

Philly Shipyard ASA (Oslo: PHLV) Q3 2024 and First Nine Months 2024 Results

4 November 2024

Key Events and Highlights

- ✓ Successfully delivered the second National Security Multi-Mission Vessel (NSMV), the *Patriot State*, on 26 September 2024
- ✓ Transportation Secretary Pete Buttigieg and Navy Secretary Carlos Del Toro provided remarks at the *Patriot State*'s christening ceremony
- ✓ Celebrated steel cutting ceremony for the first containership vessel (CV) for Matson on 30 September 2024
- ✓ PSI was awarded a USD 800 thousand grant in July 2024 under MARAD's Small Shipyard Grant Program to defray the cost of the apprenticeship program
- ✓ Order backlog of USD 1,408.0 million on 30 September 2024 with last contractual delivery date in 2027
- ✓ Total cash and cash equivalents from discontinued operations of USD 19.4 million at 30 September 2024, excluding USD 45.4 million of restricted cash
- ✓ Third quarter and first nine months 2024 operating revenue from discontinued operations of USD 115.2 million and USD 317.1 million, respectively, compared to operating revenues of USD 101.8 million and USD 355.3 million in the same periods in 2023
- ✓ Third quarter and first nine months 2024 EBITDA from discontinued operations of negative USD 45.5 million and negative USD 56.2 million, respectively, compared to EBITDA of negative USD 16.9 million and negative USD 48.1 million in the same periods in 2023
- ✓ Third quarter and first nine months 2024 net loss after tax from discontinued operations of USD 47.0 million and 63.7 million, respectively, compared to net loss after tax of USD 17.1 million and USD 48.7 million in the same periods in 2023
- ✓ Published its first Sustainability Report on 16 September 2024

Subsequent Key Events and Highlights

- ✓ PSI was awarded a USD 6.0 million grant in November 2024 under the State of Pennsylvania's Redevelopment Assistance Capital Program (RACP) to partially fund office and material logistics expansion

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 PHLV (the "Transaction"). The Transaction remains subject to the satisfaction of certain closing conditions. The Transaction has received approval of certain regulatory bodies, including CFIUS (Committee on Foreign Investment in the United States). PHLV continues to expect that the Transaction will close during Q4 2024.

PHLY's Board of Directors and management are now focusing on closing the Transaction. Definition of future strategy and structure, and consideration of alternative uses of proceeds (including dividends), will be addressed by PHLV's Board of Directors following the completion of the Transaction.

Operations

Shipbuilding

The second National Security Multi-Mission Vessel (NSMV) was delivered to the U.S. Department of Transportation's Maritime Administration (MARAD) on 26 September 2024. NSMV 3 continues to be outfitted and sits in the outfitting dock, with delivery expected in Q2 2025. PSI continues construction activities on the

fourth and fifth NSMVs, with NSMV 4 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).

Pre-production activities on the 3600 TEU Aloha Class LNG fueled container vessels (CVs) continue. Steel cutting on CV 1 occurred on 30 September 2024.

As of 30 September 2024, PSI's workforce consists of 1,649 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 28 October 2024. As of 30 September 2024, 139 apprentices are active in this program. 15 apprentices are scheduled to graduate in November 2024. The costs of this program are partially offset by government grants, including a USD 800 thousand 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 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 NSMVs 2-5 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 0.12 at the end of Q3 2024 compared to 0.22 at the end of Q3 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 2.69 at the end of Q3 2024 compared to 2.98 at the end of Q3 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 published its first Sustainability Report on 16 September 2024.

Financial Information

As a result of the Transaction, PHLY continues to account for PSI as an asset held for sale and a discontinued operation in its financial statements. See note 6 below for more details.

Third Quarter 2024 Results of Discontinued Operations

Operating revenue for Q3 2024 was USD 115.2 million compared to operating revenue of USD 101.8 million for Q3 2023. In both 2024 and 2023, third 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 Q3 2024 was negative USD 45.5 million compared to EBITDA of negative USD 16.9 million for Q3 2023. EBITDA for Q3 2024 was driven primarily by increased costs on the NSMV series and the SRIV and selling, general and administrative (SG&A) costs whereas EBITDA for Q3 2023 was driven primarily by increased costs on the NSMV series and SG&A costs. As the SRIV project is now a loss-making contract, the full forecasted loss was recorded in Q3 2024.

Net loss after tax for Q3 2024 was USD 47.0 million compared to net loss after tax of USD 17.1 million for Q3 2023. Net loss after tax for Q3 2024 primarily consists of EBITDA of negative USD 45.5 million and depreciation expense of USD 2.2 million, partially offset by net financial income of USD 0.7 million. Net loss after tax for Q3

2023 primarily consists of EBITDA of negative USD 16.9 million and depreciation expense of USD 2.0 million, partially offset by net financial income of USD 1.8 million.

Year-to-Date 2024 Results of Discontinued Operations

Operating revenue in the first nine months of 2024 was USD 317.1 million compared to operating revenue of USD 355.3 million in the first nine months of 2023. In both 2024 and 2023, year-to-date operating revenue through 30 September was driven by progress on NSMVs 1-5, the SRIV, CVs 1-3 and a government design study.

EBITDA for the first nine months of 2024 was negative USD 56.2 million compared to EBITDA of negative USD 48.1 million in the same period of 2023.

Net loss after tax for the first nine months of 2024 was USD 63.7 million compared to net loss after tax of USD 48.7 million in the same period of 2023. Net loss after tax for the first nine months of 2024 primarily consists of EBITDA of negative USD 56.2 million, depreciation expense of USD 6.4 million and tax expense of USD 3.6 million, partially offset by net financial income of USD 2.5 million. Net loss after tax for the first nine months of 2023 primarily consists of EBITDA of negative USD 48.1 million and depreciation expense of USD 5.7 million, partially offset by net financial items of USD 5.1 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 232.9 million at 30 September 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 19.4 million at 30 September 2024 compared to USD 79.5 million at 31 December 2023. The decrease of USD 60.1 million was due primarily to spending on goods and services related to the vessel projects underway (net of customer milestone payments), investments in property, plant and equipment and SG&A costs, partially offset by favorable working capital and net financial income items.

Total restricted cash as of 30 September 2024 amounted to USD 45.4 million, of which USD 35.4 million (long-term) represents the total cash deposited in an escrow account for the bonds required for NSMVs 2-5, and USD 10.0 million (short-term) pertains to reserve accounts required for NSMVs 2 and 3. It is anticipated that the cash collateral for the bonds and the reserve account funds will be released in tranches following the delivery of each NSMV vessel. The reserve account fund required for NSMV 2 was released to PSI after quarter-end in October 2024. The release of a portion of the cash collateral for the bonds following the delivery of NSMV 2 is pending.

Total equity decreased to negative USD 58.4 million at 30 September 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 September 2024, PSI continues to maintain a strong order backlog of USD 1,408.0 million. PSI has seven vessels, consisting of three NSMVs, one SRIV and three CVs, in its order book. PSI's current order book provides pipeline visibility into 2027.

There continues to be a strong focus on the ongoing 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 Q3 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.

The SRIV project is now also a loss-making contract and, therefore, the Company has accrued a loss provision in its Q3 2024 financial statements. Philly Shipyard believes there have been impacts beyond its control, leading to delays and cost overruns, and will seek remedies.

Today, the Company is debt free. However, based on the Company's latest cash forecasts, it anticipates needing to secure outside interim funding in 2025 to complete its backlog. The Company has begun researching various financing options.

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. PSI continues to pursue various contractual and non-contractual options 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 deliveries of NSMV 1 and 2, 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, various adverse impacts on its cash flows, including delays in achieving milestones, modifications to existing milestone schedules, and losses on shipbuilding contracts, 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 Q3 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

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.

If closing of the Transaction does not occur in Q4 2024, then there is an increased risk of negative impacts to ongoing shipyard operations.

The lingering effects of the COVID-19 pandemic 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.

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Q3		9 months ended 30 Sept.		Full Year	
	Note	Unaudited 2024	Unaudited 2023	Unaudited 2024	Unaudited 2023	2023 *
Operating revenues		-	-	-	-	-
Operating expenses		(0.2)	(0.2)	(0.4)	(0.5)	(0.7)
Operating loss before depreciation (EBITDA)		(0.2)	(0.2)	(0.4)	(0.5)	(0.7)
Depreciation		-	-	-	-	-
Operating loss (EBIT)		(0.2)	(0.2)	(0.4)	(0.5)	(0.7)
Net financial items		-	-	-	-	0.1
Loss before income tax		(0.2)	(0.2)	(0.4)	(0.5)	(0.6)
Income tax expense		-	-	-	-	-
Loss after income tax from continuing operations		(0.2)	(0.2)	(0.4)	(0.5)	(0.6)
Loss after income tax from discontinued operations excluding interest income from PHL Y loan receivable	6	(47.0)	(17.1)	(63.7)	(48.7)	(67.3)
Loss after income tax		(47.2)	(17.3)	(64.1)	(49.2)	(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)	(0.03)	(0.04)	(0.05)
Basic and diluted loss per share from discontinued ops (USD)		(3.87)	(1.40)	(5.26)	(4.02)	(5.56)
Basic and diluted loss per share (USD)		(3.89)	(1.42)	(5.29)	(4.06)	(5.61)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q3		9 months ended 30 Sept.		Full Year	
		Unaudited 2024	Unaudited 2023	Unaudited 2024	Unaudited 2023	Audited 2023 *
Loss after income tax		(47.2)	(17.3)	(64.1)	(49.2)	(67.9)
Other comprehensive income, net of income tax		-	-	-	-	-
Total comprehensive loss for the period **		(47.2)	(17.3)	(64.1)	(49.2)	(67.9)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Note	Unaudited	Audited
		30 Sept. 2024	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)		0.1	79.5
Prepayments and other receivables		1.7	68.4
Restricted cash short-term		-	10.0
Income tax receivable short-term		-	16.0
Subtotal current assets		1.8	173.9
Assets held for sale excluding PHL Y loan receivable	6	232.9	-
Total current assets		234.7	173.9
Total assets		234.7	294.5
Equity and liabilities			
Total equity		(58.2)	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		1.6	67.2
Lease liability short-term		-	1.0
Other contract liabilities		-	0.2
Subtotal current liabilities		1.6	280.6
Liabilities directly associated with assets held for sale excluding PHL Y loan receivable	6	291.3	-
Total current liabilities		292.9	280.6
Total liabilities		292.9	288.6
Total equity and liabilities		234.7	294.5

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

** All attributed to the equity holders of PHL Y.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in USD millions	9 months ended 30 Sept.	
	Unaudited 2024	Unaudited 2023
As of beginning of period	5.9	73.8
Total comprehensive loss for the period	(64.1)	(49.1)
As of end of period	(58.2)	24.7

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	9 months ended 30 Sept.		
	Note	Unaudited 2024	Unaudited 2023
Net cash (used in)/from PHL Y operating activities		(0.1)	0.1
Net cash used in discontinued operations	6	(60.0)	(14.5)
Net change in cash and cash equivalents		(60.1)	(14.4)
Cash and cash equivalents at beginning of period		79.5	137.5
Cash and cash equivalents at end of period		19.4	123.1

Notes to the condensed interim consolidated financial statements for the third 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 September 2024 and 30 September 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 September 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, PHLY continues to 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:

Amounts in USD millions	Q3		9 months ended 30 Sept.		Full Year 2023 *
	Unaudited 2024	Unaudited 2023	Unaudited 2024	Unaudited 2023	
Operating revenues	115.2	101.8	317.1	355.3	441.8
Operating loss before depreciation (EBITDA)	(45.5)	(16.9)	(56.2)	(48.1)	(63.2)
Operating loss (EBIT)	(47.7)	(19.0)	(62.6)	(53.8)	(70.9)
Loss before income tax	(46.7)	(16.8)	(59.2)	(47.8)	(63.0)
Income tax expense	-	-	(3.6)	-	(3.1)
Loss after income tax from discontinued operations	(46.7)	(16.8)	(62.8)	(47.8)	(66.1)
Interest income from PHLY loan receivable	(0.3)	(0.3)	(0.9)	(0.9)	(1.2)
Loss after income tax from discontinued operations excluding interest income from PHLY loan receivable	(47.0)	(17.1)	(63.7)	(48.7)	(67.3)

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

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

Amounts in USD millions	Unaudited 30 Sept. 2024	31 Dec. 2023 *
Assets:		
Cash and cash equivalents	19.4	79.5
Restricted cash	45.4	44.2
Property, plant and equipment	41.7	42.7
Right-of-use assets	16.5	17.8
Other current assets	87.5	84.1
Other non-current assets	22.4	26.0
PHLY loan receivable	31.1	29.6
Total assets held for sale including PHLY loan receivable	264.0	323.9
less: PHLY loan receivable	(31.1)	(29.6)
Total assets held for sale excluding PHLY loan receivable	232.9	294.3
Liabilities:		
Customer advances (net)	194.0	212.2
Other current liabilities	90.2	68.2
Other non-current liabilities	7.1	8.0
Total liabilities directly associated with assets classified as held for sale	291.3	288.4

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

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

Amounts in USD millions	9 months ended 30 Sept.	
	Unaudited 2024	Unaudited 2023
Net cash used in discontinued operations - operating activities	(54.7)	(7.7)
Net cash used in discontinued operations - investing activities	(3.6)	(6.2)
Net cash used in discontinued operations - financing activities	(1.8)	(0.5)
Net change in cash and cash equivalents	(60.1)	(14.4)
Cash and cash equivalents at beginning of period	79.5	137.5
Cash and cash equivalents at end of period	19.4	123.1
Cash and cash equivalents at end of period excluding loan advances to PHLY	20.0	123.6

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 2025. The 2019 and 2020 refunds have been reclassified to assets classified as held for sale as of 30 September 2024. Philly Shipyard was recently notified that the IRS intends to audit the 2021 and 2022 tax years.

8. Share capital and equity

At 30 September 2024 and 30 September 2023, PHLI 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 September 2024 and 30 September 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 September 2024 and 30 September 2023.

9. Interest-bearing debt

At 30 September 2024 and 30 September 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 PHLI, owning 57.6% of its total outstanding shares as of 30 September 2024. Kristian Røkke, the Chairman of the Board of Directors of PHLI, is a board member of TRG Holding AS, which owns 68.2% of the total outstanding shares of Aker ASA as of 30 September 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 September 2024 were USD 38 thousand (USD 38 thousand for the same period in 2023) and for the year-to-date period ending 30 September 2024 were USD 310 thousand (USD 497 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 September 2024, PSI has paid fees of USD 381 thousand (USD 379 thousand for the same period in 2023) for further payment to Aker Capital AS pursuant to this arrangement. All costs have been reclassified to loss from discontinued operations.

11. Construction contracts associated with assets classified as held for sale

Order backlog of USD 1,408.0 million at 30 September 2024 represents a contractual shipbuilding obligation to deliver newly built vessels (NSMVs 3-5, 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 5.0 million at 30 September 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 Sept. 2024	Order intake 9 months to 30 Sept. 2024	Order backlog 31 Dec. 2023
	1,408.0	5.0	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 September 2024 is as follows:

Amounts in USD millions	30 Sept. 2024
Construction contracts revenue recognized to date	1,367.6
Construction contracts expense recognized to date	(1,471.4)
Construction contracts loss recognized to date	(103.9)

As of 30 September 2024, PSI has USD 48.5 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 September 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 three NSMVs (NSMVs 3-5) for TOTE Services, with NSMVs 3 and 4 scheduled for delivery in 2025, and the final vessel (NSMV 5) scheduled for delivery in 2026. As of 30 September 2024, the NSMV projects for NSMVs 1-2, NSMVs 3-4 and NSMV 5 are 100.0%, 78.0% and 35.8% 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. As of 30 September 2024, the SRIV project is 51.5% 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. As of 30 September 2024, the CVs 1-3 project is 2.3% 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 through 30 September 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 or the CV series in Q3 2024. As the SRIV contract became a loss-making contract, the full loss obligation was recorded in Q3 2024. Philly Shipyard will continue to monitor the cost to complete of this contract.

Customer advances (net) as of 30 September 2024 and 31 December 2023 totaled USD 194.0 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 September 2024, PSI has USD 312.8 million in unpaid non-cancellable purchase commitments for materials, equipment and design fees for vessels under construction.

12. Operating revenues of the discontinued operations

Amounts in USD millions	Q3		9 months ended 30 June	
	2024	2023	2024	2023
Shipbuilding	115.2	101.8	316.0	355.1
Government design studies	-	-	1.1	0.2
Operating revenues	115.2	101.8	317.1	355.3

13. Financial instruments

As of 30 September 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 September 2024.

15. Subsequent events after 30 September 2024

PSI was awarded a USD 6.0 million grant in November 2024 under the State of Pennsylvania's Redevelopment Assistance Capital Program (RACP) to partially fund office and material logistics expansion.

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