Philly Shipyard ASA (OSE: PHLY)
Q3 and First Nine Months 2016 Results

28 October 2016

Highlights

- ✓ Third quarter and first nine months 2016 operating revenues and other income of USD 23.7 million and USD 88.0 million, respectively, compared to USD 85.8 million and USD 239.5 million in the same periods in 2015; under IFRS, no revenues were recognized in Q3 2016 or the first nine months of 2016 on the four Philly Tankers vessels (Hulls 025-028)
- ✓ Third quarter and first nine months 2016 net income of USD 12.0 million and USD 19.3 million, respectively, compared to USD 5.5 million and USD 7.7 million in the same periods in 2015
- ✓ Third quarter and first nine months 2016 Adjusted EBITDA of USD 26.5 million and USD 63.0 million, respectively, compared to USD 12.1 million and USD 28.1 million in the same periods in 2015
- ✓ Total cash and cash equivalents of USD 32.3 million at 30 September 2016, excluding USD 7.0 million of restricted cash related to the SeaRiver contract and USD 13.1 million of restricted cash securing the Welcome Fund loan
- ✓ Order backlog of USD 921.0 million on 30 September 2016; four product tankers and two containerships are currently under construction
- ✓ On 12 August 2016, Philly Shipyard delivered Hull 024 to Crowley and sold its joint venture interests pertaining to Hull 024 to Marathon
- ✓ During the third quarter, Philly Shipyard paid dividends totaling USD 39.4 million, consisting of a quarterly dividend of USD 0.25 per share for Q3 2016 and an extraordinary dividend of USD 3.00 per share

Subsequent Events

- ✓ On 28 October 2016, the PHLY Board approved a dividend for Q3 2016 of USD 0.25 per share, totaling USD 3.0 million

Operations and Shipping Investments

Vessel Construction

At the end of the third quarter of 2016, Philly Shipyard had six vessels under construction – 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 024, the final vessel in the four-ship order for Crowley, on 12 August 2016, two weeks ahead of the contract delivery date.

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). With the delivery of Hull 024 on 12 August 2016, Philly Shipyard has sold all of these joint venture interests to Marathon.

Additionally, in 2015, Philly Tankers, a Jones Act shipping company that is majority-owned 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). The closing of the sale of the shipbuilding contract and related assets with respect to each of Hulls 025-028 will occur at its delivery.

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 Q3 2016 was 1.01 compared to 0.83 at the end of Q3 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 Q3 2016 was 3.23 compared to 4.43 at the end of Q3 2015.

Financial Information

Third Quarter and Year-to-date 2016 Results

Operating revenues and other income for the third quarter were USD 23.7 million compared to operating revenues and other income of USD 85.8 million in the third quarter of 2015. Q3 2016 operating revenues and other income were comprised primarily of initial progress on Hulls 029-030 and the gain-on-sale of the shipping assets pertaining to Hull 024 whereas Q3 2015 operating revenues and other income were primarily driven by progress on Hulls 021-024 and the gain-on-sale of the shipping assets pertaining to Hull 021. No revenues are being recognized on any of the four Philly Tankers vessels (Hulls 025-028) before its delivery.

Net income for Q3 2016 was USD 12.0 million compared to net income of USD 5.5 million for Q3 2015.

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 will recognize 100% of the revenue, cost and profit on each of Hulls 025-028 at its delivery. With the delivery of Hull 024 in Q3 2016, all deferred profit on Hulls 021-024 has now been recognized.

EBITDA (defined as earnings before depreciation, impairment charges, financial items and income taxes) for the third quarter was USD 17.3 million compared to EBITDA of USD 15.6 million in the third quarter of 2015. Adjusted EBITDA (defined as EBITDA plus or minus net deferred shipbuilding profits plus capitalized Welcome Fund interest expense plus or minus loss or profit, respectively, in equity-accounted investees) for the third quarter was USD 26.5 million compared to Adjusted EBITDA of USD 12.1 million in the third quarter of 2015. The increase in EBITDA and Adjusted EBTIDA was mainly driven by increased production on Hulls 025-028.

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 Q3 2016 were income of USD 1.9 million compared to expense of USD 3.4 million in Q3 2015. In Q3 2016, the financial income was primarily attributable to unrealized currency gains on foreign exchange forward contracts; in Q3 2015, the financial expense was attributable to unrealized currency losses on foreign exchange forward contracts and higher interest expense driven by the Philly Tankers note payable.

Operating revenues and other income in the first nine months of 2016 ended at USD 88.0 million compared to operating revenues and other income of USD 239.5 million in the first nine months of 2015. September 2016 year-to-date operating revenues and other income were comprised primarily of remaining progress on Hulls 021-024 and the gain-on-sale of the shipping assets pertaining to Hulls 023 and 024 whereas September 2015 year-to-date operating revenues and other income were comprised primarily of continued progress on Hulls 021-024 and the gain-on-sale of the shipping assets pertaining to Hull 021.

Net income for the first nine months of 2016 was USD 19.3 million compared to net income of USD 7.7 million for the same period in 2015.

EBITDA for the first nine months of 2016 was USD 36.4 million compared to EBITDA of USD 24.4 million in the same period of 2015. Adjusted EBITDA in the first nine months of 2016 totaled USD 63.0 million compared to Adjusted EBITDA of USD 28.1 million for the same period in 2015.

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

Balance Sheet

As of 30 September 2016, total assets were USD 398.5 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 the aggregate from USD 153.2 million to USD 215.9 million.

The Company's overall debt level increased in 2016 to USD 156.6 million at 30 September 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 32.3 million at 30 September 2016, compared to USD 69.9 million at 31 December 2015. The decrease of USD 37.6 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 September 2016, restricted cash consisted of USD 7.0 million related to the SeaRiver project, which is expected to be released in Q1 2017, and USD 13.1 million related to the Welcome Fund loan, which is expected to be released in Q1 2020 when the loan matures.

Total equity decreased to USD 74.8 million at 30 September 2016 from USD 143.4 million at year-end 2015 due to the dividend paid of USD 87.9 million partially offset by net income of USD 19.3 million.

Financing

The Company has a USD 150 million loan facility with Caterpillar Financial Services Corporation (Cat Financial) for construction financing on Hulls 025-028. USD 97 million was drawn under this facility as of 30 September 2016 for the construction of Hulls 025 and 026.

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. The entire USD 60 million amount was drawn under this facility as of 30 September 2016.

The Company also has an unsecured three-year revolving credit facility for up to USD 20 million from TD Bank, N.A. No amounts were drawn under this facility as of 30 September 2016.

Shareholder Distributions

The PHLY Board approved a dividend for the third quarter of USD 0.25 per share, totaling USD 3.0 million. The dividend will be paid on or about 14 November 2016 to shareholders of the Company as of 3 November 2016, as registered with the Company's shareholder register in the VPS as of 8 November 2016. The shares will be traded ex-dividend from and including 4 November 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. Pursuant to this policy, the Company has previously paid quarterly dividends totaling USD 9.1 million during 2016.

In line with earlier communications, Philly Shipyard has also paid extraordinary dividends totaling USD 78.8 million during 2016. The Company intends to pay additional extraordinary dividends in 2017 subsequent to the future delivery of Hull 025, which is scheduled to occur in Q4 2016.

Any payment of dividends 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 Philly Tankers (Hulls 025-028) and Matson (Hulls 029-030) provide for shipbuilding activity with delivery dates through Q1 2019. As of 30 September 2016, Philly Shipyard had an order backlog of approximately USD 921 million.

As noted above, due to IFRS, Philly Shipyard will recognize 100% of the revenue, cost and profit on each of Hulls 025-028 at its delivery. As the delivery of Hull 025 is planned for Q4 2016, Philly Shipyard expects to record 100% of the revenues for that vessel next quarter. Philly Shipyard also expects to record revenues and other income in Q4 2016 for continued progress on Hulls 029-030 and its economic interest in the financial result created at Philly Tankers by the sale of its shipbuilding contract and related assets for Hull 025 to Kinder Morgan.

Key focus areas for Philly Shipyard will be continued progress on the product tankers being built for Philly Tankers and the containerships being built for Matson. 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 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. For a further analysis of risks, please refer to the Company's 2015 annual report.

Oslo, Norway
28 October 2016
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)	Q3 Unaudited 2016	Q3 2015	Nine Months Ended 30 Sept. Unaudited 2016	Nine Months Ended 30 Sept. 2015	Full Year 2015 *
Operating revenues and other income	23.7	85.8	88.0	239.5	307.0
Operating expenses	(6.4)	(70.2)	(51.6)	(215.1)	(264.3)
Operating income before depreciation - EBITDA	**17.3**	**15.6**	**36.4**	**24.4**	**42.7**
Depreciation	(0.1)	(1.9)	(1.0)	(5.6)	(6.4)
Operating income - EBIT	**17.2**	**13.7**	**35.4**	**18.8**	**36.3**
Net financial items	1.9	(3.4)	4.0	(4.6)	(3.5)
Income before tax	**19.1**	**10.3**	**39.4**	**14.2**	**32.8**
Tax expense	(7.1)	(4.8)	(20.1)	(6.5)	(15.4)
Income after tax **	**12.0**	**5.5**	**19.3**	**7.7**	**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)	**0.99**	**0.45**	**1.60**	**0.63**	**1.44**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q3 Unaudited 2016	Q3 2015	Nine Months Ended 30 Sept. Unaudited 2016	Nine Months Ended 30 Sept. 2015	Full Year 2015 *
Income after tax	12.0	5.5	19.3	7.7	17.4
Other comprehensive income, net of income tax	-	-	-	-	-
Total comprehensive income for the period **	**12.0**	**5.5**	**19.3**	**7.7**	**17.4**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 30 Sept. 2016	31 Dec. 2015 *
Assets		
Non-current assets		
Property, plant and equipment	51.5	49.7
Restricted cash	13.1	13.1
Deferred tax asset	15.6	6.7
Equity-accounted investees	56.5	56.6
Other non-current assets	0.2	0.2
Total non-current assets	**136.9**	**126.3**
Current assets		
Vessels-under-construction receivable	21.3	111.7
Work-in-process	194.6	41.5
Restricted cash	7.0	7.0
Prepayments and other receivables	6.4	6.0
Cash and cash equivalents	32.3	69.9
Total current assets	**261.6**	**236.1**
Total assets	**398.5**	**362.4**
Equity and liabilities		
Total equity	**74.8**	**143.4**
Non-current liabilities		
Interest-bearing long-term debt	59.4	59.3
Other non-current liabilities	3.0	7.4
Deferred tax liability	0.5	1.3
Total non-current liabilities	**62.9**	**68.0**
Current liabilities		
Customer advances, net	106.4	54.0
Interest-bearing short-term debt	0.2	14.0
Construction loans	97.0	29.0
Taxes, trade payables and accrued liabilities	57.2	54.0
Total current liabilities	**260.8**	**151.0**
Total liabilities	**323.7**	**219.0**
Total equity and liabilities	**398.5**	**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	Nine Months Ended 30 Sept. Unaudited 2016	2015	Full Year 2015 *
As of beginning of period	143.4	138.2	138.2
Dividend paid	(87.9)	(9.2)	(12.2)
Total comprehensive income for the period **	19.3	7.7	17.4
As of end of period	**74.8**	**136.7**	**143.4**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Nine Months Ended 30 Sept. Unaudited 2016	2015	Full Year 2015 *
Net cash used in operating activities	(17.9)	(47.3)	(1.9)
Investment in property, plant and equipment	(6.9)	(3.4)	(4.4)
Investment in equity-accounted investees	0.1	(0.3)	-
Sale of shipping assets, net of transaction costs	20.7	9.0	18.0
Net cash from investing activities	13.9	5.3	13.6
Proceeds from interest-bearing debt	0.1	60.0	58.6
Repayment of interest-bearing debt	(13.8)	(8.1)	(44.6)
Portion of interest-bearing debt held in escrow	-	(13.1)	(13.1)
Proceeds from construction loans	184.0	87.0	149.0
Repayment of construction loans	(116.0)	(60.0)	(120.0)
Dividend paid	(87.9)	(9.2)	(12.2)
Net cash (used in)/from financing activities	(33.6)	56.6	17.7
Net change in cash and cash equivalents	**(37.6)**	**14.6**	**29.4**
Cash and cash equivalents at beginning of period	69.9	40.5	40.5
Cash and cash equivalents at end of period	**32.3**	**55.1**	**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 third 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 nine-month periods ended 30 September 2016 and 30 September 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 nine-month periods are not necessarily indicative of the results that may be expected for any subsequent quarter or year.

3. **Statement of compliance**
These condensed interim consolidated financial statements have been prepared in accordance with 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 Q3 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 September 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 the quarter or the year-to-date period ended 30 September 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 September 2016. For the quarter and for the year-to-date period ended 30 September 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 December 2015	**59.3**	**43.0**	**102.3**
Proceeds from borrowings	0.1	184.0	184.1
Repayment of debt	-	(129.8)	(129.8)
Balance 30 September 2016	**59.4**	**97.2**	**156.6**

The Company has 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. USD 97 million is drawn under this facility at 30 September 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 025-028 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 September 2016.

The Company has 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 September 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 September 2016.

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 September 2016 were USD 30 thousand (USD 30 thousand for the same period in 2015) and for the nine-month period ending 30 September 2016 were USD 90 thousand (USD 113 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 September 2016 were USD 30 thousand (USD 30 thousand for the same period in 2015) and for the nine-month period ending 30 September 2016 were USD 90 thousand (USD 90 thousand for the same period in 2015).

10. Capitalized interest

	Q3		Nine Months Ended 30 Sept.	
Amounts in USD millions	**2016**	**2015**	**2016**	**2015**
Interest expense	(0.9)	(1.5)	(2.8)	(3.2)
Interest capitalized on construction contracts	0.8	0.9	2.3	1.4
Net interest expense	**(0.1)**	**(0.6)**	**(0.5)**	**(1.8)**

11. Construction contracts

The order backlog is USD 921.0 million at 30 September 2016 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 Sept. 2016	Order intake 9 months to 30 Sept. 2016	Order backlog 31 Dec. 2015
	921.0	**(4.3)**	**983.8**

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

Amounts in USD millions	30 Sept. 2016
Contract revenue recognized to date	3.0
Less: contract expenses recognized to date	(3.0)
Recognized profit to date	**-**
Contract costs incurred to date	**314.7**

Philly Shipyard recognized revenues and expenses for the four-tanker order from Crowley as one project. As of 30 September 2016, the Crowley project is 100% complete with delivery of the final vessel (Hull 024) on 12 August 2016.

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 September 2016 and 30 September 2015 totaled USD 148.1 million and USD 146.0 million, respectively. Customer milestone payments pertaining to repayment of the Philly Tankers note as of 30 September 2016 and 30 September 2015 totaled USD 58.0 million and USD 9.4 million, respectively.

Customer advances, net as of 30 September 2016 and 30 September 2015 totaled USD 106.4 million and USD 24.1 million, respectively. In 2016, costs incurred on Hulls 025-028, which are not being accounted for under construction accounting rules, have been classified as work-in-process. As of 30 September 2016, customer advances, net represents the cash deposits on these four vessels.

As of 30 September 2016, PSI has non-cancellable purchase commitments for materials and equipment of approximately USD 90.5 million for the construction of Hulls 025-030.

12. Operating revenues and other income

	Q3		Nine Months Ended 30 Sept.	
Amounts in USD millions	**2016**	**2015**	**2016**	**2015**
Operating revenues	13.4	73.4	67.4	226.8
Gain-on-sale of shipping assets	10.4	12.4	20.7	12.4
(Loss)/profit in equity-accounted investees	(0.1)	-	(0.1)	0.3
Operating revenues and other income	**23.7**	**85.8**	**88.0**	**239.5**

13. Financial instruments

As of 30 September 2016, the Company accounts for its forward exchange contracts with a notional value of USD 28.1 million at fair value (fair value of a USD 0.3 million asset at 30 September 2016, an improvement of USD 3.7 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

	Q3		Nine Months Ended 30 Sept.		
	Unaudited		Unaudited		Full Year
Amounts in USD millions	**2016**	**2015**	**2016**	**2015**	**2015**
EBITDA	17.3	15.6	36.4	24.4	42.7
plus: deferred shipbuilding profits for Hulls 021-024	1.4	(5.4)	5.4	1.7	10.9
less: shipbuilding profits for Hulls 021-024 previously deferred	(8.0)	-	(14.4)	-	(10.9)
plus: deferred shipbuilding profits for Hulls 025-028	15.6	1.5	34.6	1.6	7.0
plus: capitalized Welcome Fund interest expense	0.1	0.4	0.9	0.7	1.1
plus/(less): loss/(profit) in equity-accounted investees	0.1	-	0.1	(0.3)	(0.6)
Adjusted EBITDA	**26.5**	**12.1**	**63.0**	**28.1**	**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 plus or minus loss or profit, respectively, 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 September 2016

On 28 October 2016, the Board of Directors authorized a dividend of USD 0.25 per share, totaling USD 3.0 million, for Q3 2016. The dividend payment will take place on or about 14 November 2016 to shareholders of the Company as of 3 November 2016, as registered with the Company's shareholder register in the VPS as of 8 November 2016. The shares will be traded exclusive dividend from and including 4 November 2016.

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Disclaimer

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