Aker Philadelphia Shipyard (OSE: AKPS)

Q4 2014 Results

26 February 2015

Highlights

- ✓ Fourth quarter Adjusted EBITDA of USD 6.7 million compared to USD 2.0 million in Q4 2013
- ✓ Commenced construction of the fourth vessel for the AKPS-Crowley joint venture (Hull 024)
- ✓ Hull 020, the second and last aframax vessel for SeaRiver, completed sea trials
- ✓ Total cash and cash equivalents of USD 60.5 million at quarter-end, including USD 20.0 million of restricted cash related to the SeaRiver contract; a decrease from Q3 total cash and cash equivalents of USD 97.4 million, which was primarily driven by investments in the AKPS-Crowley joint venture
- ✓ Order backlog of USD 1,012.9 million on 31 December 2014 with last delivery in December 2018
- ✓ Announced Steinar Nerbovik as AKPS's new President and CEO
- ✓ Repurchased 281,662 shares, constituting 2.24% of the shares outstanding, in Q4 2014 as part of the buyback program
- ✓ Paid dividends for Q3 2014 totaling USD 3.1 million (NOK 21.2 million), bringing year-to-date paid dividends to USD 43.0 million (NOK 259.6 million) in total and NOK 20.65 per share
- ✓ AKPS Board approved a quarterly dividend for Q4 2014 of USD 0.25 per share

Subsequent Events

- ✓ On 3 February 2015, a new four-year collective bargaining agreement was ratified by the Philadelphia Metal Trades Council, which represents all unions at AKPS
- ✓ On 26 February 2015, Philly Tankers announced the long-term charter of its two 50,000 dwt product tankers under contract with AKPS (Hulls 025-026)

Financial Information

Fourth Quarter and Year-to-date 2014 Results

AKPS maintains an economic interest in the four vessels comprising the AKPS-Crowley joint venture with deliveries in 2015 and 2016. As a result of this economic interest, under IFRS, 49.9% of the gross profit on each of these vessels will be deferred and recognized over its lifetime commencing with its delivery. Due to this accounting treatment, AKPS will also report Adjusted EBITDA, which is defined here as EBITDA plus deferred shipbuilding profits. The Company believes presenting Adjusted EBITDA is useful to investors as it provides another measure of AKPS's profitability from its operation, as if AKPS had no economic interest in the AKPS-Crowley joint venture vessels, and more closely represents earnings from shipbuilding activities.

Revenues and other income for the quarter were USD 70.5 million compared to USD 51.3 million in the fourth quarter of 2013. The increase was driven by increased shipbuilding activity on the AKPS-Crowley joint venture product tankers. In the fourth quarter of 2013, revenues were primarily related to progress on the SeaRiver aframax vessels, while in the fourth quarter of 2014, revenues were from both projects.

EBITDA for the quarter was USD 2.7 million compared to USD 2.0 million in the fourth quarter of 2013. Reported earnings this quarter, in contrast to the fourth quarter last year, were affected by the deferral of profits on the AKPS-Crowley joint venture vessels due to AKPS's economic interest in those vessels. When adjusting for these deferred shipbuilding profits, Adjusted EBITDA for the quarter is USD 6.7 million compared to USD 2.0 million in the fourth quarter of 2013.

Net financial items for the quarter were negative USD 3.7 million in Q4 2014 compared to positive USD 0.1 million in Q4 2013. The negative impact is primarily attributable to unrealized currency losses on foreign exchange forward contracts and certain cash balances held in Norwegian Kroner. As of year-end the shipyard has secured the majority of its forecasted purchases in Korean Won for Hulls 021-028.

Net loss for the quarter was USD 3.8 million compared to net income of USD 0.5 million for the fourth quarter of 2013. The difference was due to the above-mentioned factors.

Revenues and other income year-to-date 2014 ended at USD 272.7 million compared with USD 279.0 million for 2013. 2014 revenues and other income were comprised of shipbuilding revenues on the SeaRiver and AKPS-Crowley joint venture vessels and the sale of the profit sharing interests in Hulls 017 and 018. 2013 revenues and other income was comprised of the recognition of revenues upon the delivery to Crowley in Q1 2013 of Hull 018, which originally had been built for AKPS's own account, and shipbuilding revenues on the SeaRiver project. Adjusted EBITDA in 2014 totaled USD 41.1 million compared to USD 30.1 million in 2013. The increase year-over-year is primarily attributable to the gain recorded from the sale of the profit sharing interests. Net financial items were negative USD 5.8 million for 2014 compared to positive USD 0.2 million for 2013. The negative result is due to currency losses on foreign exchange contracts and cash balances held in NOK. Net income was USD 13.6 million for 2014 compared to USD 15.6 million for 2013.

Balance Sheet

As of 31 December 2014, total assets were USD 268.4 million compared to USD 187.3 million on 31 December 2013. The increase was primarily driven by an increase in vessels-under-construction receivable and the investment in Philly Tankers.

The Company's overall debt level increased in 2014 with long-term debt at USD 11.5 million and short-term debt at USD 45.7 million at year-end. The increase was mainly due to the contribution of a non-interest bearing promissory note to the equity capital of Philly Tankers in exchange for shares in Philly Tankers.

Cash and cash equivalents were USD 40.5 million at quarter-end, compared to USD 68.8 million at 31 December 2013. The decrease of USD 28.3 million was primarily due to increases in vessels-under-construction receivable, dividends paid and share repurchases offset by customer milestone payments, proceeds from the sale of the Company's profit share interests in Hulls 017 and 018 to Crowley, and the private placement and subsequent retail offering of shares in AKPS.

Cash and cash equivalents excludes restricted cash of USD 20 million related to the SeaRiver project, USD 13 million of which is to be released upon the delivery of Hull 020 to SeaRiver and the balance of which is to be released one year later.

Total equity increased to USD 138.2 million at the end of the quarter from USD 114.0 million at year-end 2013. The increase was driven by the AKPS private placement and subsequent retail offering and current year profits, offset by dividends paid and share repurchases.

Financing

As of 31 December 2014, the Company had a USD 120 million loan facility with Caterpillar Financial Services Corporation (Cat Financial) for construction financing on the four AKPS-Crowley joint venture vessels. The loan is subject to a maximum borrowing amount of USD 58-60 million per vessel and will be secured by a first lien on Hulls 021-024. The loan will accrue interest at 3-month LIBOR plus 3.00%. Funding is subject to satisfaction of customary conditions precedent for this type of facility, including securing commitments for post-delivery financing of the vessels.

In addition, as of year-end, the Company had a commitment for a secured five-year term loan for up to USD 60 million from PIDC Regional Center through the Welcome Fund loan program. The loan will carry a fixed interest rate of 2.75% through maturity in 2020. This facility will be used to fund the Company's investment in the AKPS-Crowley joint venture product tankers. Closing is subject to satisfaction of customary conditions precedent for this type of loan, including obtaining certain government approvals.

Shareholder Distributions

The AKPS Board approved a dividend for the quarter of USD 0.25 per share that will be paid on or about 13 March 2015 to shareholders of the Company of record on 3 March 2015. The Company expects to continue to pay a regular quarterly dividend of USD 0.25 per share for the foreseeable future, with ambitions of increasing the amount over time.

As disclosed in a stock exchange notice on 17 July 2014, the Company initiated a share buyback program to repurchase up to 10% of its share capital in accordance with the authorization granted to the Board of Directors at the Annual General Meeting held on 9 April 2014. To date, the Company has repurchased a total of 466,865 own shares, constituting 3.71% of the shares outstanding.

Operations and Shipping Investments

Health, Safety, Security and Environment (HSSE)

AKPS's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR), as defined by the Occupational Safety and Health Administration (OSHA), at year-end was 1.08 compared to 0.94 at the end of 2013. This compares to an OSHA comparable industry average of 2.4. AKPS's 12-month trailing average for its Total Recordable Incident Rate (TRIR), as defined by OSHA, at year-end was 4.3 compared to 5.1 at the same point in 2013, a decrease of 19%. The TRIR for the OSHA comparable industry average is 7.6.

Vessel Construction

At the end of the fourth quarter of 2014, AKPS had five vessels under construction – one for SeaRiver (Hull 020) and four for the AKPS-Crowley joint venture (Hulls 021-024). Hull 020 successfully completed sea trials in December 2014 and is expected to be delivered to SeaRiver in March 2015, which is later than originally scheduled. The forecasted costs associated with completing this vessel are reflected in the Company's Q4 results. Delivery of Hull 020 will mark the conclusion of the two-ship project for SeaRiver. All grand blocks for Hull 021 are in the Building Dock and the shipyard held a ceremonial keel laying for Hull 022 in December 2014. Hulls 023 and 024 are in various stages of prefabrication and block assembly.

All design, procurement, planning and production activities for the product tankers are progressing according to plan and expectations. AKPS has previously built fourteen similar vessels and expects to benefit from its prior experience with series construction. The majority of purchasing activities for Hulls 021-028 have been completed. The Company continues to actively manage its exposure to foreign currency and material pricing for its backlog. AKPS's workforce is in-line with historical norms and will continue to be adjusted according to its backlog and production activities.

Engineering and procurement activities are underway for the Matson project (Hulls 029 and 030). AKPS is leveraging the extended time between contract and delivery on these vessels to maximize pre-production activities and facilitate a smooth construction process.

Shipping Investments

AKPS's current portfolio of shipping assets consists of a potential exposure toward eight product tankers through its future interests in the four-ship AKPS-Crowley joint venture and its investment in Philly Tankers. All of the AKPS-Crowley joint venture vessels (Hulls 021-024) and the two firm Philly Tankers vessels (Hulls 025 and 026) have commitments for long-term charters. These assets provide a mechanism for AKPS to achieve returns on the ownership, chartering and operation of the vessels it builds, in addition to returns on traditional shipbuilding activities. The Company continues to evaluate strategic initiatives and potential transactions with regards to its shipping assets to maximize shareholder value.

Outlook

Shipbuilding

The contracts with SeaRiver (Hull 020), Crowley (Hulls 021-024), Philly Tankers (Hulls 025 and 026), and Matson (Hulls 029 and 030) provide for shipbuilding activity with delivery dates through 2018. As of 31 December 2014, AKPS had an order backlog in excess of USD 1.0 billion.

Philly Tankers currently holds an option for Hulls 027-028 with deliveries in 2017, which is expected to be exercised. AKPS is confident in the demand for these two vessels and expects them to be constructed either for Philly Tankers or for others if the existing option is not declared.

While AKPS is mainly focused on product tankers and large containerships, AKPS continues to pursue prospects for new construction projects in other areas of the Jones Act market, including shuttle tankers, short-sea shipping vessels, off-shore service vessels, barges, wind turbine installation vessels, and other large steel fabrication projects. LNG propulsion continues to be a consideration for potential owners and AKPS is well-positioned to leverage its experience from the Matson containership design.

Shipping

The fundamental outlook for Jones Act tanker shipping remains firm, however, market uncertainty has increased during the second half of 2014. In the short and medium term, available tonnage continues to be limited compared to demand. The Company continues to believe that new tonnage planned to come online in 2016 and 2017 will be effectively absorbed in the market.

The Jones Act tanker market has seen a number of relevant transactions recently. These include the purchases of three existing product tankers by master limited partnerships (MLPs), consisting of one by Genesis Energy and two by Kinder Morgan Energy Partners. Further, since the decline in crude oil prices, the market has seen a number of charters, including two long-term charters for Philly Tankers as well as a multi-year charter for a newbuild MR product tanker as reported in an industry trade publication.

Risks

Operational risk is the ability to deliver vessels under existing contracts at the agreed time, quality, functionality and cost. Delivering projects in accordance with the contract terms and the anticipated cost framework represents a substantial risk element, which is expected to be the most significant factor affecting AKPS's financial performance. Results also depend on costs of goods and services, both AKPS's own and those charged by suppliers, and on interest expense, exchange rates and customers' ability to pay. AKPS is dependent on commitments for debt financing and has exposure in the financial markets, including currency, interest rate, counterparty and liquidity risks. AKPS has established guidelines and systems to manage this exposure. AKPS faces risks related to its shipping assets, including the risk of failure to secure time charters and take-out financing for the underlying vessels. To the extent these are not secured on a timely basis or on market terms, it could have a negative effect on AKPS's business and financial performance. AKPS faces risks related to the options for its building slots, including the risk that those options are not declared and the underlying vessels are ultimately sold for less favorable terms. If this risk was to materialize, then it could have a negative effect on AKPS's financial performance. For a further analysis of risks, please refer to the 2013 AKPS annual report.

Oslo, Norway
25 February 2015
Board of Directors and Chief Executive Officer
Aker Philadelphia Shipyard ASA

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except shares and per share information)	Q4 Unaudited 2014	Q4 2013	Twelve Months Ended 31 Dec. Unaudited 2014	Twelve Months Ended 31 Dec. 2013 *
Operating revenues and other income	70.5	51.3	272.7	279.0
Operating expenses	(67.8)	(49.3)	(240.6)	(248.9)
Operating income before depreciation - EBITDA	**2.7**	**2.0**	**32.1**	**30.1**
Depreciation	(1.9)	(1.7)	(7.4)	(6.9)
Operating income - EBIT	**0.8**	**0.3**	**24.7**	**23.2**
Net financial items	(3.7)	0.1	(5.8)	0.2
(Loss)/income before tax	**(2.9)**	**0.4**	**18.9**	**23.4**
Tax (expense)/benefit	(0.9)	0.1	(5.3)	(7.8)
(Loss)/income after tax **	**(3.8)**	**0.5**	**13.6**	**15.6**
Weighted average number of shares	**12,230,363**	**10,165,305**	**12,170,960**	**10,165,305**
Basic and diluted (loss)/earnings per share (USD)	**(0.31)**	**0.05**	**1.12**	**1.53**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q4 Unaudited 2014	Q4 2013	Twelve Months Ended 31 Dec. Unaudited 2014	Twelve Months Ended 31 Dec. 2013
(Loss)/income after tax	(3.8)	0.5	13.6	15.6
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive income for the period **	**(3.8)**	**0.5**	**13.6**	**15.6**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 31-Dec 2014	31-Dec 2013 *
Assets		
Non-current assets		
Property, plant and equipment	52.9	54.8
Restricted cash	7.0	20.0
Deferred tax assets	0.3	3.0
Equity-accounted investees	56.0	-
Other non-current assets	0.2	5.4
Total non-current assets	**116.4**	**83.2**
Current assets		
Vessels-under-construction receivable	87.9	-
Restricted cash	13.0	-
Prepayments and other receivables	10.6	35.3
Cash and cash equivalents	40.5	68.8
Total current assets	**152.0**	**104.1**
Total assets	**268.4**	**187.3**
Equity and liabilities		
Total equity	**138.2**	**114.0**
Non-current liabilities		
Interest-bearing long-term debt	0.7	3.0
Note payable	10.8	-
Other long-term liabilities	7.2	6.9
Deferred tax liabilities	-	7.9
Total non-current liabilities	**18.7**	**17.8**
Current liabilities		
Customer advances, net	26.1	33.8
Interest-bearing short-term debt	0.2	2.6
Current portion of note payable	45.5	-
Taxes, trade payables and accrued liabilities	39.7	19.1
Total current liabilities	**111.5**	**55.5**
Total liabilities	**130.2**	**73.3**
Total equity and liabilities	**268.4**	**187.3**

* Annual 2013 financial information is derived from audited financial statements.
** All attributed to the equity holders of AKPS.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in USD millions	Twelve Months Ended 31 Dec. Unaudited 2014	2013 *
As of beginning of period	114.0	98.4
Issuance of shares, net of transaction costs	63.6	-
Dividends	(43.0)	-
Purchase of treasury shares	(10.0)	-
Total comprehensive income for the period **	13.6	15.6
As of end of period	**138.2**	**114.0**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Twelve Months Ended 31 Dec. Unaudited 2014	2013 *
Net cash (used in)/from operating activities	(67.9)	49.2
Investments in property, plant and equipment	(5.5)	(4.9)
Investment in shares in equity-accounted investees	(6.0)	-
Distribution received from equity-invested investees	5.5	-
Sale of profit sharing, net of transaction costs	39.7	-
Net cash from/(used in) investing activities	33.7	(4.9)
Proceeds from shares issued, net of transaction costs	63.6	-
Dividends	(43.0)	-
Purchase of treasury shares	(10.0)	-
Repayment of interest-bearing debt	(4.7)	(33.8)
Net cash from/(used in) financing activities	5.9	(33.8)
Net change in cash and cash equivalents	**(28.3)**	**10.5**
Cash and cash equivalents at beginning of period	68.8	58.3
Cash and cash equivalents at end of period	**40.5**	**68.8**

* Annual 2013 financial information is derived from audited financial statements.

** All attributed to the equity holders of AKPS.

Notes to the condensed interim consolidated financial statements for the 4th quarter 2014

1. **Introduction – Aker Philadelphia Shipyard ASA**
Aker Philadelphia Shipyard ASA (AKPS) is a Company domiciled in Norway. The condensed interim consolidated financial statements for the three-month and twelve-month periods ended 31 December 2014 and 31 December 2013 are comprised of AKPS and its direct and indirect wholly-owned subsidiaries, including Aker Philadelphia Shipyard, Inc. (APSI).

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

The audited consolidated financial statements of AKPS as of and for the year ended 31 December 2013, which include a detailed description of accounting policies and significant estimates, are available at www.akerphiladelphia.com.

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

3. **Statement of compliance**
These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) 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 AKPS as of and for the year ended 31 December 2013.

4. **Significant accounting principles**
The accounting policies applied by AKPS in these condensed interim consolidated financial statements are substantially the same as those applied by AKPS in its audited consolidated financial statements as of and for the year ended 31 December 2013.

There have not been any new IFRS standards or interpretations which were effective 1 January 2014 that have had a significant impact on Q4 2014 or the year-to-date period.

5. **Use of estimates**
The preparation of 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 AKPS'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 2013 unless described elsewhere in this report.

6. **Tax estimates**
Income tax expense is recognized in each interim period based on the best estimate of the expected annual income tax rates.

7. **Share capital and equity**
At 31 December 2014, AKPS had 12,107,901 ordinary shares at a par value of NOK 10 per share which reflected the share issuances of 2,250,000 on 10 February 2014 and 159,461 on 27 March 2014 less 466,865 shares repurchased between 1 July and 31 December 2014. Based on these issuances and repurchases, a weighted average of 12,230,363 ordinary shares was used in the calculation of earnings per share for the quarter ended 31 December 2014 and a weighted average of 12,170,960 ordinary shares was used in the calculation of earnings per share for the twelve months ended 31 December 2014. For all previous periods in 2013, 10,165,305 ordinary shares was used for purposes of calculation of earnings per share.

8. **Interest-bearing debt**
The following shows material changes in interest-bearing debt during 2014:

Amounts in USD millions	Long-term debt	Short-term debt	Total interest-bearing debt
Balance 31.12.13	**3.0**	**2.6**	**5.6**
Issuance of debt	10.8	45.5	56.3
Repayment of debt	(2.3)	(2.4)	(4.7)
Balance 31.12.14	**11.5**	**45.7**	**57.2**

As previously disclosed, during Q1 2014, the Company entered into a loan agreement with Caterpillar Financial Services Corporation (Cat Financial) for a USD 120 million loan facility for construction financing on the four product tankers under contract with Crowley Maritime Corporation. The loan is subject to a maximum borrowing amount of USD 58-60 million per vessel and will be secured by a first lien on Hulls 021-024. The loan will accrue interest at three-month Libor plus 3% as defined in the loan agreement. No funds have been drawn under this facility as of 31 December 2014.

As previously disclosed, during Q4 2013, APSI executed a commitment letter with PIDC Regional Center, LP XXXI, a partnership between CanAm Enterprises and PIDC, for a secured term loan of up to USD 60 million. The commitment letter provides that the loan will have a five-year term and will be initially secured by a second lien on Hulls 021-024 during construction. After the vessels are delivered, the lender will have a lien on the economic interests in the vessels under the AKPS-Crowley joint venture. The commitment letter provides further that the loan will have a fixed interest rate of 2.75% through maturity. This loan will be made through the Welcome Fund loan program, a source of low-cost capital generally available to commercial, retail, industrial or non-profit firms that create significant job growth and are located in or planning to locate to the City of Philadelphia. AKPS expects to sign definitive documentation for the Welcome Fund loan described above and draw down the funds as soon as governmental approval of such loan has been obtained. No funds have been drawn under this facility as of 31 December 2014.

In return for shares in Philly Tankers, the Company contributed a promissory note with a face value of USD 58 million to the equity capital of Philly Tankers. This note will be reduced dollar-for-dollar as the shipyard spends its own funds on the construction of Hulls 025 and 026. As this note was issued as an interest-free instrument, the Company has discounted its value and is imputing interest expense on the discounted amount at a rate of 3.56% per annum. The full amount is due and payable on the earlier of the date of delivery of Hull 026 or 30 November 2018.

9. Related party transactions

Converto Capital Fund AS, an investment fund controlled by Aker ASA, is the majority shareholder of AKPS, owning 57.6% of its total outstanding shares as of 31 December 2014. In addition, Kristian Rokke, the Chairman of the Board of Directors of AKPS, is a Board member of TRG Holding AS, which owns 66.7% of the total outstanding shares of Aker ASA as of 31 December 2014. AKPS believes that related party transactions are made on terms equivalent to those that prevail in arm’s length transactions.

AKPS has service agreements with Aker ASA and certain of its affiliates which provide specified consulting, accounting, tax, financial and administrative services. AKPS also has a secondment agreement with Aker ASA which establishes a framework for the mutual secondment of personnel between their respective organizations. All payables under these agreements are paid within the normal course of business.

Related administrative costs and financial statement amounts for the three-month period ending 31 December 2014 were USD 136 thousand (USD 177 thousand for the same period in 2013) and for the twelve-month period ending 31 December 2014 were USD 659 thousand (USD 398 thousand for the same period in 2013).

APSI has agreed to reimburse Aker ASA for certain support and assistance provided by Aker ASA to APSI in conjunction with the SeaRiver project. Costs for the three-month and twelve-month periods ending 31 December 2014 were USD 22 thousand and USD 82 thousand (USD 37 thousand and USD 80 thousand, respectively, for the same periods in 2013).

10. Capitalized interest

	Q4		Twelve Months Ended 31 Dec.	
Amounts in USD millions	**2014**	**2013**	**2014**	**2013**
Interest expense	(0.6)	(0.2)	(1.4)	(0.8)
Interest capitalized on construction contracts	-	-	-	0.1
Net interest expense	**(0.6)**	**(0.2)**	**(1.4)**	**(0.7)**

11. Construction contracts

The order backlog is USD 1,012.9 million at 31 December 2014 and represents an obligation to deliver vessels that have not yet been produced for the Company’s customers: SeaRiver, Crowley, Philly Tankers and Matson. The order backlog consists of future revenues and is subject to adjustment based on change orders as defined in the construction contracts.

Amounts in USD millions	Order backlog 31.12.14	Order intake 12 months to 31.12.14	Order backlog 31.12.13
	1,012.9	**256.0**	**1,017.7**

The recognized profit on long-term contracts in process for the periods that ended:

Amounts in USD millions	31.12.14
Contract revenue recognized as revenue to date	473.5
Less: recognized contract expenses	(459.0)
Recognized profit to date	**14.5**
Contract costs incurred to date	**474.0**

AKPS is recognizing revenues and expenses for the two-tanker order from SeaRiver as one project. As of 31 December 2014, the SeaRiver project was approximately 99% complete. AKPS is also recognizing revenues and expenses for the four-tanker order from Crowley as a single project. As of 31 December 2014, the Crowley project was approximately 32% complete.

Customer milestone payments as of 31 December 2014 and 31 December 2013 totaled USD 257.9 million and USD 263.1 million, respectively.

Customer advances, net as of 31 December 2014 and 31 December 2013 totaled USD 26.1 million and USD 33.8 million, respectively. These represent customer milestone payments net of work-in-process and earned profit.

As of 31 December 2014, APSI has non-cancellable purchase commitments for materials and equipment of approximately USD 115.7 million for the construction of Hulls 020-030.

12. Operating revenues and other income

	Q4		Twelve Months Ended 31 Dec.	
Amounts in USD millions	**2014**	**2013**	**2014**	**2013**
Operating revenues	70.4	51.3	240.3	275.8
Equity income in investment in Philly Tankers	0.1	-	0.1	-
Hull 018 profit sharing	-	-	-	3.2
Gain-on-sale of profit sharing	-	-	32.3	-
Operating revenues and other income	**70.5**	**51.3**	**272.7**	**279.0**

13. Financial instruments

As of 31 December 2014, the Company accounts for its forward exchange contracts with a notional value of USD 57.9 million (fair value of a USD 1.9 million liability at 31 December 2014) at fair value. These contracts are the only assets and liabilities accounted for at fair value. As disclosed in the Company's 2013 annual report, the fair value of forward exchange contracts are determined by market observable inputs. Other than as noted above, there are no significant deviations between carrying amounts of financial assets and liabilities and their fair values due to short-term maturities.

14. Commitments and contingencies

On 6 November 2013, AKPS executed definitive agreements for a joint venture with Crowley Maritime Corporation and certain of its affiliates ("Crowley") related to the ownership, operation and chartering of four product tankers. The vessels will be delivered in 2015 and 2016 and Crowley will maintain control over the ownership, technical operation, and commercial management of the vessels. AKPS and Crowley will share approximately 49.9% and 50.1%, respectively, in the economic benefits from the vessels. It is anticipated that AKPS will have an investment in the joint venture of approximately USD 110 million once all four vessels are delivered. The actual amount of the investment will depend upon the total capital cost of the vessels to the joint venture and the net amount of takeout financing upon delivery of the vessels. The vessels owned by the joint venture will be subject to mortgage debt residing at the joint venture. Due to the nature of the transaction, approximately 49.9% of the gross profits on each vessel being constructed by APSI for the joint venture will be deferred and recognized ratably over the life of such vessel once it is delivered. As of 31 December 2014, the Company had deferred USD 9.0 million in profit which is recorded as a reduction in revenues and included in vessels-under-construction receivable on the statement of financial position. All four vessels have multi-year charters in place.

As part of the transactions contemplated by the Authorization Agreement executed by APSI and Philadelphia Shipyard Development Corporation (PSDC) in 2011, APSI agreed to a new termination event under its shipyard lease, pursuant to which PSDC has the right to recapture the shipyard if APSI fails to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, subject to the right of APSI to complete work-in-process projects and a one-time, limited cure right which allows APSI to restore the lease to a 5-year term under certain circumstances. Based on its current construction schedule and backlog, AKPS expects that it will have at least 200 full-time employees on staff for the foreseeable future.

15. Use and reconciliation of non-GAAP financial measures

	Q4		Twelve Months Ended 31 Dec.	
	Unaudited		Unaudited	
Amounts in USD millions	**2014**	**2013**	**2014**	**2013**
EBITDA	2.7	2.0	32.1	30.1
plus: deferred shipbuilding profits for Hulls 021-024	4.0	-	9.0	-
Adjusted EBITDA	**6.7**	**2.0**	**41.1**	**30.1**

Non-GAAP financial measures are defined as numerical measures that either exclude or include amounts that are not excluded or included in the comparable measures calculated and presented in accordance with GAAP (i.e. IFRS).

The following financial measure may be considered a non-GAAP financial measure:
Adjusted EBITDA which is defined as EBITDA plus deferred shipbuilding profits

16. Events after 31 December 2014

On 3 February 2015, a new four-year collective bargaining agreement was ratified by the Philadelphia Metal Trades Council, which represents the ten unions at the shipyard. This new labor contract will extend until 31 January 2019.

On 26 February 2015, Philly Tankers announced it entered into binding long-term charter contracts with a domestic end-user for its two 50,000 dwt product tankers under contract with AKPS (Hulls 025-026).

On 25 February 2015, the Board of Directors authorized a dividend of USD 0.25 per share. The dividend payment will take place on or about 13 March 2015 to shareholders of the Company of record on 3 March 2015. The shares will be traded exclusive dividend from and including 4 March 2015.

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