Aker Philadelphia Shipyard (OSE: AKPS)
Q2 2014 Results

17 July 2014

Highlights

- ✓ Second quarter Adjusted EBITDA of USD 4.4 million compared to USD 3.7 million in Q2 2013
- ✓ Shipbuilding performance in-line with previous guidance
- ✓ Total cash and cash equivalents of USD 128.4 million at quarter-end, including USD 20 million of restricted cash related to the SeaRiver contract
- ✓ Order backlog of USD 905.7 million on 30 June 2014 with last delivery in December 2018
- ✓ Successfully delivered first-of-class aframax vessel to SeaRiver on 11 June 2014
- ✓ Announced plans to establish Philly Tankers along with financial investors, including funds managed by affiliates of Apollo Global Management, LLC (NYSE: APO) and American Shipping Company (OSE: AMSC)
- ✓ Paid dividends totaling USD 37 million (NOK 17.5 per share)
- ✓ AKPS Board approved quarterly dividend of approximately USD 0.25 per share (NOK 1.5 per share)

Subsequent Events

- ✓ Private placement completed for Philly Tankers with subsequent listing on the Norwegian OTC market
- ✓ Finalized contracts with Philly Tankers for two firm orders + two options for 50,000 dwt product tankers
- ✓ Board of Directors for Philly Tankers appointed and comprised of experienced Board members
- ✓ Initiated a share buyback program to repurchase up to 10% of its share capital
- ✓ Commenced a process to evaluate listing AKPS on a U.S. stock exchange, potentially in 2015

Financial Information

Second Quarter & Year-to-date 2014 Results

AKPS plans to maintain 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 disclose Adjusted EBITDA, which is defined here as EBITDA plus deferred profits. The Company believes presenting Adjusted EBITDA is useful to investors as it provides another measure of AKPS's profitability from its current activities including the full effect of shipbuilding activities.

Revenues and other income for the quarter were USD 60.3 million compared to USD 46.0 million in the second quarter of 2013. The increase was driven by increased shipbuilding activity on the Crowley product tankers. In the second quarter of 2013, revenues were substantially all related to the SeaRiver aframax vessels, while in the second quarter of 2014, revenues were recorded on both projects.

EBITDA for the quarter was USD 2.9 million compared to USD 3.7 million in the second quarter of 2013. The decrease was primarily driven by the deferral of profits on the AKPS-Crowley joint venture vessels. When adjusting for these deferred profits, Adjusted EBITDA for the second quarter of 2014 was USD 4.4 million compared to USD 3.7 million in the same quarter of 2013. The higher Adjusted EBITDA was driven by increased activity on the AKPS-Crowley product tankers at higher profit margins, but was partially offset by a lower margin on the SeaRiver project as previously guided.

Revenues and other income year-to-date 2014 ended at USD 137.7 million compared with USD 176.9 million in the first half of 2013. The primary reason for the change was the sale of Hull 018, which had been built for AKPS's own account, to Crowley in Q1 2013, offset somewhat by the sale of the Company's profit sharing interests in Hulls 017 and 018 to Crowley in Q1 2014. Adjusted EBITDA in the first half of 2014 totaled USD 29.1 million compared to USD 22.8 million in the same period of 2013. The increase year-over-year is primarily attributable to the gain recorded from the sale of the profit sharing interests described above.

Financial earnings in the quarter reflect project performance in-line with previous guidance. The Company has targeted a 2-3% gross margin on the SeaRiver project and a 13% average gross margin for Hulls 021 to 030, which encompasses vessels to be delivered to Crowley, Philly Tankers, and Matson. As a reference, the Company's gross margin target of 13% equates to an approximate 13% Adjusted EBITDA margin for shipbuilding activity on a normalized basis due to expected levels of SG&A and depreciation expense.

The Company expects to meet its 13% gross margin target based on high familiarity with the ship types on order, progress made on procurement of nearly all equipment and material for Hulls 021-024, a good production start on the first two vessels, and contingency reserves in the projects.

As described in the *Operations and Shipping Investments* section below, Philly Tankers completed a private placement on 10 July 2014 with a subsequent listing of Philly Tankers on the Norwegian OTC on 11 July 2014. AKPS has committed to investing USD 58.5 million in Philly Tankers. Substantially all of these funds will be invested over the construction period of Hulls 025 and 026, which will be delivered in Q4 2016 and Q1 2017. The value of AKPS's investment in Philly Tankers at the subscription price of USD 1,000 per share is USD 68.5 million. The USD 10.0 million implied economic gain is expected to be recognized for accounting purposes upon delivery of the two vessels under contract. However, the value of AKPS's investment in Philly Tankers will fluctuate over time to the extent Philly Tankers' share price fluctuates on the Norwegian OTC.

Balance Sheet

As of 30 June 2014, total assets were USD 229.5 million compared to USD 187.3 million on 31 December 2013.

The Company's overall debt level remained low at quarter-end with long-term debt at USD 0.8 million and short-term debt at USD 0.2 million. This debt level will increase when the USD 60 million Welcome Fund loan is drawn, which is planned to occur in Q4 2014 and Q1 2015, and as draws are made on the construction loan from Caterpillar Financial Services Corporation (Cat Financial).

Cash and cash equivalents were USD 108.4 million at quarter-end, compared to USD 68.8 million at 31 December 2013. The increase of USD 39.6 million was primarily due to the net effects from 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 in AKPS, partially offset by increases in vessels-under-construction receivable and dividends paid in 2014.

Cash and cash equivalents excludes restricted cash of USD 20 million related to the SeaRiver project, USD 13 million of which is expected to be released upon the delivery of Hull 020 in December 2014 and the balance of which is expected to be released in December 2015.

Total equity increased to USD 159.9 million at the end of the quarter from USD 114.0 million at year-end 2013.

Financing and Shareholder Distributions

Definitive documentation for the Cat Financial loan facility was finalized in Q1 2014. This facility is a USD 120 million loan facility to be used as needed for construction financing on the four AKPS-Crowley product tankers and will accrue interest at three-month Libor plus 3.0% when funds are borrowed under the loan agreement.

The Company has a commitment for a second facility, referred to as the Welcome Fund loan. This is a secured five-year term loan from PIDC Regional Center for up to USD 60 million. The loan will carry a fixed interest rate of 2.75% through maturity in 2019. This facility will be used to fund the Company's investment in the AKPS-Crowley product tankers.

Based on the USD 65 million equity raise in Q1 2014 and the Company's expected cash generation from operations, the Company does not foresee the need for additional equity to perform on its order backlog or existing shipping investment commitments, or to participate pro-rata in Philly Tankers for the declaration of its two options.

The AKPS Board approved a dividend for the quarter of approximately USD 0.25 per share (NOK 1.5 per share) that will be paid on or about 1 August 2014 to shareholders of the Company as of expiry of 22 July 2014. The Company expects to continue to pay a regular quarterly dividend of approximately USD 0.25 per share, with ambitions of increasing the amount over time.

As disclosed in a stock exchange notice on 17 July 2014, the Company has 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. The decision reflects the Company's focus on maximizing shareholder returns over time, its strong financial position, its confidence in its ability to deliver on its operational commitments, and a reflection of the opportunities it sees to further develop its shipping investments. The buyback program will be continuously evaluated to maximize its value to the Company's shareholders, including price at which buybacks are conducted. See the referenced stock exchange notice for more information.

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 quarter-end was 0.5 compared to 1.3 at the same point in 2013, a decrease of 61%. 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 quarter-end was 4.5 compared to 5.8 at the same point in 2013, a decrease of 17%. The TRIR for the OSHA comparable industry average is 7.6.

The Company is pleased with progress made related to HSSE and the decrease in lagging frequency rates, but also humbly recognizes that it is a continuous journey and a relentless pursuit to achieve World Class Safety. A number of initiatives are on-going to improve HSSE performance, most notably the Company's *Invest another minute* campaign, which emphasizes the importance of the thorough pre-planning of tasks to avoid injuries.

Vessel Construction

The first aframax tanker for SeaRiver (Hull 019) was successfully delivered on 11 June 2014. As previously disclosed in AKPS's first quarter report, a defect in the vessel's propulsion system was discovered during sea trials in March 2014. All remedial efforts to resolve this issue, in addition to owner requested change orders paid for by the customer, were completed as planned with no effects on other vessels.

At the end of the second quarter of 2014, AKPS had three vessels under construction – one for SeaRiver (Hull 020) and two for AKPS-Crowley (Hulls 021 and 022). Production activities on Hull 020 continue to progress in the Building Dock in-line with the contract schedule and is expected to launch in September 2014. Hull 021, the first product tanker for the AKPS-Crowley joint venture, is in the pre-fabrication stage of construction, while Hull 022 started construction in April 2014.

All design, procurement, planning and production activities for the product tankers is progressing according to plan and expectations. AKPS has previously built fourteen nearly identical vessels and expects to benefit from its prior experience with series construction.

The majority of the purchasing activities for Hulls 021-024 have been completed and long lead items for Hulls 025-028 are being secured. 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

As previously disclosed on 10 June 2014, AKPS and certain financial sponsors, including American Shipping Company ASA (OSE: AMSC) and funds managed by affiliates of Apollo Global Management, LLC (NYSE: APO), created a pure play Jones Act shipping company, Philly Tankers. Philly Tankers has ordered two 50,000 dwt product tankers from APSI with deliveries in Q4 2016 and Q1 2017 (Hulls 025 and 026) and has options for two additional 50,000 dwt product tankers from APSI with deliveries in 2017 (Hulls 027 and 028).

The private placement of shares of Philly Tankers was completed on 10 July 2014. As a result, AKPS owns 54% of the new company in exchange for an investment of USD 58.5 million. Substantially all of these funds will be paid over time as Hulls 025 and 026 are constructed. Philly Tankers' financial sponsors have invested USD 59.0 million for the remaining 46% of the new company. All of these funds were paid at closing. Philly Tankers became listed on the Norwegian OTC on 11 July 2014.

On 7 July 2014 an Extraordinary General Meeting of Philly Tankers was held where, among other things, the capital increase by private placement and election of a new Board of Directors was approved. The Board is now comprised of four members; Jorgen Lund as an independent Chairman, Paul Leand as Director representing financial investors, Dag Wittusen as Director representing AMSC, and Kristian Rokke as Director representing AKPS. AKPS is pleased to see an experienced Board of Directors in place and is looking forward to working actively with them to grow and further develop Philly Tankers.

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. These assets provide a mechanism for AKPS to achieve returns on the ownership, chartering and operation of the vessels it builds, in addition to traditional shipbuilding activities. AKPS maintains a view that the Jones Act market can provide attractive long-term returns and will pursue opportunities accordingly. However, as demonstrated by the sale of its profit sharing interests in Hulls 017 and 018 earlier this year, AKPS will continue to pursue an opportunistic approach to creating and managing its shipping assets.

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 30 June 2014, these projects (excluding the contracts for Hulls 025 and 026 with Philly Tankers, which were not finalized until Q3 2014) represented an order backlog of USD 905.7 million. Today, these projects represent a backlog in excess of USD 1.1 billion.

Philly Tankers currently holds two options for Hulls 027-028 with deliveries in 2017. AKPS anticipates that Philly Tankers will exercise its option for these two vessels.

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 able to leverage its experience from the Matson containership design.

Shipping

The fundamental outlook for Jones Act shipping remains firm in light of continued growth of domestic crude production, and strong demand for clean petroleum products and coastwise chemical movements. Available tonnage in the market continues to be limited in the short and medium term, with increased tonnage expected to come online in 2016 and 2017. The Company continues to see strong demand in this timeframe and believes that newly ordered tonnage will effectively be absorbed in the market with a premium placed on modern, more fuel efficient tonnage.

During the second quarter, American Petroleum Tankers ordered one additional 50,000 dwt product tanker from NASSCO with an anticipated delivery in Q2 2017 supported by a long-term charter. Also during the quarter, a product tanker was reported by industry press to be chartered at a rate in excess of USD 100,000 per day with a term of approximately 12 months.

There has been significant media attention surrounding a U.S. Commerce Department private ruling allowing two companies to export a form of lease condensate that has been processed with a limited amount of distillation. As the Company views the ruling, it was not a change in government policy related to crude or condensate exports, but a clarification of what constitutes sufficient processing within the existing legal framework. The Company believes that this ruling impacts a very limited number of barrels, but the Company has assumed a gradual increase in crude exports over time despite the significant political tension surrounding crude oil exports in general.

The Company anticipates that there will be a strategic realignment of ownership interests in the Jones Act tanker space over the next twelve months. Philly Tankers is focused primarily on building up its own platform organically toward a U.S. listing in 2016 with a possible subsequent conversion to a Master Limited Partnership (MLP), but it is also open to considering involvement in a possible strategic realignment of ownership interests. Philly Tankers has been approached by several parties interested in exploring strategic partnerships. The newly formed Board of Directors will consider these types of opportunities as appropriate.

U.S. Listing of AKPS

The Board of Directors has commenced a process to evaluate listing the Company's shares on a U.S. stock exchange, potentially in 2015. The considerations for a U.S. listing include the concentration of the Company's current shareholders in the U.S., greater liquidity in U.S. markets, access to a broader base of U.S. investors, and the increased understanding of our business by U.S. investors. A U.S. listing would be subject to market conditions and receipt of certain approvals.

Risks

Operational risk is the ability to deliver 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 will be the most significant factor affecting AKPS's financial performance. Results also depend on costs, both AKPS's own and those charged by suppliers, and on interest expenses, exchange rates and customers' ability to pay. AKPS has established guidelines and systems to manage its exposure in the financial markets. These systems cover currency, interest rate, counterparty and liquidity risks. For a further analysis of risks, please refer to the 2013 AKPS annual report.

Oslo, Norway
16 July 2014
Board of Directors and Managing Director
Aker Philadelphia Shipyard ASA

Responsibility Statement

The unaudited condensed interim consolidated financial statements and interim financial report as of and for the six months ended 30 June 2014 were approved by the Board of Directors and the Managing Director on 16 July 2014.

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

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

Oslo, Norway
16 July 2014
Board of Directors and Managing Director
Aker Philadelphia Shipyard ASA

Kristian Rokke
Board Chairman

Amy Humphreys
Director

Elin Karfjell
Director

Audun Stensvold
Deputy Board Chairman

Steinar Nerbovik
Managing Director

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except shares and per share information)	Q2 Unaudited 2014	Q2 2013	Six Months Ended 30 June Unaudited 2014	Six Months Ended 30 June 2013	Full Year 2013 *
Operating revenues and other income	60.3	46.0	137.7	176.9	279.0
Operating expenses	(57.4)	(42.3)	(110.6)	(154.1)	(248.9)
Operating income before depreciation - EBITDA	**2.9**	**3.7**	**27.1**	**22.8**	**30.1**
Depreciation	(1.8)	(1.8)	(3.6)	(3.4)	(6.9)
Operating income - EBIT	**1.1**	**1.9**	**23.5**	**19.4**	**23.2**
Net financial items	1.2	0.1	1.0	-	0.2
Income before tax	**2.3**	**2.0**	**24.5**	**19.4**	**23.4**
Tax expense	(0.8)	(0.8)	(5.2)	(6.3)	(7.8)
Income for the period **	**1.5**	**1.2**	**19.3**	**13.1**	**15.6**
Average number of shares	**12,574,766**	**10,165,305**	**11,989,331**	**10,165,305**	**10,165,305**
Basic and diluted earnings per share (USD)	**0.12**	**0.12**	**1.61**	**1.29**	**1.53**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q2 Unaudited 2014	Q2 2013	Six Months Ended 30 June Unaudited 2014	Six Months Ended 30 June 2013	Full Year 2013
Income for the period	1.5	1.2	19.3	13.1	15.6
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive income for the period **	**1.5**	**1.2**	**19.3**	**13.1**	**15.6**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 30-June 2014	31-Dec 2013 *
Assets		
Non-current assets		
Property, plant and equipment	55.0	54.8
Restricted cash	7.0	20.0
Deferred tax assets	0.6	3.0
Other non-current assets	2.3	5.4
Total non-current assets	**64.9**	**83.2**
Current assets		
Vessels-under-construction receivable	29.3	-
Restricted cash	13.0	-
Prepayments and other receivables	13.9	35.3
Cash and cash equivalents	108.4	68.8
Total current assets	**164.6**	**104.1**
Total assets	**229.5**	**187.3**
Equity and liabilities		
Total equity	**159.9**	**114.0**
Non-current liabilities		
Interest-bearing long-term debt	0.8	3.0
Other long-term liabilities	7.5	6.9
Deferred tax liabilities	7.6	7.9
Total non-current liabilities	**15.9**	**17.8**
Current liabilities		
Customer advances, net	17.7	33.8
Interest-bearing short-term debt	0.2	2.6
Taxes, trade payables and accrued liabilities	35.8	19.1
Total current liabilities	**53.7**	**55.5**
Total liabilities	**69.6**	**73.3**
Total equity and liabilities	**229.5**	**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	Six Months Ended 30 June Unaudited 2014	2013	Full Year 2013 *
As of beginning of period	114.0	98.4	98.4
Issuance of shares, net of transaction costs	63.6	-	-
Dividend paid	(37.0)	-	-
Total comprehensive income for the period **	19.3	13.1	15.6
As of end of period	**159.9**	**111.5**	**114.0**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Six Months Ended 30 June Unaudited 2014	2013	Full Year 2013 *
Net cash from operating activities	21.4	59.6	49.2
Net cash used in investing activities	(3.8)	(4.0)	(4.9)
Net cash from/(used in) financing activities	22.0	(32.5)	(33.8)
Net change in cash and cash equivalents	**39.6**	**23.1**	**10.5**
Cash and cash equivalents at beginning of period	68.8	58.3	58.3
Cash and cash equivalents at end of period	**108.4**	**81.4**	**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 2nd 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 six-month periods ended 30 June 2014 and 30 June 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 consolidated 2013 annual financial statements of AKPS, 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 six-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 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 Q2 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 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 30 June 2014, AKPS had 12,574,766 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. Based on these issuances, 12,574,766 ordinary shares was used in the calculation of earnings per share for the quarter ended 30 June 2014 and a weighted average of 11,989,331 ordinary shares was used in the calculation of earnings per share for the six months ended 30 June 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	-	-	-
Repayment of debt	(2.2)	(2.4)	(4.6)
Balance 30.06.14	**0.8**	**0.2**	**1.0**

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.

As previously disclosed, during Q1 2014, the commitment the Company had received during Q4 2013 from a group of private lenders for a secured term loan of USD 65 million expired. This loan will not be closed. The Company incurred a charge of USD 1.2 million in Q1 2014 related to this transaction.

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 joint venture with Crowley. The commitment letter provides further that the loan will have a fixed interest rate of 2.75% through maturity. The funds are anticipated to be drawn in Q4 2014 and Q1 2015. 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 in Q3 2014.

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 30 June 2014. In addition, Kristian Rokke, the President and CEO of AKPS, is a Board member of TRG Holding AS, which owns 66.7% of the total outstanding shares of Aker ASA as of 30 June 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 its affiliates which provide certain 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 30 June 2014 were USD 156 thousand (USD 37 thousand for the same period in 2013) and for the six-month period ending 30 June 2014 were USD 311 thousand (USD 74 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 and six month periods ending 30 June 2014 and 2013 were USD 49 thousand and USD 55 thousand, respectively.

10. **Capitalized interest**

Amounts in USD millions	Q2 2014	Q2 2013	Six Months Ended 30 June 2014	Six Months Ended 30 June 2013
Interest expense	(0.1)	(0.1)	(0.3)	(0.4)
Interest capitalized on construction contract	-	-	-	0.1
Net interest expense	**(0.1)**	**(0.1)**	**(0.3)**	**(0.3)**

11. Construction contracts

The order backlog is USD 905.7 million at 30 June 2014 and represents an obligation to deliver vessels that have not yet been produced for the Company's customers: SeaRiver, Crowley, and Matson. The order backlog consists of future revenues plus certain materials to be supplied by SeaRiver (approximately USD 4.3 million) and is subject to adjustments based on change orders as defined in the construction contracts. The materials to be supplied by SeaRiver will not be recognized as future revenues by AKPS.

Amounts in USD millions	Order backlog 30.06.14	Order intake 6 months to 30.06.14	Order backlog 31.12.13
	905.7	**0.9**	**1,017.7**

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

Amounts in USD millions	30.06.14
Contract revenue recognized as revenue to date	338.7
Less: recognized contract expenses	(327.7)
Recognized profit to date	**11.0**
Contract costs incurred to date	**325.7**

AKPS is recognizing revenues and expenses for the two-tanker order from SeaRiver as one project. As of 30 June 2014, the SeaRiver project was approximately 91% complete. AKPS is also recognizing revenues and expenses for the four-tanker order from Crowley as a single project. As of 30 June 2014, the Crowley project was approximately 8% complete.

Customer milestone payments as of 30 June 2014 and 30 June 2013 totaled USD 173.1 million and USD 177.1 million, respectively.

Customer advances, net as of 30 June 2014 and 30 June 2013 totaled USD 17.7 million and USD 40.7 million, respectively. These represent customer milestone payments net of work-in-process and earned profit.

As of 30 June 2014, APSI has non-cancellable purchase commitments for materials and equipment of approximately USD 62.4 million for the construction of Hulls 019-028.

12. Operating revenues and other income

	Q2	Q2	Six Months Ended 30 June	
Amounts in USD millions	**2014**	**2013**	**2014**	**2013**
Operating revenues	60.3	46.0	105.4	176.9
Gain-on-sale of profit sharing	-	-	32.3	-
Operating revenues and other inc	**60.3**	**46.0**	**137.7**	**176.9**

13. Financial instruments

As of 30 June 2014, the Company accounts for its forward exchange contracts (fair value of a USD 1.1 million asset at 30 June 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, APSI executed definitive agreements for a joint venture with Crowley Maritime Corporation and certain of its affiliates ("CMC") 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. APSI and CMC will share approximately 49.9% and 50.1%, respectively, in the economic benefits from the vessels. It is anticipated that APSI will have an investment in the joint venture of approximately USD 115 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 margin 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 30 June 2014, the Company had deferred USD 2.0 million in profit which is included in accrued liabilities on the statement of financial position. All four vessels have multi-year charters in place at 31 December 2013.

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

	Q2		Six Months Ended 30 June		
	Unaudited		Unaudited		Full Year
Amounts in USD millions	**2014**	**2013**	**2014**	**2013**	**2013**
EBITDA	2.9	3.7	27.1	22.8	30.1
plus: deferred profits for Hulls 021-024	1.5	-	2.0	-	-
Adjusted EBITDA	**4.4**	**3.7**	**29.1**	**22.8**	**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 profits.

16. Events after 30 June 2014

On 16 July 2014, the Board of Directors authorized a dividend of approximately USD 0.25 per share (NOK 1.5 per share). The dividend payment will take place on or about 1 August 2014 to shareholders of the Company as of expiry of 22 July 2014. The shares will be traded exclusive dividend from and including 23 July 2014.

On 16 July 2014, the Board of Directors resolved to initiate a buyback program for up to 10% of the Company's share capital. The buyback program will be conducted in accordance with the authorization granted to the Board of Directors by the Annual General Meeting on 9 April 2014. The buyback will be executed at prevailing market prices on the Oslo Stock Exchange. The buyback program will take effect on 21 July 2014 and terminate by the Annual General Meeting in 2015, but no later than 30 June 2015.

On 10 July 2014, the private placement of shares of Philly Tankers was completed. As a result, AKPS owns 54% of the new company in exchange for an investment of USD 58.5 million. Substantially all of these funds will be paid over time as Hulls 025 and 026 are constructed. Philly Tankers' financial sponsors have invested USD 59.0 million for the remaining 46% of the new company. All of these funds were paid at closing. In connection with the transaction, AKPS and Philly Tankers, through their subsidiaries, entered into firm contracts for two product tankers with deliveries in Q4 2016 and Q1 2017 (Hulls 025 and 026) and an option agreement for two additional product tankers with deliveries in Q3 2017 and Q4 2017 (Hulls 027 and 028). These contracts were signed as of 16 June 2014 and became effective on 10 July 2014.

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