Philly Shipyard ASA (Oslo: PHLY)
Q2 2024 and Half-Year 2024 Results

14 July 2024

Key Events and Highlights

- ✓ Signed a Share Purchase Agreement with Hanwha to sell its sole operating subsidiary, Philly Shipyard, Inc. (PSI), for cash consideration of USD 100.0 million, corresponding to a value per PHLY share of NOK 87.24. Accordingly, PHLY is reflecting PSI as an asset held for sale and a discontinued operation in its financial statements commencing in Q2 2024.
- ✓ Launched the third National Security Multi-Mission Vessel (NSMV) on 5 April 2024 and laid the keel of the Subsea Rock Installation Vessel (SRIV) on 2 May 2024
- ✓ Order backlog of USD 1,520.1 million on 30 June 2024 with last contractual delivery date in 2027
- ✓ Total cash and cash equivalents from discontinued operations of USD 65.4 million at 30 June 2024, excluding USD 45.0 million of restricted cash
- ✓ Second quarter and first half 2024 operating revenue from discontinued operations of USD 83.6 million and USD 201.9 million, respectively, compared to operating revenues of USD 139.7 million and USD 253.5 million in the same periods in 2023
- ✓ Second quarter and first half 2024 EBITDA from discontinued operations of negative USD 7.1 million and negative USD 10.7 million, respectively, compared to EBITDA of negative USD 13.1 million and negative USD 31.2 million in the same periods in 2023
- ✓ Second quarter and first half 2024 net loss after tax from discontinued operations of USD 8.3 million and 16.7 million, respectively, compared to net loss after tax of USD 13.5 million and USD 31.6 million in the same periods in 2023
- ✓ Published Norwegian Transparency Act Statement for the financial year 2023 on 30 June 2024

Subsequent Key Events and Highlights

- ✓ Awarded a USD 800,000 grant in July 2024 under MARAD's Small Shipyard Grant Program to defray the cost of the apprenticeship program

The Transaction

As previously announced, on 20 June 2024, Philly Shipyard ASA ("PHLY") entered into a share purchase agreement (the "SPA") with both Hanwha Systems and Hanwha Ocean (together "Hanwha"), for the purchase of Philly Shipyard, Inc. ("PSI"), the sole operating subsidiary of PHLY (the "Transaction"). The Transaction will result in PHLY selling all of its business against receiving a cash consideration of USD 100.0 million (the "Purchase Price"), corresponding to a value per PHLY share of NOK 87.24 (based on an USD/NOK exchange rate of 10.5628 and 12,574,766 shares outstanding, adjusted for 466,865 treasury shares).

The Transaction is subject to the satisfaction of certain customary conditions, including approval by CFIUS (Committee of Foreign Investments in the United States) and other regulatory approvals being obtained as well as no material adverse event having occurred in relation to PSI. Subject to satisfaction of all closing conditions, the parties expect that the Transaction will close during Q4 2024.

PHLY's board of directors has obtained a fairness opinion from Arctic Securities, concluding that the Transaction, from a financial perspective, is fair to PHLY. Based on due consideration of the Transaction, as well as the fairness opinion, PHLY's board of directors has approved the Transaction.

In the event of cost overruns in excess of USD 100.0 million in current projects undertaken by PSI compared to PHLY's Q1 2024 estimates, the parties have agreed principles to reduce the payable Purchase Price at closing. Except for certain transaction costs, the Purchase Price is not subject to any other adjustments. The existing loan from PSI to PHLY will be settled as part of closing without affecting the Purchase Price or the cash position of PHLY.

PHLY will, following completion of the Transaction, have a favorable cash position which will give PHLY ample opportunity to invest in attractive business opportunities if that is found to be in the interest of PHLY and its stakeholders by the board of directors. PHLY's board of directors is currently working on defining PHLY's future strategy and structure and will consider such alternative uses of the proceeds following completion of the Transaction, including whether any of the proceeds are to be distributed as dividend. Once concluded, PHLY will update the market accordingly in due course.

Operations

Shipbuilding

Final outfitting continues on the second National Security Multi-Mission Vessel (NSMV) in the outfitting dock, with delivery expected in Q3 2024. NSMV 3 was launched on 5 April 2024 and also sits in the outfitting dock, in tandem with NSMV 2. PSI continues construction activities on the fourth and fifth NSMVs, with NSMV work primarily occurring in the building dock while NSMV 5 remains in the early stages of steel production.

Production activities continue in the fabrication shops and the building dock on the Subsea Rock Installation Vessel (SRIV). Keel laying of the SRIV occurred on 2 May 2024.

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

As of 30 June 2024, PSI's workforce consists of 1,695 employees and subcontractors. PSI continues to increase the size and breadth of its apprenticeship program as more cohorts are added to this program, with the most recent cohort starting on 29 April 2024. As of 30 June 2024, 139 apprentices are active in this program. The costs of this program are partially offset by government grants, including a USD 800,000 grant awarded to PSI in July 2024 under MARAD's Small Shipyard Grant Program.

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

As previously reported, PSI has been granted four months of schedule relief across the NSMV series on account of excusable delay due mainly to COVID-19 related impacts. PSI continues to seek additional schedule relief for the remaining ships in the NSMV series for various delays.

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

PSI's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR) was 0.18 at the end of Q2 2024 compared to 0.31 at the end of Q2 2023. LTIFR is based on lost time incidents (LTI) per 200,000 hours as defined by OSHA.

PSI's 12-month trailing average for its Other Recordable Incident Frequency Rate (ORIFR) was 2.46 at the end of Q2 2024 compared to 2.85 at the end of Q2 2023. ORIFR is based on recordable incidents other than LTIs per 200,000 hours as defined by OSHA.

PSI continues to work proactively to further improve safety and reduce the number of incidents at the shipyard. Philly Shipyard also continues to execute on its sustainability and environmental, social, and governance (ESG) program as laid out in the Company's 2023 annual report. Philly Shipyard plans to publish its first Sustainability Report in Q3 2024.

Financial Information

As a result of the Transaction, PHLY is reflecting PSI as an asset held for sale and a discontinued operation in its financial statements commencing in Q2 2024. See note 6 below for more details.

Second Quarter 2024 Results of Discontinued Operations

Operating revenue for Q2 2024 was USD 83.6 million compared to operating revenue of USD 139.7 million for Q2 2023. In both 2024 and 2023, second quarter operating revenue was derived from progress on the NSMVs, the SRIV and the CVs.

EBITDA, defined as earnings before interest, taxes, depreciation and amortization, is considered a relevant earnings indicator for Philly Shipyard as it measures the operational performance of the shipyard.

EBITDA for Q2 2024 was negative USD 7.1 million compared to EBITDA of negative USD 13.1 million for Q2 2023. EBITDA for Q2 2024 and Q2 2023 was driven primarily by increased costs on the NSMV series and selling, general and administrative (SG&A) costs. Despite unforeseen cost increases, PSI has experienced improvement in operations year-over-year (EBITDA of negative USD 7.1 million in Q2 2024 compared to negative USD 13.1 million in Q2 2023 and EBITDA of negative USD 10.7 million in year-to-date 2024 compared to negative USD 31.2 million in year-to-date 2023).

Net loss after tax for Q2 2024 was USD 8.3 million compared to net loss after tax of USD 13.5 million for Q2 2023. Net loss after tax for Q2 2024 primarily consists of EBITDA of negative USD 7.1 million and depreciation expense of USD 2.1 million, partially offset by net financial income of USD 0.9 million. Net loss after tax for Q2 2023 primarily consists of EBITDA of negative USD 13.1 million and depreciation expense of USD 1.9 million, partially offset by net financial income of USD 1.5 million.

Year-to-Date 2024 Results of Discontinued Operations

Operating revenue in the first six months of 2024 was USD 201.9 million compared to operating revenue of USD 253.5 million in the first six months of 2023. In both 2024 and 2023, year-to-date operating revenue through 30 June was driven by progress on NSMVs 1-5, the SRIV, CVs 1-3 and a government design study.

EBITDA for the first six months of 2024 was negative USD 10.7 million compared to EBITDA of negative USD 31.2 million in the same period of 2023.

Net loss after tax for the first six months of 2024 was USD 16.7 million compared to net loss after tax of USD 31.6 million in the same period of 2023. Net loss after tax for the first six months of 2024 primarily consists of EBITDA of negative USD 10.7 million, depreciation expense of USD 4.2 million and tax expenses of USD 3.6 million, partially offset by net financial income of USD 1.8 million. Net loss after tax for the first six months of 2023 primarily consists of EBITDA of negative USD 31.2 million and depreciation expense of USD 3.6 million, partially offset by net financial income of USD 3.2 million.

Statement of Financial Position for the Asset Held for Sale and Liabilities Directly Associated with the Asset Classified as Held for Sale

Total assets were USD 270.6 million at 30 June 2024 compared to USD 294.3 million at 31 December 2023, with the decrease in total assets mainly resulting from a decrease in cash and cash equivalents as noted below.

Cash and cash equivalents (unrestricted) were USD 65.4 million at 30 June 2024 compared to USD 79.5 million at 31 December 2023. The decrease of USD 14.1 million was due primarily to spending on goods and services related to the vessel projects underway (net of customer milestone payments), investments in property, plant and equipment, SG&A costs and unfavorable working capital, partially offset by net financial income items.

Total restricted cash as of 30 June 2024 amounted to USD 45.0 million, of which USD 35.0 million (long-term) represents the total cash deposited in an escrow account for the bonds required for NSMVs 2-5, and USD 10.0 million (short-term) pertains to reserve accounts required for NSMVs 2 and 3. It is anticipated that the cash collateral for the bonds and the reserve account funds will be released in tranches following the delivery of each NSMV vessel.

Total equity decreased to negative USD 11.4 million at 30 June 2024 from USD 5.9 million at 31 December 2023. PHLY anticipates that PSI's equity level will increase over time as PSI returns to sustained profitability.

Outlook for Discontinued Operations

At 30 June 2024, PSI continues to maintain a strong order backlog of USD 1,520.1 million. PSI has eight vessels, consisting of four NSMVs, one SRIV and three CVs, in its order book. PSI's current order book provides pipeline visibility into 2027.

Since the delivery of NSMV 1, there has been an increased focus on the ongoing implementation of PSI's continuous improvement program. The lessons learned and experience gained from construction of NSMVs 1 and 2 are expected to result in continued improved performance on subsequent vessels in the NSMV series.

PSI continues to pursue prospects in the government and commercial newbuild markets and is presently targeting shipbuilding programs with building slots following the third CV. In the government sector, PSI remains focused on opportunities for commercial-like and auxiliary ships. In the commercial sector, PSI is exploring a variety of potential new construction projects for U.S.-built vessels. PSI continues to promote variants based on existing ship designs as potential cost-effective solutions for both government and commercial customers.

Additionally, PSI continues to seek opportunities to replicate the NSMV contract model for other government shipbuilding programs. This innovative approach, which utilizes a vessel construction manager (VCM), enables PSI to apply commercial best practices for design and construction to government vessels. There is growing interest in the U.S. Congress in the NSMV contract model and its potential applicability to other government shipbuilding programs, such as the sealift recapitalization, to reduce costs, accelerate delivery times, and build more vessels. The U.S. Congress appropriated USD 12.0 million in FY 2024 funds to complete the initial design for 10 new sealift ships for the national defense reserve fleet using a VCM.

Philly Shipyard continues to forecast the five-ship NSMV series to be a loss-making contract. As of the end of Q2 2024, the Company has recognized more loss on the NSMV contract to date than it anticipates to recognize when the five-ship contract is completed. Therefore, in accordance with IFRS, no loss provision has been recorded to date for an onerous contract.

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

Risks

Market risks

While PSI now has an order backlog for ship newbuilds with contractual delivery dates into 2027, it faces future risks if it is unable to secure new orders and/or financing for major commercial or government shipbuilding programs to follow its existing backlog.

Operational risks

PSI faces risks related to construction of vessels. PSI'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 PSI's own and those charged by its suppliers. PSI's operations also depend on stable supplier networks and the availability of key vendors for design and procurement services. PSI has entered into fixed-price subcontracts for a significant portion of its scope of work on its active shipbuilding programs, including the design and major equipment for the NSMV, SRIV and CV programs.

As is common in the shipbuilding industry, PSI'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 accurately 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, SRIV and CV vessel contracts are fixed-price contracts.

PSI's productivity and profitability depends substantially on its ability to attract and retain skilled workers at forecasted rates. COVID-driven labor shortages have adversely impacted, and are expected to continue to adversely impact, PSI's ability to attract and retain skilled workers at forecasted rates. Due to COVID-driven labor shortages, the Shipyard has experienced schedule impacts, productivity loss and increased costs.

There is a higher technical design risk and a higher project execution risk for prototype vessels, such as the NSMV and SRIV, compared to the construction of vessels based on a proven design, such as the product tankers and container vessels previously built by PSI. These risks increase the current construction cost estimation uncertainty and the likelihood of occurrence of contract contingencies. Following the delivery of NSMV 1, these risks have been reduced for the remaining vessels in the NSMV series.

Failure to meet PSI's performance obligations to deliver vessels on time and within the contract specifications can potentially lead to penalties and ultimately contract termination. The NSMV, SRIV and CV vessel contracts include liquidated damage clauses for late delivery exclusive of excusable delays. The CV vessel contract includes performance guarantee clauses similar to those included in the vessel contracts for the prior series of Aloha Class container vessels.

PSI faces risk of significant financial, business and intelligence loss if there are cyber security breaches. PSI 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 its risk profile regarding cyber security because new threats can emerge quickly.

U.S. Government projects generally are subject to suspension, termination or a reduction in scope at the option of the customer, although the customer is typically required to pay for work performed and materials purchased through the date of termination. The NSMV contract has a termination for convenience clause at the option of the U.S. Government.

Financial risks

PSI 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, PSI must secure and maintain sufficient equity capital to support debt facilities. As PSI has no current debt facilities, delays in achieving milestones or modifications to existing milestone schedules could result in the need for external interim financing. Additionally, PSI 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. PSI may not be able to obtain sufficient debt facilities or bonding capacity or furnish sufficient security if and when needed with favorable terms, if at all. As of the end of Q2 2024, PSI has furnished all bonds and security that are required to support its active shipbuilding programs.

PSI is exposed to changes in prices of materials and duties, tariffs and other taxes imposed on goods imported from foreign (non-U.S.) countries. PSI attempts to mitigate its exposure with respect to steel cost escalation and increased taxes on imported goods by passing these risks on to its end customers. The NSMV, SRIV and CV vessel contracts include price adjustment clauses for steel as defined in the respective contracts.

PSI 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 pass this risk on to its end customers or suppliers or secure foreign exchange forward contracts for its known requirements for foreign currency. The subcontracts for the design and major equipment for the NSMV, SRIV and CV programs are payable in U.S. dollars. The SRIV contract includes an exchange rate adjustment clause for goods and services purchased in certain foreign currencies.

Other risks

The lingering effects of the COVID-19 pandemic (including skilled labor shortages and supply chain disruptions) continue to impact PSI's shipbuilding projects. Ongoing global military conflicts increase the risk of rising commodity prices, material shortages and transportation delays that could adversely impact PSI's business. Although improved from prior periods, the Company continues to see uncertainty in the global macroeconomic environment as well as continuing inflation, high interest rates and market volatility.

For a further analysis of risks, please refer to the Company's 2023 annual report.

Responsibility Statement

The unaudited condensed interim consolidated financial statements and interim financial report as of and for the six months ended 30 June 2024 were approved by the Board of Directors and the President and CEO on 14 July 2024.

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as endorsed by the European Union and the Norwegian additional requirements in the Securities Trading Act.

To the best of our knowledge, the condensed interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit of PHLY, and the interim management report of PHLY includes a fair review of the development and performance of the business and the position of PHLY, together with a description of the principle opportunities and risks associated with the expected development of PHLY for the remaining months of the financial year.

Oslo, Norway
14 July 2024
Board of Directors and President and CEO
Philly Shipyard ASA

Kristian Røkke
Board Chairman

Jan Petter Hagen
Board Member

Elin Karfjell
Board Member

Susan Hayman
Board Member

Steinar Nerbøvik
President and CEO

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Note	Q2 Unaudited 2024	Q2 Unaudited 2023	6 months ended 30 June Unaudited 2024	6 months ended 30 June Unaudited 2023	Full Year 2023 *
Operating revenues		-	-	-	-	-
Operating expenses		(0.2)	(0.2)	(0.3)	(0.3)	(0.7)
Operating loss before depreciation (EBITDA)		**(0.2)**	**(0.2)**	**(0.3)**	**(0.3)**	**(0.7)**
Depreciation		-	-	-	-	-
Operating loss (EBIT)		**(0.2)**	**(0.2)**	**(0.3)**	**(0.3)**	**(0.7)**
Net financial items		-	-	-	-	0.1
Loss before income tax		**(0.2)**	**(0.2)**	**(0.3)**	**(0.3)**	**(0.6)**
Income tax expense		-	-	-	-	-
Loss after income tax from continuing operations		**(0.2)**	**(0.2)**	**(0.3)**	**(0.3)**	**(0.6)**
Loss after income tax from discontinued operations excluding interest income from PHLY loan receivable	6	(8.3)	(13.5)	(16.7)	(31.6)	(67.3)
Loss after income tax		**(8.5)**	**(13.7)**	**(17.0)**	**(31.9)**	**(67.9)**
Weighted average number of shares		**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted loss per share from continuing ops (USD)		(0.02)	(0.02)	(0.02)	(0.02)	(0.05)
Basic and diluted loss per share from discontinued ops (USD)		(0.68)	(1.11)	(1.38)	(2.62)	(5.56)
Basic and diluted loss per share (USD)		**(0.70)**	**(1.13)**	**(1.40)**	**(2.64)**	**(5.61)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q2 Unaudited 2024	Q2 Unaudited 2023	6 months ended 30 June Unaudited 2024	6 months ended 30 June Unaudited 2023	Full Year Audited 2023 *
Loss after income tax	(8.5)	(13.7)	(17.0)	(31.9)	(67.9)
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive loss for the period **	**(8.5)**	**(13.7)**	**(17.0)**	**(31.9)**	**(67.9)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Note	Unaudited 30 June 2024	Audited 31 Dec. 2023 *
Assets			
Non-current assets			
Property, plant and equipment		-	42.7
Right-of-use assets		-	17.8
Restricted cash long-term		-	34.2
Deferred tax asset long-term		-	25.3
Income tax receivable long-term		-	0.1
Other non-current assets		-	0.5
Total non-current assets		**-**	**120.6**
Current assets			
Cash and cash equivalents (unrestricted)		0.2	79.5
Prepayments and other receivables		1.2	68.4
Restricted cash short-term		-	10.0
Income tax receivable short-term		-	16.0
Subtotal current assets		**1.4**	**173.9**
Assets held for sale excluding PHLY loan receivable	6	270.6	-
Total current assets		**272.0**	**173.9**
Total assets		**272.0**	**294.5**
Equity and liabilities			
Total equity		**(11.1)**	**5.9**
Non-current liabilities			
Lease liability long-term		-	6.8
Income tax payable long-term		-	1.2
Total non-current liabilities		**-**	**8.0**
Current liabilities			
Customer advances (net)		-	212.2
Trade payables, accrued liabilities and provisions		1.1	67.2
Lease liability short-term		-	1.0
Other contract liabilities		-	0.2
Subtotal current liabilities		**1.1**	**280.6**
Liabilities directly associated with assets held for sale excluding PHLY loan receivable	6	282.0	-
Total current liabilities		**283.1**	**280.6**
Total liabilities		**283.1**	**288.6**
Total equity and liabilities		**272.0**	**294.5**

* Annual 2023 financial information is derived from audited financial statements.
** All attributed to the equity holders of PHLY.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	6 months ended 30 June	
Amounts in USD millions	**Unaudited 2024**	**Unaudited 2023**
As of beginning of period	5.9	73.8
Total comprehensive loss for the period	(17.0)	(31.9)
As of end of period	**(11.1)**	**41.9**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		6 months ended 30 June	
Amounts in USD millions	**Note**	**Unaudited 2024**	**Unaudited 2023**
Net cash from PHLY operating activities		0.2	0.1
Net cash used in discontinued operations	6	(14.1)	(23.7)
Net change in cash and cash equivalents		**(13.9)**	**(23.6)**
Cash and cash equivalents at beginning of period		79.5	137.6
Cash and cash equivalents at end of period		**65.6**	**114.0**

Notes to the condensed interim consolidated financial statements for the second quarter and year-to-date 2024

1. **Introduction – Philly Shipyard ASA**
   Philly Shipyard ASA (PHLY) is a company domiciled in Norway. These condensed interim consolidated financial statements for the three-month and year-to-date periods ended 30 June 2024 and 30 June 2023 are comprised of PHLY and its direct and indirect wholly-owned subsidiaries (collectively referred to herein as the Group), including Philly Shipyard, Inc. (PSI), which is being reported as held for sale as of the reporting date.

   This interim report has not been subject to audit or review by independent auditors.

   The audited consolidated financial statements of PHLY as of and for the year ended 31 December 2023, which include a detailed description of accounting policies and significant estimates, are available at www.phillyshipyard.com.

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

   The going concern assumption
   These condensed interim consolidated financial statements have been prepared on a going concern basis which contemplates continuity of business activities. PHLY anticipates that PSI's equity level will increase over time as PSI returns to sustained profitability.

3. **Statement of compliance**
   These condensed interim consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of PHLY as of and for the year ended 31 December 2023.

4. **Significant accounting principles**
   The accounting policies applied by PHLY in these condensed interim consolidated financial statements are substantially the same as those applied by PHLY in its audited consolidated financial statements as of and for the year ended 31 December 2023.

   There have not been any new IFRS standards or interpretations which were effective 1 January 2024 that have had a significant impact on the year-to-date period ending 30 June 2024.

5. **Use of estimates**
   The preparation of these condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

   The most significant judgments made by management in preparing these condensed interim consolidated financial statements in applying PHLY's accounting policies, and the key sources of estimation uncertainty, are the same as those that are applied to the audited consolidated financial statements as of and for the year ended 31 December 2023 unless described elsewhere in this report.

6. **Discontinued operations and assets**
   As announced on 20 June 2024, PHLY entered into a share purchase agreement (the "SPA") with both Hanwha Systems and Hanwha Ocean (together "Hanwha"), for the purchase of PSI, the sole operating subsidiary of PHLY (the "Transaction"). The Transaction will result in PHLY selling all of its business against receiving a cash consideration of USD 100.0 million (the "Purchase Price"), corresponding to a value per PHLY share of NOK 87.24 (based on an USD/NOK exchange rate of 10.5628 and 12,574,766 shares outstanding, adjusted for 466,865 treasury shares).

The Transaction is subject to the satisfaction of certain customary conditions, including approval by CFIUS (Committee of Foreign Investments in the United States) and other regulatory approvals being obtained as well as no material adverse event having occurred in relation to PSI. Subject to satisfaction of all closing conditions, the parties expect that the Transaction will close during Q4 2024.

In the event of cost overruns in excess of USD 100.0 million in current projects undertaken by PSI compared to PHLY's Q1 2024 estimates, the parties have agreed principles to reduce the payable Purchase Price at closing. Except for certain transaction costs, the Purchase Price is not subject to any other adjustments. The existing loan from PSI to PHLY will be settled as part of closing without affecting the Purchase Price or the cash position of PHLY.

The losses for PSI presented as discontinued operations are as follows:

	Q2		6 months ended 30 June		Full Year
Amounts in USD millions	**Unaudited 2024**	**Unaudited 2023**	**Unaudited 2024**	**Unaudited 2023**	**2023 ***
Operating revenues	83.6	139.7	201.9	253.5	441.8
Operating loss before depreciation (EBITDA)	(7.1)	(13.1)	(10.7)	(31.2)	(63.2)
Operating loss (EBIT)	(9.2)	(15.0)	(14.9)	(34.8)	(70.9)
Loss before income tax	(8.0)	(13.2)	(12.5)	(31.0)	(63.0)
Income tax expense	-	-	(3.6)	-	(3.1)
Loss after income tax from discontinued operations	(8.0)	(13.2)	(16.1)	(31.0)	(66.1)
Interest income from PHLY loan receivable	(0.3)	(0.3)	(0.6)	(0.6)	(1.2)
Loss after income tax from discontinued operations excluding interest income from PHLY loan receivable	(8.3)	(13.5)	(16.7)	(31.6)	(67.3)

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

The major classes of assets and liabilities of PSI as of 30 June 2024 and 31 December 2023 are as follows:

Amounts in USD millions	**Unaudited 30 June 2024**	**31 Dec. 2023 ***
Assets:		
Cash and cash equivalents	65.4	79.5
Restricted cash	45.0	44.2
Property, plant and equipment	41.9	42.7
Right-of-use assets	16.9	17.8
Other current assets	78.9	84.1
Other non-current assets	22.5	26.0
PHLY loan receivable	30.8	29.6
Total assets held for sale including PHLY loan receivable	301.4	323.9
less: PHLY loan receivable	(30.8)	(29.6)
Total assets held for sale excluding PHLY loan receivable	**270.6**	**294.3**
Liabilities:		
Customer advances (net)	216.6	212.2
Other current liabilities	58.0	68.2
Other non-current liabilities	7.4	8.0
Total liabilities directly associated with assets classified as held for sale	**282.0**	**288.4**

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

The net cash amounts generated from discontinued operations as of 30 June for both years are as follows:

	6 months ended 30 June	
Amounts in USD millions	**Unaudited 2024**	**Unaudited 2023**
Net cash used in discontinued operations - operating activities	(10.4)	(18.0)
Net cash used in discontinued operations - investing activities	(2.6)	(4.1)
Net cash used in discontinued operations - financing activities	(1.1)	(1.6)
Net change in cash and cash equivalents	**(14.1)**	**(23.7)**
Cash and cash equivalents at beginning of period	79.5	137.5
Cash and cash equivalents at end of period	**65.4**	**113.8**
Cash and cash equivalents at end of period excluding loan advances to PHLY	**66.0**	**114.1**

7. **Tax estimates**
Income tax (expense)/benefit is recognized in each interim period based on the best estimate of the expected annual income tax rates and deferred tax assets are dependent on estimated future profits.

Beginning in 2022, R&D expenses must be capitalized and amortized over 60 months, as required by the 2017 Tax Cuts and Jobs Act. The Company expects that the R&D costs incurred in 2022 and beyond could impact the amount of cash taxes owed in the near term. The Company is monitoring the legislative activity to defer the implementation of the capitalization provision within the U.S. tax law with retroactive effect.

Enacted by the U.S. Congress on 27 March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act allows for the carryback of net operating losses (NOL) arising in taxable years beginning after 31 December 2017, and before 1 January 2021, to the five taxable years preceding the loss year. This rule allows corporate taxpayers the opportunity to carry back NOLs to tax years as far back as 2013. As PSI had qualifying taxable losses in 2018, 2019 and 2020, these losses were carried back to previous tax years and resulted in an income tax receivable of USD 22.1 million at 31 December 2020.

The 2018, 2019 and 2020 refund claims are currently under examination by the Internal Revenue Service (IRS). The 2018 refund of USD 6.5 million has been received and, due to the backlog at the IRS, the 2019 and 2020 refunds are both expected in the fourth quarter of 2024. The 2019 and 2020 refunds have been reclassed to assets classified as held for sale as of 30 June 2024.

8. **Share capital and equity**
At 30 June 2024 and 30 June 2023, PHLY had 12,107,901 ordinary shares (excluding 466,865 own shares) at a par value of NOK 10 per share. There were no share issuances or repurchases for both the quarter and year-to-date periods ended 30 June 2024 and 30 June 2023. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for both the quarter and year-to-date periods ended 30 June 2024 and 30 June 2023.

9. **Interest-bearing debt**
At 30 June 2024 and 30 June 2023, Philly Shipyard had no external debt.

10. **Related party transactions**
Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder of PHLY, owning 57.6% of its total outstanding shares as of 30 June 2024. Kristian Røkke, the Chairman of the Board of Directors of PHLY, is a board member of TRG Holding AS, which owns 68.2% of the total outstanding shares of Aker ASA as of 30 June 2024. TRG Holding AS is controlled by Kjell Inge Røkke through The Resource Group TRG AS.

Philly Shipyard has service agreements with Aker ASA and certain of its affiliates which provide specified consulting, tax, financial, insurance and administrative services. All payables (including service fees and insurance premiums) under these agreements are paid within the normal course of business. Philly Shipyard believes that related party transactions are made on terms equivalent to those that prevail in arm's length transactions.

Related costs and financial statement amounts for the three-month period ending 30 June 2024 were USD 39 thousand (USD 264 thousand for the same period in 2023) and for the year-to-date period ending 30 June 2024 were USD 272 thousand (USD 459 thousand for the same period in 2023).

On 4 March 2022, PSI obtained a USD 25.0 million standby letter of credit from a bank to fulfill its contractual obligation under the SRIV contract. The standby letter of credit is secured by a first priority lien in the shares and material assets of PSI, subject to certain exclusions, has normal and customary fees, and accrues interest quarterly in arrears at 4.0% per annum. Aker Capital AS holds 50.0% of the commitment. For the year-to-date period ending 30 June 2024, PSI has paid fees of USD 253 thousand (USD 253 thousand for the same period in 2023) for further payment to Aker Capital AS pursuant to this arrangement. All costs have been reclassed to loss from discontinued operations.

11. **Construction contracts associated with assets classified as held for sale**
Order backlog of USD 1,520.1 million at 30 June 2024 represents a contractual shipbuilding obligation to deliver newly built vessels (NSMVs 2-5, the SRIV and CVs 1-3) that have not yet been produced for PSI's customers (TOTE Services, Great Lakes and Matson, respectively). Order backlog consists of future construction contract revenues and is subject to adjustment based on change orders as defined in the construction contracts. Order intake of USD 1.8 million at 30 June 2024 represents combined change orders

on NSMVs 2-5, the SRIV and CVs 1-3. Order backlog and order intake on long-term construction contracts are as follows:

Amounts in USD millions	Order backlog 30 June 2024	Order intake 6 months to 30 June 2024	Order backlog 31 Dec. 2023
	1,520.1	**1.8**	**1,719.1**

The recognized accumulated combined profit/(loss) on long-term construction contracts in process (NSMVs 1-5, the SRIV and CVs 1-3) as of 30 June 2024 is as follows:

Amounts in USD millions	30 June 2024
Construction contracts revenue recognized to date	1,252.4
Construction contracts expense recognized to date	(1,333.1)
Construction contracts loss recognized to date	**(80.7)**

As of 30 June 2024, PSI has USD 55.0 million as prepayments to suppliers for materials and equipment for the construction of NSMVs 1-5, the SRIV and CVs 1-3 included in prepayments and other receivables on the statement of financial position.

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

As of 30 June 2024, PSI has three separate awards under one shipbuilding contract in place for the NSMV program. NSMVs 1-2 were awarded at contract signing in April 2020; NSMVs 3-4 were awarded upon the exercise of an option in January 2021, and NSMV 5 was awarded upon the exercise of an option in April 2022. Therefore, the three awards under the NSMV contract are treated as three separate performance obligations that are reported as three separate projects for revenue recognition. Each of these projects is being accounted for using the percentage-of-completion method per IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). PSI is building four NSMVs (NSMVs 2-5) for TOTE Services, with NSMV 2 scheduled for delivery in 2024, the next two vessels (NSMVs 3-4) scheduled for deliveries in 2024 and 2025, respectively, and the final vessel (NSMV 5) scheduled for delivery in 2026. As of 30 June 2024, the NSMV projects for NSMVs 1-2, NSMVs 3-4 and NSMV 5 are 97.2%, 75.1% and 25.3% complete, respectively.

PSI also has a shipbuilding contract in place for the Subsea Rock Installation Vessel (SRIV) program, which was awarded in November 2021. PSI is building one SRIV for Great Lakes, scheduled for delivery in 2025. As of 30 June 2024, the SRIV project is 41.5% complete.

PSI also has a shipbuilding contract in place for the container vessel (CV) program, which was awarded in November 2022. PSI is building three CVs (CVs 1-3) for Matson, scheduled for deliveries in 2026 and 2027. As of 30 June 2024, the CVs 1-3 project is 1.1% complete.

Progress towards completing the NSMV, SRIV and CV contract performance obligations are measured based on project costs incurred compared to the total forecasted project costs. Construction contract revenue recognized thru 30 June 2024 includes revenue for NSMVs 1-2, NSMVs 3-4, NSMV 5, the SRIV and CVs 1-3 since the contract for these vessels was accounted for using the percentage-of-completion method according to IFRS 15.

Philly Shipyard's accounting policy is to not recognize profit on projects until they are at least 5.0% complete or such later time when the cost to complete can be measured with reasonable certainty. Due to the continued uncertainty regarding cost increases, no profit was recognized on the NSMV series, the SRIV or the CV series in Q2 2024. The Company will reassess profit recognition in the third quarter of 2024.

Customer advances (net) as of 30 June 2024 and 31 December 2023 totaled USD 216.6 million and USD 212.2 million, respectively. Customer advances (net) represents the difference between (i) cash advances received from customers for vessels under construction and (ii) revenue recognized for those vessels. The customer advances have been reclassified as liabilities directly associated with assets classified as held for sale.

As of 30 June 2024, PSI has USD 347.2 million in unpaid non-cancellable purchase commitments for materials, equipment and design fees for vessels under construction.

12. Operating revenues of the discontinued operations

	Q2		6 months ended 30 June	
Amounts in USD millions	**2024**	**2023**	**2024**	**2023**
Shipbuilding	83.6	139.7	200.8	253.3
Government design studies	-	-	1.1	0.2
Operating revenues	**83.6**	**139.7**	**201.9**	**253.5**

13. Financial instruments

As of 30 June 2024, the Company has no forward exchange contracts or other financial instruments.

14. Commitments and contingencies

Pursuant to the shipyard lease between PSI and Philadelphia Shipyard Development Corporation (PSDC), if PSI fails to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, then the lease term (i.e., a 99-year lease with approximately 73 years remaining including options) is automatically converted to month-to-month and PSDC has the right to terminate the lease, subject to the right of PSI to complete work-in-process projects and a one-time, limited cure right which allows PSI to restore the lease to a five-year term under certain circumstances. PSI is in compliance with this lease condition as of 30 June 2024.

15. Subsequent events after 30 June 2024

PSI was awarded a USD 800,000 grant in July 2024 under MARAD’s Small Shipyard Grant Program to defray the cost of the apprenticeship program.

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