

Aker Philadelphia Shipyard (OSE: AKPS)

Q3 2015 Results

4 November 2015

Highlights

- ✓ Third quarter EBITDA was USD 15.6 million compared to USD 2.3 million in Q3 2014. Third quarter Adjusted EBITDA was USD 12.1 million compared to USD 5.3 million in Q3 2014.
- ✓ Total cash and cash equivalents of USD 75.2 million at 30 September 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 1,043.2 million on 30 September 2015
- ✓ On 7 July 2015, Philly Tankers declared its option for Hulls 027 and 028 with deliveries in 2017
- ✓ On 8 August 2015, Philly Tankers agreed to sell its four product tanker contracts with Aker Philadelphia Shipyard to a subsidiary of Kinder Morgan, Inc. based on a total transaction value of USD 568 million
- ✓ On 21 September 2015, Aker Philadelphia Shipyard agreed to sell its interests in the four-tanker AKPS-Crowley joint venture to a subsidiary of Marathon Petroleum Corporation based on an enterprise value of USD 150 million per vessel
- ✓ On 30 September 2015, Hull 021, the first product tanker in the current four vessel series for Crowley, was delivered and Aker Philadelphia Shipyard's joint venture interests pertaining to Hull 021 were sold, resulting in a net gain-on-sale of USD 10.0 million
- ✓ Five product tankers are currently under construction
- ✓ Paid Q2 2015 quarterly dividend of USD 0.25 per share totaling USD 3.0 million
- ✓ The Company anticipates paying an extraordinary dividend in early 2016

Subsequent Events

- ✓ On 5 October 2015, Jan Ivar Nielsen joined AKPS as Chief Financial Officer
- ✓ On 4 November 2015, the AKPS Board approved a quarterly dividend for Q3 2015 of USD 0.25 per share
- ✓ On 4 November 2015, the AKPS Board resolved to hold an Extraordinary General Meeting on 30 November 2015 to approve the change of the Company's name to Philly Shipyard ASA

Operations and Shipping Investments

Vessel Construction

At the end of the third quarter of 2015, AKPS had five vessels under construction – three product tankers under contract with Crowley (Hulls 022-024) and two product tankers under contract with Philly Tankers (Hulls 025-026), which contracts will be sold by Philly Tankers to Kinder Morgan upon delivery. Hull 021, the first next generation product tanker for Crowley, was delivered on 30 September 2015 and is currently in service. Hull 022 was launched on 18 August 2015 and is now in the final commissioning stage. Hulls 023 and 024 are in the Building Dock and Hull 025 is in the pre-fabrication stage. After the end of the quarter, AKPS held start of production ceremonies with Kinder Morgan for their final two vessels (Hulls 027-028) and with Matson Navigation Company, Inc. (Matson) for their two containerships (Hulls 029-030).

AKPS has recently completed a thorough analysis of its production schedule and budgets based on its experiences with the construction activities on the current product tanker program and the purchasing and engineering activities on the Matson project. As a result of this analysis, the Company has prepared a revised forecast which includes higher costs of construction and later delivery dates for the vessels in AKPS's backlog than previous forecasts. Corrective actions have been put in place to address some of these additional costs and schedule impacts. The Company's third quarter and year-to-date 2015 results are based on the revised forecast.

Shipping Investments

In Q2 2015, AKPS announced its plan to divest all of its shipping assets, consisting 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. During Q3 2015, AKPS entered into definitive agreements with a subsidiary of Marathon Petroleum Corporation (Marathon) to divest its future interests in the four-ship AKPS-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 AKPS. These transactions are expected to result in a total pre-tax gain of USD 64 million for AKPS, inclusive of AKPS's 54% ownership of Philly Tankers, and will close with respect to each vessel at its delivery. The first closing occurred upon the delivery of Hull 021 on 30 September 2015. Additional information on these transactions can be found in the releases issued by AKPS on 8 August 2015 and 22 September 2015.

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 the end of Q3 2015 was 0.83 compared to 0.84 at the same time in 2014. This compares to an OSHA comparable industry average of 1.4. AKPS'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 Q3 2015 was 4.43 compared to 4.39 at the same point in 2014.

Financial Information

Third Quarter & Year-to-date 2015 Results

Operating revenues and other income for the quarter were USD 85.8 million compared to USD 66.5 million in the third quarter of 2014. Q3 2015 operating revenues and other income were comprised primarily of continued progress on the AKPS-Crowley joint venture project and the gain-on-sale of the shipping assets pertaining to Hull 021 whereas Q3 2014 operating revenues and other income were primarily driven by progress on the SeaRiver project.

As originally contemplated, AKPS expected to obtain an economic interest in the four vessels comprising the AKPS-Crowley joint venture at their deliveries in 2015 and 2016. Under IFRS, due to the current and planned ongoing economic interest, 49.9% of the gross profit on each of these vessels is deferred and would have been recognized over its lifetime commencing upon delivery. As a result of the Marathon transaction described above, the total deferred margin for all four vessels will be recognized pro-rata (25% per ship) at delivery. In addition, as previously disclosed, under IFRS, AKPS will not recognize revenue or profit for Hulls 025-028 during their construction. Instead, AKPS will recognize 100% of the revenue and profit on each of these vessels at its delivery. Due to the accounting treatment of these projects, AKPS will also report Adjusted EBITDA, which is defined here as EBITDA plus or minus net deferred shipbuilding profits plus capitalized Welcome Fund interest expense. For the purpose of Adjusted EBITDA, deferred shipbuilding profits includes profits that would have been recognized on the four vessels under construction for Philly Tankers as if the percentage of completion method of accounting had been applied to the shipbuilding contracts. The Company believes presenting Adjusted EBITDA is useful to investors as it provides another measure of AKPS's

profitability from its operations, as if AKPS had no economic interest in the AKPS-Crowley joint venture vessels or investment in Philly Tankers, and more closely represents earnings from shipbuilding activities.

EBITDA for the quarter was USD 15.6 million compared to USD 2.3 million in the third quarter of 2014. Adjusted EBITDA for the quarter was USD 12.1 million compared to USD 5.3 million in the third quarter of 2014. The EBITDA for the quarter included USD 15.2 million related to the sale of Hull 021, including both the net gain-on-sale and the recognition of previously deferred profits.

Net financial items for the quarter were negative USD 3.4 million compared to negative USD 3.1 million in Q3 2014. The main drivers of the financial expense in the quarter 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 the quarter was USD 5.5 million compared to a net loss of USD 1.8 million for the third quarter of 2014. The difference was due to the above-mentioned factors.

Operating revenues and other income in the first nine months of 2015 ended at USD 239.5 million compared with USD 202.2 million in the first nine months of 2014. September 2015 year-to-date operating revenues and other income were comprised primarily of continued progress on the AKPS-Crowley joint venture project and the net gain-on-sale of the shipping assets pertaining to Hull 021 of USD 10.0 million whereas September 2014 year-to-date operating revenues and other income were comprised primarily of continued progress on the SeaRiver project and the one-time 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 the first nine months of 2015 was USD 24.4 million compared to USD 29.4 million in the same period of 2014. Adjusted EBITDA for the first nine months of 2015 totaled USD 28.4 million compared to USD 34.4 million in the same period of 2014. Two main drivers of EBITDA for the first nine months of 2015 were the net gain-on-sale of the shipping assets pertaining to Hull 021 of USD 10.0 million and the recognition of profit and previously deferred profits for Hulls 021-024. For the first nine months of 2014, a main driver of EBITDA was the one-time 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 the first nine months of 2015 were negative USD 4.6 million compared to negative USD 2.1 million in the same period of 2014. The main drivers of the financial expense in the first nine-months of 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 the first nine months of 2015 of USD 7.7 million compares with USD 17.4 million in the same period of 2014, driven by the same factors that affected EBITDA.

Balance Sheet

As of 30 September 2015, total assets were USD 351.7 million compared to USD 268.4 million on 31 December 2014. The increase was primarily driven by an increase in vessels-under-construction receivable which increased from USD 87.9 million to USD 154.8 million.

The Company's overall debt level increased in 2015 to USD 136.0 million at 30 September 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 48.2 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 related to the SeaRiver contract and the Welcome Fund loan) were USD 55.1 million at 30 September 2015, compared to USD 40.5 million at 31 December 2014. The increase of USD 14.6 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.

Cash and cash equivalents at quarter-end excludes the restricted cash balance of USD 7.0 million related to the SeaRiver project which is expected to be released in March 2016 and the restricted cash balance of 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 decreased to USD 136.7 million at 30 September 2015 from USD 138.2 million at year-end 2014 due to the dividend paid of USD 9.1 million and offset by net income of USD 7.7 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 27 million under this facility as of 30 September 2015 after the repayment of USD 60 million upon the delivery of Hull 021.

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 30 September 2015 were USD 60 million.

Shareholder Distributions

The AKPS Board approved a dividend for the quarter of USD 0.25 per share that will be paid on or about 20 November 2015 to shareholders of the Company of record on 10 November 2015. The Company expects to continue to pay a regular quarterly dividend of USD 0.25 per share and anticipates paying an extraordinary dividend in early 2016 reflecting the Company's strong cash position.

Outlook

Shipbuilding

The contracts with Crowley (Hulls 022-024), Philly Tankers (Hulls 025-028), and Matson (Hulls 029 and 030) provide for shipbuilding activity with delivery dates through 2018. As of 30 September 2015, AKPS had an order backlog of approximately USD 1,043 million.

While AKPS is mainly focused on product tankers and large containerships, AKPS 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 AKPS is well-positioned to leverage its experience from the Matson containership design.

Shipping

As AKPS 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 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 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 AKPS's financial performance. For a further analysis of risks, please refer to the 2014 AKPS annual report.

Oslo, Norway
4 November 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)	Q3		Nine Months Ended 30 Sept.		Full Year 2014 *
	Unaudited 2015	2014	Unaudited 2015	2014 *	
Operating revenues and other income	85.8	66.5	239.5	202.2	272.7
Operating expenses	(70.2)	(64.2)	(215.1)	(172.8)	(240.6)
Operating income before depreciation - EBITDA	15.6	2.3	24.4	29.4	32.1
Depreciation	(1.9)	(1.9)	(5.6)	(5.5)	(7.4)
Operating income - EBIT	13.7	0.4	18.8	23.9	24.7
Net financial items	(3.4)	(3.1)	(4.6)	(2.1)	(5.8)
Income/(loss) before tax	10.3	(2.7)	14.2	21.8	18.9
Tax (expense)/benefit	(4.8)	0.9	(6.5)	(4.4)	(5.3)
Income/(loss) after tax **	5.5	(1.8)	7.7	17.4	13.6
Weighted average number of shares	12,107,901	12,468,891	12,107,901	12,150,941	12,170,960
Basic and diluted earnings /(loss) per share (USD)	0.45	(0.15)	0.63	1.43	1.12

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q3		Nine Months Ended 30 Sept.		Full Year 2014 *
	Unaudited 2015	2014	Unaudited 2015	2014 *	
Income/(loss) after tax	5.5	(1.8)	7.7	17.4	13.6
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive income for the period **	5.5	(1.8)	7.7	17.4	13.6

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited	
	30 Sept. 2015	31 Dec. 2014 *
Assets		
Non-current assets		
Property, plant and equipment	50.7	52.9
Restricted cash	13.1	7.0
Deferred tax assets	2.6	0.3
Equity-accounted investees	56.2	56.0
Other non-current assets	1.4	0.2
Total non-current assets	124.0	116.4
Current assets		
Vessels-under-construction receivable	154.8	87.9
Restricted cash	7.0	13.0
Prepayments and other receivables	10.8	10.6
Cash and cash equivalents	55.1	40.5
Total current assets	227.7	152.0
Total assets	351.7	268.4
Equity and liabilities		
Total equity	136.7	138.2
Non-current liabilities		
Interest-bearing long-term debt	60.6	0.7
Non-current portion of note payable	-	10.8
Other long-term liabilities	7.7	7.2
Deferred tax liabilities	-	-
Total non-current liabilities	68.3	18.7
Current liabilities		
Customer advances, net	24.1	26.1
Interest-bearing short-term debt	0.2	0.2
Note payable	48.2	45.5
Construction loan	27.0	-
Taxes, trade payables and accrued liabilities	47.2	39.7
Total current liabilities	146.7	111.5
Total liabilities	215.0	130.2
Total equity and liabilities	351.7	268.4

* Annual 2014 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	Nine Months Ended 30 Sept.		Full Year 2014 *
	Unaudited 2015	2014 *	
As of beginning of period	138.2	114.0	114.0
Proceeds from shares issued, net of transaction costs	-	63.7	63.7
Dividend paid	(9.2)	(40.1)	(43.1)
Purchase of treasury shares	-	(4.7)	(10.0)
Total comprehensive income for the period **	7.7	17.4	13.6
As of end of period	136.7	150.3	138.2

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Nine Months Ended 30 Sept.		Full Year 2014 *
	Unaudited 2015	2014 *	
Net cash used in operating activities	(38.3)	(41.3)	(67.9)
Investments in property, plant and equipment	(3.4)	(4.0)	(5.5)
Investment in equity-accounted investees	(0.3)	(55.9)	(6.0)
Distribution received from equity-invested investees	-	-	5.5
Sale of profit sharing, net of transaction costs	-	39.7	39.7
Net cash (used in)/from investing activities	(3.7)	(20.2)	33.7
Proceeds from shares issued, net of transaction costs	-	63.7	63.7
Dividend paid	(9.2)	(40.1)	(43.1)
Purchase of treasury shares	-	(4.7)	(10.0)
Proceeds from interest-bearing long-term debt	60.0	55.8	-
Portion of interest-bearing long-term debt held in escrow	(13.1)	-	-
Proceeds from construction loan	87.0	-	-
Repayment of interest-bearing debt	(68.1)	(4.6)	(4.7)
Net cash from financing activities	56.6	70.1	5.9
Net change in cash and cash equivalents	14.6	8.6	(28.3)
Cash and cash equivalents at beginning of period	40.5	68.8	68.8
Cash and cash equivalents at end of period	55.1	77.4	40.5

* Annual 2014 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 3rd quarter 2015**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 nine-month periods ended 30 September 2015 and 30 September 2014 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 2014, 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 nine-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 2014.

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 2014.

There have not been any new IFRS standards or interpretations which were effective 1 January 2015 that have had a significant impact on Q3 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 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 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 30 September 2015, AKPS 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 Q3 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 ended 30 September 2015. For the quarter ended 30 September 2014, a weighted average of 12,468,891 ordinary shares was used for purposes of calculation of earnings per share; for the nine-month period ended 30 September 2014, a weighted average of 12,150,941 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	87.7	147.7
Repayment of debt	-	(68.9)	(68.9)
Reclass of debt	(10.9)	10.9	-
Balance 30 Sept. 2015	60.6	75.4	136.0

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 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 is secured by a first lien on Hulls 021-024. The loan accrues interest at three-month Libor plus 3.0% as defined in the loan agreement. USD 27 million is drawn under the facility at 30 September 2015.

APSI 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 APSI's economic interests in these vessels under the AKPS-Crowley joint venture upon their delivery. Because these economic interests are being bought-out by Marathon as each ship is delivered, APSI needs to provide replacement collateral satisfactory to the lender. At delivery of Hull 021, APSI provided USD 13.1 million of cash collateral to the lender in lieu of the economic interests in that vessel under the AKPS-Crowley joint venture. USD 60 million is drawn under the term loan at 30 September 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 reduction of USD 9.4 million.

9. Related party transactions

Convento 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 September 2015. 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 30 September 2015. 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. 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 30 September 2015 were USD 30 thousand (USD 137 thousand for the same period in 2014) and for the nine-month period ending 30 September 2015 were USD 113 thousand (USD 448 thousand for the same period in 2014).

APSI entered into an administrative services agreement with Philly Tankers LLC (PTLLC) whereby APSI will supply certain administrative and commercial services to PTLLC. Related revenues for the three-month period ending 30 September 2015 were USD 30 thousand (USD 30 thousand for the same period in 2014) and for the year-to-date period ending 30 September 2015 were USD 90 thousand (USD 30 thousand for the same period in 2014).

10. Capitalized interest

Amounts in USD millions	Q3		Nine Months Ended 30 Sept.	
	2015	2014	2015	2014
Interest expense	(1.5)	(0.5)	(3.2)	(0.8)
Interest capitalized on construction contracts	0.9	-	1.4	-
Net interest expense	(0.6)	(0.5)	(1.8)	(0.8)

11. Construction contracts

The order backlog is USD 1,043.2 million at 30 September 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 30 Sept. 2015	Order intake 9 months to 30 Sept. 2015	Order backlog 31 Dec. 2014
	1,043.2	258.8	1,012.9

The recognized profit on long-term contracts in process as of 30 September 2015 is as follows:

Amounts in USD millions	30 Sept. 2015
Contract revenue recognized as revenue to date	371.6
Less: recognized contract expenses	(350.5)
Recognized profit to date	21.1
Contract costs incurred to date	263.8

AKPS is recognizing revenues and expenses for the four-tanker order from Crowley as one project. As of 30 September 2015, the Crowley project was approximately 77% complete.

Customer milestone payments as of 30 September 2015 and 30 September 2014 totaled USD 155.4 million and USD 238.0 million, respectively.

Customer advances, net as of 30 September 2015 and 30 September 2014 totaled USD 24.1 million and USD 36.9 million, respectively. These represent customer milestone payments net of work-in-process and earned profit.

As of 30 September 2015, APSI has non-cancellable purchase commitments for materials and equipment of approximately USD 201.4 million for the construction of Hulls 021-030.

12. Operating revenues and other income

Amounts in USD millions	Q3		Nine Months Ended 30 Sept.	
	2015	2014	2015	2014
Operating revenues	73.4	66.5	226.8	169.9
Gain-on-sale of shipping assets	12.4	-	12.4	-
Profit in equity-accounted investees	-	-	0.3	-
Gain-on-sale of profit share assets	-	-	-	32.3
Operating revenues and other income	85.8	66.5	239.5	202.2

13. Financial instruments

As of 30 September 2015, the Company accounts for its forward exchange contracts with a notional value of USD 45.7 million at fair value (fair value of a USD 4.6 million liability at 30 September 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 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

Amounts in USD millions	Q3		Nine Months Ended 30 Sept.		Full Year 2014
	Unaudited 2015	2014	Unaudited 2015	2014	
EBITDA	15.6	2.3	24.4	29.4	32.1
plus: deferred shipbuilding profits for Hulls 021-024	(5.4)	3.0	1.7	5.0	9.0
plus: deferred shipbuilding profits for Hulls 025-028	1.5	-	1.6	-	-
plus: capitalized Welcome Fund interest expense	0.4	-	0.7	-	-
Adjusted EBITDA	12.1	5.3	28.4	34.4	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 AKPS 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 AKPS's profitability from its operations, as if AKPS had no economic interest in the AKPS-Crowley joint venture vessels or investment in Philly Tankers, and more closely represents earnings from shipbuilding activities.

16. Events after 30 September 2015

On 4 November 2015, the Board of Directors authorized a dividend of USD 0.25 per share. The dividend payment will take place on or about 20 November 2015 to shareholders of the Company of record on 10 November 2015. The shares will be traded exclusive dividend from and including 11 November 2015.

On 4 November 2015, the Board of Directors resolved to hold an Extraordinary General Meeting on 30 November 2015 to approve the change of the Company's name to Philly Shipyard ASA.

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