Philly Shipyard ASA (OSE: PHLY)
Q4 2015 Results

17 February 2016

Highlights

- ✓ Fourth quarter EBITDA was USD 18.4 million compared to USD 2.7 million in Q4 2014. Fourth quarter Adjusted EBITDA was USD 22.5 million compared to USD 6.7 million in Q4 2014.
- ✓ Total cash and cash equivalents of USD 90.0 million at 31 December 2015, including USD 7.0 million of restricted cash related to the SeaRiver contract and USD 13.1 million of restricted cash pertaining to the Welcome Fund loan
- ✓ Order backlog of USD 983.8 million on 31 December 2015
- ✓ On 23 December 2015, Hull 022, the second product tanker in the current four-vessel series for Crowley, was delivered and Philly Shipyard's joint venture interests pertaining to Hull 022 were sold, resulting in a gain-on-sale of USD 10.0 million and the recognition of previously deferred profits of USD 5.8 million
- ✓ On 28 December 2015, the Company signed a commitment letter with Cat Financial for a USD 150 million loan facility to finance the construction of Hulls 025-028
- ✓ Six product tankers and two containerships are currently under construction
- ✓ Paid Q3 2015 quarterly dividend of USD 0.25 per share totaling USD 3.0 million
- ✓ The Company changed its name to Philly Shipyard ASA
- ✓ Jan Ivar Nielsen joined the Company as Chief Financial Officer

Subsequent Events

- ✓ On 1 February 2016, James H. Miller was elected as the new Chairman of the Board at an extraordinary general meeting
- ✓ On 17 February 2016, the PHLY Board approved a quarterly dividend for Q4 2015 of USD 0.25 per share
- ✓ In addition, based on the Company's strong cash position, the Company intends to pay extraordinary dividends in a series of payments in 2016 subsequent to the future deliveries of Hulls 023, 024 and 025. The first extraordinary dividend payment is planned for Q2 2016.

Operations and Shipping Investments

Vessel Construction

At the end of the fourth quarter of 2015, Philly Shipyard had eight vessels under construction – two product tankers under contract with Crowley (Hulls 023-024), four product tankers under contract with Philly Tankers (Hulls 025-028), which contracts will be sold by Philly Tankers to Kinder Morgan upon delivery, and two containerships under contract with Matson (Hulls 029-030). Hull 022, the second product tanker for Crowley, was delivered on 23 December 2015 and is currently in service. After the end of the quarter, Philly Shipyard launched Hull 023 and held a ceremonial keel laying with Kinder Morgan for their first vessel, Hull 025, as it joined Hull 024, the last Crowley tanker, in the Building Dock. The construction of the two containerships for Matson (Hulls 029 and 030) commenced in Q4 2015 and is in its initial phase.

Shipping Investments

During Q3 2015, Philly Shipyard entered into definitive agreements with a subsidiary of Marathon Petroleum Corporation (Marathon) to divest its future interests in the four-ship PHLY-Crowley joint venture and Philly Tankers entered into definitive agreements with a subsidiary of Kinder Morgan, Inc. (Kinder Morgan) to sell its four product tanker contracts with Philly Shipyard. These transactions are expected to result in a total pre-tax gain of around USD 64 million for Philly Shipyard, inclusive of Philly Shipyard's 54% ownership of Philly Tankers. The closing with respect to each vessel will occur at its delivery. The closings with respect to Hulls 021 and 022 occurred in Q3 2015 and Q4 2015, respectively.

Health, Safety, Security and Environment (HSSE)

Philly Shipyard's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR), as defined by the Occupational Safety and Health Administration (OSHA), at the end of Q4 2015 was 0.75 compared to 1.08 at the same time in 2014. Philly Shipyard's 12-month trailing average for its other Recordable Incident Frequency Rate, based on recordable incidents (other than lost time incidents) per 200,000 hours, at the end of Q4 2015 was 4.04 compared to 4.33 at the same point in 2014.

Financial Information

Fourth Quarter & Year-to-date 2015 Results

Operating revenues and other income for the quarter were USD 67.5 million compared to USD 70.5 million in the fourth quarter of 2014. Q4 2015 operating revenues and other income were comprised primarily of continued progress on the Crowley project and the gain-on-sale of the shipping assets pertaining to Hull 022 whereas Q4 2014 operating revenues and other income were primarily driven by progress on the SeaRiver project.

As previously disclosed, under IFRS, (1) 49.9% of the profit on each of Hulls 021-024 is deferred and the total estimated deferred margin for all four vessels will be recognized pro-rata (25% per ship) at delivery and (2) Philly Shipyard will recognize 100% of the revenue, cost and profit on each of Hulls 025-028 at its delivery. Due to the accounting treatment of these projects, Philly Shipyard will also report Adjusted EBITDA, which is defined here as EBITDA plus or minus net deferred shipbuilding profits plus capitalized Welcome Fund interest expense. Philly Shipyard believes presenting Adjusted EBITDA is useful to investors as it provides another measure of Philly Shipyard's profitability from its operations, as if Philly Shipyard had no economic interest in the PHLY-Crowley joint venture vessels or investment in Philly Tankers, and more closely represents earnings from shipbuilding activities. Accordingly, Adjusted EBITDA assumes percentage of completion method of accounting is applied to all shipbuilding contracts.

EBITDA for the quarter was USD 18.4 million compared to USD 2.7 million in the fourth quarter of 2014. Adjusted EBITDA for the quarter was USD 22.5 million compared to USD 6.7 million in the fourth quarter of 2014. The EBITDA for the quarter included USD 15.8 million related to the sale of Hull 022, including both the gain-on-sale and the recognition of previously deferred profits.

Net financial items in Q4 2015 were USD 1.1 million compared to negative USD 3.7 million in Q4 2014. The main financial income drivers in the quarter are unrealized currency gains on foreign exchange forward contracts. In Q4 2014, the financial expense was primarily attributable to unrealized currency losses on foreign exchange forward contracts and certain cash balances held in Norwegian Kroner.

Net income for the quarter was USD 11.4 million compared to a net loss of USD 3.8 million for the fourth quarter of 2014. The difference was due to the above-mentioned factors.

Operating revenues and other income in 2015 were USD 307.0 million compared with USD 272.7 million in 2014. December 2015 year-to-date operating revenues and other income were comprised primarily of continued progress on the Crowley project, the gain-on-sale of the shipping assets pertaining to Hulls 021 and 022 for a combined USD 20.0 million, and the recognition of previously deferred profits upon the delivery of Hulls 021 and 022 for a combined USD 10.9 million, whereas December 2014 year-to-date operating revenues and other income were comprised primarily of continued progress on the SeaRiver project and the one-time net gain of USD 32.3 million on the sale of the Company's profit sharing interests in Hulls 017 and 018 to Crowley.

EBITDA for 2015 was USD 42.7 million compared to USD 32.1 million for the same period in 2014. Adjusted EBITDA for 2015 totaled USD 50.8 million compared to USD 41.1 million for the same period in 2014. Two main drivers of EBITDA for 2015 were the gain-on-sale of the shipping assets pertaining to Hulls 021 and 022 for a combined USD 20.0 million and the recognition of previously deferred profits upon the delivery of Hulls 021 and 022 for a combined USD 10.9 million. For 2014, a main driver of EBITDA was the one-time net gain of USD 32.3 million on the sale of the Company's profit sharing interests in Hulls 017 and 018 to Crowley.

Net financial items for 2015 were negative USD 3.4 million compared to negative USD 5.8 million for the same period in 2014. The main drivers of the financial expense in 2015 are unrealized currency losses on foreign exchange forward contracts and interest expense on net debt, with similar figures to the same period of the prior year.

Net income for 2015 was USD 19.0 million compared to USD 13.6 million for the same period in 2014, driven by the same factors that affected EBITDA.

Balance Sheet

As of 31 December 2015, total assets were USD 368.2 million compared to USD 268.4 million at 31 December 2014. The increase was primarily driven by an increase in vessels-under-construction receivable and work-in-process, which increased in total from USD 87.9 million to USD 153.2 million

The Company's overall debt level increased in 2015 to USD 103.5 million at 31 December 2015 compared to total debt at year-end 2014 of USD 57.2 million. The increase was mainly due to draws on the debt facilities described under Financing below. The total debt figures include a USD 13.8 million note payable, representing the outstanding balance of a USD 58.0 million promissory note contributed to the equity capital of Philly Tankers in return for shares of Philly Tankers.

Cash and cash equivalents (excluding restricted cash) were USD 69.9 million at 31 December 2015, compared to USD 40.5 million at 31 December 2014. The increase of USD 29.4 million was primarily due to increases in both construction financing and long-term debt, the release of USD 13.0 million of restricted cash related to the SeaRiver project from escrow and continued customer milestone payments offset by the dividend paid and increases in vessels-under-construction receivable and work-in-process. As of year-end 2015, restricted cash consisted of USD 7.0 million related to the SeaRiver project which is expected to be released in March 2016 and USD 13.1 million related to the Welcome Fund loan which is expected to be released no later than March 2020 when the loan matures.

Total equity increased to USD 145.1 million at 31 December 2015 from USD 138.2 million at year-end 2014 due to the dividend paid of USD 12.1 million and offset by net income of USD 19.0 million.

Financing

The Company has a USD 120 million loan facility with Caterpillar Financial Services Corporation (Cat Financial) for construction financing on Hulls 021-024. The Company had drawn USD 29 million under this facility as of 31 December 2015 after the repayment of USD 60 million upon the delivery of Hull 022.

In addition, the Company has a commitment for a USD 150 million loan facility with Cat Financial for construction financing on Hulls 025-028. The Company expects to enter into definitive agreements for this facility in Q1 2016.

The Company also has a secured five-year term loan for up to USD 60 million from PIDC Regional Center, LP XXXI through the Welcome Fund loan program. Total amounts drawn under this facility at 31 December 2015 were USD 60 million.

Shareholder Distributions
The PHLY Board approved a dividend for the quarter of USD 0.25 per share that will be paid on or about 4 March 2016 to shareholders of the Company of record on 23 February 2016.

In addition, based on the Company's strong cash position, the Company intends to pay extraordinary dividends in a series of payments in 2016 subsequent to the future deliveries of Hulls 023, 024 and 025. The first extraordinary dividend payment is planned for Q2 2016.

Further dividend in 2017 and 2018 is dependent on performance on existing contracts and possible new orders. Any payment of dividends will be considered in conjunction with the Company's financial position, debt covenants, capital requirements, market prospects and potential strengthening of the Company's financial structure.

Outlook

Shipbuilding
The contracts with Crowley (Hulls 023-024), Philly Tankers (Hulls 025-028), and Matson (Hulls 029 and 030) provide for shipbuilding activity with delivery dates through Q1 2019. As of 31 December 2015, Philly Shipyard had an order backlog of approximately USD 984 million.

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

Shipping
As Philly Shipyard and Philly Tankers have completed definitive documentation to divest their shipping assets related to Hulls 021-028, they will no longer have exposure to these vessels in service.

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 Philly Shipyard's financial performance. Results also depend on costs of goods and services, both Philly Shipyard's own and those charged by suppliers, and on interest expense, exchange rates and customers' ability to pay. Philly Shipyard is dependent on commitments for debt financing and has exposure in the financial markets, including currency, interest rate, counterparty and liquidity risks. Philly Shipyard has established guidelines and systems to manage this exposure. Philly Shipyard faces risks related to the contracts for its vessels, including the risk that those contracts are cancelled and the underlying vessels are ultimately sold to third parties for less favorable terms. If this risk were to materialize, then it could have a negative effect on Philly Shipyard's financial performance. Philly Shipyard will during 2016 and 2017 transition from building Hulls 023-028 as tankers to building Hulls 029 and 030 as prototype container vessels. Management views the container vessels a higher risk since the main activity during the last ten years has been building tankers and the last container vessel was delivered in 2006. For a further analysis of risks, please refer to the Company's 2014 annual report.

Oslo, Norway
17 February 2016
Board of Directors and Chief Executive Officer
Philly Shipyard ASA

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except shares and per share information)	Q4 Unaudited 2015	Q4 2014	Twelve Mos. Ended 31 Dec. Unaudited 2015	Twelve Mos. Ended 31 Dec. 2014 *
Operating revenues and other income	67.5	70.5	307.0	272.7
Operating expenses	(49.1)	(67.8)	(264.3)	(240.6)
Operating income before depreciation - EBITDA	**18.4**	**2.7**	**42.7**	**32.1**
Depreciation	(0.9)	(1.9)	(6.5)	(7.4)
Operating income - EBIT	**17.5**	**0.8**	**36.2**	**24.7**
Net financial items	1.1	(3.7)	(3.4)	(5.8)
Income/(loss) before tax	**18.6**	**(2.9)**	**32.8**	**18.9**
Tax expense	(7.2)	(0.9)	(13.8)	(5.3)
Income/(loss) after tax **	**11.4**	**(3.8)**	**19.0**	**13.6**
Weighted average number of shares	**12,107,901**	**12,230,363**	**12,107,901**	**12,170,960**
Basic and diluted earnings/(loss)per share (USD)	**0.94**	**(0.31)**	**1.57**	**1.12**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q4 Unaudited 2015	Q4 2014	Twelve Mos. Ended 31 Dec. Unaudited 2015	Twelve Mos. Ended 31 Dec. 2014 *
Income/(loss) after tax	11.4	(3.8)	19.0	13.6
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive income for the period **	**11.4**	**(3.8)**	**19.0**	**13.6**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 31 Dec. 2015	31 Dec. 2014 *
Assets		
Non-current assets		
Property, plant and equipment	49.7	52.9
Restricted cash	13.1	7.0
Deferred tax asset	-	0.3
Equity-accounted investees	56.6	56.0
Other non-current assets	1.4	0.2
Total non-current assets	**120.8**	**116.4**
Current assets		
Vessels-under-construction receivable	111.7	87.9
Work-in-process	41.5	-
Restricted cash	7.0	13.0
Prepayments and other receivables	17.3	10.6
Cash and cash equivalents	69.9	40.5
Total current assets	**247.4**	**152.0**
Total assets	**368.2**	**268.4**
Equity and liabilities		
Total equity	**145.1**	**138.2**
Non-current liabilities		
Interest-bearing long-term debt	60.5	11.5
Other non-current liabilities	7.4	7.2
Deferred tax liability	4.6	-
Total non-current liabilities	**72.5**	**18.7**
Current liabilities		
Customer advances, net	54.0	26.1
Interest-bearing short-term debt	14.0	45.7
Construction loans	29.0	-
Taxes, trade payables and accrued liabilities	53.6	39.7
Total current liabilities	**150.6**	**111.5**
Total liabilities	**223.1**	**130.2**
Total equity and liabilities	**368.2**	**268.4**

* Annual 2014 financial information is derived from audited financial statements.
** All attributed to the equity holders of PHLY.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in USD millions	Twelve Mos. Ended 31 Dec. Unaudited 2015	2014 *
As of beginning of period	138.2	114.0
Dividend paid	(12.1)	(43.1)
Proceeds from shares issued, net of transaction costs	-	63.7
Purchase of treasury shares	-	(10.0)
Total comprehensive income for the period **	19.0	13.6
As of end of period	**145.1**	**138.2**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Twelve Mos. Ended 31 Dec. Unaudited 2015	2014 *
Net cash used in operating activities	(7.2)	(67.9)
Investment in property, plant and equipment	(4.4)	(5.5)
Sale of shipping assets, net of transaction costs	20.0	-
Investment in equity-accounted investees	-	(6.0)
Distribution received from equity-accounted investees	-	5.5
Sale of profit share assets, net of transaction costs	-	39.7
Net cash from investing activities	15.6	33.7
Proceeds from interest-bearing debt	60.0	-
Repayment of interest-bearing debt	(42.8)	(4.7)
Portion of interest-bearing debt held in escrow	(13.1)	-
Proceeds from construction loans	149.0	-
Repayment of construction loans	(120.0)	-
Dividend paid	(12.1)	(43.1)
Proceeds from shares issued, net of transaction costs	-	63.7
Purchase of treasury shares	-	(10.0)
Net cash from financing activities	21.0	5.9
Net change in cash and cash equivalents	**29.4**	**(28.3)**
Cash and cash equivalents at beginning of period	40.5	68.8
Cash and cash equivalents at end of period	**69.9**	**40.5**

* Annual 2014 financial information is derived from audited financial statements.
** All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 4th quarter 2015

1. Introduction – Philly Shipyard ASA

Philly Shipyard ASA (PHLY) is a company domiciled in Norway. The condensed interim consolidated financial statements for the three-month and twelve-month periods ended 31 December 2015 and 31 December 2014 are comprised of PHLY and its direct and indirect wholly-owned subsidiaries, including Philly Shipyard, Inc. (PSI).

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

The audited consolidated financial statements of PHLY as of and for the year ended 31 December 2014, which include a detailed description of accounting policies and significant estimates, are available at www.phillyshipyard.com.

2. Basis of preparation

These condensed interim consolidated financial statements reflect all adjustments, in the opinion of PHLY's management, that are necessary for a fair presentation of the results of operations for the periods presented. Operating results for the three-month and 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 PHLY as of and for the year ended 31 December 2014.

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 2014.

There have not been any new IFRS standards or interpretations which were effective 1 January 2015 that have had a significant impact on Q4 2015 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 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 2014 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 2015, 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 in Q4 2015 nor for year-to-date. Accordingly, 12,107,901 ordinary shares was used in the calculation of earnings per share for the quarter and for the year-to-date period ended 31 December 2015. For the quarter ended 31 December 2014, a weighted average of 12,230,363 ordinary shares was used for purposes of calculation of earnings per share; for the twelve-month period ended 31 December 2014, a weighted average of 12,170,960 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 2015:

Amounts in USD millions	Long-term debt	Short-term debt	Total interest-bearing debt
Balance 31 Dec. 2014	**11.5**	**45.7**	**57.2**
Issuance of debt	60.0	150.7	210.7
Repayment of debt	-	(164.4)	(164.4)
Reclass of debt	(11.0)	11.0	-
Balance 31 Dec. 2015	**60.5**	**43.0**	**103.5**

The Company has a loan agreement with Caterpillar Financial Services Corporation (Cat Financial) for a USD 120 million loan facility for construction financing on the two remaining product tankers under contract with Crowley. The loan is subject to a maximum borrowing amount of USD 58 million per vessel and is secured by a first lien on Hulls 023-024. The loan accrues interest at three-month LIBOR plus 3.0% as defined in the loan agreement. USD 29 million is drawn under this facility at 31 December 2015.

On 28 December 2015, the Company executed a commitment letter with Cat Financial for a USD 150 million loan facility for construction financing on the four product tankers under contract with Philly Tankers. The commitment letter provides that the loan will be subject to a maximum borrowing amount of USD 75 million per vessel and will be secured by a first lien on Hulls 025-028. The commitment letter provides further that the loan will accrue interest at three-month LIBOR plus 3.0% as defined in the commitment letter. The Company expects to enter into definitive agreements for this facility in Q1 2016.

PSI has a secured term loan of up to USD 60 million with PIDC Regional Center, LP XXXI, a partnership between CanAm Enterprises and the Philadelphia Industrial Development Corporation (PIDC). The loan has a fixed interest rate of 2.625% through maturity. This loan was 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. The loan has a five-year term and is initially secured by a second lien on Hulls 021-024 during construction. As originally contemplated, the lender would receive a lien on Philly Shipyard's economic interests in these vessels under the PHLY-Crowley joint venture upon their delivery. Because these economic interests are being bought-out by Marathon as each ship is delivered, the lender released its lien on these economic interests and Philly Shipyard provided the following replacement collateral to the lender: (1) a first lien on USD 13.1 million of cash collateral; (2) a second lien on Hulls 025-028 during construction; and (3) a first lien on Philly Shipyard's shares in Philly Tankers AS. USD 60 million is drawn under this term loan at 31 December 2015.

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. The dollar-for-dollar reductions commenced in the third quarter of 2015 with a total reduction of USD 44.2 million through 31 December 2015.

9. Related party transactions

Aker Capital II AS (f/k/a Converto Capital Fund AS), an investment fund controlled by Aker ASA, is the majority shareholder of PHLY, owning 57.6% of its total outstanding shares as of 31 December 2015. In addition, Kristian Rokke, the Chairman of the Board of Directors of PHLY until 31 January 2016, is a Board member of TRG Holding AS, which owns 66.7% of the total outstanding shares of Aker ASA as of 31 December 2015. Philly Shipyard believes that related party transactions are made on terms equivalent to those that prevail in arm's length transactions.

Philly Shipyard has service agreements with Aker ASA and certain of its affiliates which provide specified consulting, accounting, tax, financial and administrative services. All payables under these agreements are paid within the normal course of business. Beginning in Q2 2015, the accounting services formerly provided by Aker ASA were transferred to a third party provider.

Related administrative costs and financial statement amounts for the three-month period ending 31 December 2015 were USD 30 thousand (USD 136 thousand for the same period in 2014) and for the twelve-month period ending 31 December 2015 were USD 143 thousand (USD 659 thousand for the same period in 2014).

PSI entered into an administrative services agreement with Philly Tankers LLC (PTLLC) whereby PSI will supply certain administrative and commercial services to PTLLC. Related revenues for the three-month period ending 31 December 2015 were USD 30 thousand (USD 30 thousand for the same period in 2014) and for the year-to-date period ending 31 December 2015 were USD 120 thousand (USD 60 thousand from inception to 31 December 2014).

10. Capitalized interest

	Q4		Twelve Mos. Ended 31 Dec.	
Amounts in USD millions	**2015**	**2014**	**2015**	**2014**
Interest expense	(1.1)	(0.6)	(4.4)	(1.4)
Interest capitalized on construction contracts	0.7	-	2.1	-
Net interest expense	**(0.4)**	**(0.6)**	**(2.3)**	**(1.4)**

11. Construction contracts

The order backlog is USD 983.8 million at 31 December 2015 and represents an obligation to deliver vessels that have not yet been produced for the Company's customers: Crowley, Philly Tankers and Matson. 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 Dec. 2015**	**Order intake 12 months to 31 Dec. 2015**	**Order backlog 31 Dec. 2014**
	983.8	**257.2**	**1,012.9**

The recognized profit on long-term contracts in process as of 31 December 2015 is as follows:

Amounts in USD millions	**31 Dec. 2015**
Contract revenue recognized as revenue to date	431.1
Less: contract expenses recognized to date	(400.2)
Recognized profit to date	**30.9**
Contract costs incurred to date	**268.7**

Philly Shipyard is recognizing revenues and expenses for the four-tanker order from Crowley as one project. As of 31 December 2015, the Crowley project was approximately 89% complete.

Contract revenue and profits recognized to date exclude Hulls 025-028 which are not accounted for as long-term construction contracts. Revenue, cost and profit for Hulls 025-028 will only be recognized at delivery of each vessel.

Customer milestone payments as of 31 December 2015 and 31 December 2014 totaled USD 201.9 million and USD 257.9 million, respectively.

Customer advances, net as of 31 December 2015 and 31 December 2014 totaled USD 54.0 million and USD 26.1 million, respectively. In 2015, Hulls 025-028, which are not being accounted for under construction accounting rules, have been classified as work-in-process and represents the cash deposits on all four vessels which amount to a total of USD 49.6 million. For Hulls 029-030, this represents customer milestone payments net of work-in-process and earned profit which amount to a net total of USD 5.4 million.

As of 31 December 2015, PSI has non-cancellable purchase commitments for materials and equipment of approximately USD 171.8 million for the construction of Hulls 021-030.

12. Operating revenues and other income

	Q4		Twelve Mos. Ended 31 Dec.	
Amounts in USD millions	**2015**	**2014**	**2015**	**2014**
Operating revenues	57.1	70.4	286.3	240.3
Gain-on-sale of shipping assets	10.0	-	20.0	-
Profit in equity-accounted investees	0.4	0.1	0.7	0.1
Gain-on-sale of profit share assets, net	-	-	-	32.3
Operating revenues and other income	**67.5**	**70.5**	**307.0**	**272.7**

13. Financial instruments

As of 31 December 2015, the Company accounts for its forward exchange contracts with a notional value of USD 52.7 million at fair value (fair value of a USD 3.5 million liability at 31 December 2015). These contracts are the only assets and liabilities accounted for at fair value. As disclosed in the Company's 2014 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

As part of the transactions contemplated by the Authorization Agreement executed by PSI and Philadelphia Shipyard Development Corporation (PSDC) in 2011, PSI agreed to a new termination event under its shipyard lease, pursuant to which PSDC has the right to recapture the shipyard if PSI fails to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, 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 5-year term under certain circumstances. Based on its current construction schedule and backlog, Philly Shipyard expects that PSI 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 Mos. Ended 31 Dec.	
	Unaudited		**Unaudited**	
Amounts in USD millions	**2015**	**2014**	**2015**	**2014**
EBITDA	18.4	2.7	42.7	32.1
plus: deferred shipbuilding profits for Hulls 021-024	4.1	4.0	10.9	9.0
less: recognized profits for Hulls 021-022 previously deferred	(5.8)	-	(10.9)	-
plus: deferred shipbuilding profits for Hulls 025-028	5.4	-	7.0	-
plus: capitalized Welcome Fund interest expense	0.4	-	1.1	-
Adjusted EBITDA	**22.5**	**6.7**	**50.8**	**41.1**

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 or minus net deferred shipbuilding profits plus capitalized Welcome Fund interest expense.

The Company has made adjustments to EBITDA to reflect shipbuilding activities (1) as if Philly Shipyard had no economic interest in Hulls 021-024 or investment in Hulls 025-028, (2) as if profit was recognized on Hulls 025-028 using the percentage of completion method of accounting and (3) to adjust for capitalized interest expense. The Company believes presenting Adjusted EBITDA is useful to investors as it provides another measure of Philly Shipyard's profitability from its operations, as if Philly Shipyard had no economic interest in the PHLY-Crowley joint venture vessels or investment in Philly Tankers, and more closely represents earnings from shipbuilding activities.

16. Events after 31 December 2015

On 1 February 2016, James H. Miller was elected as the new Chairman of the Board of Directors of PHLY at an extraordinary general meeting.

On 17 February 2016, the Board of Directors authorized a dividend of USD 0.25 per share. The dividend payment will take place on or about 4 March 2016 to shareholders of the Company of record on 23 February 2016. The shares will be traded exclusive dividend from and including 24 February 2016.

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