Philly Shipyard ASA (OSE: PHLY)
Q2 and Half-Year 2016 Results

15 July 2016

Highlights

- ✓ Second quarter and first half 2016 operating revenues and other income of USD 28.6 million and USD 64.3 million, respectively, compared to USD 83.7 million and USD 153.8 million in the same periods in 2015; under IFRS, no revenues were recognized in Q2 2016 or the first half of 2016 on the four Philly Tankers vessels (Hulls 025-028)
- ✓ Second quarter and first half 2016 net income of USD 5.4 million and USD 7.4 million, respectively, compared to USD 1.9 million and USD 2.2 million in the same periods in 2015
- ✓ Second quarter and first half 2016 EBITDA of USD 17.0 million and USD 19.1 million, respectively, compared to USD 5.0 million and USD 8.8 million in the same periods in 2015
- ✓ Second quarter and first half 2016 Adjusted EBITDA of USD 24.7 million and USD 36.5 million, respectively, compared to USD 9.5 million and USD 16.3 million in the same periods in 2015
- ✓ Total cash and cash equivalents of USD 32.9 million at 30 June 2016, excluding 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 931.4 million on 30 June 2016
- ✓ Five product tankers and two containerships are currently under construction
- ✓ On 15 April 2016, Philly Shipyard delivered Hull 023 to Crowley and sold its joint venture interests pertaining to Hull 023 to Marathon
- ✓ During the second quarter, Philly Shipyard paid a dividend of USD 3.75 per share, totaling USD 45.4 million and consisting of a quarterly dividend of USD 0.25 per share for Q1 2016 and an extraordinary dividend of USD 3.50 per share
- ✓ On 23 May 2016, Philly Shipyard entered into a USD 150 million loan facility from Cat Financial to finance the construction of Hulls 025-028
- ✓ On 29 June 2016, Philly Shipyard entered into an unsecured three-year revolving credit facility for up to USD 20 million from TD Bank
- ✓ On 13 April 2016, the PHLY Annual General Meeting was held; all proposals were approved and no changes were made to the Board of Directors

Subsequent Events

- ✓ On 15 July 2016, the PHLY Board approved a dividend for Q2 2016 of USD 0.25 per share, totaling USD 3.0 million

Operations and Shipping Investments

Vessel Construction

At the end of the second quarter of 2016, Philly Shipyard had seven vessels under construction – one product tanker under contract with Crowley (Hull 024), four product tankers under contract with Philly Tankers (Hulls 025-028), and two containerships under contract with Matson (Hulls 029-030). Philly Shipyard delivered Hull 023 to Crowley on 15 April 2016. Hull 024, the final vessel in the four-ship order for Crowley, is on schedule for delivery in Q3 2016. On 15 April 2016, the Hull 028 main engine tipped over while being transported in the yard to storage. There were no personal injuries, but there was damage to the main engine. The shipyard has returned the engine to the engine manufacturer for repairs. There is no indication of any delay to the vessel schedule or significant cost impact.

Shipping Investments
In 2015, Philly Shipyard entered into definitive agreements with a subsidiary of Marathon Petroleum Corporation (Marathon) to divest its future interests in the four-ship PHLY-Crowley joint venture (Hulls 021-024) and Philly Tankers entered into definitive agreements with a subsidiary of Kinder Morgan, Inc. (Kinder Morgan) to sell its four product tanker contracts with Philly Shipyard (Hulls 025-028). With the delivery of Hull 023 on 15 April 2016, three of the four vessels for Crowley have now been delivered, and Philly Shipyard has sold its joint venture interests pertaining to Hulls 021-023 to Marathon. The closing with respect to each of Hulls 024-028 will occur at its delivery. Philly Shipyard owns 53.7% of the outstanding shares of Philly Tankers.

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 Q2 2016 was 0.83 compared to 0.71 at the end of Q2 2015. 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 Q2 2016 was 3.05 compared to 2.71 at the end of Q2 2015.

Financial Information

Second Quarter and Year-to-date 2016 Results
Operating revenues and other income for the second quarter were USD 28.6 million compared to operating revenues and other income of USD 83.7 million in the second quarter of 2015. Q2 2016 operating revenues and other income were comprised primarily of continued progress on Hull 024 and the gain-on-sale of the shipping assets pertaining to Hull 023 whereas Q2 2015 operating revenues and other income were primarily driven by progress on the Hulls 021-024. No revenues are being recognized on any of the four Philly Tankers vessels (Hulls 025-028) before its delivery.

Net income for Q2 2016 was USD 5.4 million compared to net income of USD 1.9 million for Q2 2015.

As previously disclosed, under International Financial Reporting Standards (IFRS), (1) 49.9% of the profit on each of Hulls 021-024 is deferred, and the total estimated deferred margin for all four vessels is recognized pro-rata (25% per ship) at delivery and (2) Philly Shipyard will recognize 100% of the revenue, cost and profit on each of Hulls 025-028 at its delivery.

EBITDA (defined as earnings before depreciation, impairment charges, financial items and income taxes) for the second quarter was USD 17.0 million compared to EBITDA of USD 5.0 million in the second quarter of 2015. Adjusted EBITDA (defined as EBITDA plus or minus net deferred shipbuilding profits plus capitalized Welcome Fund interest expense less profit in equity-accounted investees) for the second quarter was USD 24.7 million compared to Adjusted EBITDA of USD 9.5 million in the second quarter of 2015. EBITDA and Adjusted EBITDA are considered other relevant earnings indicators 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 had no 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 Q2 2016 were income of USD 0.5 million compared to income of USD 0.4 million in Q2 2015. In Q2 2016 and Q2 2015, the financial income was primarily attributable to unrealized currency gains on foreign exchange forward contracts. In Q2 2015, the financial income was also attributable to higher interest expense driven by increased net debt.

Operating revenues and other income in the first half of 2016 ended at USD 64.3 million compared to operating revenues and other income of USD 153.8 million in the first half of 2015. June 2016 year-to-date operating revenues and other income were comprised primarily of continued progress on Hulls 023 and 024 and the gain-on-sale of the shipping assets pertaining to Hull 023 whereas June 2015 year-to-date operating revenues and other income were comprised primarily of continued progress on Hulls 021-024.

Net income for the first half of 2016 was USD 7.4 million compared to net income of USD 2.2 million in the same period of 2015.

EBITDA for the first half of 2016 was USD 19.1 million compared to EBITDA of USD 8.8 million in the same period of 2015. Adjusted EBITDA in the first half of 2016 totaled USD 36.5 million compared to Adjusted EBITDA of USD 16.3 million in the same period of 2015.

The tax expense for the first half of 2016 includes USD 6.5 million in U.S. withholding tax on dividends declared from Philly Shipyard, Inc. to Philly Shipyard ASA by the end of the second quarter.

Balance Sheet

As of 30 June 2016, total assets were USD 385.8 million compared to USD 362.4 million at 31 December 2015. The increase was primarily driven by an increase in vessels-under-construction receivable and work-in-process, which increased in combined total from USD 153.2 million to USD 202.1 million.

The Company's overall debt level increased in 2016 to USD 117.5 million at 30 June 2016 compared to total debt at year-end 2015 of USD 102.3 million. The net increase was mainly due to additional draws on the Caterpillar loan facility described under Financing below.

Cash and cash equivalents (excluding restricted cash) were USD 32.9 million at 30 June 2016, compared to USD 69.9 million at 31 December 2015. The decrease of USD 37.0 million was primarily due to increases in both vessels-under-construction receivable and work-in-process along with the dividend paid offset partially by additional customer payments and additional draws made on the construction loan facility. As of 30 June 2016, restricted cash consisted of USD 7.0 million related to the SeaRiver project, which is expected to be released in September 2016, and USD 13.1 million related to the Welcome Fund loan, which is expected to be released no later than March 2020 when the loan matures.

Total equity decreased to USD 102.4 million at 30 June 2016 from USD 143.4 million at year-end 2015 due to the dividend paid of USD 48.4 million partially offset by net income of USD 7.4 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 58 million under this facility as of 30 June 2016 for the construction of Hull 024.

In addition, the Company has a USD 150 million loan facility with Cat Financial for construction financing on Hulls 025-028. The Company had not drawn any amounts under this facility as of 30 June 2016.

The Company also has a secured five-year term loan for up to USD 60 million from PIDC Regional Center, LP XXXI through the Welcome Fund loan program. Total amounts drawn under this facility at 30 June 2016 were USD 60 million.

The Company also has an unsecured three-year revolving credit facility for up to USD 20 million from TD Bank, N.A. The Company had not drawn any amounts under this facility as of 30 June 2016.

Shareholder Distributions

The PHLY Board approved a dividend for the quarter of USD 0.25 per share, totaling USD 3.0 million. The dividend will be paid on or about 1 August 2016 to shareholders of the Company as of 21 July 2016, as registered with the Company's shareholder register in the VPS as of 25 July 2016. The shares will be traded ex-dividend from and including 22 July 2016.

The reason for the distribution is the Company's desire to provide its shareholders with a competitive return on its shares in accordance with the Company's dividend policy.

As communicated earlier, based on the equity level of the parent company, Philly Shipyard intends to continue paying quarterly dividends during 2016. In addition, based on the Company's strong cash position, the Company intends to pay additional extraordinary dividends subsequent to the future deliveries of Hulls 024 and 025. Any payment of dividends, including in 2017 and 2018, is dependent on, among other things, performance on existing contracts and possible new orders and will be considered in conjunction with the Company's financial position, debt covenants, capital requirements, market prospects and potential strengthening of the Company's financial structure.

Outlook

Shipbuilding

The contracts with Crowley (Hull 024), Philly Tankers (Hulls 025-028) and Matson (Hulls 029-030) provide for shipbuilding activity with delivery dates through Q1 2019. As of 30 June 2016, Philly Shipyard had an order backlog of approximately USD 931 million.

As noted above, due to IFRS, no revenues will be recognized on any of the four Philly Tankers vessels prior to its delivery. Accordingly, in the next quarter, Philly Shipyard expects to record revenues only for continued progress on Hull 024, the delivery of this vessel to Crowley and the buy-out of the Company's joint venture interests in this vessel by Marathon. From Q3 2016 onwards, there will also be revenue recognition for progress on Hulls 029 and 030 as full production commences on those container vessels. Philly Shipyard will record 100% of the revenues for Hull 025 upon its delivery, which is planned for Q4 2016.

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

Shipping

As Philly Shipyard and Philly Tankers completed definitive documentation in 2015 to divest their shipping assets related to Hulls 021-028, they will no longer have exposure to these vessels in service. 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 cancelled and the underlying vessels are ultimately sold to third parties for less favorable terms. If this risk were to materialize, then it could have a negative effect on Philly Shipyard's financial performance. Philly Shipyard will during 2016 and 2017 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 main activity during the last ten years has been building tankers and the last container vessel was delivered in 2006. For a further analysis of risks, please refer to the Company's 2015 annual report.

Oslo, Norway
15 July 2016
Board of Directors and Chief Executive Officer
Philly 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 2016 were approved by the Board of Directors and the President and CEO on 15 July 2016.

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 of PHLY, and the interim management report of PHLY includes a fair review of the development and performance of the business and the position of PHLY, together with a description of the principle opportunities and risks associated with the expected development of PHLY for the remaining months of the financial year.

Oslo, Norway
15 July 2016
Board of Directors and Chief Executive Officer
Philly Shipyard ASA

James H. Miller
Board Chairman

Amy Humphreys
Board Member

Elin Karfjell
Board Member

Audun Stensvold
Deputy Board Chairman

Steinar Nerbovik
President and CEO

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Q2 Unaudited 2016	Q2 2015	Six Months Ended 30 June Unaudited 2016	Six Months Ended 30 June 2015	Full Year 2015 *
Operating revenues and other income	28.6	83.7	64.3	153.8	307.0
Operating expenses	(11.6)	(78.7)	(45.2)	(145.0)	(264.3)
Operating income before depreciation - EBITDA	**17.0**	**5.0**	**19.1**	**8.8**	**42.7**
Depreciation	(0.3)	(1.9)	(0.9)	(3.7)	(6.4)
Operating income - EBIT	**16.7**	**3.1**	**18.2**	**5.1**	**36.3**
Net financial items	0.5	0.4	2.1	(1.1)	(3.5)
Income before tax	**17.2**	**3.5**	**20.3**	**4.0**	**32.8**
Tax expense	(11.8)	(1.6)	(12.9)	(1.8)	(15.4)
Income after tax **	**5.4**	**1.9**	**7.4**	**2.2**	**17.4**
Weighted average number of shares	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted earnings per share (USD)	**0.45**	**0.16**	**0.61**	**0.18**	**1.44**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q2 Unaudited 2016	Q2 2015	Six Months Ended 30 June Unaudited 2016	Six Months Ended 30 June 2015	Full Year 2015 *
Income after tax	5.4	1.9	7.4	2.2	17.4
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive income for the period **	**5.4**	**1.9**	**7.4**	**2.2**	**17.4**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 30 June 2016	31 Dec. 2015 *
Assets		
Non-current assets		
Property, plant and equipment	51.1	49.7
Restricted cash	13.1	13.1
Deferred tax asset	12.4	6.7
Equity-accounted investees	56.6	56.6
Other non-current assets	0.2	0.2
Total non-current assets	**133.4**	**126.3**
Current assets		
Vessels-under-construction receivable	74.8	111.7
Work-in-process	127.3	41.5
Restricted cash	7.0	7.0
Prepayments and other receivables	10.4	6.0
Cash and cash equivalents	32.9	69.9
Total current assets	**252.4**	**236.1**
Total assets	**385.8**	**362.4**
Equity and liabilities		
Total equity	**102.4**	**143.4**
Non-current liabilities		
Interest-bearing long-term debt	59.3	59.3
Other non-current liabilities	0.4	7.4
Deferred tax liability	0.8	1.3
Total non-current liabilities	**60.5**	**68.0**
Current liabilities		
Customer advances, net	98.0	54.0
Interest-bearing short-term debt	0.2	14.0
Construction loans	58.0	29.0
Taxes, trade payables and accrued liabilities	66.7	54.0
Total current liabilities	**222.9**	**151.0**
Total liabilities	**283.4**	**219.0**
Total equity and liabilities	**385.8**	**362.4**

* Annual 2015 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	Six Months Ended 30 June Unaudited 2016	2015	Full Year 2015 *
As of beginning of period	143.4	138.2	138.2
Dividend paid	(48.4)	(6.1)	(12.2)
Total comprehensive income for the period **	7.4	2.2	17.4
As of end of period	**102.4**	**134.3**	**143.4**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Six Months Ended 30 June Unaudited 2016	2015	Full Year 2015 *
Net cash from/(used in) operating activities	0.7	(81.3)	(1.9)
Investment in property, plant and equipment	(4.5)	(1.8)	(4.4)
Sale of shipping assets, net of transaction costs	-	-	18.0
Investment in equity-accounted investees	-	(0.3)	-
Net cash (used in)/from investing activities	(4.5)	(2.1)	13.6
Proceeds from interest-bearing debt	-	60.7	58.6
Repayment of interest-bearing debt	(13.8)	(0.1)	(44.6)
Portion of interest-bearing debt held in escrow	-	-	(13.1)
Proceeds from construction loans	87.0	32.0	149.0
Repayment of construction loans	(58.0)	-	(120.0)
Dividend paid	(48.4)	(6.1)	(12.2)
Net cash (used in)/from financing activities	(33.2)	86.5	17.7
Net change in cash and cash equivalents	**(37.0)**	**3.1**	**29.4**
Cash and cash equivalents at beginning of period	69.9	40.5	40.5
Cash and cash equivalents at end of period	**32.9**	**43.6**	**69.9**

* Annual 2015 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 second quarter and year-to-date 2016

1. Introduction – Philly Shipyard ASA

Philly Shipyard ASA (PHLY) is a company domiciled in Norway. The condensed interim consolidated financial statements for the three-month and six-month periods ended 30 June 2016 and 30 June 2015 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 2015, 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 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 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 2015.

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 2015.

There have not been any new IFRS standards or interpretations which were effective 1 January 2016 that have had a significant impact on Q2 2016 or the year-to-date period.

5. Use of estimates

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The most significant judgments made by management in preparing these condensed interim consolidated financial statements in applying PHLY's accounting policies, and the key sources of estimation uncertainty, are the same as those that are applied to the audited consolidated financial statements as of and for the year ended 31 December 2015 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 2016, PHLY had 12,107,901 ordinary shares (excluding 466,865 own shares) at a par value of NOK 10 per share. There were no share issuances or repurchases in Q2 2016. Accordingly, 12,107,901 ordinary shares was used in the calculation of earnings per share for the quarter and for the year-to-date period ended 30 June 2016. For the quarter and for the year-to-date period ended 30 June 2015, 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 2016:

Amounts in USD millions	Long-term debt	Short-term debt	Total interest-bearing debt
Balance 31 Dec. 2015	**59.3**	**43.0**	**102.3**
Proceeds from borrowings	-	87.0	87.0
Repayment of debt	-	(71.8)	(71.8)
Balance 30 June 2016	**59.3**	**58.2**	**117.5**

The Company has a loan agreement with Caterpillar Financial Services Corporation (Cat Financial) for a USD 120 million loan facility for construction financing on the one remaining product tanker (Hull 024) under contract with Crowley. The loan is subject to a maximum borrowing amount of USD 58 million per vessel and is secured by a first lien on Hull 024. The loan accrues interest at three-month LIBOR plus 3.0% per annum as defined in the loan agreement. USD 58 million is drawn under this facility at 30 June 2016.

On 23 May 2016, the Company executed a loan agreement with Cat Financial for a USD 150 million loan facility for construction financing on the four product tankers under contract with Philly Tankers (Hulls 025-028). The loan is subject to a maximum borrowing amount of USD 75 million per vessel and is secured by a first lien on Hulls 025-028. The loan accrues interest at three-month LIBOR plus 3.0% per annum as defined in the loan agreement. No amounts are drawn under this facility at 30 June 2016.

PSI has a secured term loan of up to USD 60 million with PIDC Regional Center, LP XXXI, a partnership between CanAm Enterprises and the Philadelphia Industrial Development Corporation (PIDC). The loan has a fixed interest rate of 2.625% per annum 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 secured by: (1) a first lien on USD 13.1 million of cash collateral; (2) a second lien on Hulls 024-028 during construction; and (3) a first lien on Philly Shipyard's shares in Philly Tankers AS. USD 60 million is drawn under this term loan at 30 June 2016.

In return for shares in Philly Tankers, the Company contributed a promissory note with a face value of USD 58.0 million to the equity capital of Philly Tankers. This note was reduced dollar-for-dollar as the shipyard spent its own funds on the construction of Hulls 025 and 026. As this note was issued as an interest-free instrument, the Company discounted its value and imputed interest expense on the discounted amount at a rate of 3.49% per annum. The dollar-for-dollar reductions commenced in the third quarter of 2015 with a total reduction of the full USD 58.0 million through 30 June 2016.

On 29 June 2016, the Company executed a credit agreement with TD Bank, N.A. for a USD 20 million revolving credit facility. The facility will reduce to USD 10 million in April 2017 and the loan is unsecured. The loan accrues interest at 30-day LIBOR plus 2.50% per annum as defined in the credit agreement. No amounts are drawn under this facility at 30 June 2016.

9. Related party transactions

Aker Capital II AS, an investment company controlled by Aker ASA, is the majority shareholder of PHLY, owning 57.6% of its total outstanding shares as of 30 June 2016.

Philly Shipyard has service agreements with Aker ASA and certain of its affiliates which provide specified consulting, accounting, tax, financial and administrative services. All payables under these agreements are paid within the normal course of business. Beginning in Q2 2015, the accounting services formerly provided by Aker ASA were transferred to a third party provider. 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 30 June 2016 were USD 30 thousand (USD 36 thousand for the same period in 2015) and for the six-month period ending 30 June 2016 were USD 60 thousand (USD 83 thousand for the same period in 2015).

PSI entered into an administrative services agreement with Philly Tankers LLC (PTLLC) whereby PSI will supply certain administrative and commercial services to PTLLC. Related revenues for the three-month period ending 30 June 2016 were USD 30 thousand (USD 30 thousand for the same period in 2015) and for the six-month period ending 30 June 2016 were USD 60 thousand (USD 60 thousand for the same period in 2015).

10. Capitalized interest

	Q2		Six Months Ended 30 June	
Amounts in USD millions	**2016**	**2015**	**2016**	**2015**
Interest expense	(0.9)	(1.0)	(1.9)	(1.7)
Interest capitalized on construction contracts	0.7	0.4	1.5	0.5
Net interest expense	**(0.2)**	**(0.6)**	**(0.4)**	**(1.2)**

11. Construction contracts

The order backlog is USD 931.4 million at 30 June 2016 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 June 2016	Order intake 6 months to 30 June 2016	Order backlog 31 Dec. 2015
	931.4	**(0.7)**	**983.8**

The recognized profit on long-term contracts in process as of 30 June 2016 is as follows:

Amounts in USD millions	30 June 2016
Contract revenue recognized to date, net of deferred profits	485.2
Less: contract expenses recognized to date	(443.9)
Recognized profit to date	**41.3**
Contract costs incurred to date	**317.6**

Philly Shipyard is recognizing revenues and expenses for the four-tanker order from Crowley as one project. As of 30 June 2016, the Crowley project was approximately 99% complete.

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

Customer milestone payments excluding repayment of the Philly Tankers note as of 30 June 2016 and 30 June 2015 totaled USD 199.1 million and USD 163.3 million, respectively. Customer milestone payments pertaining to repayment of the Philly Tankers note as of 30 June 2016 and 30 June 2015 totaled USD 58.0 million and USD 0, respectively.

Customer advances, net as of 30 June 2016 and 30 June 2015 totaled USD 98.0 million and USD 41.0 million, respectively. In 2016, Hulls 025-028, which are not being accounted for under construction accounting rules, have been classified as work-in-process and represents the cash deposits on all four vessels which amount to a total of USD 92.2 million. For Hulls 029-030, this represents customer milestone payments net of work-in-process which amount to a net total of USD 5.8 million.

As of 30 June 2016, PSI has non-cancellable purchase commitments for materials and equipment of approximately USD 135.9 million for the construction of Hulls 023-030.

12. Operating revenues and other income

	Q2		Six Months Ended 30 June	
Amounts in USD millions	**2016**	**2015**	**2016**	**2015**
Operating revenues	18.4	83.4	54.0	153.5
Gain-on-sale of shipping assets	10.3	-	10.3	-
Profit in equity-accounted investees	(0.1)	0.3	-	0.3
Operating revenues and other income	**28.6**	**83.7**	**64.3**	**153.8**

13. Financial instruments

As of 30 June 2016, the Company accounts for its forward exchange contracts with a notional value of USD 49.3 million at fair value (fair value of a USD 1.5 million liability at 30 June 2016, an improvement of USD 2.0 million from year-end 2015). These contracts are the only assets and liabilities accounted for at fair value. As disclosed in the Company's 2015 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. Based on its current construction schedule and backlog, Philly Shipyard expects that PSI will have at least 200 full-time employees on staff for the foreseeable future.

15. Use and reconciliation of non-GAAP financial measures

	Q2		Six Months Ended 30 June		
	Unaudited		Unaudited		Full Year
Amounts in USD millions	**2016**	**2015**	**2016**	**2015**	**2015**
EBITDA	17.0	5.0	19.1	8.8	42.7
plus: deferred shipbuilding profits for Hulls 021-024	1.7	4.2	4.0	7.2	10.9
less: shipbuilding profits for Hulls 021-024 previously deferred	(6.4)	-	(6.4)	-	(10.9)
plus: deferred shipbuilding profits for Hulls 025-028	11.9	-	19.0	-	7.0
plus: capitalized Welcome Fund interest expense	0.4	0.3	0.8	0.3	1.1
plus/(less): loss/(profit) in equity-accounted investees	0.1	-	-	-	(0.6)
Adjusted EBITDA	**24.7**	**9.5**	**36.5**	**16.3**	**50.2**

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 depreciation, impairment charges, financial items and income taxes) plus or minus net deferred shipbuilding profits plus capitalized Welcome Fund interest expense less profit 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. The Company believes presenting Adjusted EBITDA is useful to investors as it provides another measure of Philly Shipyard's profitability from its operations, as if Philly Shipyard had no economic interest in the PHLY-Crowley joint venture vessels or investment in Philly Tankers, and more closely represents earnings from shipbuilding activities.

16. Events after 30 June 2016

On 15 July 2016, the Board of Directors authorized a dividend of USD 0.25 per share, totaling USD 3.0 million, for Q2 2016. The dividend payment will take place on or about 1 August 2016 to shareholders of the Company as of 21 July 2016, as registered with the Company's shareholder register in the VPS as of 25 July 2016. The shares will be traded exclusive dividend from and including 22 July 2016.

Contact information:

Philly Shipyard ASA
Vika Atrium
Munkedamsveien 45
NO-0250 Oslo, Norway

Steinar Nerbovik
President and CEO
Tel: + 1 215 875 2863
steinar.nerbovik@phillyshipyard.com

Jan Ivar Nielsen
Chief Financial Officer
Tel: + 1 215 875 2678
jan.nielsen@phillyshipyard.com

Stian Myhre
Vice President
Tel: +47 91 63 00 20
stian.myhre@akerasa.com

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