Philly Shipyard ASA (OSE: PHLY)
Q2 2017 and Half-Year 2017 Results

17 July 2017

Highlights

- ✓ As of 30 June 2017, the four product tanker order for Kinder Morgan was approximately 96% complete and the two containership order for Matson was approximately 22% complete
- ✓ Philly Shipyard has begun building up to four additional containerships for the Hawaii trade for its own account and is presently engaged in advanced discussions with a major U.S. shipping operator concerning an order for these vessels
- ✓ Second quarter and first half 2017 operating revenues and other income of USD 47.2 million and USD 215.1 million, respectively, compared to USD 28.6 million and 64.3 million in the same period in 2016; under IFRS, no revenues were recognized in Q2 2017 or the first half of 2017 on the two remaining Philly Tankers vessels (Hulls 027-028)
- ✓ Second quarter and first half 2017 EBITDA of USD 4.2 million and USD 34.2 million, respectively, compared to USD 17.0 million and 19.1 million in the same periods in 2016
- ✓ Second quarter and first half 2017 Adjusted EBITDA of USD 11.4 million and USD 25.8 million, respectively, compared to USD 24.7 million and USD 36.5 million in the same periods in 2016
- ✓ Second quarter and first half 2017 net income of USD 2.2 million and USD 19.4 million, respectively, compared to USD 5.4 million and 7.4 million in the same periods in 2016
- ✓ Total cash and cash equivalents of USD 94.0 million at 30 June 2017, excluding USD 18.1 million of restricted cash securing certain shipbuilding contracts and loans
- ✓ Order backlog of USD 576.9 million on 30 June 2017
- ✓ On 7 April 2017, the PHLY Annual General Meeting was held; all proposals were approved and no changes were made to the Board of Directors
- ✓ On 18 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

Subsequent Events

- ✓ Due to the current uncertainty in securing new orders beyond Hull 030, the PHLY Board decided not to pay dividends for Q2 2017

Operations and Shipping Investments

Vessel Construction

At the end of the second quarter of 2017, Philly Shipyard was building two product tankers under contract with Philly Tankers (Hulls 027-028) and two containerships under contract with Matson (Hulls 029-030). Hulls 027 and 028, the final vessels in the four-ship order for Kinder Morgan, are on schedule for delivery in Q3 and Q4, 2017, respectively. During Q2 2017, the first engine room section of Hull 029, the first of two new “Aloha Class” containerships to be delivered to Matson, was lowered into place in the dry dock. In addition, Philly Shipyard has initiated construction of up to four new, state-of-the-art, cost-effective and environment-friendly vessels for the Hawaii containership trade for its own account. These vessels are a continuation of the series of similar “Aloha Class” containerships.

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). The closing of the sale of Philly Shipyard's interest with respect to each of Hulls 021-024 occurred at its delivery. As of the delivery of Hull 024 in Q3 2016, Philly Shipyard had sold all of these joint venture interests to Marathon and recognized all of the income from these sales.

Additionally, in 2015, Philly Tankers, a Jones Act shipping company that is majority-owned (but not controlled) by Philly Shipyard, 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 Q2 2017, Philly Tankers distributed dividends (classified as repayment of capital) to its shareholders totaling USD 35.0 million of which USD 18.8 million was Philly Shipyard's share. To date, the dividends paid by Philly Tankers to its shareholders total USD 74.2 million and Philly Shipyard's share of those dividends total USD 39.9 million.

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 2017 was 1.15 compared to 0.81 at the end of Q2 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 Q2 2017 was 4.18 compared to 3.44 at the end of Q2 2016. Philly Shipyard continues to work proactively to further improve safety and reduce the number of incidents at the shipyard

Financial Information

Second Quarter and Year-to-date 2017 Results

Operating revenues and other income for the second quarter of 2017 were USD 47.2 million compared to operating revenues and other income of USD 28.6 million for the second quarter of 2016. Q2 2017 operating revenues and other income were driven by the continued progress on the Matson vessels (i.e., Hulls 029-030) whereas Q2 2016 operating revenues and other income were primarily driven by continued progress on Hull 024 and the gain-on-sale of the shipping assets pertaining to Hull 023.

Net income for Q2 2017 was USD 2.2 million compared to net income of USD 5.4 million for Q2 2016.

As previously disclosed, under International Financial Reporting Standards (IFRS), (1) 49.9% of the profit on each of Hulls 021-024 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 defer the recognition of 100% of the revenue, cost and profit on each of Hulls 025-028 until 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 deliveries of Hull 025 in Q4 2016 and Hull 026 in Q1 2017, 100% of the revenue, cost and profit on each of these vessels has now been recognized.

In addition to the IFRS financial measures reported above, EBITDA[1] and Adjusted EBITDA[2] 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.

EBITDA for the second quarter of 2017 was USD 4.2 million compared to EBITDA of USD 17.0 million in the second quarter of 2016. The decrease in EBITDA was mainly driven by no vessel deliveries or sales of shipping assets by PSI in Q2 2017 compared to the delivery of Hull 023 and the sale of the shipping assets related thereto by PSI in Q2 2016, which resulted in the recognition of previously deferred profits and gain-on-sale totaling USD 16.4 million. Adjusted EBITDA for the second quarter of 2017 was USD 11.4 million compared to Adjusted EBITDA of USD 24.7 million in the second quarter of 2016. The decrease in Adjusted EBITDA was driven primarily by the significantly lower margin on the Matson project than the Crowley project.

[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 recognized deferred gain in equity-accounted investees.

Net financial items in Q2 2017 was expense of USD 0.4 million compared to income of USD 0.5 million in Q2 2016. For Q2 2017, the main financial expense drivers were unrealized currency losses on foreign exchange forward contracts and net interest costs whereas for Q2 2016 the main financial income drivers were unrealized currency gains on foreign exchange forward contracts and net interest costs. The net interest costs were higher in Q2 2017 than Q2 2016 due to higher total debt in Q2 2017 than Q2 2016.

Operating revenues and other income in the first six months of 2017 ended at USD 215.1 million compared to operating revenues and other income of USD 64.3 million in the first six months of 2016. June 2017 year-to-date 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 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.

Net income for the first six months of 2017 was USD 19.4 million compared to net income of USD 7.4 million in the same period of 2016.

EBITDA for the first six months of 2017 was USD 34.2 million compared to EBITDA of USD 19.1 million in the same period of 2016. Adjusted EBITDA in the first six months of 2017 totaled USD 25.8 million compared to Adjusted EBITDA of USD 36.5 million in the same period of 2016.

Balance Sheet

Total assets were USD 425.3 million at 30 June 2017 compared to USD 408.8 million at 31 December 2016. The increase in total assets was primarily driven by an increase in vessels-under-construction receivable and work-in-process, which increased in aggregate from USD 180.3 million to USD 192.7 million, and an increase in income tax receivable due to the requirement to make payments to the IRS and other taxing authorities based on estimates instead of actual tax liabilities.

Total debt was USD 182.6 million at 30 June 2017 compared to total debt at year-end 2016 of USD 157.5 million. The net increase was mainly due to additional draws made on the Caterpillar loan facility for Hulls 027 and 028, partially offset by payback of the full USD 75.0 million Caterpillar loan for Hull 026. The Caterpillar loan facility is described under Financing below.

Cash and cash equivalents (excluding restricted cash) were USD 94.0 million at 30 June 2017, compared to USD 69.1 million at 31 December 2016. The increase of USD 24.9 million was due primarily to additional draws made on the Caterpillar loan facility for Hulls 027 and 028. In addition, during Q2 2017, USD 2.0 million of restricted cash related to the SeaRiver project was released from escrow. As of 30 June 2017, restricted cash consisted of (a) USD 5.0 million related to the SeaRiver project, which is expected to be released by the end of 2017, and (b) 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 107.8 million at 30 June 2017 from USD 91.4 million at year-end 2016 due to the net income of USD 19.4 million partially offset by the dividend paid of USD 3.0 million in Q1 2017.

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 and 028. USD 123.0 million was drawn under this facility as of 30 June 2017 for the construction of Hulls 027 and 028.

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 30 June 2017.

The Company also has an unsecured three-year revolving credit facility for up to USD 10.0 million from TD Bank, N.A, which automatically reduced from a maximum of USD 20.0 million on 1 May 2017. The facility terminates in April 2019. USD 1.2 million of this facility was utilized as of 30 June 2017 for the issuance of letters of credit.

Shareholder Distributions

Due to the current uncertainty in securing new orders beyond Hull 030, the PHLY Board has decided not 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 30 June 2017, Philly Shipyard had an order backlog of USD 576.9 million.

As noted above, under IFRS, Philly Shipyard is required to defer the recognition of 100% of the revenue, cost and profit on each of Hulls 025-028 until 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. Philly Shipyard is exploring various opportunities in the Hawaii containership trade. At this time, Philly Shipyard is engaged in advanced talks with a leading Jones Act operator concerning an order for up to four new, state-of-the-art, cost-effective and environment-friendly vessels for service in this trade. Although no firm order is in place, Philly Shipyard has initiated construction of these vessels for its own account. Philly Shipyard has ordered a vast majority of all long-lead items, including the main engines and other high priority items, for the first pair of these vessels. These vessels are a continuation of the series of similar containerships currently under construction at Philly Shipyard for Matson. Start of full production for Hull 031 is planned for Q2 2018; however, full 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 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

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.

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. 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.

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

Responsibility Statement
The unaudited condensed interim consolidated financial statements and interim financial report as of and for the six months ended 30 June 2017 were approved by the Board of Directors and the President and CEO on 17 July 2017.

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
17 July 2017
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 2017	Q2 2016	Six Months Ended 30 June Unaudited 2017	Six Months Ended 30 June 2016	Full Year 2016 *
Operating revenues and other income	47.2	28.6	215.1	64.3	233.6
Operating expenses	(43.0)	(11.6)	(180.9)	(45.2)	(163.2)
Operating income before depreciation - EBITDA	**4.2**	**17.0**	**34.2**	**19.1**	**70.4**
Depreciation	(1.1)	(0.3)	(4.3)	(0.9)	(3.6)
Operating income - EBIT	**3.1**	**16.7**	**29.9**	**18.2**	**66.8**
Net financial items	(0.4)	0.5	0.9	2.1	1.5
Income before tax	**2.7**	**17.2**	**30.8**	**20.3**	**68.3**
Tax expense	(0.5)	(11.8)	(11.4)	(12.9)	(29.6)
Income after tax **	**2.2**	**5.4**	**19.4**	**7.4**	**38.7**
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)	**0.18**	**0.45**	**1.60**	**0.61**	**3.19**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q2 Unaudited 2017	Q2 2016	Six Months Ended 30 June Unaudited 2017	Six Months Ended 30 June 2016	Full Year 2016 *
Income after tax	2.2	5.4	19.4	7.4	38.7
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive income for the period **	**2.2**	**5.4**	**19.4**	**7.4**	**38.7**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 30 June 2017	31 Dec. 2016 *
Assets		
Non-current assets		
Property, plant and equipment	50.7	50.6
Restricted cash	13.1	13.1
Deferred tax asset	15.3	16.6
Equity-accounted investees	32.3	64.3
Other non-current assets	0.2	0.3
Total non-current assets	**111.6**	**144.9**
Current assets		
Vessels-under-construction receivable	16.3	-
Work-in-process	176.4	180.3
Restricted cash	5.0	7.0
Prepayments and other receivables	8.0	5.7
Income tax receivable	14.0	1.8
Cash and cash equivalents	94.0	69.1
Total current assets	**313.7**	**263.9**
Total assets	**425.3**	**408.8**
Equity and liabilities		
Total equity	**107.8**	**91.4**
Non-current liabilities		
Interest-bearing long-term debt	59.4	59.3
Deferred tax liability	1.0	1.0
Total non-current liabilities	**60.4**	**60.3**
Current liabilities		
Construction loans	123.0	98.0
Interest-bearing short-term debt	0.2	0.2
Trade payables, accrued liabilities and provisions	44.1	58.9
Income tax payable	-	2.1
Customer advances, net	89.8	97.9
Total current liabilities	**257.1**	**257.1**
Total liabilities	**317.5**	**317.4**
Total equity and liabilities	**425.3**	**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	Six Months Ended 30 June Unaudited 2017	2016
As of beginning of period	91.4	143.4
Dividend paid	(3.0)	(48.4)
Total comprehensive income for the period *	19.4	7.4
As of end of period	**107.8**	**102.4**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Six Months Ended 30 June Unaudited 2017	2016
Net cash (used in)/from operating activities	(32.4)	0.7
Investment in property, plant and equipment	(4.5)	(4.5)
Dividend received from equity-accounted investees	39.9	-
Net cash from/(used in) investing activities	35.4	(4.5)
Proceeds from construction loans	100.0	87.0
Repayment of construction loans	(75.0)	(58.0)
Repayment of interest-bearing debt	(0.1)	(13.8)
Dividend paid	(3.0)	(48.4)
Net cash from/(used in) financing activities	21.9	(33.2)
Net change in cash and cash equivalents	**24.9**	**(37.0)**
Cash and cash equivalents at beginning of period	69.1	69.9
Cash and cash equivalents at end of period	**94.0**	**32.9**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 2nd quarter and year-to-date 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 and six-month periods ended 30 June 2017 and 30 June 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 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 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 Q2 2017 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 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 30 June 2017 and 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 for the quarters or the year-to-date periods ended 30 June 2017 or 30 June 2016. Accordingly, 12,107,901 ordinary shares was used in the calculation of earnings per share for the quarters and for the year-to-date periods ended 30 June 2017 and 30 June 2016.

8. **Interest-bearing debt**
The following shows material changes in interest-bearing debt during 2017:

Amounts in USD millions	Non-current debt	Current debt	Total interest-bearing debt
Balance 31 December 2016	**59.3**	**98.2**	**157.5**
Proceeds from borrowings	-	100.0	100.0
Repayment of debt	-	(75.0)	(75.0)
Reclass of debt	0.1	-	0.1
Balance 30 June 2017	**59.4**	**123.2**	**182.6**

The Company has a loan agreement with Cat Financial for a USD 150.0 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 75.0 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 123.0 million is drawn under this facility at 30 June 2017.

PSI has a secured term loan of up to USD 60.0 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 60.0 million is drawn under this term loan at 30 June 2017.

The Company has an unsecured three-year revolving credit facility for up to USD 10.0 million from TD Bank, N.A., which automatically reduced from a maximum of USD 20.0 million on 1 May 2017. The facility terminates in April 2019. 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 30 June 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 30 June 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 30 June 2017 were USD 30 thousand (USD 30 thousand for the same period in 2016) and for the six-month period ending 30 June 2017 were USD 60 thousand (USD 60 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 30 June 2017 were USD 30 thousand (USD 30 thousand for the same period in 2016) and for the six-month period ending 30 June 2017 were USD 60 thousand (USD 60 thousand for the same period in 2016).

10. Capitalized interest

	Q2		Six Months Ended 30 June	
Amounts in USD millions	**2017**	**2016**	**2017**	**2016**
Interest expense	(1.4)	(0.9)	(3.0)	(1.9)
Interest capitalized on construction contracts	1.0	0.7	2.1	1.5
Net interest expense	**(0.4)**	**(0.2)**	**(0.9)**	**(0.4)**

11. Construction contracts

The order backlog is USD 576.9 million at 30 June 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 30 June 2017	Order intake 6 months to 30 June 2017	Order backlog 31 Dec. 2016
	576.9	**(0.4)**	**784.4**

The recognized profit on long-term contracts in process (Hulls 029-030) as of 30 June 2017 is as follows:

Amounts in USD millions	30 June 2017
Contract revenue recognized to date	92.5
Less: contract expenses recognized to date	(92.5)
Recognized profit to date (Hulls 029-030)	**-**
Contract costs incurred to date (Hulls 027-030)	**332.3**

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 30 June 2017, the Company has 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 30 June 2017, the Matson project is approximately 22% complete.

Customer milestone payments excluding repayment of the USD 58.0 million Philly Tankers note as of 30 June 2017 and 30 June 2016 totaled USD 229.1 million and USD 199.1 million, respectively. Customer milestone payments pertaining to repayment of the USD 58.0 million Philly Tankers note as of 30 June 2017 and 30 June 2016 totaled USD 0 and USD 58.0 million, respectively.

Customer advances, net as of 30 June 2017 and 30 June 2016 totaled USD 89.8 million and USD 98.0 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 30 June 2017, customer advances, net represents the cash deposits on the two remaining Philly Tankers vessels (Hulls 027-028).

Vessels-under-construction receivable as of 30 June 2017 and 30 June 2016 totaled USD 16.3 million and USD 74.8 million, respectively. As of 30 June 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 customer advances, net liability). Percentage-of-completion accounted projects are presented net.

As of 30 June 2017, PSI has non-cancellable purchase commitments for materials and equipment of approximately USD 82.4 million for the construction of Hulls 027-032.

12. Operating revenues and other income

	Q2		Six Months Ended 30 June	
Amounts in USD millions	**2017**	**2016**	**2017**	**2016**
Operating revenues	47.3	18.4	207.3	54.0
(Loss)/profit in equity-accounted investees (Hulls 025-028)	(0.1)	(0.1)	6.3	-
Recognized deferred gain in equity-accounted investees (Hulls 025-028)	-	-	1.5	-
Gain-on-sale of shipping assets (Hulls 021-024)	-	10.3	-	10.3
Operating revenues and other income	**47.2**	**28.6**	**215.1**	**64.3**

(Loss)/profit in equity-accounted investees represents the Company's 53.7% share of the net (loss)/profit of Philly Tankers (Hulls 025-028) which at 30 June 2017 and 30 June 2016 amounted to USD 6.342 million and USD 0, respectively.

Recognized deferred gain 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 30 June 2017 and 30 June 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 30 June 2017, the Company accounts for its forward exchange contracts with a notional value of USD 13.8 million at fair value (fair value of a USD 127 thousand liability at 30 June 2017, an improvement of USD 1.47 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

	Q2		Six Months Ended 30 June	
	Unaudited		**Unaudited**	
Amounts in USD millions	**2017**	**2016**	**2017**	**2016**
EBITDA	4.2	17.0	34.2	19.1
plus: capitalized Welcome Fund interest expense	0.1	0.4	0.2	0.8
plus: deferred shipbuilding profits for Hulls 025-028	7.0	11.9	21.9	19.0
less: previously deferred shipbuilding profits for Hull 026	-	-	(22.7)	-
less: recognized deferred gain in equity-accounted investees (Hull 026)	-	-	(1.5)	-
plus/(less): loss/(profit) in equity-accounted investees (Hulls 025-028)	0.1	0.1	(6.3)	-
plus: deferred shipbuilding profits for Hulls 021-024	-	1.7	-	4.0
less: previously deferred shipbuilding profits for Hulls 021-024	-	(6.4)	-	(6.4)
Adjusted EBITDA	**11.4**	**24.7**	**25.8**	**36.5**

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 recognized deferred gain 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.

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