a party closely related to any of the aforementioned, the Board shall ensure that independent valuations are available.

See additional information on transactions with related parties in note 25 to the consolidated accounts. As of 31 December 2020, 57.6% of the shares in PHLY are owned by Aker Capital AS, a wholly-owned subsidiary of Aker ASA. For further details on the relationship between Philly Shipyard and Aker ASA, see note 25 to the consolidated accounts.

Shares and negotiability

There are no limitations on any party's ability to own, trade or vote for shares in PHLY. No restrictions on transferability are found in PHLY's articles of association.

General meetings

The Board encourages shareholders to participate in shareholders' meetings. However, due to the public health requirements following the ongoing COVID-19 outbreak, PHLY will this year urge its shareholders to not meet and rather use the available means of voting by proxy. For the same reason, it is also the intention for this year's annual general meeting that only the minimum representatives required by law will attend the annual general meeting. It is PHLY's priority to hold the annual shareholders' meeting as early as possible after the year-end. Notices of shareholders' meetings are sent physically by post and comprehensive supporting information, including the recommendations of the nomination committee, are made available for the shareholders on PHLY's home page www.phillyshipyard.com, in each case not later than 21 days prior to the annual shareholders' meeting. The Board seeks to ensure that the resolutions and supporting information are sufficiently detailed and comprehensive to enable the shareholders to form a view on all matters to be considered at the meeting. The deadline for shareholders to register to the shareholders' meetings is set as close to the date of the meeting as possible and the deadline for registration may not expire earlier than five days prior to the date of the shareholders' meeting. Shareholders who are unable to attend the meeting in person may vote by proxy, and normally the proxy may be given to the chairman of the meeting or any other person appointed by the chairman. Both on the attendance and proxy form and the notice of meeting, all procedures for registration are thoroughly explained. In addition, information on how to propose a resolution to the items on the agenda at the annual shareholders' meeting will be included in the notice.

Pursuant to PHLY's articles of association, the Chairman of the Board, or any other person appointed by the Chairman, chairs the shareholders' meetings. Although the Code of Practice recommends an independent chair for annual general meetings, it is the view of PHLY that the procedure followed by PHLY provides efficient and well prepared annual general meetings and is in the interests of the shareholders. The shareholders are invited to make a joint voting on the composition of the Board as proposed by the nomination committee and not on each board member separately. Hence, PHLY deviates from the Code of Practice in this regard as the nomination committee emphasizes that the Board's composition shall reflect a variety of experience, knowledge and qualifications.

To the extent possible, the CEO/general manager, nomination committee leader and auditor attend annual shareholders' meetings.

Minutes of shareholders' meetings are published as soon as practically possible on the Oslo Stock Exchange, www.newsweb.oslobors.no (ticker: PHLY) and on PHLY's home page www.phillyshipyard.com, under the heading "News Room".

NOMINATION COMMITTEE

PHLY has a nomination committee, as set forth in section 7 of PHLY's articles of association. Pursuant to the articles of association, the nomination committee is to comprise no fewer than two members. Each member is normally elected for a two-year period. The composition of the nomination committee reflects the interests of the shareholders, and its members are independent from the Board and executive management. The members and Chairman of the nomination committee are elected by PHLY's annual shareholders' meeting, which also approves the remuneration payable to committee members.

Pursuant to PHLY's articles of association, the nomination committee recommends candidates for members of the Board. The nomination committee also makes recommendations as to remuneration of the members of the Board and the nomination committee. The nomination committee will justify its recommendation and such justification will address the criteria specified in section 8 of the Code of Practice on the composition of the Board.

The nomination committee comprises the following members:

- Leif Arne Langoy, Chairman (2019-2021)
- Ove Taklo (2020-2022)

Neither of the members of the nomination committee is a member of the Board. Neither the CEO/general manager nor any other senior executive is a member of the nomination committee.

The shareholders' meeting has stipulated guidelines for the duties of the nomination committee.

PHLY provides the shareholders with information on how to submit proposals to the nomination committee for candidates for election to the Board on PHLY's home page www.phillyshipyard.com.

BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

Pursuant to section 4 of PHLY's articles of association, the Board comprises between three and seven members. The Board is currently comprised of a total of three members. PHLY's shareholders elect the Chairman of the Board at the annual shareholders' meeting. The Board may elect its own Deputy Board Chairman. Board members are elected for a period of two years.

The composition of the Board is designed to ensure that it can operate independently of any special interests and function effectively as a collegiate body. A majority of the shareholder-elected Board members are independent of PHLY's executive management and its significant business associates. The Board does not include any executive personnel. Further, two of the three shareholder-elected Board members are independent of PHLY's main shareholder, Aker ASA. Kristian Røkke, the Chairman of the Board of PHLY, is Chief Executive Officer of Aker Horizons AS.

The current composition of the Board, as well as the Board members' expertise, capabilities, and experience, are presented on page 76 of this annual report. The shareholder-elected Board members represent a combination of expertise, capabilities, and experience from various businesses and industries.

The Board members' shareholdings are presented in note 21 to the consolidated accounts. PHLY encourages the Board members to invest in PHLY's shares.

One of the three shareholder-elected Board members are up for election. PHLY will provide the relevant information regarding such Board member in accordance with the Code of Practice guidelines in advance of the annual general meeting.

THE WORK OF THE BOARD OF DIRECTORS

The Board of PHLY annually adopts a plan for its work, emphasizing the goals, strategies, and risk profile of the Company's business activities. The plan also recognizes the Company's corporate social responsibility. Also, the Board has adopted instructions that regulate areas of responsibility, tasks, and division of roles of the Board, Board Chairman, and the CEO/general manager. These instructions feature rules governing Board schedules, rules for notice and chairing of Board meetings, decision-making rules, the CEO's/general manager's duty and right to disclose information to the Board, professional secrecy, impartiality, and other issues.

In order to ensure a more independent consideration of matters of a material character in which the Board Chairman is, or has been, personally involved, the Board's consideration of such matters are chaired by the Deputy Board Chairman, if there is one serving at the time, or some other member of the Board in the absence of a Deputy Board Chairman.

The Board of PHLY established an audit committee in 2010. The audit committee consists of two members, Elin Karfjell (Chairperson) and Amy Humphreys. Both members are independent from operations of the Company and neither member is linked to PHLY's main shareholder, Aker ASA.

PHLY does not have any other active Board committees at this time. In particular, PHLY does not have a remuneration committee because all members of the Board are independent of PHLY's executive personnel.

PHLY has prepared guidelines designed to ensure that members of the Board and executive management notify the Board of any direct or indirect stake they may have in agreements entered into by the Company. The Board evaluates its own performance and expertise once a year.

Risk management and internal control

The Board is to ensure that the Company maintains solid in-house control practices and protocols and appropriate risk management systems tailored to the Company's business activities. These practices and systems encompass the Company's guidelines for how it integrates considerations related to stakeholders into its creation of value. PHLY's policy regarding corporate social responsibility is set forth on pages 19-21 of this annual report. The Board annually reviews the Company's most important risk areas and internal control systems and procedures, and these risk areas are mentioned in the Board's report. Through the use of a risk matrix and log, the Board also monitors the key risks related to the Company's business goals and assesses those risks, taking into account mitigating actions, on a quarterly basis. The issue is further described in notes 1 and 20 to the consolidated accounts.

Audit committee

The audit committee has reviewed the Company's internal reporting systems, internal control and risk management and had dialogue with PHLY's auditor. The audit committee has also considered the auditor's independence.

PHLY's financial policies ensure follow-up of financial risk. Key targets are identified by the Board and management to ensure timely follow-up of currency exposure, interest rate exposure and compliance with covenants.

PHLY has prepared an authorization matrix and approval procedures for costs included in PHLY's governing documents.

FINANCIAL STATEMENT CLOSE PROCESS

PHLY has implemented Aker ASA's accounting and reporting guidelines which contains requirements and procedures for the preparation of both quarterly and annual reporting. The reporting is done quarterly through PHLY's reporting and consolidation system. Consolidation and control over the financial statement close process is the CFO's responsibility. Financial results and cash development are analyzed and compared to the budget by the CEO/general manager and CFO and reported to the Board monthly.

REMUNERATION OF THE BOARD OF DIRECTORS

Board remuneration reflects the Board's responsibility, expertise, time spent, and the complexity of the business. Remuneration does not depend on PHLY's financial performance and PHLY does not grant share options to members of its Board. Board members and companies with whom they are associated are not to take on special tasks for the Company beyond their Board appointments unless such assignments are disclosed to the full Board and the remuneration for such additional duties is approved by the Board.

Additional information on remuneration paid to Board members for 2020 is presented in note 21 to the consolidated accounts.

REMUNERATION OF EXECUTIVE MANAGEMENT

The Board has adopted guidelines for remuneration of executive management in accordance with section 6-16a of the Norwegian Public Limited Company Act. Salary and other remuneration of the CEO/general manager of PHLY are determined in a Board meeting. The basis of remuneration of executive management has been developed in order to create a system based on performance and retention.

The system of reward is designed to improve Health, Safety and Environment (HSE) performance and attain operational objectives, while retaining key employees during crucial business cycles.

PHLY does not have stock option plans or other such share award programs for employees. Further information on remuneration for 2020 for members of the Company's executive management is presented in note 21 to the consolidated accounts. PHLY's guidelines for remuneration to executive management are discussed on pages 50-52 of this annual report and will be presented to the shareholders at the annual shareholders' meeting. The maximum size of any payment under the existing performance-related remuneration program to any executive is linked to the size of the executive's base salary.

The Board's guidelines for remuneration of executive management will be made available as a separate appendix to the agenda for the annual shareholders' meeting and be subject to the shareholders' approval.

INFORMATION AND COMMUNICATIONS

PHLY's reporting of financial and other information is based on openness and on equal treatment of shareholders, the financial community, and other interested parties.

The long-term purpose of PHLY's investor relations activities is to ensure PHLY's access to capital at competitive terms and to ensure shareholders' correct pricing of shares. These goals are to be accomplished through correct and timely distribution of information that can affect PHLY's share price; PHLY is also to comply with current rules and market practices, including the requirement of equal treatment.

All stock exchange notifications and press releases are made available on PHLY's home page www.phillyshipyard.com; stock exchange notices are also available from www.newsweb.oslobors.no. All information that is distributed to shareholders is simultaneously published on PHLY's home page.

PHLY's financial calendar is found on the inside front cover of this annual report and its home page www.phillyshipyard.com.

PHLY's investor relations staff is responsible for maintaining regular contact with PHLY's shareholders, potential investors, analysts and other financial market stakeholders. The Board is regularly informed about PHLY's investor relations activities. For more information regarding PHLY's guidelines for reporting of financial and other information, see pages 68-70.

TAKEOVERS

PHLY has not produced special principles for how it will act in the event of a takeover bid. However, if a takeover bid occurred the Board would follow the overriding principle of equal treatment for all shareholders. Unless the Board has particular reasons for so doing, the Board will not take steps to prevent or obstruct a takeover bid for PHLY's business or shares, nor use share issue authorizations or other measures to hinder the progress of the bid, without such actions being approved by a shareholders' meeting after the takeover offer has become public knowledge.

PHLY will not enter into any agreement with a bidder that acts to limit PHLY's ability to arrange other bids for PHLY's business or shares unless it is self-evident that such an agreement is in the common interest of PHLY and its shareholders. This provision shall also apply to any agreement on the payment of financial compensation to the bidder if the bid does not proceed. Any financial compensation will be limited to the costs the bidder has incurred in making the bid.

Agreements entered into between PHLY and a bidder that are material to the market's evaluation of the bid will be announced to the public no later than at the same time as the disclosure that the bid has been made is published.

Upon the issuance of an offer for PHLY's shares, the Board will make a statement to the shareholders that provides an assessment of the bid, the Board's recommendations and reasons for these recommendations. If the Board cannot recommend to the shareholders whether they should or should not accept the bid, the Board will explain the reasons for this. The Board's statement on the offer will make it clear whether the views expressed are unanimous, and if this is not the case, it will explain the basis on which specific members of the Board have excluded themselves from the Board's statement.

For each instance, an assessment will be made as to the necessity of bringing in independent expertise and obtaining a third party valuation. If a third party valuation is obtained, such valuation will include an explanation, and the Board will aim at recording such valuation in its statement. It may be necessary to obtain a valuation from an independent expert where a competing bid is made and the bidder either is the main shareholder or has a connection to the Board members or executive personnel.

Transactions that have the effect of sale of PHLY or a major component of it are to be decided on by shareholders at a shareholders' meeting.

AUDITOR

The auditor makes an annual presentation to the Board of a plan for the auditing work for the year. Further, the auditor has provided the Board with a written confirmation that the requirement of independence is met.

The auditor participates in the Board meeting that deals with the annual accounts, and the auditor has reviewed PHLY's internal control with the Board. At these meetings, the auditor reviews any material changes to PHLY's accounting principles, comments on any material estimated accounting figures and reports all matters on which there have been disagreement between the auditor and PHLY's executive personnel. Once a year a meeting is held between the auditor and the Board, at which no representatives of executive management are present. In addition to the presentations to the full Board, the auditor is present at all quarterly audit committee meetings which occur throughout the year and presents both its preliminary and final audit findings to the committee during such meetings.

Guidelines have been established for executive management's use of auditors for services other than auditing. Auditors are to provide the Board with an annual overview of services other than auditing that have been supplied to PHLY.

Remuneration for auditors is presented in note 4 to the consolidated accounts and note 2 to the parent company accounts, detailed in auditing and other services. In addition, these details are presented at the annual general meeting.

Presentation of the Board of Directors

KRISTIAN RØKKE
Board Chairman

Kristian Røkke (b. 1983) is Chief Executive Officer of Aker Horizons AS, an investment company dedicated to creating value and reducing emissions from renewable energy and decarbonization technologies. Mr. Røkke has previously been Chief Investment Officer of Aker ASA and has extensive experience from operations and M&A. Mr. Røkke is Chair of the board of Akastor ASA, a Director of TRG Holding AS, American Shipping ASA, Aker Carbon Capture AS, Aker Offshore Wind AS, Abelee AS, and Chair of Plastic REVolution. Mr. Røkke has an MBA from The Wharton School, University of Pennsylvania. Mr. Røkke holds both Norwegian and American citizenships. Mr. Røkke owns no shares in the company and has no stock options. Mr. Røkke has been elected for the period 2020-2022.

AMY HUMPHREYS
Deputy Board Chairperson

Amy Humphreys (b. 1966) is President & CEO of Bristol Bay Seafood Investments, a subsidiary of Bristol Bay Native Corporation. Ms. Humphreys also serves as a director for various companies spanning several industries. Prior to her current role, Ms. Humphreys was Chief Financial Officer of Darigold, one of the largest dairy cooperatives in the United States. Prior to Darigold, Ms. Humphreys was President and CEO of Icicle Seafoods, Inc., a multi-species seafood processor and marketer. Prior to joining Icicle Seafoods, Ms. Humphreys served as CFO of North Star Petroleum Group and President of Delta Western, both organizations were within the Petroleum Division of Saltchuk Resources. From 1995 to 2006, Ms. Humphreys held various leading positions in her 11 year tenure with American Seafoods Group, including VP Corporate Development and Treasurer. For many years, Ms. Humphreys has worked within companies operating under the Jones Act. Ms. Humphreys holds a Master of Business Administration (MBA), with honors, from University of Washington, is a Certified Public Accountant (CPA) and holds a Bachelor of Arts (BA) in Accounting and Finance, magna cum laude, from University of Puget Sound. Ms. Humphreys is a U.S. citizen. Ms. Humphreys holds zero shares in the company and has no stock options. Ms. Humphreys has been elected for the period 2020-2022.

ELIN KARFJELL
Board Member

Elin Karfjell (b. 1965) is the EVP Property Management and Development of Statsbygg, a Norwegian government agency that manages central parts of the real estate portfolio of the government of Norway, where she previously held the position of CFO. Prior to that, Ms. Karfjell was CEO of Atelika AS and Fabi Group and Director of Finance and Administration of Atea AS. Ms. Karfjell is a former partner at Ernst & Young AS. Ms. Karfjell joined Ernst & Young AS in 2002. Prior to this, Ms. Karfjell held various positions including partner at Arthur Andersen. At Ernst & Young/Arthur Andersen, Ms. Karfjell held various leading positions, both within advisory and audit, and Ms. Karfjell has experience from a broad specter of industries. Ms. Karfjell is also a Board member of North Energy ASA, DNO ASA and Contesto AS. Previously, Ms. Karfjell was a Board member of Hent AS, Sevan Drilling Ltd., Norse Energy Corporation ASA, Aktiv Kapital ASA and Aker Floating Production ASA. Ms. Karfjell is a state authorized public accountant. Ms. Karfjell has a Bachelor of Science in Accounting from Okonomisk College (Hoyskolen i Oslo) and a CPA from the Norwegian School of Economics and Business Administration. Ms. Karfjell is a Norwegian citizen. Ms. Karfjell holds 1,200 shares in the company and has no stock options. Ms. Karfjell has been elected for the period 2019-2021.

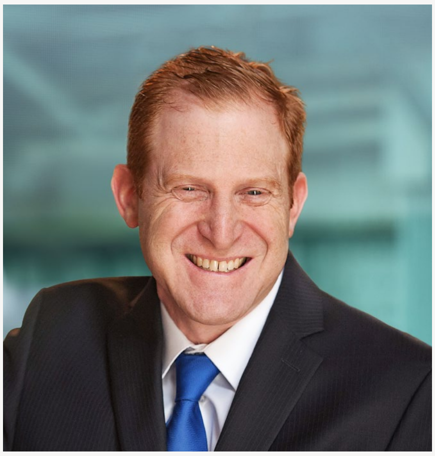
Presentation of the Management Team

STEINAR NERBØVIK
President and CEO

Steinar Nerbøvik (b. 1961) was appointed President and Chief Executive Officer of Philly Shipyard ASA and Philly Shipyard, Inc. in November 2014 after serving as Managing Director since April 2014. Previously, Mr. Nerbøvik served as SVP Operations from October 2013. Prior to that, Mr. Nerbøvik served as SVP Yard Director for Norwegian Shipyard Vard Langsten (former Aker Yards and STX OSV Langsten), a leading provider of sophisticated offshore support vessels. Mr. Nerbøvik first joined Philly Shipyard in 2003 as Vice President Projects. Mr. Nerbøvik has held other management positions as combined Design Manager and Project Manager at Aker Langsten from 1991-2003. Mr. Nerbøvik holds a Master of Science in Ship Naval Engineering from the Norwegian Institute of Technology (NTNU) in Trondheim, Norway. Mr. Nerbøvik lives in Wilmington, DE, USA. Mr. Nerbøvik is a Norwegian citizen. As of 1 February 2021, Mr. Nerbøvik holds 1,000 shares in the company and has no stock options.

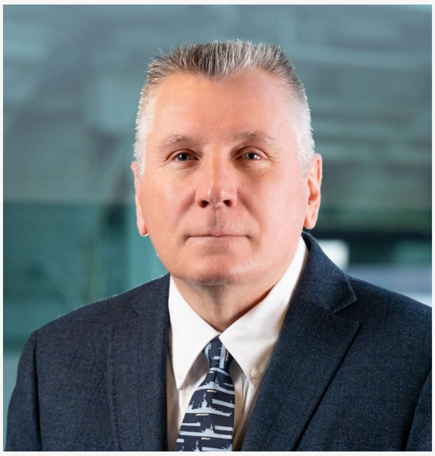
JEFFREY THEISEN
Chief Financial Officer

Jeffrey Theisen (b. 1968) rejoined Philly Shipyard, Inc. as Chief Financial Officer in September 2020. Mr. Theisen previously served as CFO from 2007-2015. Mr. Theisen has over 30 years of experience in financial and strategic planning, organizational leadership, growth and expansion strategies, debt and equity financing, investor and banking relations, and budgeting and cost accounting. Mr. Theisen has held finance roles with Arthur Andersen, The Regulus Group, Philly Shipyard and most recently, People 2.0. Mr. Theisen holds a Bachelor of Science in Accounting from Villanova University and is a certified public accountant in the state of Pennsylvania. Mr. Theisen lives in Blue Bell, PA, USA. Mr. Theisen is a U.S. citizen. As of 1 February 2021, Mr. Theisen holds zero shares in the company and has no stock options.



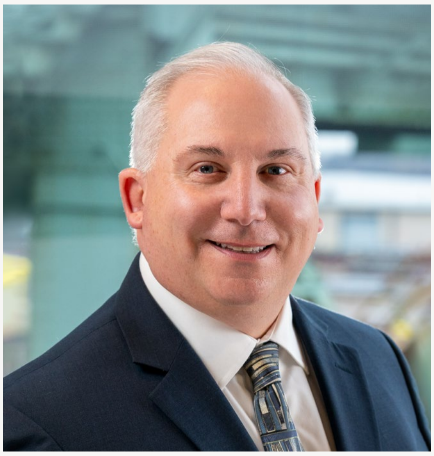
DEAN GRABELLE
Senior Vice President and General Counsel

Dean Grabelle (b. 1970) was appointed Senior Vice President and General Counsel of Philly Shipyard, Inc. (PSI) in November 2016, after serving as PSI's General Counsel since May 2008. Prior to joining the shipyard, Mr. Grabelle was employed with the law firm Faegre Drinker Biddle & Reath LLP in Philadelphia, PA, USA where he established a legal career in the Business and Finance Department spanning 12 years. Past experience includes mergers and acquisitions, business counseling, lending, private equity and corporate finance. Mr. Grabelle graduated from Duke University with a Bachelor of Arts in Economics and Public Policy Studies. Mr. Grabelle also holds a Juris Doctor from the University of Pennsylvania Carey Law School. Mr. Grabelle lives in Voorhees, NJ, USA. Mr. Grabelle is a U.S. citizen. As of 1 February 2021, Mr. Grabelle holds zero shares in the company and has no stock options.



ROBERT FITZPATRICK
Vice President Production

Robert Fitzpatrick (b. 1964) joined Philly Shipyard, Inc. in 2001 and had held numerous key positions including Prefabrication Manager and Senior Production Manager before being promoted to Vice President Production in January 2007. Prior to coming to the shipyard, Mr. Fitzpatrick amassed 20 years of experience in industrial manufacturing including 12 years as a production manager responsible for the fabrication of naval circuit breakers and switchgear at L-3 Communications. Mr. Fitzpatrick holds a Bachelor of Science in Mechanical Engineering from Spring Garden College in Philadelphia, PA, USA. Mr. Fitzpatrick lives in Burlington, NJ, USA. Mr. Fitzpatrick is a U.S. citizen. As of 1 February 2021, Mr. Fitzpatrick holds zero shares in the company and has no stock options.



MICHAEL GIANTOMASO
Vice President Human Resources

Michael Giantomaso (b. 1966) joined Philly Shipyard, Inc. as Human Resources Manager in May 1998 and was the shipyard's first locally hired manager. Mr. Giantomaso was promoted to Vice President Human Resources in August 2001. Mr. Giantomaso has more than 30 years of human resources experience in the manufacturing and health care fields. Mr. Giantomaso holds a Bachelor of Arts in Business Administration and Human Resources from Temple University. Mr. Giantomaso lives in Huntingdon Valley, PA, USA. Mr. Giantomaso is a U.S. citizen. As of 1 February 2021, Mr. Giantomaso holds zero shares in the company and has no stock options.

NICOLAI HAUGLAND
Vice President

Nicolai Haugland (b. 1993) is Vice President of Philly Shipyard ASA. In addition to this responsibility Mr. Haugland serves as Investment Associate for Aker ASA. Prior to joining Aker ASA in 2019, Mr. Haugland worked for two years as an Associate in Investment Banking at Pareto Securities. Mr. Haugland holds an MSc in Finance from The London School of Economics (LSE) and a BSc in Economics (Honors) from The University of Warwick. Mr. Haugland lives in Oslo, Norway. Mr. Haugland is a Norwegian citizen. As of 1 February 2021, Mr. Haugland owns 700 shares in the company through his private company Elysium AS and has no stock options.

READ REPORTS ONLINE

The annual reports of Philly Shipyard ASA are available via the Internet:
www.phillyshipyard.com.
Alternatively, Philly Shipyard ASA encourages its shareholders to subscribe to the company's annual reports via the electronic delivery system of the Norwegian Central Securities Depository (VPS). Please note that VPS services (VPS Investortjenester) are designed primarily for Norwegian shareholders. Subscribers to this service receive annual reports in PDF format by email. VPS distribution takes place at the same time as distribution of the printed version of Philly Shipyard's annual report to shareholders who have requested it.

Electronic distribution is the fastest channel for accessing company information; it is also cost-effective and environmentally friendly.

DISCLAIMER

This annual report includes and is based, inter alia, on forward-looking information and statements that are subject to risks and uncertainties that could cause actual results to differ. Such forward-looking information and statements are based on current expectations, estimates and projections about global economic conditions, the economic conditions of the regions and industries that are major markets for Philly Shipyard ASA and its subsidiaries and affiliates (the "Philly Shipyard Group") lines of business. These expectations, estimates, and projections are generally identifiable by statements containing words such as "expects", "believes", "estimates," "anticipates," "intends" or similar expressions. Important factors that could cause actual results to differ materially from those expectations include, among others, economic, market and political conditions in the geographic areas and industries that are or will be major markets for the Philly Shipyard Group's businesses, oil prices, market acceptance of new products and services, changes in governmental regulations, interest rates, fluctuations in currency exchange rates, the COVID-19 pandemic and subsequent economic effects, 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 annual report were based upon reasonable assumptions at the time when they were made, it can give no assurance that those expectations will be achieved or that the actual results will be as set out in this annual report. Neither Philly Shipyard ASA nor any other company within the Philly Shipyard Group is making any representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of the information in the annual report, and neither Philly Shipyard ASA, any other company within the Philly Shipyard Group nor any of their directors, officers or employees will have any liability to you or any other persons resulting from your use of the information in the annual report.

Philly Shipyard ASA undertakes no obligation to publicly update or revise any forward-looking information or statements in the annual report, other than what is required by law.

The Philly Shipyard Group consists of various legally independent entities, constituting their own separate identities. Philly Shipyard is used as the common brand or trademark for most of these entities. In this annual report we may sometimes use the "Company," "Philly Shipyard", "Group", "we" or "us" when we refer to Philly Shipyard companies in general or where no useful purpose is served by identifying any particular Philly Shipyard company.

This report does not constitute an offer of any securities for sale.

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Philly Shipyard ASA
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