Philly Shipyard ASA (OSE: PHLY)
Q1 2017 Results

3 May 2017

Highlights

- ✓ During the first quarter, Philly Shipyard delivered the second vessel of a series of four product tankers (Hulls 025-028) to Kinder Morgan. Under IFRS, 100% of the revenue, cost and profit on Hull 026 was recognized at its delivery in Q1 2017, and no revenue, cost or profit on Hulls 027-028 was recognized in Q1 2017.
- ✓ First quarter 2017 operating revenues and other income of USD 167.8 million compared to USD 35.7 million in the same period in 2016
- ✓ First quarter 2017 net income of USD 17.2 million compared to USD 1.9 million in the same period in 2016
- ✓ First quarter 2017 Adjusted EBITDA of USD 14.3 million compared to USD 11.8 million in the same period in 2016
- ✓ Total cash and cash equivalents of USD 68.0 million at 31 March 2017, excluding USD 20.1 million of restricted cash securing certain shipbuilding contracts and loans
- ✓ Order backlog of USD 624.4 million on 31 March 2017; two product tankers (Hulls 027-028) and two containerships (Hulls 029-030) are currently under construction
- ✓ In first quarter 2017, Philly Shipyard received USD 21.1 million in dividends from Philly Tankers AS following delivery in Q4 2016 of the first product tanker (Hull 025) to Kinder Morgan
- ✓ In first quarter 2017, Philly Shipyard paid dividends totaling USD 3.0 million, consisting of an ordinary dividend of USD 0.25 per share, for Q4 2016

Subsequent Events

- ✓ In April 2017, Philly Shipyard received USD 18.8 million in dividends from Philly Tankers AS following delivery in Q1 2017 of the second product tanker (Hull 026) to Kinder Morgan
- ✓ Due to the current uncertainty in securing new orders beyond Hull 030, the PHLY Board decided not to pay dividends for Q1 2017

Operations and Shipping Investments

Vessel Construction

On 29 March 2017, Philly Shipyard delivered Hull 026, the second vessel in the four-ship order for Philly Tankers, a Jones Act shipping company that is majority-owned by Philly Shipyard. This vessel was delivered to Kinder Morgan, as assignee of Philly Tankers, two days before its contract delivery date. At the end of the first quarter of 2017, Philly Shipyard had four vessels under construction – two product tankers under contract with Philly Tankers (Hulls 027-028) and two containerships under contract with Matson (Hulls 029-030).

Shipping Investments

In 2015, Philly Shipyard entered into definitive agreements to sell its future interests in the four-ship PHLY-Crowley joint venture (Hulls 021-024) to a subsidiary of Marathon Petroleum Corporation (Marathon). As of Q3 2016, Philly Shipyard had sold all of these joint venture interests to Marathon.

Additionally, in 2015, Philly Tankers entered into definitive agreements to sell its four shipbuilding contracts with Philly Shipyard (Hulls 025-028) and related assets to a subsidiary of Kinder Morgan, Inc. (Kinder Morgan). With the deliveries of Hull 025 in Q4 2016 and Hull 026 in Q1 2017, Philly Tankers has sold its shipping assets with respect to those vessels. The closing of the sale of Philly Tankers' shipping assets with respect to each of Hulls 027-028 will occur at its delivery.

During Q1 2017, Philly Tankers distributed dividends (classified as repayment of capital) to its shareholders totaling USD 39.2 million of which USD 21.1 million was Philly Shipyard's share. Subsequent to quarter-end, Philly Tankers distributed another dividend (classified as repayment of capital) to its shareholders totaling USD 35.0 million of which USD 18.8 million was Philly Shipyard's share.

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 Q1 2017 was 1.15 compared to 0.95 at the end of Q1 2016. 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 Q1 2017 was 3.99 compared to 3.26 at the end of Q1 2016. Philly Shipyard continues to work proactively to further improve safety and reduce the number of incidents at the shipyard.

Financial Information

First Quarter 2017 Results
Operating revenues and other income for the first quarter of 2017 were USD 167.8 million compared to operating revenues and other income of USD 35.7 million for the first quarter of 2016. Q1 2017 operating revenues and other income were primarily driven by the delivery by Philly Shipyard of Hull 026 to Kinder Morgan, the related sale by Philly Tankers of its Hull 026 shipping assets to Kinder Morgan and continued progress on the Matson vessels (i.e., Hulls 029-030), whereas Q1 2016 operating revenues and other income were primarily driven by continued progress on the PHLY-Crowley joint venture vessels (i.e., Hulls 021-024).

Net income for Q1 2017 was USD 17.2 million compared to net income of USD 1.9 million for Q1 2016.

As previously disclosed, under International Financial Reporting Standards (IFRS), (1) 49.9% of the profit on each of Hulls 021-024 to be delivered to the PHLY-Crowley joint venture was deferred, and the total estimated deferred margin for all four vessels was recognized pro-rata (25% per ship) at delivery, and (2) Philly Shipyard is required to recognize 100% of the revenue, cost and profit on each of Hulls 025-028 at its delivery. This accounting treatment is required for Hulls 025-028 because there were no external customers at the time these contracts were signed and shipbuilding activities commenced. With the delivery of Hull 025 in Q4 2016 and Hull 026 in Q1 2017, 100% of the revenue, cost and profit on those vessels has now been recognized.

EBITDA[1] for the first quarter of 2017 was USD 29.9 million compared to EBITDA of USD 2.0 million in the first quarter of 2016. Adjusted EBITDA[2] for the first quarter of 2017 was USD 14.3 million compared to Adjusted EBITDA of USD 11.8 million in the first quarter of 2016. The increase in EBITDA was mainly driven by the delivery by Philly Shipyard of Hull 026 to Kinder Morgan and the related sale by Philly Tankers of its Hull 026 shipping assets to Kinder Morgan.

In addition to the IFRS financial measures reported above, EBITDA and Adjusted EBITDA are considered other relevant earnings indicators for PHLY as they measure the operational performance of the shipyard. In particular, 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 never had an economic interest in the PHLY-Crowley joint venture vessels or investment in Philly Tankers, and more closely represents earnings from shipbuilding activities.

Net financial items in Q1 2017 were income USD 1.4 million compared to income of USD 1.6 million in Q1 2016. For both Q1 2017 and Q1 2016, the main financial income drivers were primarily unrealized currency gains on foreign exchange forward contracts.

Balance Sheet
Total assets were USD 371.1 million at 31 March 2017 compared to USD 408.8 million at 31 December 2016. The decrease in total assets was primarily driven by a decrease in vessels-under-construction receivable and work-in-process, which decreased in aggregate from USD 180.3 million to USD 162.8 million following delivery of Hull 026 on 29 March 2017.

[1] EBITDA is defined as earnings before interest, taxes, depreciation and amortization.
[2] Adjusted EBITDA is defined as EBITDA plus capitalized Welcome Fund interest expense plus or minus net deferred shipbuilding profits plus or minus loss or profit, respectively, in equity-accounted investees minus recognition of deferred gain on investment in equity-accounted investees.

The Company's total debt decreased in 2017 to USD 112.5 million at 31 March 2017 compared to total debt at year-end 2016 of USD 157.5 million. The net decrease was mainly due to payback of the full USD 75.0 million Caterpillar loan for Hull 026, offset partially by draws made on the Caterpillar loan facility for Hull 027. The Caterpillar loan facility is described under Financing below.

Cash and cash equivalents (excluding restricted cash) were USD 68.0 million at 31 March 2017, compared to USD 69.1 million at 31 December 2016. The decrease of USD 1.1 million was due to payback of the full Caterpillar loan for Hull 026 along with the dividend paid offset mostly by additional customer payments made on Hulls 027 and 028 and additional draws made on the Caterpillar loan facility for Hull 027. As of 31 March 2017, restricted cash consisted of USD 7.0 million related to the SeaRiver project, which is expected to be released in 2017, and USD 13.1 million related to the Welcome Fund loan, which is expected to be released in 2020 when the loan matures.

Total equity increased to USD 105.6 million at 31 March 2017 from USD 91.4 million at year-end 2016 due to the net income of USD 17.2 million partially offset by the dividend paid of USD 3.0 million.

Financing

The Company has a secured USD 150.0 million loan facility with Caterpillar Financial Services Corporation (Cat Financial) for construction financing on Hulls 027-028. USD 53.0 million was drawn under this facility as of 31 March 2017 for the construction of Hull 027.

The Company also has a secured five-year term loan for up to USD 60.0 million from PIDC Regional Center, LP XXXI through the Welcome Fund loan program. The loan matures in March 2020. The entire USD 60.0 million amount was drawn under this facility as of 31 March 2017.

The Company also has an unsecured three-year revolving credit facility for up to USD 20.0 million from TD Bank, N.A. The facility terminates in April 2019. After April 2017, the facility amount automatically reduced to USD 10.0 million. USD 1.2 million of this facility was utilized as of 31 March 2017 for the issuance of letters of credit.

Shareholder Distributions

In 2016, the Company paid dividends totaling approximately USD 90.7 million, consisting of USD 12.1 million of ordinary dividends and USD 78.6 million of extraordinary dividends. In addition, an ordinary dividend for the fourth quarter of 2016 of USD 0.25 per share, totaling USD 3.0 million, was paid in March 2017.

Due to the current uncertainty in securing new orders beyond Hull 030, the Company does not plan to pay any further ordinary or extraordinary dividends at this time. The PHLY Board will revisit the Company's dividend policy and dividend plan when it has more clarity about the Company's new order situation and related capital requirements.

Outlook

Shipbuilding

The contracts with Philly Tankers (Hulls 027-028) and Matson (Hulls 029-030) provide for shipbuilding activity with delivery dates through Q1 2019. As of 31 March 2017, Philly Shipyard had an order backlog of USD 624.4 million.

As noted above, under IFRS, Philly Shipyard is required to recognize 100% of the revenue, cost and profit on each of Hulls 025-028 at its delivery. In the remainder of 2017, Philly Shipyard expects to recognize 100% of the revenue, cost and profit for Hulls 027-028 upon their deliveries to Kinder Morgan (as assignee of Philly Tankers), together with its share of profit of the equity investment in Philly Tankers from the related sale of its shipping assets for Hulls 027-028 to Kinder Morgan. Philly Shipyard also expects to record revenue and cost for the remainder of 2017 for continued progress on Hulls 029-030.

Key focus areas for Philly Shipyard's operations in 2017 are delivery according to contract delivery dates for the two remaining product tankers being built for Kinder Morgan (as assignee of Philly Tankers), and continued progress on the containerships under construction for Matson.

In addition, main focus areas for Philly Shipyard's business in 2017 are securing new contracts to expand its order backlog beyond Hull 030 and seeking capital to finance the construction of new vessels. Although no firm orders are in place, Philly Shipyard has commenced design work and procurement activities to build Hulls 031 and 032 as container vessels. Start of production for Hull 031 is planned for Q2 2018; however, production start is dependent upon the satisfaction of certain contingencies, including securing a firm order and/or construction financing for this vessel. There can be no assurance these contingencies will be satisfied. The delay in securing new orders has already negatively impacted the optimal production schedule for these vessels.

While Philly Shipyard is currently focused on large containerships for its next contracts, Philly Shipyard continues to explore potential new construction projects in other areas of the Jones Act market. Among other endeavors, Philly Shipyard has teamed with Fincantieri Marine Group (FMG) and Vard Marine to compete for the detail design and construction of the U.S. Coast Guard's next generation heavy polar icebreaker. In support of this effort, the team is participating in a government funded industry study to develop a baseline icebreaker design, cost estimate and project schedule and refine key vessel features and performance requirements.

Shipping

As Philly Shipyard and Philly Tankers completed definitive documentation in 2016 to divest their shipping assets related to Hulls 021-028, they will no longer have exposure to these vessels in service. These transactions streamlined the business and marked a successful conclusion to an innovative plan to invest in eight Jones Act product tankers with an approximate contract value of USD 1 billion through the PHLY-Crowley joint venture (Hulls 021-024) and Philly Tankers (Hulls 025-028). In line with its business strategy, the Company will continue to evaluate opportunities to participate in the post-delivery economics of the ships that it constructs.

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 canceled 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 2017 continue to transition from building Hulls 021-028 as tankers to building Hulls 029 and 030 as prototype container vessels. Management views the container vessels as a higher risk since the Company's main activity during the last ten years has been building tankers and the last container vessel built by the Company was delivered in 2006. Accordingly, there is a higher technical design risk and a higher project execution risk compared to the recent construction of multiple product tankers, which increases the current construction cost estimation uncertainty. In addition, the projected project margin is lower than average margins realized on other construction contracts in recent years, which increases the risk of cost overruns.

The Company faces risks if it experiences further delays in securing new contracts for work after the last vessel in the current backlog (Hull 030). Because multiple vessels are in production at any one time, lack of a continued firm backlog may cause operational inefficiencies for completion of the remaining vessels in the current backlog.

Philly Shipyard faces additional risks if it is unable to secure new orders and/or financing for vessels after Hull 030. If the shipyard is unable to avoid a significant interruption in shipbuilding activities, then the Company would incur significant expenses and it would be challenging for the Company to continue operations after delivery of Hull 030.

For a further analysis of risks, please refer to the Company's 2016 annual report.

3 May 2017
Board of Directors and Chief Executive Officer
Philly Shipyard ASA

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Q1 Unaudited 2017	Q1 2016	Full Year 2016 *
Operating revenues and other income	167.8	35.7	233.6
Operating expenses	(137.9)	(33.7)	(163.2)
Operating income before depreciation - EBITDA	**29.9**	**2.0**	**70.4**
Depreciation	(3.2)	(0.6)	(3.6)
Operating income - EBIT	**26.7**	**1.4**	**66.8**
Net financial items	1.4	1.6	1.5
Income before tax	**28.1**	**3.0**	**68.3**
Tax expense	(10.9)	(1.1)	(29.6)
Income after tax **	**17.2**	**1.9**	**38.7**
Weighted average number of shares	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted earnings per share (USD)	**1.42**	**0.16**	**3.19**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q1 Unaudited 2017	Q1 2016	Full Year 2016 *
Income after tax	17.2	1.9	38.7
Other comprehensive income, net of income tax	-	-	-
Total comprehensive income for the period **	**17.2**	**1.9**	**38.7**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 31 Mar. 2017	31 Dec. 2016 *
Assets		
Non-current assets		
Property, plant and equipment	50.1	50.6
Restricted cash	13.1	13.1
Deferred tax asset	12.7	16.6
Equity-accounted investees	51.1	64.3
Other non-current assets	0.3	0.3
Total non-current assets	**127.3**	**144.9**
Current assets		
Vessels-under-construction receivable	14.9	-
Work-in-process	147.9	180.3
Restricted cash	7.0	7.0
Prepayments and other receivables	6.0	5.7
Income tax receivable	-	1.8
Cash and cash equivalents	68.0	69.1
Total current assets	**243.8**	**263.9**
Total assets	**371.1**	**408.8**
Equity and liabilities		
Total equity	**105.6**	**91.4**
Non-current liabilities		
Interest-bearing long-term debt	59.3	59.3
Other non-current liabilities	1.0	-
Deferred tax liability	1.0	1.0
Total non-current liabilities	**61.3**	**60.3**
Current liabilities		
Construction loans	53.0	98.0
Interest-bearing short-term debt	0.2	0.2
Trade payables, accrued liabilities and provisions	58.4	58.9
Income tax payable	2.8	2.1
Customer advances, net	89.8	97.9
Total current liabilities	**204.2**	**257.1**
Total liabilities	**265.5**	**317.4**
Total equity and liabilities	**371.1**	**408.8**

* Annual 2016 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	Three Months Ended 31 Mar. Unaudited 2017	2016
As of beginning of period	91.4	143.4
Dividend paid	(3.0)	(3.0)
Total comprehensive income for the period **	17.2	1.9
As of end of period	**105.6**	**142.3**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Three Months Ended 31 Mar. Unaudited 2017	2016
Net cash from/(used in) operating activities	27.4	(34.7)
Investment in property, plant and equipment	(1.6)	(1.9)
Dividend received from equity-accounted investees	21.1	-
Net cash from/(used in) investing activities	19.5	(1.9)
Proceeds from construction loans	30.0	29.0
Repayment of construction loans	(75.0)	-
Repayment of interest-bearing debt	-	(13.3)
Dividend paid	(3.0)	(3.0)
Net cash (used in)/from financing activities	(48.0)	12.7
Net change in cash and cash equivalents	**(1.1)**	**(23.9)**
Cash and cash equivalents at beginning of period	69.1	69.9
Cash and cash equivalents at end of period	**68.0**	**46.0**

* Annual 2016 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 1st quarter 2017

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 periods ended 31 March 2017 and 31 March 2016 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 2016, 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 period presented. Operating results for the three-month period 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 IFRS as adopted by the European Union IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of PHLY as of and for the year ended 31 December 2016.

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 2016.

There have not been any new IFRS standards or interpretations which were effective 1 January 2017 that have had a significant impact on Q1 2017.

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 2016 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 March 2017, 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 for the quarter ended 31 March 2017. Accordingly, 12,107,901 ordinary shares was used in the calculation of earnings per share for the quarter ended 31 March 2017. For the quarter ended 31 March 2016, 12,107,901 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 2017:

Amounts in USD millions	Long-term debt	Short-term debt	Total interest-bearing debt
Balance 31 December 2016	**59.3**	**98.2**	**157.5**
Proceeds from borrowings	-	30.0	30.0
Repayment of debt	-	(75.0)	(75.0)
Balance 31 March 2017	**59.3**	**53.2**	**112.5**

The Company has a loan agreement with Cat Financial for a USD 150 million loan facility for construction financing on the two product tankers under contract with Philly Tankers (Hulls 027-028). The loan is subject to a maximum borrowing amount of USD 75 million per vessel and is secured by a first lien on Hulls 027-028. The loan accrues interest at three-month LIBOR plus 3.0% per annum as defined in the loan agreement. USD 53 million is drawn under this facility at 31 March 2017.

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% per annum through maturity. The loan matures in March 2020. 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 secured by: (1) a first lien on USD 13.1 million of cash collateral; (2) a second lien on Hulls 027-028 during construction; and (3) a first lien on PSI's shares in Philly Tankers AS, which are held by PSI's wholly-owned subsidiary, APSI Tanker Holdings II LLC (ATH II). The loan also contains a covenant restricting dividends and other distributions by ATH II until an additional USD 39.3 million of cash collateral has been deposited to secure the loan. USD 60 million is drawn under this term loan at 31 March 2017.

The Company has an unsecured three-year revolving credit facility for up to USD 20 million from TD Bank, N.A. The facility terminates in April 2019. After April 2017, the facility amount automatically reduced to USD 10 million. The loan accrues interest at 30-day LIBOR plus 2.50% per annum as defined in the credit agreement. USD 1.2 million of this facility was utilized as of 31 March 2017 for the issuance of letters of credit.

9. Related party transactions

Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder of PHLY, owning 57.6% of its total outstanding shares as of 31 March 2017.

Philly Shipyard has service agreements with Aker ASA and certain of its affiliates which provide specified consulting, tax, financial and administrative services. All payables under these agreements are paid within the normal course of business. Philly Shipyard believes that related party transactions are made on terms equivalent to those that prevail in arm's length transactions.

Related administrative costs and financial statement amounts for the three-month period ending 31 March 2017 were USD 30 thousand (USD 32 thousand for the same period in 2016).

PSI entered into an administrative services agreement with Philly Tankers LLC (PTLLC) whereby PSI will supply certain administrative services to PTLLC. Related revenues for the three-month period ending 31 March 2017 were USD 30 thousand (USD 30 thousand for the same period in 2016).

10. Capitalized interest

	Q1	
Amounts in USD millions	**2017**	**2016**
Interest expense	(1.5)	(0.9)
Interest capitalized on construction contracts	1.2	0.8
Net interest expense	**(0.3)**	**(0.1)**

11. Construction contracts

The order backlog is USD 624.4 million at 31 March 2017 and represents an obligation to deliver vessels that have not yet been produced for the Company's customers: 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 Mar. 2017	Order intake 3 months to 31 Mar. 2017	Order backlog 31 Dec. 2016
	624.4	**(0.2)**	**784.4**

The recognized profit on long-term contracts in process (Hulls 029-030) as of 31 March 2017 is as follows:

Amounts in USD millions	31 Mar. 2017
Contract revenue recognized to date	45.2
Less: contract expenses recognized to date	(45.2)
Recognized profit to date (Hulls 029-030)	**-**
Contract costs incurred to date (Hulls 027-030)	**259.3**

Contract revenue and profits recognized to date exclude Hulls 027-028 which are not accounted for as long-term construction contracts. Revenue, cost and profit for each of Hulls 027-028 will only be recognized at its delivery. 100% of the revenue, cost and profit for each of Hulls 025-026 was recognized at its delivery in Q4 2016 and Q1 2017, respectively.

As of 31 March 2017, the Company had one contract in progress that is accounted for using the percentage of completion method. The Company is building two containerships to be delivered in 2018 and 2019. These vessels are an all-new design and the Company last delivered a containership in 2006. Accordingly, there is a higher project execution risk compared to the recent construction of multiple product tankers, which increases the current estimation uncertainty. In addition, the projected margin is lower than average margins realized on other construction contracts in recent years, which increases the risk of a loss-making contract. Philly Shipyard will recognize revenues and expenses for the two-containership order from Matson (Hulls 029-030) as one project. As of 31 March 2017, the Matson project was approximately 11% complete.

Customer milestone payments excluding repayment of the USD 58.0 million Philly Tankers note as of 31 March 2017 and 31 March 2016 totaled USD 185.7 million and USD 186.1 million, respectively. Customer milestone payments pertaining to repayment of the 58.0 million Philly Tankers note as of 31 March 2017 and 31 March 2016 totaled USD 0 and USD 57.5 million (for Hulls 025 and 026), respectively.

Customer advances, net as of 31 March 2017 and 31 March 2016 totaled USD 89.8 million and USD 78.8 million, respectively. In 2017, costs incurred for the Philly Tankers vessels (Hulls 027-028), which are not being accounted for under construction accounting rules, have been classified as work-in-process. As of 31 March 2017, customer advances, net represents the cash deposits on the two remaining Philly Tankers vessels (Hulls 027-028).

Vessels-under-construction receivable as of 31 March 2017 and 31 March 2016 totaled USD 14.9 million and USD 141.3 million, respectively. As of 31 March 2017, vessels-under-construction receivable represents the difference between costs incurred for the Matson vessels (Hulls 029-030) and customer advances received from Matson for those vessels.

Work-in-process related to non-percentage-of-completion accounting projects is presented gross (where costs incurred are presented as a work-in-process asset, and payments from customers received are presented as a customer advances, net liability). Percentage-of-completion accounted projects are presented net.

As of 31 March 2017, PSI has non-cancellable purchase commitments for materials and equipment of approximately USD 99.8 million for the construction of Hulls 027-030.

12. Operating revenues and other income

	Q1	
Amounts in USD millions	**2017**	**2016**
Operating revenues	159.9	35.7
Profit in equity-accounted investees	6.4	-
Recognition of deferred gain-on-investment in equity-accounted investees	1.5	-
Operating revenues and other income	**167.8**	**35.7**

The profit in equity-accounted investees represents the Company's 53.7% share of the net income of Philly Tankers which at 31 March 2017 and 31 March 2016 amounted to USD 6.393 million and USD 0, respectively.

The recognition of the deferred gain on the investment in equity-accounted investees represents 25% of the Company's USD 5.848 million gain that was deferred on the issuance of Philly Tankers shares in July 2014 to external parties at a price exceeding the Company's cost basis, which at 31 March 2017 and 31 March 2016 amounted to USD 1.462 million and USD 0, respectively. USD 2.924 million was evenly recognized at delivery of each of Hulls 025-026. The remaining USD 2.924 million will be evenly recognized at delivery of each of Hulls 027-028.

13. Financial instruments

As of 31 March 2017, the Company accounts for its forward exchange contracts with a notional value of USD 17.9 million at fair value (fair value of a USD 27 thousand asset at 31 March 2017, an improvement of USD 1.62 million from year-end 2016). These contracts are the only assets and liabilities accounted for at fair value. As disclosed in the Company's 2016 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 five-year term under certain circumstances. Philly Shipyard expects that PSI will have at least 200 full-time employees on staff as long as there is ongoing shipbuilding activity at the shipyard.

15. Use and reconciliation of non-GAAP financial measures

	Q1	
	Unaudited	
Amounts in USD millions	**2017**	**2016**
EBITDA	29.9	2.0
plus: capitalized Welcome Fund interest expense	0.1	0.4
plus: deferred shipbuilding profits for Hulls 021-024	-	2.3
plus: deferred shipbuilding profits for Hulls 025-028	14.9	7.1
less: shipbuilding profit for Hull 026 previously deferred	(22.7)	-
less: profit in equity-accounted investees	(6.4)	-
less: recognition of deferred gain-on-investment in equity-accounted investees	(1.5)	-
Adjusted EBITDA	**14.3**	**11.8**

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 (i.e., earnings before interest, taxes, depreciation and amortization) plus capitalized Welcome Fund interest expense plus or minus net deferred shipbuilding profits plus or minus loss or profit, respectively, in equity-accounted investees minus recognition of deferred gain on investment in equity-accounted investees.

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 on long-term debt. 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 never had an 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 March 2017

On 18 April 2017, Philly Tankers distributed a dividend (classified as repayment of capital) to its shareholders totaling USD 35.0 million of which USD 18.8 million was Philly Shipyard's share.

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Disclaimer

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