Philly Shipyard ASA (OSE: PHLY)
Q4 and Full Year 2016 Results

16 February 2017

Highlights

- ✓ During the fourth quarter, Philly Shipyard delivered the first of a series of four product tankers (Hulls 025-028) to Kinder Morgan. Under IFRS, 100% of the revenue, cost and profit on Hull 025 was recognized at its delivery in Q4 2016, and no revenue, cost or profit on Hulls 026-028 was recognized in 2016.
- ✓ Fourth quarter and full year 2016 operating revenues and other income of USD 145.6 million and USD 233.6 million, respectively, compared to USD 67.5 million and USD 307.0 million in the same periods in 2015
- ✓ Fourth quarter and full year 2016 net income of USD 19.3 million and USD 38.7 million, respectively, compared to USD 9.7 million and USD 17.4 million in the same periods in 2015
- ✓ Fourth quarter and full year 2016 Adjusted EBITDA of USD 23.2 million and USD 87.1 million, respectively, compared to USD 22.1 million and USD 50.1 million in the same periods in 2015
- ✓ Total cash and cash equivalents of USD 69.1 million at 31 December 2016, excluding USD 20.1 million of restricted cash securing certain shipbuilding contracts and loans
- ✓ Order backlog of USD 784.4 million on 31 December 2016; three product tankers and two containerships are currently under construction
- ✓ During the fourth quarter, Philly Shipyard paid dividends totaling USD 3.0 million, consisting of an ordinary dividend of USD 0.25 per share for Q3 2016

Subsequent Events

- ✓ On 16 February 2017, the PHLY Board approved an ordinary dividend for Q4 2016 of USD 0.25 per share, totaling USD 3.0 million

Operations and Shipping Investments

Vessel Construction

On 30 November 2016, Philly Shipyard delivered Hull 025, the first vessel in the four-ship order for Philly Tankers, a Jones Act shipping company that is majority-owned by Philly Shipyard. This vessel was delivered to Kinder Morgan, as assignee of Philly Tankers, on its contract delivery date. At the end of the fourth quarter of 2016, Philly Shipyard had five vessels under construction – three product tankers under contract with Philly Tankers (Hulls 026-028) and two containerships under contract with Matson (Hulls 029-030).

Shipping Investments

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

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

Subsequent to year-end, Philly Tankers distributed a dividend (classified as repayment of capital) to its shareholders totaling USD 35.0 million of which USD 18.8 million was Philly Shipyard's share.

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 Q4 2016 was 1.10 compared to 0.75 at the end of Q4 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 Q4 2016 was 3.31 compared to 4.04 at the end of Q4 2015.

Financial Information

Fourth Quarter and Full Year 2016 Results
Operating revenues and other income for the fourth quarter were USD 145.6 million compared to operating revenues and other income of USD 67.5 million in the fourth quarter of 2015. Q4 2016 operating revenues and other income were primarily driven by the delivery by Philly Shipyard of Hull 025 to Kinder Morgan, the related sale by Philly Tankers of its Hull 025 assets to Kinder Morgan and continued progress on the Matson vessels (i.e., Hulls 029-030) whereas Q4 2015 operating revenues and other income were primarily driven by continued progress on the PHLY-Crowley joint venture vessels (i.e., Hulls 021-024) and the sale of the shipping assets pertaining to Hull 022.

Net income for Q4 2016 was USD 19.3 million compared to net income of USD 9.7 million for Q4 2015.

As previously disclosed, under International Financial Reporting Standards (IFRS), (1) 49.9% of the profit on each of Hulls 021-024 to be delivered to the PHLY-Crowley joint venture was deferred, and the total estimated deferred margin for all four vessels was recognized pro-rata (25% per ship) at delivery, and (2) Philly Shipyard is required to recognize 100% of the revenue, cost and profit on each of Hulls 025-028 at its delivery. With the delivery of Hull 025 in Q4 2016, 100% of the revenue, cost and profit on Hull 025 has now been recognized.

EBITDA[1] for the fourth quarter was USD 34.0 million compared to EBITDA of USD 18.4 million in the fourth quarter of 2015. Adjusted EBITDA[2] for the fourth quarter was USD 23.2 million compared to Adjusted EBITDA of USD 22.1 million in the fourth quarter of 2015. The increase in EBITDA was mainly driven by the delivery by Philly Shipyard of Hull 025 to Kinder Morgan and the related sale by Philly Tankers of its Hull 025 assets to Kinder Morgan.

In addition to the IFRS financial measures reported above, EBITDA and Adjusted EBITDA are considered other relevant earnings indicators for PHLY as they measure the operational performance of the shipyard. In particular, Philly Shipyard believes presenting Adjusted EBITDA is useful to investors as it provides another measure of Philly Shipyard's profitability from its operations, as if Philly Shipyard never had an economic interest in the PHLY-Crowley joint venture vessels or investment in Philly Tankers, and more closely represents earnings from shipbuilding activities.

Net financial items in Q4 2016 were a loss of USD 2.5 million compared to income of USD 1.1 million in Q4 2015. In Q4 2016, the financial expense was primarily attributable to unrealized currency losses on foreign exchange forward contracts; in Q4 2015, the financial income was attributable to unrealized currency gains on foreign exchange forward contracts.

Operating revenues and other income for the year ended 31 December 2016 were USD 233.6 million compared to operating revenues and other income of USD 307.0 million for the year ended 31 December 2015. Full year 2016 operating revenues and other income were driven primarily by the delivery by Philly Shipyard of Hull 025 to Kinder Morgan, the related sale by Philly Tankers of its Hull 025 assets to Kinder Morgan, the remaining progress on the PHLY-Crowley joint venture vessels (i.e., Hulls 021-024) and continued progress on the Matson vessels (i.e., Hulls 029-030) and the sale of the shipping assets pertaining to Hulls 023 and 024 whereas full year 2015 operating revenues and other income were driven primarily by continued progress on Hulls 021-024 and sale of the shipping assets pertaining to Hulls 021 and 022

Net income for 2016 was USD 38.7 million compared to net income of USD 17.4 million for 2015.

[1] EBITDA is defined as earnings before depreciation, impairment charges, financial items and income taxes.
[2] Adjusted EBITDA is 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 less recognition of deferred gain on investment in equity-accounted investees.

EBITDA for 2016 was USD 70.4 million compared to EBITDA of USD 42.7 million for 2015. Adjusted EBITDA for 2016 was USD 87.1 million compared to Adjusted EBITDA of USD 50.1 million for 2015.

The tax expense for 2016 includes USD 6.5 million in U.S. withholding tax on USD 42.9 million of dividends declared by Philly Shipyard, Inc. to Philly Shipyard ASA in the second quarter of 2016.

Balance Sheet

Total assets were USD 413.0 million at 31 December 2016 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 180.3 million.

The Company's total debt increased in 2016 to USD 157.5 million at 31 December 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 69.1 million at 31 December 2016, compared to USD 69.9 million at 31 December 2015. The decrease of USD 0.8 million was primarily due to increases in vessels-under-construction receivable/work-in-process along with the dividend paid offset by additional customer payments and additional draws made on the construction loan facility. As of 31 December 2016, restricted cash consisted of USD 7.0 million related to the SeaRiver project, which is expected to be released in 2017, and USD 13.1 million related to the Welcome Fund loan, which is expected to be released in 2020 when the loan matures.

Total equity decreased to USD 91.4 million at 31 December 2016 from USD 143.4 million at year-end 2015 due to the dividend paid of USD 90.7 million partially offset by net income of USD 38.7 million.

Financing

The Company has a secured USD 150 million loan facility with Caterpillar Financial Services Corporation (Cat Financial) for construction financing on Hulls 026-028. USD 98 million was drawn under this facility as of 31 December 2016 for the construction of Hulls 026 and 027.

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 31 December 2016.

The Company also has an unsecured three-year revolving credit facility for up to USD 20 million from TD Bank, N.A. USD 1.2 million of this facility was utilized as of 31 December 2016 for the issuance of letters of credit.

Shareholder Distributions

The PHLY Board approved an ordinary dividend for the fourth quarter of USD 0.25 per share, totaling USD 3.0 million. This dividend will be paid on or about 6 March 2017 to shareholders of the Company as of 22 February 2017, as registered with the Company's shareholder register in the VPS as of 27 February 2017. The shares will be traded ex-dividend from and including 23 February 2017.

In 2016, the Company paid dividends totaling approximately USD 90.7 million, consisting of USD 12.1 million of ordinary dividends and USD 78.6 million of extraordinary dividends. A decision related to the payment of any further ordinary or extraordinary dividends in 2017 will be made when the PHLY Board has more clarity about the Company's new order situation.

Any payment of dividends, including ordinary 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 026-028) and Matson (Hulls 029-030) provide for shipbuilding activity with delivery dates through Q1 2019. As of 31 December 2016, Philly Shipyard had an order backlog of approximately USD 784 million.

As noted above, due to IFRS, Philly Shipyard is required to recognize 100% of the revenue, cost and profit on each of Hulls 025-028 at its delivery. In 2017, Philly Shipyard expects to recognize 100% of the revenue, cost and profit for Hulls 026-028 upon their delivery to Kinder Morgan, together with its economic interest in the financial result created at Philly Tankers by the related sale of its assets for Hulls 026-028 to Kinder Morgan. Philly Shipyard also expects to record revenues in 2017 for continued progress on Hulls 029-030.

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

In addition, a key focus area for Philly Shipyard's business in 2017 will be securing new contracts to expand its order backlog beyond Hull 030. Although no firm orders are in place, Philly Shipyard has commenced preliminary design work to build Hulls 031 and 032 as container vessels.

While Philly Shipyard is currently mainly 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. 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 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. The Company faces risks, including operational inefficiencies, if it experiences delays in securing new contracts for work after Hull 030. For a further analysis of risks, please refer to the Company's 2015 annual report.

Oslo, Norway
16 February 2017
Board of Directors and Chief Executive Officer
Philly Shipyard ASA

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Q4 Unaudited 2016	Q4 2015	Twelve Months Ended 31 Dec. Unaudited 2016	Twelve Months Ended 31 Dec. 2015
Operating revenues and other income	145.6	67.5	233.6	307.0
Operating expenses	(111.6)	(49.1)	(163.2)	(264.3)
Operating income before depreciation - EBITDA	**34.0**	**18.4**	**70.4**	**42.7**
Depreciation	(2.7)	(0.9)	(3.6)	(6.5)
Operating income - EBIT	**31.3**	**17.5**	**66.8**	**36.2**
Net financial items	(2.5)	1.1	1.5	(3.4)
Income before tax	**28.8**	**18.6**	**68.3**	**32.8**
Tax expense	(9.5)	(8.9)	(29.6)	(15.4)
Income after tax **	**19.3**	**9.7**	**38.7**	**17.4**
Weighted average number of shares	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted earnings per share (USD)	**1.59**	**0.80**	**3.19**	**1.44**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q4 Unaudited 2016	Q4 2015	Twelve Months Ended 31 Dec. Unaudited 2016	Twelve Months Ended 31 Dec. 2015
Income after tax	19.3	9.7	38.7	17.4
Other comprehensive income, net of income tax	-	-	-	-
Total comprehensive income for the period **	**19.3**	**9.7**	**38.7**	**17.4**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 31 Dec. 2016	31 Dec. 2015 *
Assets		
Non-current assets		
Property, plant and equipment	50.6	49.7
Restricted cash	13.1	13.1
Deferred tax asset	16.6	6.7
Equity-accounted investees	64.3	56.6
Other non-current assets	0.2	0.2
Total non-current assets	**144.8**	**126.3**
Current assets		
Vessels-under-construction receivable	-	111.7
Work-in-process	180.3	41.5
Restricted cash	7.0	7.0
Tax receivable	6.1	-
Prepayments and other receivables	5.7	6.0
Cash and cash equivalents	69.1	69.9
Total current assets	**268.2**	**236.1**
Total assets	**413.0**	**362.4**
Equity and liabilities		
Total equity	**91.4**	**143.4**
Non-current liabilities		
Interest-bearing long-term debt	59.3	59.3
Other non-current liabilities	-	7.4
Deferred tax liability	1.0	1.3
Total non-current liabilities	**60.3**	**68.0**
Current liabilities		
Customer advances, net	97.9	54.0
Construction loans	98.0	29.0
Interest-bearing short-term debt	0.2	14.0
Taxes, trade payables and accrued liabilities	65.2	54.0
Total current liabilities	**261.3**	**151.0**
Total liabilities	**321.6**	**219.0**
Total equity and liabilities	**413.0**	**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	Twelve Months Ended 31 Dec. Unaudited 2016	2015
As of beginning of period	143.4	138.2
Dividend paid	(90.7)	(12.2)
Total comprehensive income for the period **	38.7	17.4
As of end of period	**91.4**	**143.4**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Twelve Months Ended 31 Dec. Unaudited 2016	2015
Net cash from/(used in) operating activities	30.2	(1.2)
Investment in property, plant and equipment	(8.5)	(4.4)
Investment in equity-accounted investees	(7.7)	(0.7)
Sale of shipping assets, net of transaction costs	20.7	18.0
Net cash from investing activities	4.5	12.9
Proceeds from interest-bearing debt	0.2	58.6
Repayment of interest-bearing debt	(14.0)	(44.6)
Portion of interest-bearing debt held in escrow	-	(13.1)
Proceeds from construction loans	260.0	149.0
Repayment of construction loans	(191.0)	(120.0)
Dividend paid	(90.7)	(12.2)
Net cash (used in)/from financing activities	(35.5)	17.7
Net change in cash and cash equivalents	**(0.8)**	**29.4**
Cash and cash equivalents at beginning of period	69.9	40.5
Cash and cash equivalents at end of period	**69.1**	**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 fourth quarter and full year 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 twelve-month periods ended 31 December 2016 and 31 December 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 twelve-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 Q4 2016 or for the full twelve months in 2016.

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 31 December 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 for the year ended 31 December 2016. Accordingly, 12,107,901 ordinary shares was used in the calculation of earnings per share for the quarter and for the year ended 31 December 2016. For the quarter and for the year ended 31 December 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	-	260.0	260.0
Repayment of debt	-	(204.8)	(204.8)
Balance 31 December 2016	**59.3**	**98.2**	**157.5**

The Company has a loan agreement with Cat Financial for a USD 150 million loan facility for construction financing on the three product tankers under contract with Philly Tankers (Hulls 026-028). The loan is subject to a maximum borrowing amount of USD 75 million per vessel and is secured by a first lien on Hulls 026-028. The loan accrues interest at three-month LIBOR plus 3.0% per annum as defined in the loan agreement. USD 98 million is drawn under this facility at 31 December 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 026-028 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 31 December 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. USD 1.2 million of this facility was utilized as of 31 December 2016 for the issuance of letters of credit.

9. Related party transactions

Aker Capital AS, an investment company controlled by Aker ASA, is the majority shareholder of PHLY, owning 57.6% of its total outstanding shares as of 31 December 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 31 December 2016 were USD 30 thousand (USD 30 thousand for the same period in 2015) and for the year ending 31 December 2016 were USD 120 thousand (USD 143 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 services to PTLLC. Related revenues for the three-month period ending 31 December 2016 were USD 30 thousand (USD 30 thousand for the same period in 2015) and for the year ending 31 December 2016 were USD 120 thousand (USD 120 thousand for the same period in 2015).

10. Capitalized interest

	Q4		Twelve Months Ended 31 Dec.	
Amounts in USD millions	**2016**	**2015**	**2016**	**2015**
Interest expense	(1.7)	(1.1)	(4.5)	(4.4)
Interest capitalized on construction contracts	1.2	0.7	3.5	2.1
Net interest expense	**(0.5)**	**(0.4)**	**(1.0)**	**(2.3)**

11. Construction contracts

The order backlog is USD 784.4 million at 31 December 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 31 Dec. 2016	Order intake 12 months to 31 Dec. 2016	Order backlog 31 Dec. 2015
	784.4	**(3.1)**	**983.8**

The recognized profit on long-term contracts in process as of 31 December 2016 is as follows:

Amounts in USD millions	31 Dec. 2016
Contract revenue recognized to date	13.0
Less: contract expenses recognized to date	(13.0)
Recognized profit to date	**-**
Contract costs incurred to date	**288.4**

Contract revenue and profits recognized to date exclude Hulls 026-028 which are not accounted for as long-term construction contracts. Revenue, cost and profit for each of Hulls 026-028 will only be recognized at its delivery; revenue, cost and profit for Hull 025 was recognized in Q4 2016 upon its delivery on 30 November 2016.

Customer milestone payments excluding repayment of the USD 58.0 million Philly Tankers note as of 31 December 2016 and 31 December 2015 totaled USD 178.1 million and USD 157.7 million, respectively. Customer milestone payments pertaining to repayment of the USD 58.0 million Philly Tankers note as of 31 December 2016 and 31 December 2015 totaled USD 29.0 million (for Hull 26) and USD 44.2 million (for Hulls 025 and 026), respectively.

Customer advances, net as of 31 December 2016 and 31 December 2015 totaled USD 97.9 million and USD 54.0 million, respectively. In 2016, costs incurred for the Philly Tankers vessels (Hulls 026-028), which are not being accounted for under construction accounting rules, have been classified as work-in-process. As of 31 December 2016, customer advances, net represents the cash deposits on the three remaining Philly Tankers vessels (Hulls 026-028) plus the net customer advances amount for the two Matson vessels (Hulls 029-030).

As of 31 December 2016, PSI has non-cancellable purchase commitments for materials and equipment of approximately USD 74.1 million for the construction of Hulls 026-030.

12. Operating revenues and other income

	Q4		Twelve Months Ended 31 Dec.	
Amounts in USD millions	**2016**	**2015**	**2016**	**2015**
Operating revenues	137.7	57.1	205.2	286.3
Gain-on-sale of shipping assets for Hulls 021-024	-	10.0	20.7	20.0
Profit in equity-accounted investees	6.4	0.4	6.2	0.7
Recognition of deferred gain on investment in equity-accounted investees	1.5	-	1.5	-
Operating revenues and other income	**145.6**	**67.5**	**233.6**	**307.0**

13. Financial instruments

As of 31 December 2016, the Company accounts for its forward exchange contracts with a notional value of USD 22.8 million at fair value (fair value of a USD 1.6 million liability at 31 December 2016, an improvement of USD 1.9 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

	Q4		Twelve Months Ended 31 Dec.	
	Unaudited		Unaudited	
Amounts in USD millions	**2016**	**2015**	**2016**	**2015**
EBITDA	34.0	18.4	70.4	42.7
plus: deferred shipbuilding profits for Hulls 021-024	-	4.1	5.4	10.9
less: shipbuilding profits for Hulls 021-024 previously deferred	-	(5.8)	(14.4)	(10.9)
plus: deferred shipbuilding profits for Hulls 025-028	16.4	5.4	51.8	7.0
less: shipbuilding profits for Hulls 025-028 previously deferred	(19.6)	-	(19.6)	-
less: profit in equity-accounted investees	(6.4)	(0.4)	(6.2)	(0.7)
less: recognition of deferred gain on investment in equity-accounted investees	(1.5)	-	(1.5)	-
plus: capitalized Welcome Fund interest expense	0.3	0.4	1.2	1.1
Adjusted EBITDA	**23.2**	**22.1**	**87.1**	**50.1**

Non-GAAP financial measures are defined as numerical measures that either exclude or include amounts that are not excluded or included in the comparable measures calculated and presented in accordance with GAAP (i.e. IFRS).

The following financial measure may be considered a non-GAAP financial measure:

> Adjusted EBITDA which is defined as EBITDA (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 less recognition of deferred gain on investment in equity-accounted investees.

The Company has made adjustments to EBITDA to reflect shipbuilding activities (1) as if Philly Shipyard had no economic interest in Hulls 021-024 or investment in Hulls 025-028, (2) as if profit was recognized on Hulls 025-028 using the percentage of completion method of accounting and (3) to adjust for capitalized interest expense. The Company believes presenting Adjusted EBITDA is useful to investors as it provides another measure of Philly Shipyard's profitability from its operations, as if Philly Shipyard never had an economic interest in the PHLY-Crowley joint venture vessels or investment in Philly Tankers, and more closely represents earnings from shipbuilding activities.

16. Events after 31 December 2016

On 16 February 2017, the Board of Directors authorized an ordinary dividend of USD 0.25 per share, totaling USD 3.0 million, for Q4 2016. The dividend payment will take place on or about 6 March 2017 to shareholders of the Company as of 22 February 2017, as registered with the Company's shareholder register in the VPS as of 27 February 2017. The shares will be traded exclusive dividend from and including 23 February 2017.

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