Philly Shipyard ASA (OSE: PHLY)
Q1 2018 Results

7 May 2018

Key Events

- ✓ As of 31 March 2018, the two-containership order for Matson is approximately 74% complete
- ✓ Philly Shipyard placed the TOTE containership project on hold and idled certain operations and commenced layoffs due to the lack of new work after the Matson project
- ✓ First quarter revenues of USD 43.0 million impacted by implementation of new IFRS 15 standard
- ✓ First quarter 2018 net loss of USD 3.5 million, compared to net income of USD 17.2 million in the same period in 2017
- ✓ Total cash and cash equivalents of USD 106.5 million at 31 March 2018, excluding USD 13.2 million of restricted cash securing a loan
- ✓ Order backlog of USD 106.4 million on 31 March 2018

Operations and Shipping Investments

Vessel Construction

At the end of the first quarter of 2018, Philly Shipyard was building two containerships under contract with Matson (Hulls 029-030). During Q1 2018, Hull 029 was successfully launched from the building dock and the first block of Hull 030 was placed in the building dock. The planned delivery dates for Hulls 029 and 030 are Q3 2018 and Q1 2019, respectively.

In addition, during Q1 2018, the project to build up to four additional state-of-the-art, cost-effective and environment-friendly vessels for the Hawai'i containership trade was placed on hold and the Letter of Intent between Philly Shipyard and TOTE for the construction and sale of these vessels expired in accordance with its terms.

While Philly Shipyard continues to actively seek the new orders and capital necessary to build vessels after Hull 030, it has begun to adjust its operations and workforce in line with its current order backlog. These adjustments include idling parts of its facilities and laying off some of its employees. During Q1 2018, Philly Shipyard laid off approximately 10% of its employees.

Shipping Investments

Philly Tankers has successfully divested all of its shipping assets and has initiated an orderly liquidation process for the purpose of distributing its available cash balances to shareholders in 2018. To date, the dividends paid by Philly Tankers to its shareholders total USD 78.1 million (including USD 1.4 million in Q1 2018), and Philly Shipyard's share of those dividends totals USD 41.9 million. Philly Tankers has announced that it will not make any further dividend payments before liquidation other than any dividends necessary to cover U.S. tax withholding payments on behalf of its non-U.S. shareholders due at an earlier time. In this announcement, Philly Tankers stated its belief that this is the most cost-efficient and tax-efficient manner to distribute its capital to its shareholders

Health, Safety, Security and Environment (HSSE)

Philly Shipyard's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR), as defined by the Occupational Safety and Health Administration (OSHA), at the end of Q1 2018 was 0.82 compared to 1.15 at the end of Q1 2017. Philly Shipyard's 12-month trailing average for its other Recordable Incident Frequency Rate, based on recordable incidents (other than lost time incidents) per 200,000 hours, at the end of Q1 2018 was 4.19 compared to 3.99 at the end of Q1 2017. Philly Shipyard continues to work proactively to further improve safety and reduce the number of incidents at the shipyard.

Financial Information

First Quarter 2018 Results

Operating revenues and other income for the first quarter of 2018 were USD 43.0 million compared to operating revenues and other income of USD 167.8 million for the first quarter of 2017. Q1 2018 operating revenues and other income were driven by continued progress on the Matson vessels (Hulls 029-030), whereas Q1 2017 operating revenues and other income were primarily driven by the delivery of Hull 026 by Philly Shipyard 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 (Hulls 029-030). The operating revenues in first quarter of 2018 were impacted by the implementation of the new IFRS 15 standard (IFRS 15). The 2017 accumulated revenue has been adjusted according to IFRS 15 with an increase of USD 38.4 million as of 31 December 2017. This had an impact on the revenue in Q1 2018 leading to a reduction in revenue of USD 38.4 million compared to a revenue recognition as the difference between accumulated revenue as of 31 March 2018 and 31 December 2017 as presented in the annual report for 2017. See notes 4 and 11 for further details.

Net loss for Q1 2018 was USD 3.5 million compared to net income of USD 17.2 million for Q1 2017.

As previously disclosed, under International Financial Reporting Standards (IFRS), 100% of the revenue, cost and profit on each of Hulls 025-028 was deferred, and the deferred amounts for each of these vessels were recognized at delivery, as if Philly Shipyard was originally building these vessels for its own account. 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.

In addition to the IFRS financial measures reported above, EBITDA[1] and Adjusted EBITDA[2] are considered other relevant earnings indicators for Philly Shipyard 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 any shipping investments, and more closely represents earnings from shipbuilding activities.

EBITDA for the first quarter of 2018 was negative USD 1.2 million compared to EBITDA of USD 29.9 million in the first quarter of 2017. Philly Shipyard recognized a breakeven zero margin on the Matson project (Hulls 029-030) in both Q1 2018 and Q1 2017. However, the decrease in EBITDA was mainly driven by the fact that in Q1 2017 Philly Shipyard recognized 100% of the shipbuilding profits, along with the combined profit in equity-accounted investments and deferred net gain on equity-accounted investments, related to Hull 026. Adjusted EBITDA for the first quarter of 2018 was negative USD 1.3 million compared to Adjusted EBITDA of USD 14.3 million in the first quarter of 2017. The decrease in Adjusted EBITDA was driven primarily by the breakeven zero margin on the Matson project compared to the significantly higher margin on the Philly Tankers project and overhead expenses incurred in Q1 2018 not allocated to projects.

Net financial items in Q1 2018 was expense of USD 0.3 million compared to income of USD 1.4 million in Q1 2017. The net financial items expense in Q1 2018 was mainly due to USD 0.4 million of net interest expense items whereas the net financial items income in Q1 2017 was mainly due to a USD 1.6 million gain on foreign exchange forward contracts.

Statement of Financial Position

Total assets were USD 242.7 million at 31 March 2018 compared to USD 253.0 million at 31 December 2017.

Total interest-bearing debt was USD 59.6 million at 31 March 2018 compared to total interest-bearing debt of USD 59.6 million at 31 December 2017.

Cash and cash equivalents (excluding restricted cash) were USD 106.5 million at 31 March 2018 compared to USD 110.1 million at 31 December 2017. The decrease of USD 3.6 million was due primarily to operating activities. As of 31 March 2018, restricted cash consisted of USD 13.2 million related to the Welcome Fund loan, which is expected to be released in 2020 when the loan matures.

Work-in-process was USD 16.5 million at 31 March 2018 compared to USD 13.4 million at 31 December 2017. Work-in-process represents the costs incurred by PSI on the CV3700 project (Hulls 031-032) built for its own

[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 investments minus recognized deferred gain in equity-accounted investments.

account. This project was placed on hold and the Letter of Intent between Philly Shipyard and TOTE to build these ships expired in January 2018.

Total equity decreased to USD 152.1 million at 31 March 2018 from USD 155.6 million at 31 December 2017 due to the net loss of USD 3.5 million.

Financing
The Company has a secured five-year term loan for up to USD 60.0 million from PIDC Regional Center, LP XXXI through the Welcome Fund loan program. The loan matures in March 2020. The entire USD 60.0 million amount was drawn under this facility as of 31 March 2018.

The Company also has an unsecured three-year revolving credit facility for up to USD 10.0 million from TD Bank, N.A. The facility terminates in April 2019. USD 1.2 million of this facility was utilized as of 31 March 2018 for the issuance of letters of credit.

Shareholder Distributions
Due to the current main focus on 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 contract with Matson (Hulls 029-030) provides for shipbuilding activity with delivery dates through Q1 2019. As of 31 March 2018, Philly Shipyard had an order backlog of USD 106.4 million. Philly Shipyard will continue to adjust its operations and workforce in line with its order backlog.

Philly Shipyard expects it will recognize revenues in 2018 only for the continued progress on the Matson project (Hulls 029-030) and potentially some initial progress on contracts for new vessel construction projects, if and when secured, provided that revenue recognition over time is allowed for such other contracts under the new IFRS 15 standard. Philly Shipyard expects that the margin contribution from the Matson project and any other vessel construction projects to be recognized in 2018 will not be significant and is not expected to cover any S,G&A or other operating costs not allocated to projects for 2018.

Philly Shipyard expects it will continue to suffer losses in 2018 and into 2019 due to the lack of work following the Matson project, even if the shipyard takes an order for a new vessel construction project. The interruption in Philly Shipyard's building program has resulted in and will continue to result in significant under-recovered overhead costs (i.e., overhead costs not allocated to projects).

The key focus area for Philly Shipyard's operations is continued progress on the containerships under construction for Matson. Both of these vessels are proceeding according to plan. However, there is a risk that the lack of a continued firm order backlog following the Matson project may cause operational inefficiencies for completion of Hulls 029 and 030.

The Company's future performance depends, among other things, on whether and when it will receive new contract awards. Accordingly, the primary focus areas for Philly Shipyard's business are securing new contracts to expand its order backlog beyond Hull 030 and seeking capital to finance the construction of new vessels.

Until earlier this year, Philly Shipyard had been working on a long-term project that contemplated the construction and sale of up to four state-of-the-art containerships (CV3700 vessels) for delivery to TOTE in 2020 and 2021. Philly Shipyard and TOTE signed a Letter of Intent (LOI) for this project in July 2017. However, in January 2018, this project was placed on hold and the LOI was allowed to expire.

Philly Shipyard still intends to resume the CV3700 project, if conditions permit. However, there can be no assurance this project will resume any time soon, if at all. If this project is cancelled, then Philly Shipyard must write-off the work-in-process for this project, totaling USD 16.5 million. The total cost of a potential cancellation is estimated to be less than USD 20.0 million, of which around 90% of the cash impact has already been factored into the Q1 2018 financials.

Accordingly, Philly Shipyard is exploring alternatives in order to secure contracts and financing for these containerships. In addition, Philly Shipyard is in active discussions related to several potential new construction projects for other types of Jones Act vessels. However, there can be no assurance that Philly Shipyard will obtain contracts or financing for these projects. Furthermore, none of these possible projects alone will fully cover the estimated under-recovered overhead costs due to the lack of work.

Based on the current prospects, even if Philly Shipyard succeeds in securing a new order in Q2 2018, Philly Shipyard does not expect a production start date of sooner than Q1 2019. This is approximately nine months later than the intended production start date for the CV3700 project before it was put on hold. However, if conditions permit the resumption of the CV3700 project, then it may be possible to start production more rapidly due to the stage of completion of the construction-related activities before this project was suspended.

In the near term, Philly Shipyard is expanding its search for new opportunities throughout the marine industry, including various specialized vessels such as fishing trawlers and cable layers, as well as vessels to support the growing offshore wind industry. Philly Shipyard is also exploring potential partnerships that can create a stronger entity to secure new work into the shipyard and create value for the Company and its shareholders.

In the longer term, Philly Shipyard is seeking to diversify its business beyond the traditional vessels it has built for the commercial market. In order to be able to maintain continuous shipbuilding activities, Philly Shipyard is pursuing opportunities to expand its base for operations also into new long-term projects for non-commercial end users.

Among other endeavors, Philly Shipyard has teamed with Fincantieri Marine Group and Vard Marine to compete for the detail design and construction (DD&C) 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. The final request for proposal (RFP) was issued in Q1 2018, with bids due in Q3 2018 and award of the contract for DD&C expected in Q2 2019.

The timing of contracts for new vessels remains uncertain. Philly Shipyard continues to be committed to providing the Jones Act market with the most cost-efficient and environmentally-friendly vessels possible and believes that Philly Shipyard will be the supplier of choice when these vessels are ordered. Philly Shipyard considers each opportunity for the value it would create for the Company and its shareholders.

Shipping

With the delivery of Hull 028 in 2017, Philly Shipyard has successfully divested all of its shipping assets related to Hulls 021-028. 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 1.0 billion through the Philly Shipyard-Crowley joint venture (Hulls 021-024) and Philly Tankers (Hulls 025-028). Philly Tankers has initiated a liquidation process with a target of distributing its available cash balances to Philly Shipyard and its other shareholders in 2018. In line with its business strategy, Philly Shipyard will continue to evaluate opportunities to participate in the post-delivery economics of the ships that it constructs.

Risks

Philly Shipyard faces significant risks if it is unable to secure new orders and/or financing for vessels after the last vessel in the current order backlog (Hull 030), which is scheduled for delivery in Q1 2019. There can be no assurance that Philly Shipyard will obtain new orders or financing for vessels after Hull 030.

The delay Philly Shipyard has experienced in securing new orders and financing for work after Hull 030 has interrupted its building program, causing Philly Shipyard to idle certain operations and lay-off some employees. If this delay continues, then it will further interrupt Philly Shipyard's building program and increase the risks faced by Philly Shipyard, including challenges related to attracting and retaining skilled workers at current forecasted rates; increases in under-recovered overhead costs (i.e., overhead costs not allocated to projects); and operational inefficiencies for completion of the remaining vessels in the current order backlog. Moreover, legal and contractual requirements may make employee reductions difficult and costly to implement.

If the shipyard fails to obtain new orders or financing for vessels following Hull 030 before the Matson project is substantially complete, then it is expected that the Company would incur significant expenses (including cancellation costs for long-lead items) and it would be challenging for Philly Shipyard to continue shipbuilding operations after delivery of Hull 030.

In particular, if Philly Shipyard is not able to secure a contract for the CV3700 project (Hulls 031-032), then there is a risk that the work-in-process incurred for this project will be written-off. There can be no assurance that this project will resume.

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 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.

During 2017, Philly Shipyard completed the transition from building Hulls 021-028 as tankers to building Hulls 029-030 as prototype container vessels. The container vessels are viewed as a higher risk since Philly Shipyard's main activity during the last ten years has been building tankers and the last container vessel built by Philly Shipyard 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 and the risk of occurrence of contract contingencies. In addition, due to the projected breakeven zero margin on Hulls 029 and 030, there is a risk that these vessels may end up as a loss-making project. Furthermore, failure to meet Philly Shipyard's performance obligations to deliver vessels on time and within the contract specifications (e.g., speed, container capacity and fuel consumption) can potentially lead to penalties and ultimately contract termination.

For a further analysis of risks, please refer to the Company's 2017 annual report.

Oslo, Norway
7 May 2018
Board of Directors and Chief Executive Officer
Philly Shipyard ASA

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Q1 Unaudited 2018	Q1 2017	Full Year 2017 *
Operating revenues and other income	43.0	167.8	614.6
Operating expenses	(44.2)	(137.9)	(509.5)
Operating (loss)/income before depreciation - EBITDA	**(1.2)**	**29.9**	**105.1**
Depreciation	(1.9)	(3.2)	(5.8)
Operating (loss)/income - EBIT	**(3.1)**	**26.7**	**99.3**
Net financial items	(0.3)	1.4	0.6
(Loss)/income before tax	**(3.4)**	**28.1**	**99.9**
Tax expense	(0.1)	(10.9)	(32.7)
(Loss)/income after tax **	**(3.5)**	**17.2**	**67.2**
Weighted average number of shares	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted (loss)/earnings per share (USD)	**(0.29)**	**1.42**	**5.55**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q1 Unaudited 2018	Q1 2017	Full Year 2017 *
(Loss)/income after tax	(3.5)	17.2	67.2
Other comprehensive income, net of income tax	-	-	-
Total comprehensive (loss)/income for the period **	**(3.5)**	**17.2**	**67.2**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 31 Mar. 2018	31 Dec. 2017 *
Assets		
Non-current assets		
Property, plant and equipment	49.5	50.1
Equity-accounted investments	45.2	47.3
Restricted cash	13.2	13.2
Deferred tax asset	0.9	0.9
Other non-current assets	0.2	0.2
Total non-current assets	**109.0**	**111.7**
Current assets		
Cash and cash equivalents	106.5	110.1
Work-in-process	16.5	13.4
Vessels-under-construction receivable	-	7.3
Income tax receivable	5.8	5.9
Other current assets	4.9	4.6
Total current assets	**133.7**	**141.3**
Total assets	**242.7**	**253.0**
Equity and liabilities		
Total equity	**152.1**	**155.6**
Non-current liabilities		
Interest-bearing long-term debt	59.4	59.4
Deferred tax liability	0.7	0.7
Other non-current liabilities	0.2	-
Total non-current liabilities	**60.3**	**60.1**
Current liabilities		
Trade payables, accrued liabilities and provisions	28.1	36.1
Income tax payable	0.8	1.0
Interest-bearing short-term debt	0.2	0.2
Customer advances, net	1.2	-
Total current liabilities	**30.3**	**37.3**
Total liabilities	**90.6**	**97.4**
Total equity and liabilities	**242.7**	**253.0**

* Annual 2017 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	3 Months Ended 31 March Unaudited 2018	2017
As of beginning of period	155.6	91.4
Dividend paid	-	(3.0)
Total comprehensive (loss)/income for the period *	(3.5)	17.2
As of end of period	**152.1**	**105.6**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	3 Months Ended 31 March Unaudited 2018	2017
Net cash (used in)/from operating activities	(4.4)	27.4
Investment in property, plant and equipment	(1.3)	(1.6)
Dividend received from equity-accounted investments	2.1	21.1
Net cash from investing activities	0.8	19.5
Proceeds from construction loans	-	30.0
Repayment of construction loans	-	(75.0)
Dividend paid	-	(3.0)
Net cash used in financing activities	-	(48.0)
Net change in cash and cash equivalents	**(3.6)**	**(1.1)**
Cash and cash equivalents at beginning of period	110.1	69.1
Cash and cash equivalents at end of period	**106.5**	**68.0**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 1st quarter for 2018

1. **Introduction – Philly Shipyard ASA**
   Philly Shipyard ASA (PHLY) is a company domiciled in Norway. The condensed interim consolidated financial statements for the three-month periods ended 31 March 2018 and 31 March 2017 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 2017, which include a detailed description of accounting policies and significant estimates, are available at www.phillyshipyard.com.

2. **Basis of preparation**
   These condensed interim consolidated financial statements reflect all adjustments, in the opinion of PHLY's management, that are necessary for a fair presentation of the results of operations for the period presented. Operating results for the three-month period are not necessarily indicative of the results that may be expected for any subsequent quarter or year.

   The interim consolidated financial statements for the first quarter of 2018 have been prepared on the basis of a going concern assumption. Although the current order backlog ends in Q1 2019, PSI is actively working on securing new orders beyond this timeframe. The Company expects that its current financial situation, including its cash position, will make it possible to continue as a going concern after delivery of the last vessel in the current order book (i.e., Hull 030) in Q1 2019.

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 2017.

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 2017.

   Although the new IFRS 15 standard (IFRS 15) had no impact on the Matson vessels in 2017, it had an impact on those vessels in Q1 2018 and will continue to have an impact on those vessels in 2018. The impact is related to how percentage of completion (POC) is measured under the new IFRS 15 standard. Until the end of 2017, POC was measured using production hours, whereas from the beginning of 2018, POC is measured based on costs, by calculating the proportion of contract costs incurred for work performed compared to the estimated total costs for each contract. This is considered a better measure of the progress and completion of a project, as it also captures the progress for design, planning and procurement activities before start of production. Measuring POC by using costs incurred is also commonly used in earned value management systems.

   When implementing IFRS 15, the company has concluded that the company can continue with revenue recognition over time. In addition, the company has assessed the effect implementing IFRS 15 has on the costs related to the contract. In 2017, the cost incurred has exceeded the cost recognized as expense according to IAS 11, and presented as an asset (work-in-process). According to IFRS 15 these expenses cannot be presented as an asset. For 2017, applying IFRS 15 for this contract, these incurred expenses that are not charged as cost shall be recognized as cost with a similar increase in revenue based on IFRS 15, with no margin. The Matson contract is a breakeven zero margin contract and there will be no effect on equity in the opening balance related to IFRS 15.

   For Q1 2018, measuring progress and revenue recognition will be based on the restated revenue and cost numbers as if IFRS 15 was applied in 2017.

   Further details of the changes can be seen in note 11.

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 2017 unless described elsewhere in this report.

6. Tax estimates

Income tax expense is recognized in each interim period based on the best estimate of the expected annual income tax rates.

7. Share capital and equity

At 31 March 2018 and 31 March 2017, PHLY had 12,107,901 ordinary shares (excluding 466,865 own shares) at a par value of NOK 10 per share. There were no share issuances or repurchases for the first quarters ended 31 March 2018 or 31 March 2017. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for the first quarters ended 31 March 2018 and 31 March 2017.

8. Interest-bearing debt

The following shows material changes in interest-bearing debt during 2018:

Amounts in USD millions	**Non-current debt**	**Current debt**	**Total interest-bearing debt**
Balance 31 December 2017	**59.4**	**0.2**	**59.6**
Proceeds from borrowings	-	-	-
Repayment of debt	-	-	-
Balance 31 March 2018	**59.4**	**0.2**	**59.6**

PSI has a secured term loan of up to USD 60.0 million (USD 59.4 million on the statement of financial position which is the loan amount net of unamortized loan fees) 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 and 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 a first lien on: (1) USD 13.1 million of cash collateral; (2) PSI's shares in its wholly-owned subsidiary, APSI Tanker Holdings II LLC (ATH II); and (3) ATH II's shares in Philly Tankers AS. 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. It is expected that the additional USD 39.3 million of cash collateral will be deposited to secure the loan in 2018 in connection with the liquidation of Philly Tankers. USD 60.0 million is drawn under this term loan at 31 March 2018.

The Company has an unsecured three-year revolving credit facility for up to USD 10.0 million from TD Bank, N.A. 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 31 March 2018 for the issuance of letters of credit.

9. Related party transactions

Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder of PHLY, owning 57.6% of its total outstanding shares as of 31 March 2018.

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

Related administrative costs and financial statement amounts for the three-month period ending 31 March 2018 were USD 30 thousand (USD 30 thousand for the same period in 2017).

PSI entered into an administrative services agreement with Philly Tankers LLC (PTLLC) whereby PSI will supply certain administrative services to PTLLC. Related revenues for the three-month period ending 31 March 2018 were USD 30 thousand (USD 30 thousand for the same period in 2017).

10. Capitalized interest

	Q1	
Amounts in USD millions	**2018**	**2017**
Interest expense	(0.4)	(1.5)
Interest capitalized on construction contracts	-	1.2
Net interest expense	**(0.4)**	**(0.3)**

11. Construction contracts

The order backlog is USD 106.4 million at 31 March 2018 and represents a contractual obligation to deliver vessels that have not yet been produced for the Company's customer (Matson). Order backlog consists of future contract revenues and is subject to adjustment based on change orders as defined in the construction contracts.

Amounts in USD millions	**Order backlog 31 Mar. 2018**	**Order intake 3 months to 31 Mar. 2018**	**Order backlog 31 Dec. 2017**
	106.4	**-**	**187.7**

The profit recognized on long-term contracts in process (Hulls 029-030) as of 31 March 2018 is as follows:

Amounts in USD millions	**Actual 31 Mar. 2018**	**Restated IFRS 15 31 Dec. 2017**	**Adjustment Q1 2018**
Contract revenue recognized to date	303.0	260.1	(38.4)
Less: contract expenses recognized to date	(303.0)	(260.1)	38.4
Profit recognized to date (Hulls 029-030)	**-**	**-**	**-**

Total incurred contract expenses as of 31 Dec. 2017 can be specified as follows:

Contract expenses charged to profit and loss according to IAS 11	221.7
Incurred contract expenses included in the balance	38.4
Total incurred contract expenses thru 31 Dec. 2017	**260.1**
Contract costs incurred thru 31 Mar. 2018 (Hulls 029-030)	**301.9**

Contract revenue and profit recognized to date includes revenue and profit for Hulls 029-030 since the contract for these vessels is accounted for as a long-term construction contract on a percentage of completion basis.

The progress and the revenue recognition in Q1 2018 is the difference between the accumulated revenue per 31 March 2018 and the restated accumulated revenue per 31 December 2017.

The adjustment in Q1 2018 is due to cost incurred in 2017 that was included in the statement of financial position as work-in-process according to IAS 11, but according to IFRS 15 will be expensed with a corresponding increase in revenue.

The adjusted revenue and cost for 2017 include the costs presented in the statement of financial position as work-in-process as of 31 December 2017. Due to the breakeven zero margin on this project, there are no net adjustments to equity, as the reduced work-in-process will be offset by a receivable from the higher revenue.

The total revenues to be recognized for this contract will be USD 38.4 million lower due to this change in IFRS 15. There is no change in the contractual amount to be received from the Company's customer.

100% of the revenue, cost and profit for each of Hulls 025-028 was recognized at its delivery in Q4 2016, Q1 2017, Q3 2017 and Q4 2017, respectively. 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, and these vessels were considered as built for its own account.

As of 31 March 2018, the Company has one contract in progress that is accounted for using the percentage of completion method. The Company is building two containerships (Hulls 029-030) to be delivered to Matson in 2018 and 2019. These vessels are based on an all-new design and the Company last delivered a containership 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 estimation uncertainty. In addition, due to the projected breakeven zero margin on Hulls 029 and 030, there is a risk that these vessels may end up as a loss-making project. Philly Shipyard recognizes revenues and expenses for the two-containership order from Matson as one project. As of 31 March 2018, the Matson project is approximately 74% complete.

Customer milestone payments as of 31 March 2018 and 31 December 2017 totaled USD 304.2 million and USD 253.8 million, respectively.

Customer advances, net as of 31 March 2018 and 31 December 2017 totaled USD 1.2 million and USD 0, respectively.

Vessels-under-construction receivable as of 31 March 2018 and 31 December 2017 totaled USD 0 and USD 7.3 million, respectively. As of 31 March 2018, 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 as of 31 March 2018 and 31 December 2017 totaled USD 16.5 million and USD 13.4 million, respectively. 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.

Work-in-process at first quarter ended 31 March 2018 represents the costs incurred by Philly Shipyard on the CV3700 project (Hulls 031-032) built for its own account. In case of a cancellation of the CV3700 project, the total cost is estimated to be less than USD 20.0 million, of which around 90% of the cash impact has already been included in the financial statements for Q1 2018.

As of 31 March 2018, PSI has non-cancellable purchase commitments for materials and equipment of approximately USD 18.5 million for the construction of Hulls 029-030.

12. Operating revenues and other income

	Q1	
Amounts in USD millions	**2018**	**2017**
Operating revenues	42.9	159.9
Profit in equity-accounted investments (Hulls 025-028)	0.1	6.4
Recognition of deferred net gain on equity-accounted investments (Hulls 025-028)	-	1.5
Operating revenues and other income	**43.0**	**167.8**

Profit in equity-accounted investments (Hulls 025-028) represents the Company's 53.7% share of the total comprehensive income of Philly Tankers, which at first quarters ending 31 March 2018 and 31 March 2017 amounted to USD 0.1 million and USD 6.4 million, respectively.

Recognition of deferred net gain on equity-accounted investments (Hulls 025-028) represents the Company's USD 4.7 million net 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 first quarters ending 31 March 2018 and 31 March 2017 amounted to USD 0 and USD 1.5 million, respectively. USD 1.5 million was fully recognized at delivery of Hull 026 in Q1 2017.

13. Financial instruments

As of 31 March 2018, the Company had no forward exchange contracts or other financial instruments.

14. Commitments and contingencies

Pursuant to the shipyard lease between PSI and Philadelphia Shipyard Development Corporation (PSDC), PSDC has the right to repossess 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 continuous shipbuilding activity at the shipyard. If PSI fails to obtain new orders or financing for vessels before the Matson project is substantially complete, then it would be challenging for PSI to continue shipbuilding operations after delivery of the last vessel in its order backlog (Hull 030), which is scheduled in Q1 2019.

15. Use and reconciliation of non-GAAP financial measures

	Q1	
	Unaudited	
Amounts in USD millions	**2018**	**2017**
EBITDA	(1.2)	29.9
less: profit in equity-accounted investments (Hulls 025-028)	(0.1)	(6.4)
less: recognition of deferred net gain on equity-accounted investments (Hulls 025-028)	-	(1.5)
less: recognized shipbuilding profits previously deferred (Hulls 025-028)	-	(22.7)
plus: deferred shipbuilding profits (Hulls 025-028)	-	14.9
plus: capitalized Welcome Fund interest expense	-	0.1
Adjusted EBITDA	**(1.3)**	**14.3**

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 investments minus recognition of deferred net gain on equity-accounted investments.

The Company has made adjustments to EBITDA to reflect shipbuilding activities (1) as if Philly Shipyard had no shipping investments, (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 any shipping investments, and more closely represents earnings from shipbuilding activities.

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