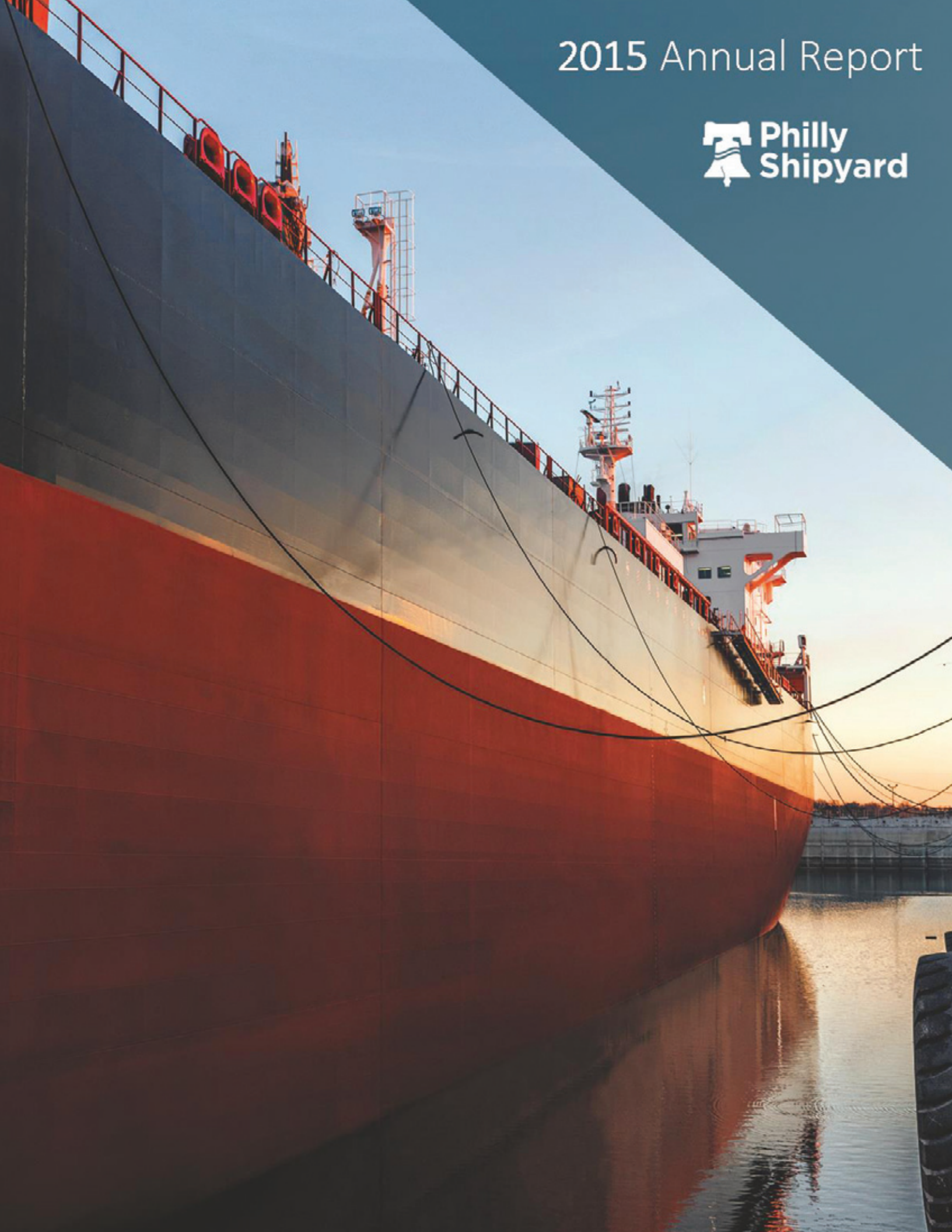


# 2015 Annual Report



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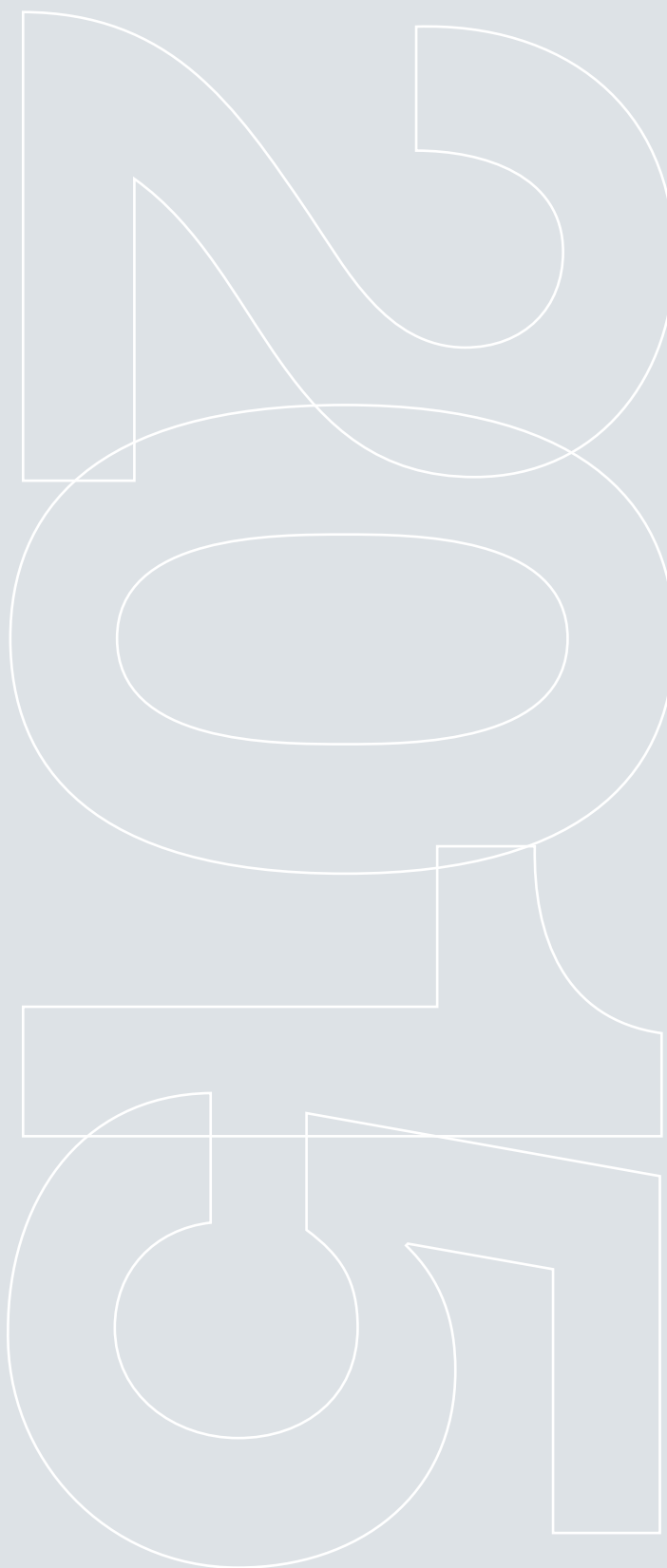
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## Financial calendar 2016

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Annual general meeting	13 April
Interim report Q1 2016	9 May
Interim report Q2 2016	18 July
Interim report Q3 2016	31 October

Dates are subject to change.





## This is Philly Shipyard

Philly Shipyard, formerly known as Aker Philadelphia Shipyard, is a leading U.S. commercial shipyard constructing vessels for operation in the Jones Act market. It possesses a state-of-the-art shipbuilding facility and has earned a reputation as a preferred provider of ocean-going merchant vessels with a track record of delivering quality ships, having delivered over 50% of all large ocean-going Jones Act commercial ships since 2000.

Philly Shipyard ASA is headquartered in Oslo, Norway with an operating subsidiary in Philadelphia, PA, USA.

Philly Shipyard ASA was listed on Oslo Axess in December 2007. Aker Capital II AS, an investment fund controlled by Aker ASA, is the majority shareholder, holding 57.56% of the shares as of 31 December 2015.

### Elements contributing to success:

- State-of-the-art shipyard with modern equipment
- Strong order backlog of approximately USD 1 billion with delivery dates through Q1 2019
- Access to global shipbuilding and design expertise through agreements with Hyundai Mipo Dockyard and KOMAC
- A solid track record demonstrated by the delivery of 22 quality vessels (4 containerships, 16 product tankers and 2 aframax tankers) through 2015
- Skilled workforce consisting of direct and contracted employees with a strong HSE mindset and culture of improvement
- Opportunistic investment approach with respect to the post-delivery economics of the vessels that it builds



### U.S. Jones Act

U.S. coastwise law, commonly referred to as the Jones Act, requires all commercial vessels transporting merchandise between ports in the United States to be built in the United States, owned, operated and manned by U.S. citizens and registered under the U.S. flag. The Jones Act market encompasses all water-borne transportation between U.S. ports, including between the mainland U.S. and non-contiguous areas of Alaska, Hawaii and Puerto Rico, as well as shuttle tankers in the Gulf of Mexico.

## Facility in 1997



### 1997

Founded by the public-private partnership consisting of U.S. governmental agencies and the Kvaerner Shipbuilding Division

### 2000

Began construction of the first two container vessels (CVs)

### 2003

First CV delivered to Matson

### 2004

Second CV delivered to Matson

### 2005

Matson agrees to purchase two additional CVs  
Aker American Shipping ASA (AKASA) formed and listed on Oslo Bors  
Third CV delivered to Matson  
Construction program of ten product tankers (PTs) initiated

### 2006

Fourth CV delivered to Matson

### 2007

First three PTs delivered  
Two more PTs ordered for later conversion to shuttle tankers  
Split of AKASA's shipbuilding and ship owning operations and listing of AKPS on Oslo Axess

### 2008

Fourth and fifth PTs delivered  
Graduation of the first three apprentice classes  
First dividend paid to shareholders

## Facility today



### 2009

Sixth, seventh and eighth PTs delivered

### 2010

Ninth, tenth and eleventh PTs delivered

### 2011

Secured financing for construction of two PTs

Twelfth PT delivered and completion of tanker series announced in 2005

Signed contract with SeaRiver for two Aframax tankers

### 2012

Sold thirteenth and fourteenth PTs to Crowley

Delivered thirteenth PT

Began construction of the SeaRiver vessels

### 2013

Delivered fourteenth PT

Signed joint venture agreement with Crowley for four PTs

Signed agreement with Matson for two 3,600 teu containerships

15-year anniversary of the shipyard

### 2014

Delivered first Aframax tanker to SeaRiver

Raised USD 65 million in equity via private placement

Signed contract with Philly Tankers for two PTs, plus two options

Began construction of first four PTs for Crowley

### 2015

Changed name to Philly Shipyard

Delivered second Aframax tanker to SeaRiver

Delivered first two PTs to Crowley

Secured Philly Tankers options for Hulls 027 and 028

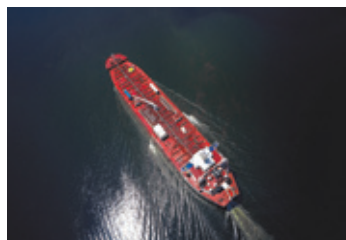
# 2015 key events and highlights

## New four-year collective bargaining agreement



On 3 February, the shipyard finalized a new four-year collective bargaining agreement with the Philadelphia Metal Trades Council. The PMTC is the exclusive bargaining representative for production and maintenance employees at the shipyard and consists of ten unions.

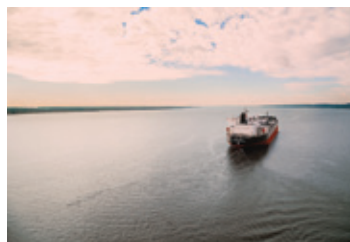
## Delivered Hull 021 to Crowley



On 30 September, the shipyard delivered the *Ohio*, the first of four 50,000 dwt product tankers that it is building for Crowley. Concurrently, the Company sold its joint venture interest in the *Ohio* to Marathon, resulting in a gain-on-sale of USD 10 million.

The 600-foot tanker has a carrying capacity of 14.5 million gallons of crude oil or refined products.

## Second aframax tanker delivered to SeaRiver



Hull 020, *Eagle Bay*, the second and final aframax tanker for SeaRiver Maritime, Inc., was delivered on 13 March. The 820-foot long, 115,000 deadweight ton (dwt) tanker has an 800,000 barrel (33.6 million gallon) carrying capacity and is being used to transport Alaskan North Slope crude

oil from Prince William Sound, Alaska to U.S. West Coast destinations.

## Began construction on Matson CV project



On 1 October, the shipyard began production activities on two 3,600 teu “Aloha Class” containerships that it is building for Matson Navigation Company, Inc. (Matson). The contracts for the vessels were originally signed in 2013 for a total

value of USD 418 million, with deliveries expected in late 2018 and early 2019.

## Philly Tankers declared its option and agreed to sell its product tanker contracts to Kinder Morgan



On 7 July, Philly Tankers declared its option for two 50,000 dwt product tankers with deliveries in 2017, solidifying the Company’s order backlog. On 8 August, Philly Tankers agreed to sell its contracts with Philly Shipyard for four 50,000 dwt

product tankers (Hulls 025-028) to a subsidiary of Kinder Morgan, Inc. based on a total transaction value of USD 568 million.

## Name change to Philly Shipyard



The company changed its name on 30 November following the divestment of its portfolio of shipping assets, streamlining the business and drawing an end to a successful build-up of

investments as a partial owner in eight Jones Act product tankers with an approximate contract value of USD 1 billion. The company changed its ticker symbol on 3 December from AKPS to PHLY on the Oslo Axess.

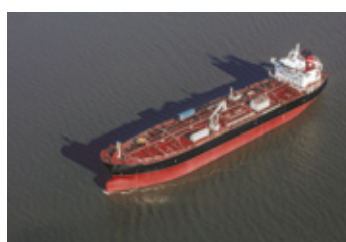
## Sold joint venture interests to Marathon



On 21 September, Philly Shipyard agreed to sell its interest in its joint venture with Crowley Maritime Corporation (Crowley) related to the operation and chartering of four 50,000 dwt product tankers (Hulls 021-024) to a subsidiary of Marathon Petroleum

Corporation (Marathon) based on an enterprise value of USD 150 million per vessel.

## Delivered Hull 022 to Crowley



On 23 December, the shipyard delivered the *Texas*, the second of four 50,000 dwt product tankers that it is building for Crowley. Concurrently, the Company sold its joint venture interest in the *Texas* to Marathon, resulting in a gain-on-sale of USD 10 million.

# Investment highlights

## 1 Leading Jones Act commercial shipyard

- State-of-the-art facility with more than USD 650 million invested since founding
- Built over 50% of all large ocean-going Jones Act commercial ships since 2000
- Highly skilled workforce with integrated, fully flexible sub-contracting
- Culture of high efficiency with proven ability to improve productivity

## 2 High visibility into 2019

- Approximately USD 1 billion in backlog with last delivery in Q1 2019
- PSI targets to secure orders in 2016 for its next available slots 031-032
- Series production with familiar ships offers operational benefits while maintaining flexibility to pursue other market opportunities
- Six product tankers and two container vessels already under construction

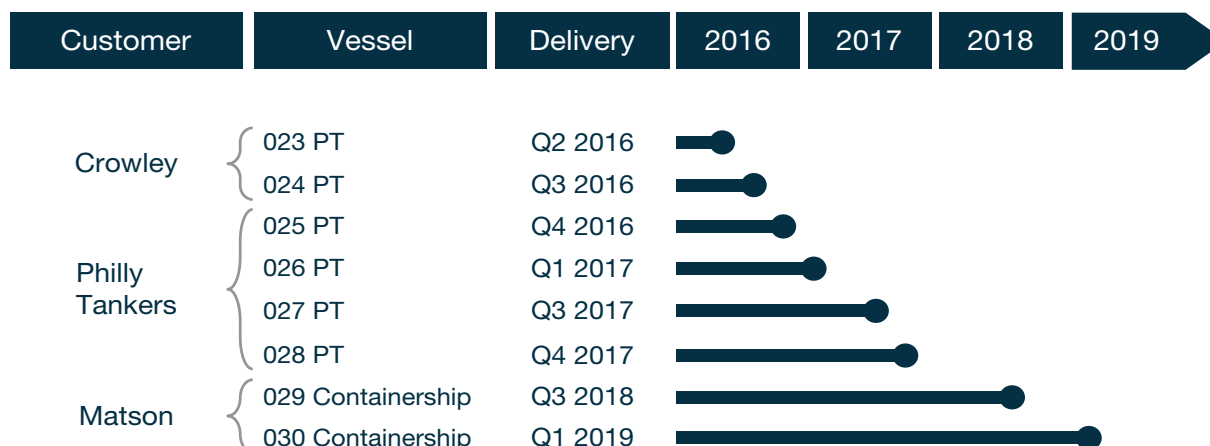
## 3 Exposure to positive market trends

- Healthy Jones Act shipping market fundamentals
- Consolidation in multiple Jones Act market sectors
- Agreements to sell interests in eight tankers in Q3 2015 eliminate exposure to Jones Act time charter market
- Significant replacement needs remain for aging Jones Act fleet

## 4 Strong dividend potential

- Paying quarterly dividends since Q2 2014
- Strong balance sheet with available debt capacity
- Expected extraordinary dividends in 2016 based on strong cash position
- Sale of shipping assets expected to contribute to dividend payouts through return of equity and gain-on-sale at vessel deliveries

### PHLY order backlog



**Vision: To be - and be recognized as - America's leading commercial shipyard that delivers on its commitments, every time.**

## Our CORE values

Philly Shipyard's CORE values were designed as a reflection of who we are, and who we aspire to be, as a shipyard, as an organization, and as individuals.

They capture the pride, passion and commitment behind each action we take and decision we make. They are not words on a page, but our stand – a united commitment to conquer all challenges and build long lasting relationships. For years to come we will be united by these values, that give us the platform to deliver on our commitments, every time.

### Caring



*Working as family*

We are a shipbuilding family, a unique group comprised of many backgrounds and ethnicities, teams and departments; but at the end of the day, we have a healthy respect and a natural need to protect each other.

### One shipyard



*Selfless for every customer*

Customers are all around. From ship owner to process owner, we are all powerfully united to deliver. That means decisions are made in the best interest of the company, rather than oneself, or one team. We are strongest when we act together.

### Responsible



*Treat it like you own it*

If you're responsible for it, you own it, so treat it like it's yours. This means taking the utmost care for tools and equipment, making decisions based on the impact to your bottom line, and simply doing the right thing. Success is in our hands.

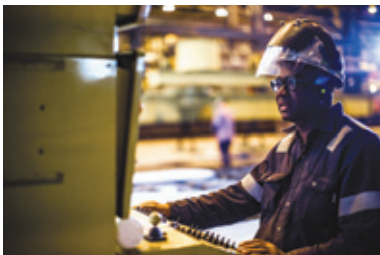
### Efficient



*Being better than yesterday*

A healthy dissatisfaction for the status quo lives within us. It fuels the need to challenge ourselves, and each other, to find a better way. Being efficient keeps our costs down, while driving our competitive edge up.

## Caring in action



**At Philly Shipyard, the way in which we achieve growth and profitability is as important as the achievements themselves. Our overriding corporate responsibility is concern for the communities that we are a part of. We strive to provide products and services in a safe, environmentally sound, ethical and socially responsible manner.**

More information regarding the Company's corporate social responsibility efforts can be found on pages 14-15 of the Board of Directors' report.

# Journey toward best-in-class safety



*At Philly Shipyard, it doesn't matter what position you have - we are all united on the journey toward best-in-class safety.*

**At Philly Shipyard, safety is personal and our credo is clear: We fundamentally believe that all incidents are preventable and safety is everyone's responsibility; and we promise to be relentless in our pursuit of an injury-free workforce by creating and maintaining safe working conditions and never compromising safety for anyone, anywhere, at any time.**

In 2015, Philly Shipyard adopted a "hurt-based" safety approach. A "hurt-based" approach not only examines how serious an incident was in itself, but more importantly, how serious the incident could have been.

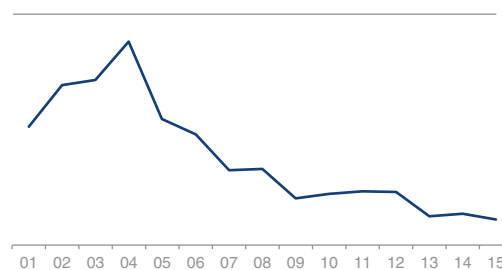
As part of the "hurt-based" approach, the shipyard intensified its focus on reporting near miss incidents, defined as an unplanned event that did not result in injury, illness or damage – but had the potential to do so. Through the shipyard's observation system, employees were encouraged to submit significant observations into an intranet-based HSE system, where some were later reclassified as near miss incidents and investigated for corrective actions. In total, near miss incident reporting increased by 69% in 2015.

To measure general engagement in the yard, all employees and subcontractors participated in a survey six months after rolling out the "hurt-based" safety approach. The top rated question from all groups (non-union, union and subcontractors) was "I understand why near misses are important." Examining near misses has become a "way of life" at the shipyard and is a valuable tool for tracking leading indicators that will follow for years to come.

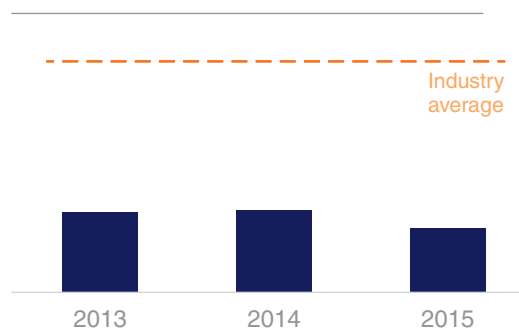
Philly Shipyard also continued its extensive reward and recognition program that acknowledges employees who provide unwavering support to HSE initiatives. In 2015 the company recognized over 275 significant observations, four notable safety teams and 16 safety suggestions.

We continue our belief that, together, we can build a safer future. At Philly Shipyard, it doesn't matter what position you have - we are all united on the journey toward best-in-class safety.

## All incident frequency



## Lost time frequency





## Philly Shipyard | Year of Change

**2015 was characterized by change. We started the year as both shipbuilders and shipowners. We had an innovative plan in place to become part owners in eight Jones Act product tankers with an approximate contract value of USD 1 billion. By the end of the year, we had successfully divested these shipping assets, effectively locking-in our exposure to the Jones Act time charter market at today's levels. Back to our roots of being a pure-play shipyard again.**

In addition, we changed our name to Philly Shipyard. Philly Shipyard, structurally, is no different than Aker Philadelphia Shipyard. The company is still majority owned by Aker Capital II (formerly Convento Capital Fund – it rebranded as well), an investment arm of Aker ASA. We chose the new name because it more accurately reflects the shipyard we have become in recent years – meaning, we have won contracts and delivered on our promises, while growing our independence and standing firmly on our own two feet as a company. The new name also better defines who we are and where we are going.

### **Back to basics – Shipbuilding**

In Q2, we announced a plan to divest the company's shipping assets, which consisted of exposure to four product tankers through a joint venture with Crowley and four more product tankers through an investment in Philly Tankers. During Q3, we agreed to sell our interests in the Crowley joint venture to a subsidiary of Marathon Petroleum Corporation. Around the same time, Philly Tankers agreed to sell its four product tanker contracts to a subsidiary of Kinder Morgan, Inc. These were attractive opportunities to capitalize on the strong Jones Act time charter rates and bring shareholder value while reducing the company's risk profile. These transactions allow us to make a nice profit and refocus the organization on shipbuilding.

### **Securing open slots as product tankers**

On the shipbuilding front, we have a strong orderbook of nearly USD 1 billion, right about where we began the year. Last year, Philly Tankers ordered two product tankers and received an option to order two more identical vessels. On July 7, Philly Tankers declared its option, solidifying the shipyard's order backlog with delivery dates into 2019. Securing these open slots as product tankers was a key victory for us, as we had already commenced production preparations and equipment orders for these two option vessels.

### **Delivering on customer commitments**

On March 13, we delivered the second Aframax tanker, *Eagle Bay*, to SeaRiver Maritime, Inc., ExxonMobil's U.S. marine affiliate. The delivery marked the completion of a project that was initiated in 2011, and I can say with certainty that working alongside a world-class company like ExxonMobil has transformed our company for the better. They expected our best and they got it as we delivered two quality vessels that were also the largest commercial vessels ever built in Philadelphia.

On October 1, we delivered the first of four MT50 product tankers, the *Ohio*, to Crowley. While in many ways this vessel is the same as the 14 previous MT46 product tankers we've built, there are

some notable differences. This series is the first to be built with consideration for the use of LNG for propulsion in the future, and also incorporates numerous fuel efficiency features, flexible cargo capability and the latest regulatory requirements. The second of the four MT50 product tankers, the *Texas*, was delivered to Crowley on December 23. In shipbuilding, satisfying your customers and delivering on your promises is what will keep customers coming back, and we are thrilled to have Crowley as a repeat customer. It's the best compliment.

By the end of 2015, all vessels in the remaining backlog were under construction – two 50,000 dwt product tankers for Crowley, four more 50,000 dwt product tankers for Philly Tankers (which will be delivered to Kinder Morgan) and two 3,600 teu container vessels for Matson.

### Striving for operational excellence

Delivering quality ships is what builds our reputation over time, but internally, a steadfast focus on operational excellence is needed to deliver. We measure this in the following areas:

- ✓ **HSE** – The goal will always be zero incidents. Skeptics call it unachievable, but I believe wholeheartedly that zero incidents is possible. Most days we win, some days we lose, but we always dust ourselves off and get our heads back in the safety game. Someone once told me it's no different than (U.S.) football. The goal is to win the Super Bowl. You may lose a game on the way, but the very next day, the goal is still the same. We don't quit and we never take our eye off it.

That focus pays off. In 2015, our Lost Time Incident (LTI) rate and Total Recordable Incident (TRI) rate improved from 2014, but there is always room for improvement and we can never let our guard down.

- ✓ **People** – Over the last year, we have taken a hard look at all aspects of our company culture to determine what moves the production needle. In July, we asked all employees and subcontractors for their feedback in a survey. The results? Employees wanted to see that leadership was investing in the facility and walking the talk when it comes to our CORE values. They care about our shipyard and they care about leadership engagement, and I couldn't be happier to hear that. We are passionately committed to improving the way we communicate and collaborate with our colleagues, and have increased our CAPEX budget for 2016 to make the necessary shipyard improvements and prepare for our future.

- ✓ **Cost** – In 2015, we delivered an EBITDA of USD 42.7 million compared to USD 32.1 million in 2014. Two main drivers of 2015 EBITDA were the gain-on-sale of the shipping assets pertaining to Hulls 021 and 022 and the recognition of previously deferred profits upon the delivery of those two vessels.

In Q3, we conducted a thorough analysis of our production schedule and budgets based on experiences with the construction activities on our current tanker program, as well as engineering and procurement activities on the upcoming containerships. As a result, we prepared a

revised forecast which included higher construction costs and later delivery dates than prior forecasts. Rest assured, I am not pleased and we will do better. Corrective actions have been put in place to address some of the additional costs and schedule impacts.

- ✓ **Operations** – We have made generous strides in some areas throughout the year. The most recent example is a company record that we set with the delivery of Hull 022 – for the first time in the 16 year history of the shipyard, a ship was delivered within two weeks of returning from sea trials. This was truly a remarkable shipyard-wide effort that united many departments working toward the same goal. I could not be more pleased.

We also found our groove again in the product tanker series. We set an internal goal to build at a rate of 3.1 ships per year, and at the end of 2015, we were building at a speed of more than 3.5 ships per year.

### Building the future

Philly Shipyard is in a very good position today with a strong cash balance, a long orderbook and upcoming deliveries to three different U.S. Jones Act customers. If you look at the international markets you will see that shipbuilding was a tough industry in 2015. Many yards in Asia and Europe lost a lot of money and many shipbuilders at those yards lost their jobs. In contrast, the Jones Act market may have softened a bit, but it remained healthy. In order to maintain our competitive advantage in the Jones Act market, what we need to do is to focus on improving our own performance and build even stronger relations with our partners and customers. Our vision is to be the leading commercial shipyard in the United States and we will work hard to meet our goals: reduce the number of incidents, beat our budgets, develop our people and talents and secure new orders beyond 2018.

In closing, I want to thank our Board of Directors and all of my colleagues at the shipyard who work safely every day to help us fulfill our vision of being the leading U.S. shipbuilder that delivers on its commitments, every time.



Steinar Nerbovik  
President and CEO

Philadelphia, March 4, 2016

# Board of Directors' report 2015

Philly Shipyard ASA and its subsidiaries (referred to herein as a group as "Philly Shipyard" or the "Company") is a leading shipbuilder in the U.S. Jones Act market. Aker Capital II AS, an investment fund controlled by Aker ASA, is the majority shareholder in Philly Shipyard ASA.

## Highlights

- ✓ Philly Shipyard finalized a new four-year collective bargaining agreement with the Philadelphia Metal Trades Council on 3 February 2015
- ✓ Philly Shipyard delivered Hull 020, the second and last aframax vessel for SeaRiver, on 13 March 2015
- ✓ Philly Shipyard executed definitive documentation for a USD 60 million secured term loan through the Welcome Fund loan program on 16 March 2015
- ✓ On 7 July 2015, Philly Tankers declared its option for Hulls 027 and 028 with deliveries in 2017
- ✓ On 8 August 2015, Philly Tankers agreed to sell its four product tanker contracts with Philly Shipyard to Kinder Morgan based on a total transaction value of USD 568 million
- ✓ On 21 September 2015, Philly Shipyard agreed to sell its interests in the four-tanker PHLI-Crowley joint venture to Marathon based on an enterprise value of USD 150 million per vessel
- ✓ On 30 September 2015, Hull 021, the first product tanker in the current four-vessel series for Crowley, was delivered and Philly Shipyard's joint venture interests pertaining to Hull 021 were sold, resulting in a gain-on-sale of USD 10.0 million and recognition of previously deferred profits of USD 5.1 million
- ✓ On 30 November 2015, the Company changed its name to Philly Shipyard ASA
- ✓ On 23 December 2015, Hull 022, the second product tanker in the current four-vessel series for Crowley, was delivered and Philly Shipyard's joint venture interests pertaining to Hull 022 were sold, resulting in a gain-on-sale of USD 10.0 million and recognition of previously deferred profits of USD 5.8 million
- ✓ On 28 December 2015, the Company signed a commitment letter with Cat Financial for a USD 150 million loan facility to finance the construction of Hulls 025-028
- ✓ Philly Shipyard paid dividends for 2015 totaling USD 12.1 million in the aggregate and NOK 8.06 per share
- ✓ As of 31 December 2015, Philly Shipyard had an order backlog of USD 983.8 million with the last delivery in Q1 2019
- ✓ For the year ended 31 December 2015, Philly Shipyard realized operating revenues and other income of USD 307.0 million, an increase of USD 34.3 million from 2014, and earnings before interest, taxes, depreciation, and amortization (EBITDA) of USD 42.7 million, compared to EBITDA of USD 32.1 million in 2014

## Activities

The main entities in Philly Shipyard are the Norwegian holding company, Philly Shipyard ASA (referred to herein as "PHLY"), and its U.S. operating subsidiary, Philly Shipyard, Inc. (referred to herein as "PSI" or the "Shipyard"), a leading U.S. commercial shipyard. PHLI is located in Oslo, Norway, while PSI is located in Philadelphia, Pennsylvania, USA.

As of 31 December 2015, PSI's workforce consisted of 1,274 people, with a breakdown of 598 direct employees and 676 subcontracted personnel.

Philly Shipyard's business strategy for PSI is to build merchant vessels for

operation in the U.S. Jones Act market and to opportunistically participate in the post-delivery economics of those vessels. At the end of the fourth quarter of 2015, Philly Shipyard had eight vessels under construction – two product tankers under contract with Crowley (Hulls 023-024), four product tankers under contract with Philly Tankers (Hulls 025-028), which contracts will be sold by Philly Tankers to Kinder Morgan upon delivery, and two containerhips under contract with Matson (Hulls 029-030). Construction started on all four of Kinder Morgan's product tankers and both of Matson's containerhips in 2015.

Cost efficient and cost competitive construction of new vessels is critical for

the success of Philly Shipyard's business model. There are several factors that position Philly Shipyard to capitalize on this market: a state-of-the-art shipyard with modern equipment; a strong order backlog of approximately USD 1 billion with delivery dates into 2019; access to global shipbuilding and design expertise with Hyundai Mipo Dockyard and KOMAC; and a solid track record as evidenced by the delivery of four container vessels to Matson, twelve 46,000 dwt product tankers to American Shipping Company (AMSC) and Overseas Shipholding Group, (OSG), two 46,000 dwt product tankers to Crowley, two aframax tankers to SeaRiver and two 50,000 dwt product tankers to Crowley.

### The Jones Act market

The U.S. Jones Act generally restricts the marine transportation of cargo and passengers between points in the United States to vessels built in the United States, registered under the U.S. flag, manned by predominately U.S. crews, and 75% owned and controlled by U.S. citizens. The ability of the Company to win contracts is in part dependent on its unique ability to construct vessels that are eligible for U.S. Jones Act trades, and the Jones Act requirement for construction of the vessels in the United States limits competition for future contracts. Since the Company is not a U.S. citizen for purposes of the Jones Act, the Company's ability to maintain an economic interest in the vessels it constructs depends on compliance with certain Jones Act rules and interpretations.

### The Master Agreement, Shipyard Lease and Authorization Agreement with PSDC

PSI currently operates its shipyard under a 99-year lease with PSDC, a government-sponsored non-profit corporation. A Master Agreement, a Shipyard Lease and an Authorization Agreement govern PSI's relationship with PSDC and the various governmental parties that have contributed to the establishment of the Shipyard.

Under the Master Agreement, the governmental parties have provided approximately USD 438 million for the renovation and modernization of the facility and training of the workforce. PSI was required to make certain qualified infrastructure investments totaling USD 135 million, which have been fully satisfied. PSI was also required to match government funding for certain training costs totaling USD 50 million, which has been fulfilled.

Under the Shipyard Lease, 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 5-year term under certain circumstances. With the current business plan, the Company considers it unlikely that this termination event will be triggered as long as there is ongoing shipbuilding activity at the Shipyard.

### Strategy

Philly Shipyard will, through its unique partnerships and experience obtained during construction of tankers and container-ships, strive to be the most efficient shipyard in the U.S. Jones Act market for

production of merchant vessels. Philly Shipyard intends to leverage its significant backlog and visibility into 2019 to drive improvement in all aspects of its business. Philly Shipyard will continue to monitor and evaluate how to derive the maximum benefit from its competitive advantage and market share. If production capacity is available, PSI will also pursue fabrication opportunities outside of traditional shipbuilding where its core competencies in steel fabrication, heavy lifting and project management are advantageous.

In 2015, Philly Shipyard launched a plan to divest all of its shipping assets, consisting of its investments in both the PHLIY-Crowley joint venture and Philly Tankers. In Q3 2015, Philly Shipyard and Philly Tankers executed definitive documents to divest these shipping assets, streamlining the business and marking a successful conclusion to an innovative plan to invest in eight Jones Act product tankers with an approximate contract value of USD 1 billion through the PHLIY-Crowley joint venture (Hulls 021-024) and Philly Tankers (Hulls 025-028). Going forward, Philly Shipyard will remain opportunistic in its approach with respect to investing in the post-delivery economics of the vessels that it builds.

Philly Shipyard's research and development activities are primarily related to two areas. The first area is the development of PSI's building methodology and working methods to ensure that PSI takes maximum benefit of the learning curve and produces each grand block and each vessel more efficiently than the previous one. The second area is work related to the development of new vessels. Ordinarily, PSI will attempt to identify and license existing best in class designs and cooperate with the owners of such designs to make such modifications as are necessary. However, when existing designs are unavailable or unsuitable, PSI will develop new designs to meet the needs of the market.

### Key events 2015

On 3 February 2015, a new four-year collective bargaining agreement was ratified by the Philadelphia Metal Trades Council, which represents the ten unions at the shipyard. This new labor contract will extend until 31 January 2019.

On 26 February 2015, Philly Tankers announced it entered into binding long-term charter contracts with a domestic end-user for its two 50,000 dwt product tankers under contract with Philly Shipyard (Hulls 025-026).

On 12 March 2015, the PHLIY-Crowley joint venture announced that it had received a commitment for a USD 325 million facility for post-delivery financing of its four 50,000

dwt product tankers under contract with Philly Shipyard (Hulls 021-024).

On 13 March 2015, Philly Shipyard delivered the second and last aframax vessel to SeaRiver, ExxonMobil Corporation's U.S. marine affiliate. The vessel is currently successfully serving SeaRiver's transportation needs in the Alaska trade.

On 16 March 2015, Philly Shipyard executed definitive documentation for a USD 60 million secured term loan through the Welcome Fund loan program. The loan has a fixed interest rate of 2.625% through maturity. The loan has a five-year term and, as of year-end, was secured by a second lien on Hulls 021-028 during construction, a first lien on USD 13.1 million of cash collateral and a first lien on Philly Shipyard's shares in Philly Tankers.

On 7 July 2015, Philly Tankers declared its option for Hulls 027 and 028 with deliveries in 2017. These firm contracts solidified the Company's order backlog between the first two product tankers for Philly Tankers (Hulls 025 and 026) and the two containership vessels for Matson (Hulls 029 and 030).

On 8 August 2015, Philly Tankers agreed to sell its four product tanker contracts with Philly Shipyard (Hulls 025-028) to a subsidiary of Kinder Morgan based on a total transaction value of USD 568 million.

On 21 September 2015, Philly Shipyard agreed to sell its interests in the four-tanker PHLIY-Crowley joint venture (Hulls 021-024) to a subsidiary of Marathon based on an enterprise value of USD 150 million per vessel.

The Kinder Morgan and Marathon transactions are anticipated to result in a total pre-tax gain of approximately USD 64 million for Philly Shipyard, inclusive of Philly Shipyard's 53.7% ownership of Philly Tankers. The closings with respect to Hulls 021 and 022 occurred in Q3 2015 and Q4 2015, respectively. The closings with respect to Hulls 023-028 will occur at delivery.

On 30 September 2015, Hull 021, the first product tanker in the current four-vessel series for Crowley, was delivered and Philly Shipyard's joint venture interests pertaining to Hull 021 were sold, resulting in a gain-on-sale of USD 10.0 million and recognition of previously deferred profits of USD 5.1 million. This delivery marked the first time a product tanker was constructed at the shipyard with consideration for the use of LNG for propulsion in the future.

On 5 October 2015, Jan Ivar Nielsen joined Philly Shipyard as Chief Financial Officer.

On 30 November 2015, the Company changed its name to Philly Shipyard ASA.

In addition, the Company changed its ticker symbol on the Oslo Axess from AKPS to PHLI effective 3 December 2015.

On 23 December 2015, Hull 022, the second product tanker in the current four-vessel series for Crowley, was delivered and Philly Shipyard's joint venture interests pertaining to Hull 022 were sold, resulting in a gain-on-sale of USD 10.0 million and recognition of previously deferred profits of USD 5.8 million.

On 28 December 2015, the Company signed a commitment letter with Caterpillar Financial Services Corporation (Cat Financial) for a USD 150 million loan facility to finance the construction of the four Philly Tankers vessels (Hulls 025-028). The facility will be subject to a maximum borrowing amount of USD 75 million per vessel and secured by a first lien on the four vessels. The loans will accrue interest at three-month LIBOR plus 3.0%. Philly Shipyard expects to enter into definitive agreements for this facility in Q1 2016.

As of 31 December 2015, the project to construct two Aframax tankers (Hulls 019-020) for SeaRiver was 100% complete. These tankers are intended to be used to transport Alaskan North Slope crude oil from Prince William Sound, Alaska to the U.S. West Coast.

As of 31 December 2015, the project to construct four 50,000 dwt product tankers (Hulls 021-024) for Crowley was approximately 89% complete. Construction of all four vessels commenced in 2014 and, as noted above, the first two vessels (Hulls 021 and 022) were delivered in 2015.

As of 31 December 2015, the project to construct four 50,000 dwt product tankers (Hulls 025-028) for Philly Tankers was approximately 11% complete. Construction of all four vessels commenced in 2015. The contracts for these vessels will be sold by Philly Tankers to Kinder Morgan at delivery.

As of 31 December 2015, the project to construct two containership vessels (Hulls 029-030) for Matson was less than 1% complete. Construction of both vessels commenced in 2015.

During Q3 2015, Philly Shipyard completed a thorough analysis of its production schedule and budgets based on its experiences with the construction activities on the current product tanker program and the purchasing and engineering activities on the Matson project. As a result of this analysis, the Company prepared a revised forecast for Q3 2015 which included higher costs of construction and later delivery dates for the vessels in Philly Shipyard's backlog than previous forecasts. This revised forecast was further adjusted for Q4 2015 to slightly decrease the costs of construction. The

Company's 2015 results are based on the Q4 2015 forecast. Corrective actions have been put in place to address some of these additional costs and schedule impacts.

Philly Shipyard paid dividends for 2015 totaling USD 12.1 million.

### Review of the annual accounts

Philly Shipyard prepares and presents its accounts according to International Financial Reporting Standards (IFRS) as adopted by the European Union.

PHLY was formed on 16 October 2007 to be the holding company of PSI which owns the shipyard located in Philadelphia, Pennsylvania, USA.

In accordance with IFRS, Philly Shipyard is recognizing the two Aframax tanker order by SeaRiver, the four MT-50 tanker order by Crowley and the two containership vessel order by Matson as single projects. As such, revenue and expense for these vessels have been recognized on a total project basis. 100% of the revenue and expense for each vessel included in the four MT-50 tanker order by Philly Tankers (Hulls 025-028) will be recognized at delivery. As of 31 December 2015, the SeaRiver project was 100% complete, the Crowley project was approximately 89% complete, the Philly Tankers project was approximately 11% complete and the Matson project was less than 1% complete.

### Order backlog

As of 31 December 2015, PSI's order backlog was USD 983.8 million and represents an obligation to produce vessels that have not yet been delivered to the Company's customers. Order backlog consists of future revenues and is subject to adjustment based on change orders as defined in the shipbuilding contracts. At the end of the year, the order backlog was comprised of two product tankers under contract with Crowley, four product tankers under contract with Philly Tankers and two container vessels under contract with Matson. The net backlog decrease of USD 29.2 million from 2014 is due to continued progress made on the SeaRiver and Crowley projects which was partially offset by the firm contracts entered into with Philly Tankers (Hulls 027-028).

### Profit and loss accounts

In 2015 Philly Shipyard had operating revenues of USD 286.3 million from continued progress on the SeaRiver and Crowley projects. Both of these projects recognize revenues based on the percentage of completion method, based primarily on the scope of completed work compared to estimated overall project scope. 2014 operating revenues of USD 240.2 million

represented revenues from continued progress on the Aframax tankers being built for SeaRiver and the product tankers being built for the PHLI-Crowley joint venture. 2015 other income of USD 20.7 million was comprised of the gain-on-sale of Philly Shipyard's joint venture interests pertaining to Hulls 021 and 022 and profit in equity-accounted investees (Philly Tankers). 2014 other income of USD 32.4 million was comprised of the net gain-on-sale of the profit sharing interests on Hulls 017 and 018 to Crowley and profit in equity-accounted investees (Philly Tankers).

Philly Shipyard's operating profit before interest, taxes, depreciation and amortization (EBITDA) was USD 42.7 million in 2015 compared to USD 32.1 million in 2014. These figures correspond to EBITDA margins of 13.9% and 11.8%, respectively.

Depreciation and amortization expense was USD 6.5 million in 2015 and USD 7.5 million in 2014. Philly Shipyard's operating profit before interest and taxes (EBIT) was USD 36.3 million in 2015, compared to EBIT of USD 24.7 million in 2014.

Net financial items were negative USD 3.5 million in 2015, compared to negative USD 5.8 million in 2014. Net financial items in 2015 were primarily driven by higher unrealized currency losses on foreign exchange forward contracts and interest expense on net debt, with similar figures to the same period of the prior year.

Income tax expense for 2015 was USD 15.4 million, compared to income tax expense of USD 5.3 million in 2014.

In 2015, Philly Shipyard's net income was USD 17.4 million and its basic and diluted earnings per share was USD 1.44. The corresponding figures for 2014 were net income of USD 13.6 million and basic and diluted earnings per share of USD 1.12.

The increase in EBITDA year-over-year was driven by the gain-on-sale of USD 20.0 million and the recognition of previously deferred profits of USD 10.9 million upon the deliveries of Hulls 021 and 022.

### Cash flow

The Company's cash flow from operations depends on payment terms for construction and delivery settlement for the vessels sold to external customers. Total net cash flow used in operating activities in 2015 was USD 1.9 million compared to total net cash flow used in operating activities of USD 68.0 million in 2014. As noted previously, the significant changes year-to-year are caused by the timing of ship deliveries and the level of completion of vessels.

Net cash flow from investment activities was USD 13.6 million in 2015 and USD

33.7 million in 2014. These investments were primarily proceeds from the sale of the shipping assets for Hulls 021 and 022 offset slightly by infrastructure improvements and equipment replacements. 2014 investment activities of the Company also include its investment in Philly Tankers and proceeds from its sale of the profit share assets.

Net cash flow from financing activities was USD 17.8 million in 2015 and net cash flow from financing activities in 2014 was USD 6.0 million in 2014. Net inflows in 2015 were primarily from the Welcome Fund loan and Caterpillar construction loan draws (net) and offset slightly by the repayment of the Philly Tankers note, the restricted cash deposit of USD 13.1 million for the Welcome Fund loan and dividends paid. Net inflows in 2014 were primarily from the equity issuance proceeds and the Philly Tankers note which were reduced by dividends paid and share buybacks.

### Statement of financial position and liquidity

As of 31 December 2015, Philly Shipyard had cash and cash equivalents of USD 69.9 million. The corresponding figure for 2014 was USD 40.5 million. The increase was primarily driven by milestone payments made by customers, draws under the Caterpillar loan facility and the Welcome Fund loan and partially offset by dividends paid. At year-end 2015, Philly Shipyard's net working capital was USD 85.1 million, compared to USD 40.5 million at 31 December 2014.

Current assets as of 31 December 2015 are mainly comprised of cash and cash equivalents of USD 69.9 million, vessels-under-construction receivable of USD 111.7 million, work-in-process of USD 41.5 million, restricted cash of USD 7.0 million and prepayments and other receivables of USD 5.9 million, while current assets as of 31 December 2014 were mainly comprised of cash and cash equivalents of USD 40.5 million, vessels-under-construction receivable of USD 87.9 million, restricted cash of 13.0 million and prepayments and other receivables of USD 10.6 million. The increase in current assets is primarily due to the increase in vessels-under-construction receivable and work-in-process.

Non-current assets as of 31 December 2015 of USD 126.3 million consist of property, plant and equipment, restricted cash, equity-accounted investees, deferred tax assets and other non-current assets. As of 31 December 2014, non-current assets totaled USD 116.4 million and consisted of property, plant and equipment, restricted cash, equity-accounted investees and other non-current assets.

Current liabilities as of 31 December 2015 of USD 151.0 million are mostly related to trade payables and accrued liabilities, income taxes payable, construction loans, customer advances, net and the current portion of the Philly Tankers note. The corresponding figure for 2014 was USD 111.5 million. The increase is primarily driven by the Caterpillar construction loans, customer advances, net and trade payables and accrued liabilities and partially offset by the repayment of the Philly Tankers note. Interest-bearing debt increased to USD 102.3 million at 31 December 2015 compared to USD 57.2 million as of 31 December 2014. This increase was attributable to the Welcome Fund loan and Caterpillar construction loans (net) which was partially offset by repayment of the Philly Tankers note.

At year-end 2015, total equity was USD 143.4 million and the equity ratio was 40% of total assets. Corresponding figures for 2014 were USD 138.2 million and 52%, respectively. The increase in equity was the result of the current year's profit partially offset by the dividends paid.

The Board deems that the Company as of 31 December 2015 is financially sound and has an appropriate financing structure.

### Risks

#### Market risks

The overall market risk is related to the Jones Act. Interest groups have lobbied the U.S. Congress in the past to repeal or modify the Jones Act, and legislation to remove the U.S.-build requirement of the Jones Act has been proposed, but market experts believe that repeal of or significant changes to the Jones Act are unlikely. Repeal of or significant changes to the Jones Act could, among other things, increase competition from foreign (non-U.S.) shipbuilders with lower costs or require increased use of higher priced domestic content, and as a result reduce the demand for U.S.-built vessels. In order to address this risk, the Company has continuous engagement with local, state and federal government officials.

Philly Shipyard is also exposed to market risk related to imbalance between supply and demand for vessels in the Jones Act market, which may result in a reduction of vessel prices and/or delay in new projects. 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. In addition, Philly Shipyard faces risks, including early termination of

its facility lease, if it is unable to secure new orders beyond the Matson project (i.e., Hulls 029 and 030).

#### Operational risks

Philly Shipyard faces risks related to construction of vessels. The Shipyard's ability to meet budgets and schedules may be adversely affected by many factors, including changes in productivity, shortages of materials, equipment and labor and changes in the availability and pricing of key vendors for design and procurement services. The Shipyard's operations also depend on stable supplier networks. In addition, the Company faces challenges attracting and retaining skilled workers at forecasted rates.

The Company furthermore faces challenges related to the construction of new classes of vessels, as well as managing multiple projects at the same time. These challenges sometimes tend to impact quality, timely delivery and cost efficiencies. In order to address these risks, the Company has entered into contracts with design and procurement partners for all of the new-builds in its existing backlog.

Philly Shipyard will during 2016 and 2017 transition from building Hulls 023-028 as tankers to building Hulls 029 and 030 as prototype container vessels. Management views the container vessels as a higher risk since the main activity during the last ten years has been building tankers and the last container vessel was delivered in 2006.

The Company depends on unionized labor for construction of vessels. Work stoppages or other labor disturbances could have a material adverse effect on the Company's business, results of operations and financial condition. In order to mitigate this risk, the Company has signed a collective bargaining agreement with the Unions. The collective bargaining agreement includes a no-strike clause.

The Company further depends upon a 99-year lease agreement for the shipyard facility and the future operations of the yard will accordingly be dependent upon the Company fulfilling its obligations under this lease agreement. For more details regarding this lease, see "The Master Agreement, Shipyard Lease and Authorization Agreement with PSDC" on page 11.

The Company's operations are subject to the usual hazards inherent in shipbuilding, such as the risk of equipment failure and work accidents. These hazards can cause personal injury and loss of life, business interruption, construction delays, property and equipment damage, pollution and environmental damage. The Company continues to implement its Health, Safety

and Environment (HSE) management system and provide training to its workforce to mitigate these risks. The Company's policy of covering these risks through contractual limitations of liability and indemnities and through insurance may not always be effective, and customers and subcontractors may not have adequate financial resources to meet their indemnity obligations to the Company.

The Company's operations are subject to numerous international, national, state and local environmental, health and safety laws, regulations, treaties and conventions, including, inter alia, those controlling the permitted and unpermitted discharge of materials into the environment, requiring removal and cleanup of environmental contamination, establishing certification, licensing, health and safety, labor and training standards, or otherwise relating to the protection of human health and the environment. Sanctions for failure to comply with these requirements, which may be applied retroactively, may include: administrative, civil and criminal liabilities, revocation of permits to conduct business and corrective action orders, including orders to investigate and clean up contamination.

#### Financial risks

Philly Shipyard's activities expose it to a variety of financial risks: market risk (including commodity pricing risk, currency risk and price risk), credit risk and cash flow interest-rate risk. Philly Shipyard's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Philly Shipyard's financial performance. Philly Shipyard uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out under policies and protocols approved by the Board of Directors. The Board of Directors provides principles for overall financial risk management as well as policies covering specific areas such as foreign exchange risk, interest-rate risk, credit risk and use of derivative financial instruments and non-derivative financial instruments.

The Company is exposed to changes in prices of steel and other materials. The Company attempts to mitigate its exposure with respect to steel and other material price escalation. PSI and Crowley share the risk of steel price escalation on Hulls 021-024 through the joint venture structure. PSI bears the risk of steel price escalation on Hulls 025-028. Matson bears the risk of steel price escalation on Hulls 029 and 030.

The Company is subject to exchange rate risk. In order to mitigate exposure to this risk, the Company has secured foreign

exchange forward contracts for its known requirements for foreign currency for Hulls 023-030.

Philly Shipyard operates in business areas that are capital intensive. The Company is dependent upon having access to construction financing facilities and other loans and debt facilities to the extent its own cash flow from operations and milestone payments from customers are insufficient to fund its operations and capital expenditures. In turn, Philly Shipyard must secure and maintain sufficient equity capital to support construction financing facilities.

Philly Shipyard regularly monitors the financial health of its construction financing lenders as well as the financial health of the financial institutions which it uses for cash management services and in which it makes deposits and other investments.

Through construction financing, the Company is exposed to fluctuations in interest rates. There is no construction financing for the Matson project (i.e., Hulls 029 and 030), as these contracts will be fully funded by customer milestone payments.

The credit risk of ship owners is evaluated upon contract signing. Typically, ship owners have financing approvals in place before they enter into contracts with the Company. At the completion of a vessel, transfer of ownership takes place upon settlement. Should a ship owner fail to pay, the Company may attempt to dispose of the vessel in the open-market to recover Philly Shipyard's construction costs.

The Company accrues an estimate for future warranty claims on its outstanding projects. Thus far the claims have been in line with the reserve amounts. In order to mitigate the risk of warranty claims exceeding warranty provisions, the Company has secured back-to-back warranties for most major components on the vessels.

#### Events after 31 December 2015

On 1 February 2016, James H. Miller was elected as the new Chairman of the Board of Directors of PHLIY at an extraordinary general meeting.

On 17 February 2016, the PHLIY Board of Directors approved a quarterly dividend for Q4 2015 of USD 0.25 per share.

#### The going concern assumption

In view of Philly Shipyard's current financial position and backlog, the Board confirms the going concern assumption and that the 2015 annual accounts have been prepared based on the assumption of a going concern.

#### Parent company accounts and allocation of loss for the year

The income/(loss) account of Philly Shipyard ASA shows a loss for the year 2015 of USD 0.9 million. The Board of Directors proposes that the loss for the year be allocated as shown below:

Dividend payments	USD (12.1) million
Other equity	USD (0.9) million
Total allocated	USD (13.0) million

As of 31 December 2015, the parent company has approximately USD 56 million of equity which could be distributed to shareholders by the Board in accordance with the Company's dividend policy. Based on the equity level of the parent company, the Board intends to continue paying quarterly dividends during 2016.

In addition, based on the Company's strong cash position, the Company intends to pay a series of extraordinary dividends in 2016 subsequent to the future deliveries of Hulls 023, 024 and 025. The first extraordinary dividend payment is planned for Q2 2016.

The parent company's only assets are cash and the investment in subsidiary (PSI).

#### Corporate social responsibility

Maintaining a healthy and safe workplace and being friendly to the environment is an important part of Philly Shipyard's strategy. Philly Shipyard develops policies to comply with or exceed all federal, state and local requirements.

All of the Company's employees are located in Philadelphia, Pennsylvania in the United States of America. The Company believes that being a good corporate citizen is good business. The Company organizes a toy collection drive and volunteer events for the local hunger relief center and contributes to a variety of charitable organizations.

Philly Shipyard seeks to be an attractive employer and maintains a human relations policy that is open and fair. Philly Shipyard is committed to providing equal employment opportunity to all employees and applicants for employment, regardless of race, color, ethnic background, gender, religion, age, marital status, sexual orientation, national origin, citizenship status, disability, veteran status or any other legally protected status. Diversity strengthens Philly Shipyard's overall capacity and skills. In support of this diversity, PSI currently maintains an approximately 39% minority workforce.

The maritime industry has traditionally been male-dominated. The entire industry

faces the challenge of increasing the proportion of female employees. The Company has taken some affirmative steps to address this challenge. For example, the Company encourages female applicants and has seen increased interest among potential female employees to pursue a career with the Company. To further this goal, the Company participates in available government programs that encourage women in manufacturing and has recruited at schools and training programs with more women. The Company has also continued to train supervisors, managers and employees in our Equal Employment Opportunity (EEO) Policy.

At year-end 2015, 4% of the workforce was women. While there were no women in Philly Shipyard senior management, women held key positions such as Project Cost Controller, Payroll/Benefits Supervisor and PR/Communications Specialist. In addition, two of the four members of the Company's Board of Directors are women.

The Company is committed to maintaining a work environment that is free of discrimination, harassment and hostilities. In keeping with this commitment, Philly Shipyard maintains a strict Harassment Free Environment Policy and does not tolerate unlawful harassment of employees by anyone.

Philly Shipyard believes all people share the same fundamental human rights. The Company follows legal and responsible sourcing practices and expects its suppliers to uphold the same standards. In 2015, the Company did not have a formal policy regarding human rights as its sole operating company is located in the United States, which has extensive human rights laws in place. The Company monitors its supply chain for potential human rights issues through periodic site visits.

At the operating subsidiary in Philadelphia, worker's rights are protected by federal, state and local laws. In addition, approximately three-fourths of the company's employees are members of the Philadelphia Metal Trades Council (PMTC) union and are covered under the collective bargaining agreement between the PMTC and the Company. This agreement is effective until 31 January 2019.

Under this collective bargaining agreement, union employees are granted vacation and personal time, and most union employees receive shutdown pay during the week of Fourth of July holiday and in between Christmas and New Year's holidays. In addition, union employees may take up to 10 unpaid days within a 24-month period. Traditional sick days are not part of the collective bargaining agreement.

Non-union employees accrue sick time on a monthly basis and may maintain a balance of up to 200 hours. During 2015, approximately 170 non-union employees used 6,438 hours of sick time, representing 1.6% of total non-union work hours. Comparably, in 2014, 160 non-union employees used 6,170 hours of sick time, representing approximately 1.6% of the total non-union work hours.

At Philly Shipyard, HSE is not just a priority, but is a mindset embedded in all decisions and actions. The Union-Management Safety and Environmental Board reviews the various HSE programs, and makes recommendations on policies and procedures. The HSE system includes safety training of employees and subcontractors, safety inspections, industrial health and wellness programs, drug testing, emergency response and environmental programs. The Company expects to implement new initiatives to continuously improve its HSE mindset during 2016.

In 2015, the frequency of lost-time incidents (incidents resulting in absence from work per one million hours) was 3.8, compared with 5.4 in 2014. The incidents came from a total of 2,919,104 hours worked by Philly Shipyard employees and subcontractors in 2015, compared with 2,589,274 hours worked by Philly Shipyard employees and subcontractors in 2014. Philly Shipyard had 11 lost time incidents in 2015. The most serious incident to occur during 2015 involved multiple rib fractures, a collapsed lung and a fractured pelvis. The most common injuries were sprains and strains followed by eye injuries. Philly Shipyard continues to work proactively to further improve safety and reduce the number of incidents at the Shipyard. For example, in 2015 PSI initiated a feasibility study on achieving ISO14001 certification, conducted a revised HSE training program for supervisors and worked with the procurement group on a program to improve contractor HSE awareness. With these initiatives and additional training opportunities, the Company continues to believe that improvements will be made.

In 2016, the Shipyard will continue to improve its in-house systems and procedures for exchanging knowledge gained from past accidents and potentially hazardous events. The Company is also working with outside parties to obtain and implement best practices to develop a zero-incident culture.

Philly Shipyard takes its environmental responsibilities seriously beginning with the vessel design. The Company uses the latest International Maritime Organization (IMO) requirements as guidance for

environmental protection and efficiency during the design and production process. The industrial nature of the Company's activities requires the use of significant amounts of energy, both electrical and gas, as well as the release of particulate and VOC emissions. During 2015 the Company used approximately 33.8 MW of electricity and approximately 669,200 ccf of natural gas.

Its VOC emissions were 73.93 tons for the reporting period ending in 2015. The Company had no reported discharges into the surrounding waterways. Environmental status reporting is an integral part of the Company's reporting system, on par with reporting on financial matters and operations. This commitment extends to evaluating and adopting environmentally beneficial improvements in production processes, alternative materials, and services. Philly Shipyard promotes open communication on environmental issues with employees, neighbors, public authorities and other interested parties and has implemented a system through which employees can make observations and suggestions about Philly Shipyard's environmental performance.

In 2015, PSI generated approximately 4,113 tons of waste and recycled approximately 2,553 tons of steel. PSI has continued its program to gather and sort waste to promote environmentally responsible handling, disposal and recovery of any residual value.

A basic principle of ethical business conduct requires that each employee of the Company support positively, both on and off the job, the Company's business activities. One important way we satisfy this responsibility is to ensure that our business dealings are never influenced by – or even appear to be influenced by – our own personal interests. The Company has zero tolerance for corruption and has adopted an Anti-Corruption Policy that is in line with the anti-corruption policies at other Aker ASA-related companies. The Company also maintains a strict Conflict of Interests policy, which is reflected in its employee handbook, as well as its Terms and Conditions to outside suppliers.

In support of the above initiatives and policies, Philly Shipyard maintains a formal policy for the disclosure of wrongful conduct and protection from retaliation (the Company's "Whistleblower Policy"). This policy is available to all employees and is administered by the Vice President of Human Resources. During 2014, a simplified process to make anonymous reports of violations through a third party administrator was implemented. In 2015, there were no cases reported using this process.

## Organization

On 31 December 2015, Philly Shipyard had 598 direct employees and 676 sub-contracted personnel. The Company experiences higher turnover amongst its union and production subcontractor employees compared to other employees.

## Corporate governance

Philly Shipyard's corporate governance policy exists to ensure an appropriate division of roles among the Company's owners, Board of Directors and Executive Management. Such a separation of roles ensures that goals and strategies are prepared, that adopted corporate strategies are implemented, and that the results achieved are subject to verification and follow-up. Applying these principles also contributes to satisfactory group-wide monitoring and verification of activities. An appropriate division of responsibilities and satisfactory controls will contribute to the greatest possible value creation over time, to the benefit of shareholders and other interest groups. Philly Shipyard's Board of Directors adopted its corporate governance guidelines in 2008. Philly Shipyard's

corporate governance guidelines are presented in greater detail on pages 52-55 of this annual report.

## Outlook Shipbuilding

Philly Shipyard has built a strong foundation for its future through both its reputation for delivering on its promises and the efficient and innovative organization that has been developed. The Company's large backlog provides an excellent platform for operational improvement and PSI's formal improvement program, E-330, is an important element in achieving the goals that have been established.

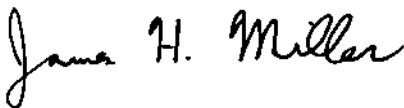
The contracts with Crowley (Hulls 023-024), Philly Tankers (Hulls 025-028), and Matson (Hulls 029-030) provide for shipbuilding activity with delivery dates into 2019. The Company's order backlog for these projects is approximately USD 1 billion at 31 December 2015. Key focus areas for 2016 will be continued progress on the product tankers being built for Crowley and Philly Tankers and the containership vessels being built for Matson.

While Philly Shipyard is mainly focused on product tankers and large container-ships, 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 wind turbine installation 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. Philly Shipyard remains committed to providing the Jones Act market with the most cost efficient and environmentally friendly merchant vessels possible and believes that it will be the supplier of choice when vessels are ordered.

## 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.

Oslo, Norway  
4 March 2016  
Board of Directors  
Philly Shipyard ASA



James H. Miller  
Board Chairman



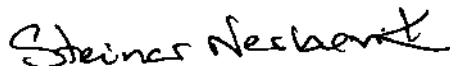
Amy Humphreys  
Board Member



Elin Karfjell  
Board Member



Audun Stensvold  
Deputy Board Chairman



Steinar Nerbovik  
President and CEO

### Directors' responsibility statement

Today, the Board of Directors and the Chief Executive Officer reviewed and approved the Board of Directors' report and the consolidated and separate annual financial statements for Philly Shipyard ASA, as of and for the year ending 31 December 2015 (annual report 2015).

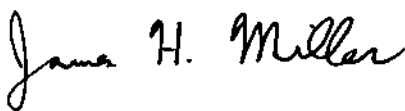
The Philly Shipyard ASA consolidated financial statements have been prepared in accordance with IFRS, as adopted by the European Union, and additional disclosure requirements in the Norwegian Accounting Act, and that should be used as of 31 December 2015. The separate financial statements for Philly Shipyard ASA have

been prepared in accordance with the Norwegian Accounting Act and Norwegian Accounting Standards as of 31 December 2015. The Board of Directors' report for Philly Shipyard and the parent company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian accounting standard no. 16, as of 31 December 2015.

#### To the best of our knowledge:

- The consolidated and separate annual financial statements for 2015 have been prepared in accordance with applicable accounting standards
- The consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position and profit as a whole as of 31 December 2015 for Philly Shipyard and the parent company
- The Board of Directors' report for Philly Shipyard and the parent company includes a true and fair review of:
  - The development and performance of the business and the position of Philly Shipyard and the parent company
  - The principal risks and uncertainties Philly Shipyard and the parent company face

Oslo, Norway  
4 March 2016  
Board of Directors  
Philly Shipyard ASA



James H. Miller  
Board Chairman



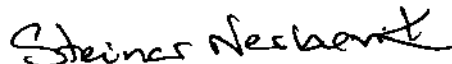
Amy Humphreys  
Board Member



Elin Karfjell  
Board Member



Audun Stensvold  
Deputy Board Chairman



Steinar Nerbovik  
President and CEO

Philly Shipyard ASA

# Consolidated Income Statement

<i>Amounts in USD thousands (except share amounts and per share data)</i>	<i>Note</i>	<b>2015</b>	2014
Operating revenues	2	<b>286 330</b>	240 231
Other income	2	<b>20 699</b>	32 437
<b>Operating revenues and other income</b>		<b>307 029</b>	272 668
Cost of vessels		<b>(258 918)</b>	(233 793)
Wages and other personnel expenses, net	4	<b>(2 519)</b>	(2 155)
Other operating expenses	5	<b>(2 858)</b>	(4 574)
<b>Operating income before depreciation</b>		<b>42 734</b>	32 146
Depreciation	8	<b>(6 471)</b>	(7 457)
<b>Operating income</b>		<b>36 263</b>	24 689
Financial income	6	<b>606</b>	835
Financial expense	6	<b>(4 102)</b>	(6 637)
<b>Income before tax</b>		<b>32 767</b>	18 887
Income tax expense	7	<b>(15 388)</b>	(5 274)
<b>Net income for the year *</b>		<b>17 379</b>	13 613
Weighted average number of ordinary shares	13	<b>12 107 901</b>	12 170 960
Basic earnings per share (USD)	13	<b>1.44</b>	1.12
Diluted earnings per share (USD)	13	<b>1.44</b>	1.12

Philly Shipyard ASA

# Consolidated Statement of Comprehensive Income

<i>Amounts in USD thousands</i>	<b>2015</b>	2014
Net income for the year	<b>17 379</b>	13 613
Other comprehensive income, net of income tax	-	-
<b>Total comprehensive income for the year *</b>	<b>17 379</b>	13 613

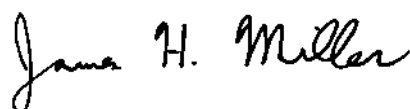
\* All attributable to equity holders of the parent company.

Philly Shipyard ASA

# Consolidated Statement of Financial Position as of 31 December

<i>Amounts in USD thousands</i>	<i>Note</i>	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>			
Property, plant and equipment	8	49 659	52 894
Restricted cash	12	13 100	7 002
Deferred tax asset	7	6 683	308
Equity-accounted investees	24	56 645	55 960
Other non-current assets	9	229	208
<b>Total non-current assets</b>		<b>126 316</b>	<b>116 372</b>
Vessels-under-construction receivable	3	111 736	87 945
Work-in-process	3	41 460	-
Restricted cash	12	7 000	13 000
Prepayments and other receivables	10	5 939	10 590
Cash and cash equivalents	11	69 945	40 477
<b>Total current assets</b>		<b>236 080</b>	<b>152 012</b>
<b>Total assets</b>		<b>362 396</b>	<b>268 384</b>
<b>EQUITY AND LIABILITIES</b>			
Paid in capital	14	69 492	81 619
Other equity		73 942	56 563
<b>Total equity attributable to equity holders of the parent company</b>		<b>143 434</b>	<b>138 182</b>
<b>Total equity</b>		<b>143 434</b>	<b>138 182</b>
Interest-bearing long-term debt	15,17	59 343	11 479
Other non-current liabilities	16	7 402	7 210
Deferred tax liability	7	1 231	-
<b>Total non-current liabilities</b>		<b>67 976</b>	<b>18 689</b>
Construction loans	15	29 000	-
Interest-bearing short-term debt	15,17	13 987	45 764
Trade payables and accrued liabilities	20	47 433	31 929
Income taxes payable	7	5 096	6 259
Customer advances, net	3	53 969	26 054
Other provisions—warranties	19	1 501	1 507
<b>Total current liabilities</b>		<b>150 986</b>	<b>111 513</b>
<b>Total liabilities</b>		<b>218 962</b>	<b>130 202</b>
<b>Total equity and liabilities</b>		<b>362 396</b>	<b>268 384</b>

Oslo, Norway  
4 March 2016  
Board of Directors  
Philly Shipyard ASA



James H. Miller  
Board Chairman



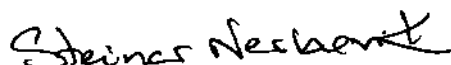
Amy Humphreys  
Board Member



Elin Karfjell  
Board Member



Audun Stensvold  
Deputy Board Chairman



Steinar Nerbovik  
President and CEO

Philly Shipyard ASA

# Consolidated Statement of Changes in Equity

<i>Amounts in USD thousands</i>	Share capital	Share premium	Treasury shares	Other equity	Total equity
Balance at 31 December 2013	18 709	52 286	-	42 950	113 945
Issuance of shares net of transaction costs	3 955	59 697	-	-	63 652
Dividend paid	-	(43 059)	-	-	(43 059)
Purchase of treasury shares	-	-	(9 969)	-	(9 969)
Net income for the year 2014	-	-	-	13 613	13 613
Balance at 31 December 2014	22 664	68 924	(9 969)	56 563	138 182
Dividend paid	-	(12 127)	-	-	(12 127)
Net income for the year 2015	-	-	-	17 379	17 379
<b>Balance at 31 December 2015</b>	<b>22 664</b>	<b>56 797</b>	<b>(9 969)</b>	<b>73 942</b>	<b>143 434</b>

Philly Shipyard ASA

# Consolidated Cash Flow Statement

<i>Amounts in USD thousands</i>	<i>Note</i>	<b>2015</b>	2014
Income before tax		<b>32 767</b>	18 887
Unrealized foreign exchange loss	6	<b>1 529</b>	1 979
Depreciation	8	<b>6 471</b>	7 457
Assets written-off	8	<b>156</b>	-
Sale of shipping assets, net of transaction costs	2	<b>(20 014)</b>	-
Gain-on-sale of profit share assets	2	-	(32 337)
Profit in equity-accounted investees	2	<b>(685)</b>	(100)
Accreted interest income		-	(180)
Accreted interest expense		<b>1 813</b>	945
Net financial expense	6	<b>1 889</b>	619
(Increase)/decrease in:			
Vessels-under-construction receivable	3	<b>(23 791)</b>	(87 945)
Work-in-process	3	<b>(40 460)</b>	-
Restricted cash	12	<b>13 002</b>	-
Other current assets	10	<b>6 706</b>	5 855
Other non-current assets	9	<b>(21)</b>	13 566
Increase/(decrease) in:			
Trade payables and accrued liabilities	19,20	<b>13 969</b>	12 418
Customer advances, net	3	<b>27 915</b>	(7 767)
Other non-current liabilities	16	<b>192</b>	180
Income taxes paid	7	<b>(21 695)</b>	(957)
Interest paid, net of capitalized interest	6	<b>(2 292)</b>	(1 678)
Interest received	6	<b>604</b>	1 059
<b>Net cash flow used in operating activities</b>		<b>(1 945)</b>	(67 999)
Investments in property, plant and equipment	8	<b>(4 392)</b>	(5 527)
Sale of shipping assets, net of transaction costs	2	<b>17 959</b>	-
Investment in equity-accounted investees	24	-	(6 025)
Distribution received from equity-accounted investees		-	5 525
Sale of profit share assets, net of transaction costs	2	-	39 731
<b>Net cash flow from investing activities</b>		<b>13 567</b>	33 704
Proceeds from interest-bearing long-term debt, net of fees	15	<b>58 639</b>	-
Portion of interest-bearing long-term debt held in escrow	12	<b>(13 100)</b>	-
Repayment of interest-bearing debt	15	<b>(44 566)</b>	(4 627)
Proceeds from construction loans	15	<b>149 000</b>	-
Repayment of construction loans	15	<b>(120 000)</b>	-
Dividend paid		<b>(12 127)</b>	(43 059)
Proceeds from shares issued, net of transaction costs		-	63 652
Purchase of treasury shares		-	(9 969)
<b>Net cash flow from financing activities</b>		<b>17 846</b>	5 997
<b>Net change in cash and cash equivalents</b>		<b>29 468</b>	(28 298)
Cash and cash equivalents as of 1 January		<b>40 477</b>	68 775
<b>Cash and cash equivalents as of 31 December</b>	<i>11</i>	<b>69 945</b>	40 477

## Philly Shipyard ASA

# Notes to the accounts

### Note 1: Accounting principles

#### STATEMENT OF COMPLIANCE

The consolidated financial statements of Philly Shipyard ASA (f/k/a Aker Philadelphia Shipyard ASA) and its subsidiaries (referred to herein as a group as Philly Shipyard or the Company) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union in effect at each financial reporting period.

These accounts have been approved for issue by the Board of Directors on 4 March 2016.

#### BACKGROUND AND BASIS FOR PREPARATION

Philly Shipyard ASA (PHLY) was formed on 16 October 2007 to be the holding company of Philly Shipyard, Inc. (f/k/a Aker Philadelphia Shipyard, Inc.) (PSI or the Shipyard) which owns and operates a shipyard located in Philadelphia, Pennsylvania, USA. PSI owns certain subsidiaries in connection with its investments in its shipping assets.

PHLY is domiciled in Oslo, Norway. PSI is domiciled in the Commonwealth of Pennsylvania, USA. The subsidiaries of PSI are domiciled in the State of Delaware, USA.

These consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The consolidated financial statements are presented in USD (thousands), except when indicated otherwise.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts in the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Critical accounting estimates and assumptions are as follows:

#### Revenue and Cost Recognition

Philly Shipyard uses the percentage of completion method for accounting for construction contracts which meet the definition of construction contracts under IAS 11. The use of the percentage of completion method requires Philly Shipyard to estimate the stage of completion of contract activity at each statement of financial position date and estimate the ultimate outcome of costs and profit on contracts. Revenue recognition and cost estimates depend upon variables such as steel prices, supplier and subcontractor costs, labor costs and availability, and other

production inputs. Philly Shipyard must also evaluate and estimate the outcome of variation orders, contract claims and requests from customers to modify contractual terms which can involve complex negotiations with customers. Generally, estimates are subject to a greater level of uncertainty when a vessel design is new to Philly Shipyard than if a vessel is being constructed later in a series.

Philly Shipyard does not use the percentage of completion method for accounting for the shipbuilding contracts with Philly Tankers for Hulls 025-028. Under IFRS, Philly Shipyard will recognize the revenues, costs and profit on each of these vessels at its delivery date.

#### Estimates of the Fair Value of its Cash Generating Unit

Philly Shipyard has concluded that it has only one primary cash generating unit and must determine the fair value of its cash generating unit in order to perform impairment tests of its long-lived assets when impairment indicators are present. Philly Shipyard evaluates its investments in the joint venture with Crowley and its investment in Philly Tankers LLC (see note 24) separately from its primary cash generating unit. Determining the fair value of the cash generating unit that includes Philly Shipyard's activities is subject to uncertainty and requires estimates of the recoverable amount which is the higher of the fair value less costs to sell and value in use. The estimated recoverable amount is determined based upon the present value of the future cash flows of the cash generating unit. Generally, there will be uncertainties regarding the timing and amount of cash flows for various reasons, including the costs of production and demand in the U.S. Jones Act shipping market. In addition, Philly Shipyard must determine an appropriate interest rate to discount expected future cash flows.

#### Deferred Income Taxes

Deferred income tax assets are recognized when it is probable that they will be realized. Determining probability requires Philly Shipyard to estimate the sources of future taxable income from operations, including profit sharing agreements and reversing taxable temporary differences. Determining these amounts is subject to uncertainty and is based primarily upon historical earnings, reversals of taxable temporary differences and expected earnings due to contracts in progress and contract backlog. The recognition of deferred tax assets is primarily applicable to U.S. taxes where Philly Shipyard has a net deferred tax asset position.

#### Accruals/Provisions

Philly Shipyard has various accruals/provisions which require management to make estimates. Management uses all available facts and circumstances when determining these estimates including historical experiences as well as input from outside advisors.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects that period or in the period of revision and future periods if the revision affects both current and future periods.

#### PHILLY SHIPYARD ACCOUNTING AND CONSOLIDATION PRINCIPLES Subsidiaries

The consolidated financial statements include the financial statements of the parent company, Philly Shipyard ASA, and its subsidiaries. A subsidiary is an entity in which Philly Shipyard ASA has the power to control and govern the operating and financial policies.

#### Interests in equity-accounted investees

Philly Shipyard's interest in equity-accounted investees comprise its interests in an associate and a joint venture.

Associates are those entities in which Philly Shipyard has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which Philly Shipyard has joint control, whereby Philly Shipyard has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in associates and joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include Philly Shipyard's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

#### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated.

Revenue and costs related to vessel construction transactions with equity-accounted investees are not eliminated. However, profits from revenue transactions accounted for as construction contracts are deferred to the extent of Philly Shipyard's ownership of the investee until the investee either sells or operates the

related vessel at which time the deferred profit is recognized in full when the investee sells the vessel or ratably over the useful life for vessels held for use by the investee. Deferred profit is treated as an adjustment to revenue with a corresponding adjustment to the investment balance for the equity-accounted investee.

For revenue transactions with equity-accounted investees that are not accounted for as construction contracts, any unrealized gains are eliminated prior to delivery of the vessel and treated as an adjustment to the investment to the extent Philly Shipyard's interest in the investees. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### Foreign currency translation and transactions *Functional Currency*

Items included in the financial statements of each entity in Philly Shipyard are initially recorded in the entity's functional currency, i.e. the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity.

The consolidated financial statements are presented in United States dollars (USD), rounded to the nearest thousand, which is the reporting currency for the consolidated accounts and the functional currencies for all the entities within Philly Shipyard.

### *Transactions and Balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rates in effect on the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Foreign exchange differences arising in respect of operating items are included in operating profit in the consolidated income statement, and those arising in respect of financial assets and liabilities are recorded net as a financial item.

## PROPERTY, PLANT AND EQUIPMENT

### *General*

Property, plant and equipment acquired by Philly Shipyard is stated at cost at the date of acquisition. Depreciation is calculated on a straight-line basis and adjusted for impairment charges, if any. The carrying value of the property, plant and equipment on the statement of financial position represents the cost net of government grants and subsidies received (if applicable) less accumulated depreciation and any impairment charges. Cost includes expenditures that are directly attributable to the asset. The cost of self-constructed assets includes the costs of material and direct labor, and any other costs directly attributable to bringing the asset to working condition for its intended use. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to

complete and prepare the asset for its intended use.

Land is not depreciated, but other property, plant, and equipment in use are depreciated on a straight-line basis. Expected useful lives of long-lived assets are reviewed annually and, where they differ significantly from previous estimates, depreciation periods are changed accordingly.

Ordinary repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred. The cost of improvements is included in the asset's carrying amount when it is probable that Philly Shipyard will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset. Improvements are depreciated over the useful lives of the related assets.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

### *Component Cost Accounting*

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component part over its useful life.

## IMPAIRMENT OF LONG-LIVED ASSETS

Property, plant and equipment and other non-current assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable, mainly independent, cash flows. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the higher of the asset's net selling price and its value in use. The value in use is determined by discounted cash flows and fair market value is based on recent third party appraisals.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not to an extent higher than the carrying amount that would have been determined had no impairment loss been recognized in prior years.

## LEASES

Leases of property, plant and equipment, where Philly Shipyard has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability. Finance charges are charged to interest expense. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases net of any incentives received from the lessor is charged to the consolidated income statement on a straight-line basis over the period of the lease when annual installments vary.

When a sale and leaseback results in a finance lease, any gain on the sale is deferred and recognized as income over the lease term. If the leaseback is classified as an operating lease, then any gain is recognized immediately if the sale and leaseback are at fair value.

## CONSTRUCTION CONTRACTS

Philly Shipyard's business activities mainly involve deliveries of vessels under contract to customers. Revenue and expenses related to construction contracts for customers is recognized using the percentage of completion method, based primarily on the scope of completed work compared to estimated overall project scope at the statement of financial position date. The stage of completion is assessed by reference to production hours incurred to total estimated production hours. As soon as the outcome of the construction contract can be estimated reliably, contract revenue and expenses are recognized in the consolidated income statement in proportion to the degree of completion of the contract.

If the final outcome of a contract cannot be estimated reliably, contract revenue is recognized only to the extent costs incurred are expected to be recovered. Any projected losses on future work done under existing contracts are expensed and classified as accrued costs/provisions in the statement of financial position under accrued liabilities. Losses on contracts are recognized in full when identified. Recognized contract profit includes profit derived from change orders and disputed amounts when, in management's assessment, realization is probable and reasonable estimates can be made.

Project costs include costs directly related to the specific contract and indirect costs attributable to the contract. Interest expense is included in project costs to the extent there are qualifying assets, which normally occurs when customer payments lag behind construction progress.

To the extent Philly Shipyard's procurement activities result in it acting as an agent for its customer, the related costs and revenues are presented net within revenue. This situation typically occurs when certain materials are paid for and supplied by the customer directly.

Project revenue is classified as operating revenues in the consolidated income statement. Vessels-under-construction receivable is classified as a current asset in the statement of financial position. Advances from customers are deducted from the value of vessels-under-construction receivable of the contract involved or, to the extent they exceed this value, recorded as customer advances, net. Customer advances, net that exceed contract offsets would be classified as current liabilities.

Variable or contingent revenues are also classified as operating revenues in the consolidated income statement and are recognized under applicable standards when estimable.

#### **VESSEL CONSTRUCTION WHEN CONSTRUCTION CONTRACT ACCOUNTING DOES NOT APPLY**

Vessels under construction pursuant to contracts that do not meet the criteria to be accounted for using the percentage of completion method are capitalized into work-in-process. When the vessel is completed and sold both revenue and cost are recognized. If conditions indicate that the ultimate sales price will be below the estimated cost of the vessel, Philly Shipyard determines the estimated sales price and records an impairment charge as appropriate. The accumulated costs for vessels-under-construction receivables are included in work-in-process.

#### **GOVERNMENT GRANTS AND SUPPORT**

Government grants and support are recognized at their fair value where there is reasonable assurance that amounts will be received and conditions have been met. In some cases, recognition occurs over a period of time as restrictions lapse or as conditions are met. Grants and support related to capital expenditures or construction of assets for Philly Shipyard's account are recognized as a reduction of the related asset cost. For assets held for use, this results in a lower depreciation charge over the useful life of the asset. Grants related to specific programs or projects are recognized as reductions in expense over the period in which work that relates to the grant or support is performed.

#### **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash on hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

#### **INTEREST-BEARING LIABILITIES**

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period the interest bearing liabilities are outstanding. Amortized cost is calculated by taking into account any issuance costs, and any discount or premium.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

#### **INCOME TAXES**

##### **Current Income Taxes**

Income taxes receivable and payable for the current period are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws as used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

##### **Deferred Income Taxes**

Deferred income tax is provided, using the asset/liability method, on all temporary differences at

the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except upon initial recognition of an asset or a liability that does not impact income.

Deferred income tax assets are recognized for all deductible temporary differences, and carry-forward of unused tax losses and credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax losses and credits can be utilized. The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. The expected utilization of tax losses are not discounted when calculating the deferred tax asset.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

#### **PENSION OBLIGATIONS**

Philly Shipyard has a pension plan that covers its non-union employees whereby contributions are paid to a qualifying pension plan. The Company's union employees are participants in a union selected pension plan. Although the Union Plan is a defined benefit pension plan, because the union does not provide information on the Company's employees and their share of the pension assets and obligations, the plan is accounted for in accordance with the requirements of a defined contribution plan. Under defined contribution pension plans, contributions are charged to the consolidated income statement in the period to which the contributions relate.

#### **PROVISIONS**

A provision is recognized when Philly Shipyard has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current estimate.

The amount of the provision is the present value of the risk adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the carrying amount of provision increases in each period and is recognized as interest expense.

#### **FINANCIAL RISK MANAGEMENT**

Philly Shipyard's activities expose it to a variety of financial risks: market risk (including commodity pricing risk, currency risk and price risk), credit risk and cash-flow interest-rate risk. Philly Shipyard's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse

effects on Philly Shipyard's financial performance. Philly Shipyard uses derivative financial instruments to hedge certain risk exposures.

Risk-management is carried out under policies approved by the Board of Directors. The Board of Directors provides principles for overall financial risk management as well as policies covering specific areas such as foreign exchange risk, interest-rate risk, credit risk, and use of derivative financial instruments and non-derivative financial instruments.

##### **Credit Risk**

Due to the nature of Philly Shipyard's operations, revenues and related receivables are typically concentrated amongst a few customers. As of 31 December 2015, Philly Shipyard has three customers: Crowley Maritime Corporation (Crowley), Philly Tankers LLC (Philly Tankers) and Matson Navigation Company, Inc. (Matson). At delivery, the contracts with Philly Tankers will be assigned by Philly Tankers to a subsidiary of Kinder Morgan, Inc. (Kinder Morgan). Philly Shipyard continually evaluates the credit risk associated with customers and their assignees and manages this risk by requiring payment for substantially the entire contractual amount prior to delivering a vessel, including milestone payments upon completion of specified milestones.

##### **Interest Rate Risk**

Philly Shipyard is exposed to fluctuations in interest rates for its variable interest rate debt related to construction financing.

##### **Foreign Exchange Risk**

Philly Shipyard is exposed to foreign currency risk for purchases made in currencies other than the U.S. dollar which primarily relates to materials, supplies and costs related to the services of expatriate workers purchased from Korea, Norway and other countries in Europe. Philly Shipyard attempts to mitigate this risk through its foreign exchange hedging program or passing this risk onto its end customers by having them purchase certain materials directly in foreign currency.

##### **Commodity Price Risk**

Philly Shipyard is exposed to commodity price risk on the steel that it procures in the shipbuilding process. Philly Shipyard seeks to mitigate this risk by attempting to pass this risk on to its end customers by having them purchase materials directly or by including steel escalation clauses in the shipbuilding contracts. Philly Shipyard also seeks to mitigate this risk by attempting to pass the risk on to its suppliers by capping the increase in pricing to be paid by Philly Shipyard.

##### **Capital Management Risk**

Philly Shipyard's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, while maintaining an optimal capital structure to minimize the cost of capital. To meet these capital structure objectives, Philly Shipyard reviews on a quarterly basis with its Board any proposed dividends as well as any needs to raise additional equity for future business opportunities or to reduce debt.

### Funding/Investment Risk

Philly Shipyard regularly monitors the financial condition of its construction financing lenders. Additionally, Philly Shipyard monitors the financial condition of the financial institutions which it uses for cash management services and in which it makes deposits and other investments. Philly Shipyard responds to changes in conditions affecting its financing sources and deposit relationships as situations warrant.

### Liquidity Risk

Liquidity risk is the risk that Philly Shipyard will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Philly Shipyard's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Philly Shipyard's reputation. Philly Shipyard attempts to mitigate this risk through project financing, progress payments from its customers, and material supplied and paid directly by its customers.

### Accounting for Derivative Financial Instruments and Hedging Activities

Derivative financial instruments are recognized initially and in subsequent periods on the statement of financial position at fair value with the resulting gains and losses included in the consolidated income statement.

In accordance with its treasury policy, Philly Shipyard does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Estimates of the fair value for foreign currency contracts are obtained from a third party. The fair value of derivative long-term financial liabilities is disclosed in note 22 regarding financial instruments.

### RELATED PARTY TRANSACTIONS

The Company's policy is that all transactions, agreements and business activities with related parties are conducted on an arm's length basis according to ordinary business terms and conditions.

### SEGMENT INFORMATION

Philly Shipyard currently has one business segment which is building vessels for the U.S. Jones Act market.

### BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders using the weighted average number of shares outstanding during the year. The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while giving effect to all potential dilutive ordinary shares that were outstanding during the period. Philly Shipyard currently has no potentially dilutive shares outstanding.

### EVENTS AFTER 31 DECEMBER 2015

A distinction is made between events both favorable and unfavorable that provide evidence of conditions that existed at the statement of financial position date (adjusting events) and those that are indicative of conditions that arose after the statement of financial position date (non-adjusting events). Financial statements will only be adjusted to reflect adjusting events and not non-adjusting events (although there are disclosure requirements for such events).

### NEW STANDARDS AND INTERPRETATIONS ADOPTED

No new standards or amendments to standards were adopted that are effective for annual reporting periods beginning 1 January 2015.

### Standards issued but not yet adopted

IFRS 9 *Financial Instruments*. IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Philly Shipyard is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 established a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programs*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Philly Shipyard is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15, which could be significant and delay the recognition of revenue on construction contracts compared to how it is currently recognized.

IFRS 16 *Leases*. IFRS 16 replaces existing guidance in IAS 17 *Leases*. IFRS 16 eliminates the current dual accounting model for leases and will establish a single, on-balance sheet accounting model for lessees that is similar to the current finance lease accounting under IAS 17. Philly Shipyard is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

## Note 2: Operating revenues and other income

Operating revenues and other income consist of the following items:

Amounts in USD thousands	2015	2014
Operating revenues	286 330	240 231
Gain-on-sale of shipping assets	20 014	-
Profit in equity-accounted investees	685	100
Gain-on-sale of profit share assets, net	-	32 337
Other income	20 699	32 437
<b>Total operating revenues and other income</b>	<b>307 029</b>	<b>272 668</b>

In 2015, the Company sold its joint venture interests pertaining to Hulls 021 and 022, resulting in a gain-on-sale of USD 20.0 million. The Company recorded the gain as part of other income in the income statement.

The profit in equity-accounted investees represents the Company's 53.7% share of the net income of Philly Tankers which at 31 December 2015 and 31 December 2014 amounted to USD 685 thousand and USD 100 thousand, respectively.

In 2014, the Company sold its profit sharing interests in Hulls 017 and 018 to Crowley for USD 40.0 million. The Company recorded the net gain-on-sale of USD 32.3 million as part of other income in the income statement.

## Note 3: Construction contracts/vessels built for Philly Tankers

The order backlog is USD 983.8 million at 31 December 2015 and represents an obligation to produce vessels that have not yet been delivered to the Company's customers: Crowley, Philly Tankers and Matson. Order backlog consists of future revenues and is subject to adjustments based on change orders as defined in the shipbuilding contracts.

The order backlog on long-term contracts is as follows:

<i>Amounts in USD thousands</i>	<b>Order backlog 31 Dec. 2015</b>	<b>Order intake 2015</b>	Order backlog 31 Dec. 2014	Order intake 2014	Order backlog 31 Dec. 2013
<b>Total</b>	<b>983 819</b>	<b>257 231</b>	1 012 918	256 016	1 017 694

The recognized profits on long-term contracts in process at year-end are as follows:

<i>Amounts in USD thousands</i>	<b>31 Dec. 2015</b>
Contract revenue recognized as revenue to date	<b>431 118</b>
Less contract expenses recognized to date	<b>(400 182)</b>
<b>Recognized profit to date</b>	<b>30 936</b>

Other construction contracts figures:

Contract costs incurred to date for Hulls 023-030	<b>268 682</b>
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Philly Shipyard is recognizing revenues and expenses for the four-tanker order from Crowley (Hulls 021-024) as one project. As of 31 December 2015, the Crowley project was approximately 89% complete.

Contract revenue and expenses recognized to date exclude the four-tanker order from Philly Tankers (Hulls 025-28) which are not accounted for as long-term construction contracts. Revenue, cost and profit for Hulls 025-028 will only be recognized at delivery of each vessel. As of 31 December 2015, the Philly Tankers project was approximately 11% complete.

Philly Shipyard will recognize revenues and expenses for the two-containership order from Matson (Hulls 029-030) as one project. As of 31 December 2015, the Matson project was less than 1% complete and, accordingly, no revenues or expenses for this project had been recognized.

Customer milestone payments excluding repayment of the Philly Tankers note as of 31 December 2015 and 31 December 2014 totaled USD 157.7 million and USD 257.9 million, respectively. Customer milestone payments pertaining to repayment of the Philly Tankers note as of 31 December 2015 and 31 December 2014 totaled USD 44.2 million and USD 0, respectively.

Customer advances, net as of 31 December 2015 and 31 December 2014 totaled USD 54.0 million and 26.1 million, respectively. In 2015, the Philly Tankers project (Hulls 025-028), which is not being accounted for under construction contract accounting rules, has been classified as work-in-process and represents the cash deposits on all four vessels which amounts to a total of USD 49.6 million. For the Matson project (Hulls 029-030), this represents customer milestone payments net of work-in-process which amounts to a net total of USD 4.4 million in 2015.

As of 31 December 2015, PSI has non-cancellable purchase commitments for materials and equipment of approximately USD 171.8 million for the construction of Hulls 021-030.

#### Note 4: Wages and other personnel expenses

Wages and other personnel expenses consist of:

<i>Amounts in USD thousands (except number of employees)</i>	<b>2015</b>	2014
Wages	<b>43 447</b>	40 656
Social security contributions	<b>3 937</b>	3 737
Pension costs (note 18)	<b>1 421</b>	1 435
Other expenses	<b>8 109</b>	7 850
<b>Total gross expense</b>	<b>56 914</b>	53 678
Expenses related to vessel construction	<b>(54 395)</b>	(51 523)
<b>Wages and other personnel expenses, net</b>	<b>2 519</b>	2 155
Average number of employees	<b>580</b>	573
Number of employees at year-end	<b>598</b>	570

Other expenses relate primarily to workers' compensation and employee benefits.

#### Note 5: Other operating expenses

Other operating expenses consist of:

<i>Amounts in USD thousands</i>	<b>2015</b>	2014
Other operating expenses	<b>2 858</b>	4 574
<b>Other operating expenses</b>	<b>2 858</b>	4 574

Other operating expenses primarily relate to selling, general and administrative expenses. Fees to auditors for PHL Y are as follows:

<i>Amounts in USD thousands</i>	2015	2014
Audit fees	111	202
Other audit and attestation fees	11	71
Tax non-attest fees	8	3
<b>Total</b>	<b>130</b>	<b>276</b>

#### Note 6: Financial income and financial expense

<i>Amounts in USD thousands</i>	2015	2014
Interest income	606	835
<b>Financial income</b>	<b>606</b>	<b>835</b>
Interest expense	(2 769)	(509)
Interest expense accreted	(1 813)	(945)
Interest capitalized on construction contracts	2 087	-
Loss on foreign currency forward contracts	(1 529)	(1 979)
Foreign exchange loss, net	(78)	(3 204)
<b>Financial expense</b>	<b>(4 102)</b>	<b>(6 637)</b>
<b>Net financial items</b>	<b>(3 496)</b>	<b>(5 802)</b>

Details regarding the Company's debt facilities and interest rates are provided in note 15 and foreign exchange gain/(loss) details are provided in note 22. In 2015, the loss on foreign currency forward contracts is attributable to mark-to-market of foreign currency forward contracts in Korean Won and the foreign exchange loss, net is attributable to certain cash balances which are held in Norwegian Kroner. In 2014, the loss on foreign currency forward contracts was attributable to mark-to-market of foreign currency forward contracts in Korean Won and the foreign exchange loss, net was attributable to certain cash balances which were held in Norwegian Kroner.

#### Note 7: Taxes

##### Income tax expense/(benefit)

Recognized in the income statement

<i>Amounts in USD thousands</i>	2015	2014
Current tax expense:		
Current year - U.S.	20 438	3 867
Current year - Norway	94	6 636
<b>Total current tax expense</b>	<b>20 532</b>	<b>10 503</b>
Deferred tax expense/(benefit):		
Origination and reversal of temporary differences - U.S.	(6 375)	(8 204)
Origination and reversal of temporary differences - Norway	1 231	2 975
<b>Total deferred tax benefit</b>	<b>(5 144)</b>	<b>(5 229)</b>
<b>Total income tax expense in the income statement</b>	<b>15 388</b>	<b>5 274</b>

Reconciliation of effective tax rate:

<i>Amounts in USD thousands</i>	2015	2014
Income before tax	38 767	18 887
Nominal Norwegian tax rate	27.0%	27.0%
Expected tax expense using nominal Norwegian tax rate	10 467	5 099
Effect of differences between nominal Norwegian tax rate and U.S. federal, state and city tax rate	6 034	(1 735)
Expenses deductible for tax purposes	(1 679)	(938)
Expenses not deductible for tax purposes	772	419
Income subject to tax	-	2 210
Income not subject to tax	(80)	-
Other differences	(126)	219
<b>Total income tax expense in the income statement</b>	<b>15 388</b>	<b>5 274</b>

The effective tax rate differs from the expected tax rate primarily due to the difference between the nominal Norwegian tax rate and U.S. federal, state and city tax rates, and income that was not taxable in Norway.

### Deferred tax assets and liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority, which through 31 December 2015 for PHL Y was primarily Norway, the United States, the State of Delaware, the Commonwealth of Pennsylvania and the city of Philadelphia.

The offset amounts for U.S. items are as follows:

<i>Amounts in USD thousands</i>	2015	2014
Deferred tax assets U.S. tax jurisdictions	11 310	7 321
Deferred tax liabilities U.S. tax jurisdictions	(4 627)	(7 013)
<b>Net deferred tax assets</b>	<b>6 683</b>	<b>308</b>

The gross movement in the deferred income tax account for all tax jurisdictions is as follows:

<i>Amounts in USD thousands</i>	2015	2014
Beginning of the period	308	(4 921)
Deferred tax benefit	5 144	5 229
	<b>5 452</b>	<b>308</b>

The movement in deferred tax assets and liabilities during the year for U.S. tax jurisdictions is as follows:

#### Deferred tax assets

<i>Amounts in USD thousands</i>	Other assets	Tax losses	Total
31 December 2014	7 321	-	7 321
(Charged)/credited to the income statement	(897)	8 032	7 135
<b>31 December 2015</b>	<b>6 424</b>	<b>8 032</b>	<b>14 456</b>

#### Deferred tax liabilities

<i>Amounts in USD thousands</i>	Property, plant and equipment	Projects	Other	Total
31 December 2014	(8 203)	2 180	(990)	(7 013)
(Charged)/credited to the income statement	872	(2 180)	548	(760)
<b>31 December 2015</b>	<b>(7 331)</b>	<b>-</b>	<b>(442)</b>	<b>(7 773)</b>

The movement in deferred tax assets and liabilities during the year for the Norwegian tax jurisdiction is as follows:

#### Deferred tax liabilities

<i>Amounts in USD thousands</i>	Other liabilities	Total
31 December 2014	-	-
Charged to the income statement	(1 231)	(1 231)
<b>31 December 2015</b>	<b>(1 231)</b>	<b>(1 231)</b>

**Note 8: Property, plant and equipment**

**Movements in property, plant and equipment for 2015 are shown below:**

<i>Amounts in USD thousands</i>	Machinery and vehicles	Buildings	Land improvements	Assets-under-construction	Total
<b>Cost at 1 January 2015</b>	40 947	59 117	18 172	508	118 744
Purchases	-	-	-	4 392	4 392
Transfers	3 136	860	-	(3 996)	-
Assets written-off	(1 331)	-	(242)	-	(1 573)
<b>Cost at 31 December 2015</b>	<b>42 752</b>	<b>59 977</b>	<b>17 930</b>	<b>904</b>	<b>121 563</b>
<b>Depreciation and impairment losses at 1 January 2015</b>	35 287	23 746	6 817	-	65 850
Depreciation	4 203	2 507	761	-	7 471
Assets written-off	(1 257)	-	(160)	-	(1 417)
<b>Depreciation and impairment losses at 31 December 2015</b>	<b>38 233</b>	<b>26 253</b>	<b>7 418</b>	<b>-</b>	<b>71 904</b>
<b>Book value at 31 December 2015 <sup>(1)</sup></b>	<b>4 519</b>	<b>33 724</b>	<b>10 512</b>	<b>904</b>	<b>49 659</b>

<sup>(1)</sup> Book value of assets under financial leasing agreements recorded in the statement of financial position (see note 17):	2 068	9 844	8 816	-	20 728
Depreciation period	3-12 years	7-30 years	20 years		
Depreciation method	Straight-line	Straight-line	Straight-line		

**Movements in property, plant and equipment for 2014 are shown below:**

<i>Amounts in USD thousands</i>	Machinery and vehicles	Buildings	Land improvements	Assets-under-construction	Total
Cost at 1 January 2014	39 338	55 292	18 172	751	113 553
Purchases	-	-	-	5 527	5 527
Transfers	1 609	4 161	-	(5 770)	-
Assets written-off	-	(336)	-	-	(336)
Cost at 31 December 2014	40 947	59 117	18 172	508	118 744
Depreciation and impairment losses at 1 January 2014	31 150	21 523	6 056	-	58 729
Depreciation	4 137	2 559	761	-	7 457
Assets written-off	-	(336)	-	-	(336)
Depreciation and impairment losses at 31 December 2014	35 287	23 746	6 817	-	65 850
<b>Book value at 31 December 2014 <sup>(1)</sup></b>	<b>5 660</b>	<b>35 371</b>	<b>11 355</b>	<b>508</b>	<b>52 894</b>
					<b>49 642</b>

<sup>(1)</sup> Book value of assets under financial leasing agreements recorded in the statement of financial position (see note 17):	2 795	11 075	9 407	-	23 277
Depreciation period	3-12 years	7-30 years	20 years		
Depreciation method	Straight-line	Straight-line	Straight-line		

**Leased plant and machinery**

The Company leases production equipment and land improvements under a number of finance lease agreements. At the end of each of the leases, the Company has the option to purchase the equipment at a beneficial price. The leased equipment secures lease obligations (see note 17).

**Property, plant and equipment under construction**

Assets-under-construction primarily relate to upgrades in facilities and equipment.

**Depreciation**

PHLY's practice is to present its annual depreciation expense on a separate line item in its consolidated income statement when it is building vessels-under-construction contracts.

During 2015, PHLY, under IFRS, did not recognize revenue or cost for Hulls 025-028 during construction. Instead, PHLY will recognize 100% of the revenue and cost for each of these vessels at delivery. Due to the accounting treatment of this project, the depreciation expense allocated to construction of these vessels was included as work-in-process for Hulls 025-028.

A reconciliation of depreciation on property, plant and equipment to depreciation recognized in the consolidated income statement is as follows:

<i>Amounts in USD thousands</i>	2015	2014
Depreciation of property, plant and equipment	7 471	7 457
Amount included as cost of vessels for Hulls 025-028	(1 000)	-
<b>Net depreciation expense</b>	<b>6 471</b>	<b>7 457</b>

#### Determination of recoverable amounts/fair value

Due to the market and company specific developments including operating results and backlog, no impairment indicators were identified in 2015 and 2014 for property, plant and equipment.

#### Sale leaseback

The assets sold and leased back from PSDC are being accounted for as a finance lease and as such the gain is being deferred and recognized over the assets' useful lives. As part of the 2011 Authorization Agreement, PSDC purchased certain shipyard assets from PHL Y for a purchase price of USD 42 million with funds provided by the Commonwealth of Pennsylvania. PHL Y leases back those same assets from PSDC subject to the terms of its shipyard lease and the Authorization Agreement.

#### Note 9: Other non-current assets

Other non-current assets consist of the following items:

<i>Amounts in USD thousands</i>	31 Dec. 2015	31 Dec. 2014
Prepaid lease payments and deposits	229	208
<b>Total</b>	<b>229</b>	<b>208</b>

Prepaid lease payments and deposits are unsecured and have no collateral.

#### Note 10: Prepayments and other receivables

Prepayments and other receivables consist of the following items:

<i>Amounts in USD thousands</i>	31 Dec. 2015	31 Dec. 2014
Prepayments to suppliers/other	1 785	1 435
Revenue in excess of billings	2 055	-
Prepayments to Crowley joint venture	697	766
Prepayments for Crowley joint venture transaction costs	578	-
Claims receivable	361	7 871
Receivable from related party	200	-
Trade receivables	263	518
<b>Total</b>	<b>5 939</b>	<b>10 590</b>

Prepayments to Crowley joint venture represent certain costs the parties have agreed to advance proportionately. Upon delivery of each vessel the amounts advanced by PSI will be reimbursed by the vessel owner.

Claims receivable represents amounts the Company anticipates recovering from vendors.

#### Note 11: Cash and cash equivalents

Cash and cash equivalents consist of the following items:

<i>Amounts in USD thousands</i>	31 Dec. 2015	31 Dec. 2014
Cash and bank deposits	69 945	40 477
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>69 945</b>	<b>40 477</b>

Cash and bank deposits are invested in overnight deposits.

## Note 12: Restricted cash

### Restricted cash consists of the following items:

<i>Amounts in USD thousands</i>	31 Dec. 2015	31 Dec. 2014
Restricted cash (non-current)	13 100	7 002
Restricted cash (current)	7 000	13 000
<b>Total</b>	<b>20 100</b>	<b>20 002</b>

Restricted cash represents an escrow account established in 2011 in conjunction with the SeaRiver contract and a custody account established in 2015 in connection with the Welcome Fund loan.

PSI deposited USD 13.1 million into the Welcome Fund custody account upon the delivery of Hull 021. This amount is expected to be released upon maturity of the Welcome Fund loan in March 2020.

USD 13.0 million of the SeaRiver escrow account was released upon delivery of Hull 020 in March 2015. The remaining USD 7.0 million of the SeaRiver escrow account is expected to be released in March 2016.

## Note 13: Earnings per share

### Basic and diluted

Basic and diluted earnings per share are calculated by dividing the income attributable to equity holders of the Company by the weighted average number of ordinary shares.

<i>Amounts in USD thousands (except share amounts and earnings per share)</i>	2015	2014
Income attributable to equity holders of the Company	17 379	13 613
Weighted average number of ordinary shares in issue	12 107 901	12 170 960
<b>Basic and diluted earnings per share (USD)</b>	<b>1.44</b>	<b>1.12</b>

At 31 December 2015, PHLV had 12,107,901 ordinary shares (excluding 466,865 treasury shares) at a par value of NOK 10 per share. There were no share issuances or repurchases in 2015. At 31 December 2014, PHLV had 12,107,901 ordinary shares at a par value of NOK 10 per share which reflected the share issuances of 2,250,000 on 10 February 2014 and 159,461 on 27 March 2014 less 466,865 shares repurchased between 1 July 2014 and 31 December 2014 plus the existing shares of 10,165,305. Based on these issuances, a weighted average of 12,170,960 ordinary shares was used in the calculation of earnings per share for the year ended 31 December 2014.

There were no potentially dilutive securities outstanding as of 31 December 2015 and 2014.

## Note 14: Paid in capital

The current share capital (excluding 466,865 treasury shares) is 12,107,901 shares issued and outstanding as of 31 December 2015, each with a par value of NOK 10, fully paid. As of 31 December 2015, there are no additional authorized shares.

<i>Amounts in USD thousands</i>	Share capital	Share premium	Paid in capital
31 December 2013	18 709	52 286	70 995
Issuance of shares, net of transaction costs	3 955	59 697	63 652
Dividends	-	(43 059)	(43 059)
31 December 2014	22 664	68 924	91 588
Dividends	-	(12 127)	(12 127)
<b>31 December 2015</b>	<b>22 664</b>	<b>56 797</b>	<b>79 461</b>

### Summary of purchases of treasury shares:

<i>Amounts in USD thousands (except number of shares)</i>	Number of shares	Consideration
Treasury shares at 1 January 2014	-	-
Purchases	466 865	(9 969)
Treasury shares at 1 January 2015	466 865	(9 969)
Purchases	-	-
<b>Treasury shares at 31 December 2015</b>	<b>466 865</b>	<b>(9 969)</b>

#### Note 15: Interest-bearing debt

This note provides information about PHLY's contractual terms of interest-bearing loans and borrowings. For more information about PHLY's exposure to interest rate and foreign currency risk, see note 22.

<i>Amounts in USD thousands</i>	31 Dec. 2015	31 Dec. 2014	
<b>Interest-bearing long-term debt:</b>			
Finance lease liability	503	726	
Welcome Fund loan, net of fees	58 840	-	
Note payable to Philly Tankers	-	10 753	
<b>Total interest-bearing long-term debt</b>	<b>59 343</b>	<b>11 479</b>	
<b>Interest-bearing short-term debt and construction loans:</b>			
Finance lease liability	223	212	
Note payable to Philly Tankers	13 764	45 552	
Construction loans	29 000	-	
<b>Total interest-bearing short-term debt and construction loans</b>	<b>42 987</b>	<b>45 764</b>	
<b>Unsecured loans as of 31 December 2015</b>	<b>Maturity</b>	<b>Balance</b>	<b>Interest rate</b>
Note payable to Philly Tankers	March 2016	13 764	3.56%
<b>Total unsecured loans</b>		<b>13 764</b>	

On 6 March 2014, the Company entered into a loan agreement with Caterpillar Financial Services Corporation (Cat Financial) for a USD 120 million loan facility for construction financing on the two remaining product tankers under contract with Crowley Maritime Corporation (Hulls 023-024). The loan is subject to a maximum borrowing amount of USD 58 million per vessel and is secured by a first lien on Hulls 023-024. The loan accrues interest at three-month LIBOR plus 3.0% as defined in the loan agreement. USD 29 million is drawn under this facility as of 31 December 2015 (USD 0 for 31 December 2014).

On 28 December 2015, the Company executed a commitment letter with Cat Financial for a USD 150 million loan facility for construction financing on the four product tankers under contract with Philly Tankers LLC (Hulls 025-028). The commitment letter provides that the loan will be subject to a maximum borrowing amount of USD 75 million per vessel and will be secured by a first lien on Hulls 025-028. The commitment letter provides further that the loan will accrue interest at three-month LIBOR plus 3.0% as defined in the commitment letter. The Company expects to enter into definitive agreements for this facility in Q1 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% 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 initially secured by a second lien on Hulls 021-024 during construction. As originally contemplated, the lender would receive a lien on Philly Shipyard's economic interests in these vessels under the PHLY-Crowley joint venture upon their delivery. Because these economic interests are being bought-out by Marathon as each ship is delivered, the lender released its lien on these economic interests and Philly Shipyard provided the following replacement collateral to the lender: (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 the term loan at 31 December 2015.

In return for shares in Philly Tankers, the Company contributed a promissory note with a face value of USD 58 million to the equity capital of Philly Tankers. This note will be reduced dollar-for-dollar as the shipyard spends its own funds on the construction of Hulls 025 and 026. As this note was issued as an interest-free instrument, the Company has discounted its value and is imputing interest expense on the discounted amount at a rate of 3.56% per annum. The full amount is due and payable on the earlier of the date of delivery of Hull 026 or 30 November 2018. The dollar-for-dollar reductions commenced in the third quarter of 2015 with a total reduction of USD 44.2 million through 31 December 2015.

#### Undrawn credit facilities

As of 31 December 2015, PSI has USD 4.8 million of undrawn credit facilities with a bank, out of a total available balance of USD 6.0 million. The drawn amount is being used for letters of credit.

#### Note 16: Other non-current liabilities

<i>Amounts in USD thousands</i>	31 Dec. 2015	31 Dec. 2014
Deferred real estate tax liability	7 402	7 210
<b>Total</b>	<b>7 402</b>	<b>7 210</b>

In connection with the PSDC agreement, the City of Philadelphia agreed to temporarily defer USD 8.0 million in real estate tax payments due from PSI over three years (2011-2013). The full deferred amount is due in 2017. The Company has discounted the deferred payments and is imputing interest expense over the deferral period.

**Note 17: Operating and finance lease liabilities**

**Non-cancellable operating lease rentals are payable as follows as of 31 December:**

<i>Amounts in USD thousands</i>	<b>31 Dec. 2015</b>	31 Dec. 2014
Less than one year	<b>290</b>	238
Between one and five years	<b>80</b>	275
<b>Total</b>	<b>370</b>	513

The operating leases are for facilities, vehicles and printing and copying equipment.

**Finance lease liabilities are payable as follows as of 31 December:**

<i>Amounts in USD thousands</i>	<b>Payments 2015</b>	<b>Interest 2015</b>	<b>Principal 2015</b>	Payments 2014	Interest 2014	Principal 2014
Less than one year	<b>256</b>	<b>33</b>	<b>223</b>	256	44	212
Between one and five years	<b>532</b>	<b>29</b>	<b>503</b>	788	62	726
<b>Total</b>	<b>788</b>	<b>62</b>	<b>726</b>	1 044	106	938

The Company has a finance lease for priming equipment.

The Company operates on land leased from PSDC through April 2018. Lease payments include rent, taxes and operating expenses. The lease payments are subject to an annual revision based on PSDC's operating expenses. The Company has options to renew the lease for three consecutive periods of 20 years each and one final period of 19 years. The Company can acquire the land for USD 1 after the expiration of all renewal periods. Lease payments for rent due under the finance lease are USD 1 per year.

PSDC has the right to terminate the lease 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 5-year term under certain circumstances. Based on its current construction schedule and backlog, PHLY expects that PSI will have at least 200 full-time employees on staff for the foreseeable future.

**Note 18: Pension costs**

**Pension costs recognized in the income statement:**

<i>Amounts in USD thousands</i>	<b>31 Dec. 2015</b>	31 Dec. 2014
Contribution plans (employer's contribution)	<b>1 421</b>	1 435
<b>Total net pension costs</b>	<b>1 421</b>	1 435

The Company has a defined contribution plan for its non-union employees which provides for a Company contribution based on a fixed percentage of certain employee contributions plus a discretionary percentage of salaries. In addition, the Company's union employees are participants in a multi-employer union selected pension plan (Union Plan). The Company contributes a fixed amount per hour worked to the Union Plan. If the Company were to terminate its relationship with the Union Plan, the Company could be statutorily liable for a termination liability calculated at the termination date. The termination liability at 31 December 2015 was USD 3.5 million. Currently, the Company has no plans to terminate this relationship. Thus, no termination liability has been recognized in the financial statements. The Company estimates that it will contribute approximately USD 0.8 million to the Union Plan in 2016. The Company's contributions over the last five years represented 0.2% of total contributions to the Union Plan for the same five-year period.

**Note 19: Other provisions – warranties**

<i>Amounts in USD thousands</i>	<b>31 Dec. 2015</b>	31 Dec. 2014
Current balance as of 1 January	<b>1 507</b>	746
Provisions made during the period	<b>1 100</b>	1 000
Provisions released during the period	<b>(500)</b>	-
Provisions used during the period	<b>(606)</b>	(239)
<b>Current balance as of 31 December</b>	<b>1 501</b>	1 507

The warranty provision relates to the warranty work for vessels (Hulls 016-022) which were delivered through 31 December 2015.

**Note 20:** Trade payables and accrued liabilities

Trade payables and accrued liabilities comprise the following items:

<i>Amounts in USD thousands</i>	31 Dec. 2015	31 Dec. 2014
Ship material and subcontracting accruals	32 339	16 411
Trade payables	7 302	8 471
Employee-related cost accruals	4 672	4 658
Overhead and capital projects accruals	3 120	2 389
<b>Total</b>	<b>47 433</b>	<b>31 929</b>

**Note 21:** Net interest-bearing debt

Net interest-bearing debt comprise the following items at 31 December:

<i>Amounts in USD thousands</i>	31 Dec. 2015	31 Dec. 2014
Interest-bearing long-term debt (see note 15)	59 343	11 479
+ Interest-bearing short-term debt (see note 15)	13 987	45 764
+ Construction loans (see note 15)	29 000	-
<b>Total interest-bearing debt</b>	<b>102 330</b>	<b>57 243</b>
- Cash and cash equivalents (see note 11)	(69 945)	(40 477)
- Restricted cash (see note 12)	(20 100)	(20 002)
<b>Total interest-bearing assets</b>	<b>(90 045)</b>	<b>(60 479)</b>
<b>Net interest-bearing debt (+)/assets (-)</b>	<b>12 285</b>	<b>(3 236)</b>

Net interest-bearing debt is defined by the Company to be total interest-bearing debt less interest-bearing receivables, cash and cash equivalents, and restricted cash.

**Note 22:** Financial instruments

Exposure to credit, liquidity, currency and interest rate risks arise in the normal course of the Company's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates for business purposes.

**Credit risk**

The carrying amount of financial assets represents the maximum credit exposure. At 31 December 2015 and 2014, respectively, the maximum exposure to credit risk is as follows:

<i>Amounts in USD thousands</i>	31 Dec. 2015	31 Dec. 2014
Vessels-under-construction receivable	111 736	87 945
Cash and cash equivalents	69 945	40 477
Work-in-process	41 460	-
Restricted cash	20 100	20 002
Trade receivable	263	518
<b>Total</b>	<b>243 504</b>	<b>148 942</b>

### Liquidity risk:

The following are the contractual maturities of financial liabilities including interest payments:

Amounts in USD thousands	31 December 2015						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Note payable to Philly Tankers	13 764	(13 846)	(13 846)	-	-	-	-
Finance lease	726	(788)	(128)	(128)	(256)	(276)	-
Construction loans	29 000	(29 067)	(29 067)	-	-	-	-
Welcome Fund loan	60 000	(66 720)	(796)	(805)	(1 597)	(63 522)	-
Deferred real estate tax liability	7 402	(8 000)	-	-	(8 000)	-	-
Trade payables	7 302	(7 302)	(7 302)	-	-	-	-
<b>Total</b>	<b>118 194</b>	<b>(125 723)</b>	<b>(51 139)</b>	<b>(933)</b>	<b>(9 853)</b>	<b>(63 798)</b>	<b>-</b>

Amounts in USD thousands	31 December 2014						
	Book value	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Note payable to Philly Tankers	56 305	(58 000)	(6 062)	(39 490)	(12 448)	-	-
Finance lease	938	(1 044)	(128)	(128)	(256)	(532)	-
Deferred real estate tax liability	7 210	(8 000)	-	-	-	(8 000)	-
Trade payables	8 471	(8 471)	(8 471)	-	-	-	-
<b>Total</b>	<b>72 924</b>	<b>(75 515)</b>	<b>(14 661)</b>	<b>(39 618)</b>	<b>(12 704)</b>	<b>(8 532)</b>	<b>-</b>

Book values included in the above tables are gross loan amounts.

### Currency risk

The Company incurs foreign currency risk on purchases that are denominated in a currency other than USD. The currencies giving rise to this risk are primarily EUR (Euro), NOK (Norwegian Kroner) and KRW (Korean Won).

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which hedge accounting is not applied are recognized in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognized as part of net financial items (see note 6). The fair value of exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 31 December 2015 was USD 3.5 million recognized in current liabilities.

### Exposure to currency risk

The Company's exposure to currency risk at 31 December 2015 and 2014 was as follows based on the following notional amounts:

Amounts in USD thousands	2015			2014		
	EUR	KRW	NOK	EUR	KRW	NOK
<b>Gross balance sheet exposure</b>						
Trade payables (-)	(88)	-	(10)	(46)	(2 693)	(21)
Cash	-	-	9 961	-	-	10 344
<b>Gross balance sheet exposure</b>	<b>(88)</b>	<b>-</b>	<b>9 951</b>	<b>(46)</b>	<b>(2 693)</b>	<b>10 323</b>
Estimated forecast expenses (-)	(3 000)	(43 998)	(296)	(2 267)	(19 521)	-
<b>Gross exposure</b>	<b>(3 000)</b>	<b>(43 998)</b>	<b>(296)</b>	<b>(2 267)</b>	<b>(19 521)</b>	<b>-</b>
Forward exchange contracts	3 704	48 744	284	2 108	54 426	19
<b>Net exposure</b>	<b>616</b>	<b>4 746</b>	<b>9 939</b>	<b>(205)</b>	<b>32 212</b>	<b>10 342</b>

### Sensitivity analysis

In managing interest rate and currency risks, the Company aims to reduce the impact of short-term fluctuations on its earnings. Over the longer term, however, permanent changes in interest and foreign exchange rates would have an impact on consolidated earnings.

At 31 December 2015 it is estimated that a 10% strengthening of the USD against other foreign currencies would have increased the Company's income before tax by USD 124 thousand. At 31 December 2014 it is estimated that a 10% strengthening of the USD against other foreign currencies would have increased the Company's income before tax by USD 67 thousand.

### Exposure to interest rate risk

It is estimated that a general increase of one percentage point in interest rates would not impact the Company's income before tax for 2015 and would not have impacted the Company's income before tax for 2014. None of the Company's financial assets and liabilities are measured at fair value.

### Fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

<i>Amounts in USD thousands</i>	Carrying amount 2015	Fair value 2015	FV hierarchy level 2015	Carrying amount 2014	Fair value 2014	FV hierarchy level 2014
Construction loans	(29 000)	(29 000)	2	-	-	-
Welcome Fund loan	(60 000)	(56 040)	2	-	-	-
Note payable to Philly Tankers	(13 764)	(13 764)	2	(56 305)	(56 305)	2
Finance lease liabilities	(726)	(669)	2	(938)	(826)	2
Forward exchange contracts	(3 451)	(3 451)	2	(1 922)	(1 922)	2

The fair value of the construction loans is calculated by using the existing three-month LIBOR rate plus an applicable market-based margin of 3.0%.

The fair value of the Welcome Fund loan is calculated by using the difference between a 4.0% market rate and the actual 2.625% loan rate.

The fair value of the interest-free note payable to Philly Tankers is calculated based on the present value of future principal and accreted interest cash flows discounted at a market rate of 3.56% for both 2015 and 2014.

The fair value of fixed-interest long-term debt (i.e. finance lease liabilities) is calculated based on the present value of future principal and interest cash flows discounted at a market rate of 4.0% for 2015 and 5.0% for 2014.

### Financial instruments measured at fair value:

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Forward exchange contracts	<i>Market comparison technique:</i> The fair values are based on banker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not applicable.	Not applicable.

### Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

<i>Amounts in USD thousands</i>	2015	2014
Profit sharing receivable at beginning of year:	-	7 213
Accreted interest, included in financial income	-	180
Sale of profit sharing receivable	-	(7 393)
<b>Profit sharing receivable at end of year</b>	-	-

There were no transfers from Level 3 in 2015.

In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

The Company has categorized its assets and liabilities that are recorded at fair value, based on the priority of the input to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets and liabilities fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. The categories are described below:

**Level 1.** Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we have the ability to access.

**Level 2.** Assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Examples of Level 2 inputs include quoted prices for identical or similar assets or liabilities in non-active markets and pricing models whose inputs are observable for substantially the full term of the asset or liability.

**Level 3.** Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

**Note 23:** Shares owned or controlled by the President and Chief Executive Officer, Board of Directors and Senior Management of PHL Y

**Shares owned in Philly Shipyard ASA as of 31 December 2015**

Name	Position	Number of shares held
Elin Karfjell	Board Member	1 200
Steinar Nerbovik	President and CEO	1 000
Scott Clapham	Senior Vice President	1 000

There is no share option agreement between Philly Shipyard ASA and Senior Management or Directors.

**Remuneration to the Board of Directors for the year ended 31 December 2015**

Name	Position	Remuneration	
		(NOK)	(USD)
Kristian Rokke	Chairman	781 688	96 983
Elin Karfjell	Board Member	215 000	26 663
Amy Humphreys	Board Member	215 000	26 663
Audun Stensvold	Deputy Board Chairman	215 000	26 663
<b>Sum Directors' fees</b>		<b>1 426 688</b>	<b>176 972</b>

No Board members received any remuneration other than Directors' fees. The Board remuneration for Kristian Rokke includes the fee for his role as Executive Chairman until the Annual General Meeting on 15 April 2015. The Board remuneration for Audun Stensvold is paid to Aker ASA.

**Remuneration to the audit committee**

The audit committee of PHL Y is comprised of Elin Karfjell (Chairperson) and Audun Stensvold. Remuneration for the Chairperson is NOK 45,000 (USD 5,581) and for each member is NOK 35,000 (USD 4,340). The audit committee remuneration for Audun Stensvold is paid to Aker ASA.

**Remuneration to the nomination committee**

The nomination committee of Philly Shipyard ASA has the following members: Leif-Arne Langoy (Chairman), Arild Støren Frick and Gerhard Heiberg. Remuneration earned by each member of the committee in 2015 was NOK 33,000 (USD 4,092). The nomination committee remuneration for Arild Støren Frick is paid to Aker ASA.

**Guidelines for remuneration to the President and CEO and members of the Executive Team**

The basis of the remuneration of the President and CEO and Members of the Executive Team has been developed in order to create a performance-based system. This system of reward is designed to contribute to the achievement of good financial results and increase shareholder value.

The President and CEO and members of the Executive Team receive a base salary. In addition, a variable pay may be awarded in accordance with a variable pay program which was implemented in 2007. This variable pay program is based on the achievement of financial and personal performance targets and leadership performance in accordance with the Company's values.

The variable pay program for the President and CEO represents a potential for an additional variable pay up to 70% of base salary depending on the achievement of defined short-term and long-term results such as financial targets (profit and working capital) and personal targets (project targets, development of commercial solutions, alignment with values and improvement of HSE).

The variable pay program for other members of the Executive Team represents a potential for an additional variable pay in the range of 20% to 60% of base salary depending on the achievement of the same factors described for the President and CEO.

The President and CEO and Executive Team participate in the standard pension and insurance schemes, applicable to all employees. The Company practices standard employment contracts and standard terms and conditions regarding notice period and severance pay for the President and CEO and members of the Executive Team.

The Company does not offer share option programs to the Executive Team.

**Remuneration paid to Executive Management for 2015**

<i>Amounts in USD</i>			Base salary	Variable pay	Pension contribution	Other benefits	Total remuneration	Severance pay
Steinar Nerbovik	President and CEO	Jan - Dec	415 000	101 000	32 000	69 408	617 408	12 months
Jan Ivar Nielsen	CFO	5 Oct - Dec	55 000	-	3 462	5 079	63 541	12 months
Jeffrey Theisen	CFO	Jan - 17 June	150 393	91 831	12 498	8 020	262 742	12 months

**Remuneration paid to Executive Management for 2014**

<i>Amounts in USD</i>			Base salary	Variable pay	Pension contribution	Other benefits	Total remuneration	Severance pay
Steinar Nerbovik	President and CEO	9 Apr - Dec	421 486	-	1 231	97 424	520 141	12 months
Kristian Rokke	President and CEO	Jan - 8 Apr	81 912	116 269	7 000	17 105	222 286	6 months
Jeffrey Theisen	CFO	Jan - Dec	268 149	74 622	12 600	16 035	371 406	12 months

## Note 24: Joint venture/equity-accounted investees

### Joint venture with Crowley

On 6 November 2013, Philly Shipyard executed definitive agreements for a joint venture with Crowley Maritime Corporation and certain of its affiliates (Crowley) related to the ownership, operation and chartering of four product tankers (Hulls 021-024). The agreements provide that Crowley will maintain control over the ownership, technical operation and commercial management of the vessels. Two vessels were delivered in 2015 with the remaining two vessels to be delivered in 2016.

On 21 September 2015, Philly Shipyard entered into definitive agreements with a third party for the buy-out of its interest in the joint venture with Crowley. The buy-out of Philly Shipyard's interest occurs on the delivery of each vessel.

Due to the nature of the transactions, approximately 49.9% of the gross margin on each of the Crowley vessels is deferred and the total estimated deferred margin for all four vessels will be recognized pro-rata (25% per ship) upon delivery of each vessel. The Company deferred USD 10.9 million and USD 9.0 million in profit which is recorded as a reduction in revenues and included in vessels-under-construction receivable on the statement of financial position as of 31 December 2015 and 31 December 2014, respectively. Upon delivery of the first two Crowley vessels in 2015, USD 10.9 million of deferred profit was recognized as an increase to revenue during the year ended 31 December 2015.

In addition, upon delivery of the first two Crowley vessels in 2015, USD 20.0 million was recognized as a gain-on-sale on the buy-out in Philly Shipyard's interest in the joint venture with Crowley which is calculated based on the estimated total investment in the joint venture of approximately USD 518 million and recorded as other income in the income statement for the year ended 31 December 2015. The actual amount of investment will depend upon the total capital cost of the vessels to the joint venture.

### Equity-accounted investees

#### Philly Tankers

In July 2014, Philly Tankers completed a USD 65.025 million private placement with a subsequent listing on the Norwegian OTC.

Prior to the Philly Tankers private placement, in return for 62,475 shares in Philly Tankers, the Company contributed a promissory note with a face value of USD 58 million to the equity capital of Philly Tankers. This note will be reduced dollar-for-dollar as the shipyard spends its own funds on the construction of Hulls 025 and 026. As this note was issued as an interest-free instrument, the Company has discounted its value and is imputing interest expense on the discounted amount at a rate of 3.56% per annum. The full amount is due and payable on the earlier of the date of delivery of Hull 026 or 30 November 2018. The dollar-for-dollar reductions commenced in the third quarter of 2015 with a total reduction of USD 44.2 million through 31 December 2015.

In addition, as part of the Philly Tankers private placement, the Company invested USD 6.025 million in cash in exchange for an additional 6,025 shares in Philly Tankers. As the initial shareholder of Philly Tankers, the Company was paid a cash distribution of USD 5.525 million out of the proceeds of the Philly Tankers private placement.

On 10 August 2015, Philly Tankers executed definitive agreements with a third party for the assignment of its existing contracts for four product tankers (Hulls 025-028) which are currently planned to be delivered between November 2016 and November 2017. Each of the contracts will be assigned by Philly Tankers immediately prior to the delivery of the relevant vessel and a gain-on-sale will be recognized upon each delivery. Philly Shipyard will recognize its portion of the gain as profit in equity-accounted investees recorded as other income on the income statement. Proceeds from the assignments are expected to be distributed to Philly Tankers' shareholders after delivery of Hull 028.

As of 31 December 2015, the Company owns 53.7% of the outstanding shares of Philly Tankers. The Company has performed an analysis of its ownership interests and voting rights in the articles of association in Philly Tankers and concluded that it does not control the relevant activities of Philly Tankers. Therefore, the Company accounts for the investment using the equity method and does not consolidate Philly Tankers.

<i>Amounts in USD thousands</i>	2015	2014
<b>Percentage ownership interest</b>	<b>53.7%</b>	53.7%
Non-current assets	93 754	30 753
Current assets	20 518	82 213
Non-current liabilities	-	-
Current liabilities	(105)	(75)
<b>Net assets (100%)</b>	<b>114 167</b>	112 891
<b>Group's share of net assets (53.7%)</b>	<b>61 336</b>	60 651
Adjustments for carrying value of investment:		
PSI share of transaction costs	1 157	1 157
Deferred shipbuilding profit	(5 848)	(5 848)
<b>Carrying amount of equity-accounted investees</b>	<b>56 645</b>	55 960
Revenue	-	-
Income from operations (100%)	1 275	185
Other comprehensive income (100%)	-	-
Total comprehensive income (100%)	1 275	185
<b>Group's share of income and total comprehensive income (53.7%)</b>	<b>685</b>	100

**Note 25: PHL Y companies**

Company name	City/State	Incorporation Country	Ownership %
Philly Shipyard, Inc.	Pennsylvania	USA	100.0%
APSI Shipholding 017, Inc.	Delaware	USA	100.0%
APSI Shipholding 018, Inc.	Delaware	USA	100.0%
APSI Tanker Holdings, Inc.	Delaware	USA	100.0%
APSI Member 021, Inc.	Delaware	USA	100.0%
APSI Member 022, Inc.	Delaware	USA	100.0%
APSI Member 023, Inc.	Delaware	USA	100.0%
APSI Member 024, Inc.	Delaware	USA	100.0%
APSI Tanker Holdings II, LLC	Delaware	USA	100.0%

**Note 26: Government grants, commitments and contingencies**

**Government grants**

For the year ended 31 December 2015, the Shipyard received USD 35 thousand reimbursement of employee training costs from various governmental agencies (USD 44 thousand reimbursement in 2014).

**Other commitments and contingencies**

PSI is required to pay a common area maintenance charge each month of approximately USD 54 thousand, subject to escalation, through the term of its shipyard lease.

On 13 September 2002, the Shipyard finalized an agreement with the City of Philadelphia (and others), whereby the parties agreed to the Real Estate and Use and Occupancy Tax for the years 2001 through 2017. The Shipyard is committed to a fixed assessment of approximately USD 3.3 million to USD 3.6 million per year, commencing in 2003. In connection with the closing of certain other transactions with PSDC in March 2011, the City of Philadelphia agreed to temporarily defer USD 8.0 million in tax payments due from PSI over three years (2011-2013). The full deferred amount is due in 2017 (see note 16).

**Legal matters**

The Company is involved in various legal disputes in the ordinary course of business related primarily to personal injury matters, employment matters and commercial matters. Provisions have been made to cover the expected outcomes when it is probable that a liability has been incurred and the amount is reasonably estimable. Although the final outcome of these matters is subject to uncertainty, in the Company's opinion the ultimate resolution of such legal matters will not have a material adverse effect on the Company's financial position or results of operations.

**Note 27: Transactions, guarantees and agreements with related parties and concentration of business**

Aker Capital II AS (f/k/a Convento Capital Fund AS), an investment fund controlled by Aker ASA, is the majority shareholder in PHL Y owning 57.6% of the total outstanding shares of PHL Y as of 31 December 2015. In addition, Kristian Rokke, the Chairman of the Board of PHL Y as of 31 December 2015, is a Board member of TRG Holding AS, which owns 66.7% of the total outstanding shares of Aker ASA as of 31 December 2015. The Company believes that related party transactions are made on terms equivalent to those that prevail in arm's length transactions.

**Transactions**

The Company has service agreements with Aker ASA and certain of its affiliates which provide specified consulting, accounting, tax, financial and administrative services. The Company also has a secondment agreement with Aker ASA which establishes a framework for the mutual secondment of personnel between their respective organizations. All payables under these agreements are paid within the normal course of business. Beginning in Q2 2015, the accounting services formerly provided by Aker ASA were transferred to a third party service provider. Related administrative costs and financial statement amounts were as follows:

<i>Amounts in USD thousands</i>	Expenses 2015	Expenses 2014	Payables 31 Dec. 2015	Receivables 31 Dec. 2015
Aker ASA	28	589	-	-
Aker US Services LLC	120	70	-	-
Philly Tankers LLC	-	-	-	120

PSI has 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 year ending 31 December 2015 were USD 120 thousand (USD 60 thousand from inception to the year ending 31 December 2014) and corresponding receivables for the year ending 31 December 2015 were USD 120 thousand.

**Concentrations**

Operating revenues are detailed below:

<i>Amounts in USD thousands</i>	Revenue 2015	Revenue 2014
Crowley	284 003	147 172
SeaRiver	2 327	92 996

**Agreements**

PSI agreed to reimburse Aker ASA for certain support and assistance provided by Aker ASA to PSI in connection with the SeaRiver project. Related expenses for the twelve-month period ending 31 December 2015 were USD 0 (USD 82 thousand in 2014).

**Note 28:** Events after 31 December 2015

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On 17 February 2016, the PHLV Board approved a quarterly dividend for Q4 2015 of USD 0.25 per share.

Philly Shipyard ASA

# Income Statement

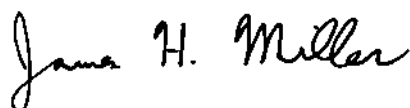
<i>Amounts in USD thousands</i>	<i>Note</i>	<b>2015</b>	2014
Revenues		<b>40</b>	86
Operating expenses	2	<b>(495)</b>	(1 272)
Gain-on-sale of profit sharing asset		-	22 834
<b>Operating (loss)/income</b>		<b>(455)</b>	21 648
Interest income from subsidiaries		<b>869</b>	196
Interest expense to subsidiaries		-	(87)
Other interest and financial income		<b>74</b>	464
Other interest and financial expense		<b>(78)</b>	(3 205)
<b>Income before tax</b>		<b>410</b>	19 016
Income tax expense	4	<b>(1 325)</b>	(7 046)
<b>Net (loss)/income for the year</b>		<b>(915)</b>	11 970
<b>Allocation of net (loss)/income:</b>			
Net (loss)/income for the year		<b>(915)</b>	11 970
Other equity	5	<b>915</b>	(11 970)
<b>Total</b>		<b>-</b>	-

Philly Shipyard ASA

# Statement of Financial Position as of 31 December

<i>Amounts in USD thousands</i>	<i>Note</i>	<b>2015</b>	2014
<b>ASSETS</b>			
Shares in subsidiary	3	67 000	67 000
Loan to subsidiary	9	31 000	35 000
<b>Total non-current assets</b>		<b>98 000</b>	102 000
Other current assets		227	27
Cash and cash equivalents	6	293	13 916
<b>Total current assets</b>		<b>520</b>	13 943
<b>Total assets</b>		<b>98 520</b>	115 943
<b>EQUITY AND LIABILITIES</b>			
Share capital		22 664	22 664
Share premium reserve		46 828	58 955
<b>Total paid in capital</b>		<b>69 492</b>	81 619
Other equity		27 166	28 081
<b>Total equity</b>	5	<b>96 658</b>	109 700
Deferred tax liability	4	1 231	-
<b>Total non-current liabilities</b>		<b>1 231</b>	-
Other current liabilities		230	202
Tax payable	4	401	6 041
<b>Total current liabilities</b>		<b>631</b>	6 243
<b>Total liabilities</b>		<b>1 862</b>	6 243
<b>Total equity and liabilities</b>		<b>98 520</b>	115 943

Oslo, Norway  
4 March 2016  
Board of Directors  
Philly Shipyard ASA



James H. Miller  
Board Chairman




Amy Humphreys  
Board Member



Elin Karfjell  
Board Member



Audun Stensvold  
Deputy Board Chairman



Steinar Nerbovik  
President and CEO

Philly Shipyard ASA

# Cash Flow Statement

<i>Amounts in USD thousands</i>	<b>2015</b>	<b>2014</b>
Income before tax	<b>410</b>	19 016
Change in profit sharing assets	-	16 716
Change in other current assets	<b>(200)</b>	9
Change in other current liabilities	<b>28</b>	(401)
Income taxes paid	<b>(5 734)</b>	(595)
<b>Net cash flow (used in)/from operating activities</b>	<b>(5 496)</b>	34 745
Repayment of long-term notes payable to subsidiaries	-	(13 980)
Proceeds from shares issued, net of transaction costs	-	63 652
Dividend paid	<b>(12 127)</b>	(43 059)
Purchase of treasury shares	-	(9 969)
Note received/(paid) to subsidiary	<b>4 000</b>	(35 000)
<b>Net cash flow used in financing activities</b>	<b>(8 127)</b>	(38 356)
<b>Net change in cash and cash equivalents</b>	<b>(13 623)</b>	(3 611)
Cash and cash equivalents at beginning of period	<b>13 916</b>	17 527
<b>Cash and cash equivalents as of 31 December</b>	<b>293</b>	13 916

## Philly Shipyard ASA

# Notes to the accounts

### Note 1: Basis for preparation

The accounts of Philly Shipyard ASA (PHLY or the Company) are presented in conformity with Norwegian legislation and generally accepted accounting principles in Norway. The Company's functional and reporting currency is the U.S. dollar (USD), except when indicated otherwise.

#### Subsidiaries

Subsidiaries are presented on a historical cost basis in the parent company accounts. The investment is valued at historical cost for the shares unless impairment write-downs have been deemed necessary. The shares are written down to fair value if the impairment is not of a temporary nature and is necessitated by generally accepted accounting principles. Write-downs are reversed when the basis for the write-down no longer exists.

Dividends and other payments are taken to income in the year they are accrued in the subsidiary. If dividends exceed retained earnings after the purchase, the excess represents repayment of invested capital and the payments are deducted from the invested value in the Company's statement of financial position.

#### Classification and valuation of statement of financial position items

Current assets and current liabilities include items that have less than one year to maturity,

and other items that are deemed operational working capital. Other items are classified as non-current assets/non-current liabilities.

Current assets are valued at the lower of historical cost and fair value. Current liabilities are valued at their nominal historical value at the time the liability arises.

Non-current assets are valued at historical cost, but are written down to fair value if impairment is deemed to be of a permanent nature. Non-current liabilities are valued at nominal historical values.

#### Tax

Income tax expense in the income statement comprises both current payable taxes and the change in deferred tax. Payable tax is calculated on the basis of the profit for the period in Norwegian Kroner (NOK). Deferred tax at 31 December 2015 is calculated using a 25% income tax rate utilizing the difference that exists between book values and tax values and the net operating losses that can be carried forward at the statement of financial position date. Tax-increasing and tax-reducing temporary differences that are reversing or can reverse in the same period are offset against each other. Net tax assets are shown in the statement of financial position to the extent it is probable that these assets can be utilized.

To the extent a group contribution is not shown in the income statement, the tax effect is taken directly against the investment item in the statement of financial position.

#### Cash flow statement

The cash flow statement is shown using the indirect method. Cash and cash equivalents comprises cash, bank deposits and other short-term liquid placements.

#### Use of estimates

Preparation of financial statements in conformity with generally accepted accounting principles in Norway requires management to make estimates and assumptions that affect the income statement, the reported amounts of assets and liabilities and also the disclosure of contingent assets and liabilities on the statement of financial position date.

Contingent losses that are probable and quantifiable are expensed when they are identified.

## Note 2: Other operating expenses

Fees to the auditors for ordinary audit and other audit and attestation fees have been expensed in 2015 and 2014. Fees to the auditors are as follows:

<i>Amounts in USD thousands</i>	2015	2014
Audit fees	31	58
Other audit and attestation fees	3	71
Tax non-attest fees	8	3
<b>Total</b>	<b>42</b>	<b>132</b>

The Company has no employees. The senior management is employed in the operating company. Fees to the Board of Directors of USD 176,972 and USD 386,325 were expensed in 2015 and 2014, respectively.

## Note 3: Shares in subsidiary

This item comprises the following as of 31 December 2015:

<i>Amounts in USD thousands</i>	Ownership and voting rights (%)	Business address	Historical cost	Book value
Philly Shipyard, Inc. (PSI)	100%	Philadelphia, PA	67 000	67 000
<b>Total shares in subsidiary</b>			<b>67 000</b>	<b>67 000</b>

PSI's results after-tax in 2015 and equity at the end of 2015 are:

Results after-tax 2015	18 294
Equity at 31 December 2015	113 776

Based on the net asset position of PSI (the investment in subsidiary) as well as the cash on hand at PSI, PHLI has concluded that no impairment has occurred to the investment in subsidiary at 31 December 2015.

## Note 4: Taxes

The table below shows the difference between book and tax values by the end of 2015 and 2014 and the amounts of deferred taxes at these dates and the change in deferred taxes.

<i>Amounts in USD thousands</i>	2015	2014
Losses carried forward	-	-
Other temporary differences	(4 924)	-
<b>Total differences</b>	<b>(4 924)</b>	<b>-</b>
<b>Net deferred tax asset, 25%</b>	<b>(1 231)</b>	<b>-</b>
Tax (gains)/losses not recognized	-	-
<b>Tax asset in the statement of financial position</b>	<b>(1 231)</b>	<b>-</b>

### Estimated result for tax purposes:

<i>Amounts in USD thousands</i>	2015	2014
<b>Income before tax measured in NOK for taxation purposes</b>	<b>6 410</b>	<b>24 649</b>
Permanent differences	-	253
Change in temporary differences	(4 924)	-
Utilization of loss carried forward	-	(2 528)
<b>Estimated income for tax purposes</b>	<b>1 486</b>	<b>22 374</b>
<b>Payable current tax</b>	<b>401</b>	<b>6 041</b>

### Tax expense in the income statement:

<i>Amounts in USD thousands</i>	2015	2014
Tax payable	(401)	(6 041)
Foreign currency impact on prior year payable	307	-
Deferred tax expense related to deductible costs related to the sale of share capital	-	(595)
Change in deferred tax in the statement of financial position	(1 231)	(410)
<b>Tax expense</b>	<b>(1 325)</b>	<b>(7 046)</b>

**Note 5: Total equity****Changes in equity are:**

<i>Amounts in USD thousands</i>	Share capital	Share premium	Treasury shares	Total paid in capital	Other equity	Total equity
Equity as of 1 January 2015	22 664	68 924	(9 969)	81 619	28 081	109 700
Dividend paid	-	(12 127)	-	(12 127)	-	(12 127)
Net loss for the year 2015	-	-	-	-	(915)	(915)
<b>Equity as of 31 December 2015</b>	<b>22 664</b>	<b>56 797</b>	<b>(9 969)</b>	<b>69 492</b>	<b>27 166</b>	<b>96 658</b>

The share capital of NOK 125,747,660 consists of 12,574,766 shares (including 466,865 treasury shares) with a par value of NOK 10 as of 31 December 2015.

The Company is a part of the consolidated accounts of Aker ASA, Oksenyveien 10, NO-1366 Lysaker, Norway.

**Twenty largest shareholders**

(as of 31 December 2015)

Shareholders	Number of shares held	Ownership (in%)
Aker Capital II AS	7 237 631	57.6%
Goldman Sachs & Co. Equity Segragat	3 445 913	27.4%
Philly Shipyard ASA	466 865	3.7%
Pershing LLC	322 391	2.6%
Jefferies & Co., Inc.	131 113	1.0%
Citibank, N.A.	80 329	0.6%
Euroclear Bank S.A./N.V.	70 966	0.6%
Merrill Lynch, Pierce, Fenner & S. Inc.	68 534	0.5%
Skandinaviska Enskilda Banken S.A.	59 800	0.5%
SPC RSV CUST SEC 15C3-3 WFS	52 231	0.4%
Nordnet Pensjonsforsikring	48 535	0.4%
Ramadan Kovaci	45 412	0.4%
UBS Securities LLC	41 181	0.3%
Lars Ro	40 000	0.3%
Jan Oivind Hewitt	30 970	0.2%
Ole Johnny Wilson	27 901	0.2%
Credit Suisse Securities (USA) Ltd.	26 250	0.2%
Per Asgeir Bodin	20 070	0.2%
Espen Einar Dalby	17 000	0.1%
Jorgen Werner	16 900	0.1%
<b>Total, 20 largest shareholders</b>	<b>12 249 992</b>	<b>97.3%</b>
Other shareholders	324 774	2.7%
<b>Total shareholders</b>	<b>12 574 766</b>	<b>100.0%</b>

**Note 6: Cash and cash equivalents**

There is no restricted cash.

**Note 7: Profit sharing assets**

In 2014, the Company sold its profit sharing interests in Hulls 017 and 018 to Crowley for USD 40 million. The Company recorded the gain as part of operating revenues and other income in the income statement.

**Note 8: Shares owned by the Board of Directors and the Senior Management**

For information regarding shares owned by the members of the Board of Directors and the Senior Management, see note 23 to the Consolidated Accounts.

**Note 9: Related party transactions/guarantees**

The Company has made the following guarantees:

Description	Beneficiary	Amount (USD thousands)	Borrower
Caterpillar loan	Caterpillar Financial Services Corp.	120,000	PSI
Welcome Fund loan	PIDC Regional Center, LP XXXI	60,000	PSI
Working capital	TD Bank, N.A.	6,000	PSI

The working capital facility supports the issuance of letters of credit.

On 28 December 2015, the Company executed a commitment letter with Caterpillar Financial Services Corporation (Cat Financial) for a USD 150 million loan facility for construction financing on the four product tankers under contract with Philly Tankers LLC (Hulls 025-028). The commitment letter provides that the loan will be guaranteed by the Company. The Company expects to enter into definitive agreements for this facility in Q1 2016. For additional information regarding this facility, see note 15 to the Consolidated Accounts.

The Company has supplied a parent guarantee for the obligations of PSI under the two remaining construction contracts with Crowley Maritime Corporation (Hulls 023-024), the four construction contracts with Philly Tankers LLC (Hulls 025-028) and the two construction contracts with Matson Navigation Company, Inc. (Hulls 029-030).

PHLY has service agreements with Aker ASA and certain of its affiliates which provide certain specified consulting, accounting, tax, financial and administrative services. PHLY also has a secondment agreement with Aker ASA which establishes a framework for the mutual secondment of personnel between their respective organizations. All payables under these agreements are paid within the normal course of business. Beginning in Q2 2015, the accounting services formerly provided by Aker ASA were transferred to a third party service provider. Total expenses incurred under this agreement in 2015 and 2014 were USD 28 thousand and USD 589 thousand, respectively.

On 29 April 2008, PSI, as borrower, entered into a loan agreement with PHLY, as lender. The loan agreement was amended on 16 June 2009, 3 May 2011 and 26 November 2014. The facility is for up to USD 50 million and interest is at a floating rate of 3-month LIBOR plus 2.25% per annum. As of 31 December 2015, USD 31 million is outstanding under the facility.



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To the Annual Shareholders' Meeting of Philly Shipyard ASA

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Philly Shipyard ASA, which comprise the financial statements of the parent company Philly Shipyard ASA and the consolidated financial statements of Philly Shipyard ASA and its subsidiaries. The parent company's financial statements comprise the statement of financial position as at 31 December 2015, the income statement, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the statement of financial position as at 31 December 2015, and the income statement and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the President and Chief Executive Officer's Responsibility for the Financial Statements*

The Board of Directors and the President and Chief Executive Officer are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway and for the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the President and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Offices in:

Oslo	Hamar	Skien	Trondheim
Alesund	Heugstund	Sondfjord	Tusset
Bergen	Kjeller	Sandnessen	Tusberg
Bodo	Kristiansand	Sivanger	Ålesund
Charleroi	Larvik	Stov	
Frankfurt	Mari Rana	Strøme	
Geneva	Molde	Tromsø	

KPMG AS, a Norwegian limited liability company and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Statistisk sentralbyrå - medlemmer av Den norske Revisjonsforening



*Independent auditor's report 2015*  
Philly Shipyard ASA

*Opinion on the separate financial statements*

In our opinion, the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Philly Shipyard ASA as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

*Opinion on the consolidated financial statements*

In our opinion, the consolidated financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Philly Shipyard ASA and its subsidiaries as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

**Report on Other Legal and Regulatory Requirements**

*Opinion on the Board of Directors' report and the statements on Corporate Governance and Corporate Social Responsibility*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements and the going concern assumption and the proposal for the allocation of loss is consistent with the financial statements and complies with the law and regulations.

*Opinion on Accounting Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 10 March 2016  
KPMG AS

Tom Myhré  
State Authorized Public Accountant

# Good dialogue

**Philly Shipyard ASA (referenced to herein as “PHLY” or the “Company”) is committed to maintaining an open and direct dialogue with its shareholders, potential investors, analysts, brokers, and the financial community in general.**

The timely release of information to the market that could affect the Company's share price helps ensure that Philly Shipyard ASA's share price reflects its underlying value.

Philly Shipyard's goal is that the Company's shareholders will, over time, receive competitive returns on their investments through a combination of dividends and share price growth. On 26 February 2014, the Company's Board of Directors adopted the following dividend policy:

*“The Company's objective is to provide its shareholders with a competitive return on its shares over time based on the Company's earnings. The Company aims to pay a quarterly dividend of USD 0.25 per share, beginning with the second quarter of 2014, with intentions of increasing the amount over time. Any payment of dividends 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.”*

The Company paid dividends totaling NOK 97.6 million (USD 12.1 million) in 2015.

The Norwegian Public Limited Liability Companies Act allows for the Board of Directors to pay dividends on the basis of an authorization from the general meeting. The Board of Directors will therefore propose to the annual general meeting in 2016 that the Board of Directors is granted an authorization to pay dividends based on the Company's annual accounts for 2015, valid up to the Company's annual general meeting in 2017. Such authorization will facilitate payments of dividends by the Board of Directors on a quarterly basis, in accordance with the Company's dividend policy.

Based on the equity level of the parent company, Philly Shipyard intends to continue paying quarterly dividends during 2016. In addition, based on the Company's

strong cash position, the Company intends to pay a series of extraordinary dividends in 2016 subsequent to the future deliveries of Hulls 023, 024 and 025. The first extraordinary dividend payment is planned for Q2 2016.

## Shares and share capital

As of 31 December 2015, Philly Shipyard ASA has 12,574,766 ordinary shares; each share has a par value of NOK 10 (see note 5 to the parent company's 2015 accounts). As of 31 December 2015, the Company had 396 shareholders, of whom 34.7% were non-Norwegian shareholders.

Philly Shipyard has a single share class. Each share is entitled to one vote. The Company holds 466,865 of its own (treasury) shares, constituting approximately 3.71% of the shares outstanding, as of 31 December 2015.

## Stock-exchange listing

Philly Shipyard ASA was listed on Oslo Axxess on 17 December 2007 (ticker: PHLY). Philly Shipyard's shares are registered in the Norwegian Central Securities Depository; the shares have the securities registration number ISIN NO 0010395577. DNB Bank ASA is the Company's registrar.

## Majority shareholder

Philly Shipyard ASA's majority shareholder is Aker Capital II AS (formerly Converto Capital Fund AS), an investment fund controlled by Aker ASA. Companies that are part of Aker are legally and financially independent units. Aker Capital II AS exercises active ownership as part of systematic efforts to create value for all Philly Shipyard shareholders.

From time to time, agreements are entered into between two or more Aker companies. The Boards of Directors and other parties involved in the decision-making processes related to such agreements are all critically aware of the need to handle such matters in the best interests of the involved companies, in accordance with good corporate governance practice.

If needed, external, independent opinions are sought.

## Current Board authorizations

As of 31 December 2015, Philly Shipyard ASA has an authorization to increase the share capital by up to NOK 12,574,766 and an authorization to purchase own shares with a total nominal value of NOK 12,574,766. Both of these current Board authorizations are valid up until the next Annual General Meeting in 2016. For more details, please see “Board authorizations” on pages 52-53.

## Stock option plans

As of 31 December 2015, Philly Shipyard ASA has no stock option program.

## Investor relations

Philly Shipyard ASA seeks to maintain an open and direct dialogue with shareholders, financial analysts, and the financial market in general.

All Philly Shipyard press releases and investor relations (IR) publications, including archived material, are available at the Company's website: [www.phillyshipyard.com](http://www.phillyshipyard.com). This online resource includes the Company's quarterly and annual reports, prospectuses, articles of association, financial calendar, and its Investor Relations and Corporate Governance policies, along with other information.

Shareholders can contact the Company at [contactus@phillyshipyard.com](mailto:contactus@phillyshipyard.com).

## Electronic interim and annual reports

Philly Shipyard ASA encourages its shareholders to subscribe to the electronic version of the Company's annual reports. Annual reports are published on the Company's website at the same time as they are made available via website release by the Oslo Stock Exchange/Oslo Axxess: [www.newsweb.no](http://www.newsweb.no) (ticker: PHLY). Subscribers to this service receive annual reports in PDF format by email.

## Share capital development over the past three years

Date	Change in share capital	Share capital (in NOK)	Number of shares	Par value (in NOK)
Change in 2013				
31 December 2013	-	101 653 050	10 165 305	10.00
Change in 2014				
31 December 2014	24 094 610	125 747 660	12 574 766	10.00
Change in 2015				
31 December 2015	-	125 747 660	12 574 766	10.00

Quarterly reports, which are generally only distributed electronically, are available from the Company's website and other sources. Shareholders who are unable to receive the electronic version of interim and annual reports, may subscribe to the printed version by contacting Philly Shipyard's investor relations staff.

### Nomination committee

The Company's nomination committee has the following members: Leif-Arne Langoy, Gerhard Heiberg and Arild Storen Frick.

Shareholders who wish to contact Philly Shipyard's nomination committee may do so using the following address:

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

### Annual shareholders' meeting

Philly Shipyard ASA's annual shareholders' meeting is normally held in March or early April. Written notification is sent to all shareholders individually or to shareholders'

nominees. To vote at shareholders' meetings, shareholders (or their duly authorized representatives) must either be physically present or must vote by proxy.

### 2015 share data

The Company's total market capitalization as of 31 December 2015 was NOK 2,376 million. During 2015, a total of 1,326,490 Philly Shipyard ASA shares traded, corresponding to 0.105 times the Company's freely tradable stock. The shares traded on 244 trading days in 2015.

### Twenty largest shareholders

(as of 31 December 2015)

Shareholder	Number of shares held	Ownership (in%)
Aker Capital II AS	7 237 631	57.6%
Goldman Sachs & Co. Equity Segragat	3 445 913	27.4%
Philly Shipyard ASA	466 865	3.7%
Pershing LLC	322 391	2.6%
Jefferies & Co., Inc.	131 113	1.0%
Citibank, N.A.	80 329	0.6%
Euroclear Bank S.A./N.V.	70 966	0.6%
Merrill Lynch, Pierce, Fenner & S. Inc.	68 534	0.5%
Skandinaviska Enskilda Banken S.A.	59 800	0.5%
SPC RSV CUST SEC 15C3-3 WFS	52 231	0.4%
Nordnet Pensjonsforsikring	48 535	0.4%
Ramadan Kovaci	45 412	0.4%
UBS Securities LLC	41 181	0.3%
Lars Ro	40 000	0.3%
Jan Oivind Hewitt	30 970	0.2%
Ole Johnny Wilson	27 901	0.2%
Credit Suisse Securities (USA) Ltd.	26 250	0.2%
Per Asgeir Bodin	20 070	0.2%
Espen Einar Dalby	17 000	0.1%
Jorgen Werner	16 900	0.1%
<b>Total, 20 largest shareholders</b>	<b>12 249 992</b>	<b>97.3%</b>
Other shareholders	324 774	2.7%
<b>Total shareholders</b>	<b>12 574 766</b>	<b>100.0%</b>

### Geographic distribution of shareholders

(as of 31 December 2015)

Nationality	Number of shares held	Ownership (in %)
Non-Norwegian shareholders	4 358 343	34.7%
Norwegian shareholders	8 216 423	65.3%
<b>Total</b>	<b>12 574 766</b>	<b>100.0%</b>

### Ownership structure by number of shares held

(as of 31 December 2015)

Shares owned	Number of shareholders	Percent of share capital
1 – 100	143	0.04%
101 – 1 000	164	0.54%
1001 – 10 000	65	1.58%
10 001 – 100 000	19	5.55%
100 001 – 500 000	3	7.32%
Over 500 000	2	84.97%
<b>Total</b>	<b>396</b>	<b>100.00%</b>

### Share price development in 2015

2015 share data

Highest traded	NOK	192.00
Lowest traded	NOK	74.25
Share price as of 31 Dec.	NOK	189.00
Shares issued as of 31 Dec.		12 574 766
Own (treasury) shares as of 31 Dec.		466 865
Shares issued and outstanding as of 31 Dec.		12 574 766
Market capitalization as of 31 Dec.	NOK million	2 376
Proposed share dividend	NOK per share	-

### Share price development



# Corporate governance

**Philly Shipyard ASA (the “Company” or “PHLY”) aims to create maximum value for its shareholders over time. Good corporate governance will help to reduce risk and ensure sustainable value creation.**

The Board has reviewed and updated the Company’s principles for corporate governance. The principles are based on the Norwegian Code of Practice for Corporate Governance, dated 30 October 2014 (the “Code of Practice”), the principles set out in the Continuing Obligations of stock exchange listed companies from the Oslo Stock Exchange, and the relevant Norwegian background law such as the Norwegian Accounting Act and the Norwegian Public Limited Liability Companies Act. The Code of Practice is available at [www.nues.no](http://www.nues.no) and the Continuing Obligations of stock exchange listed companies may be found at [www.oslobors.no](http://www.oslobors.no). The principles also apply to the Company’s subsidiaries when relevant. The Board’s statement of corporate governance is included in the annual report. The following presents the current practice of PHLY regarding each of the recommendations contained in the Code of Practice. Any deviations from the recommendations are explained under the item in question.

## Purpose

The Company’s Corporate Governance principles ensure an appropriate division of roles and responsibilities among the Company’s owners, its Board of Directors, and its Executive Management, and that business activities are subject to satisfactory control. The appropriate division of roles and satisfactory control contribute to the greatest possible value creation over time, to the benefit of owners and other stakeholders.

## Values and ethical guidelines

The Board has adopted corporate values and ethical guidelines. The Company’s corporate values are presented on page [6] of this annual report. These values consist of the following four “CORE” principles: Caring, One shipyard, Responsible and Efficient. PHLY has zero tolerance for corruption and, in 2015, the Board approved a new Anti-Corruption Policy that is in-line

with the anti-corruption policies in place at other Aker ASA-related companies. PHLY works to promote a sustainable and responsible company that is driven by good results and the demands for social responsibility.

## Business

The Company’s business purpose clause in the articles of association is as follows:

*“The Company’s business is to own and manage industry and other related business related to building of ships, capital management and other operations for the group, including participating in or acquiring other business.”*

The function of the business purpose clause is to ensure that shareholders have control of the business and its risk profile, without limiting the Board or management’s ability to carry out strategic and financially viable decisions within the defined purpose. PHLY’s goals and main strategies are presented in the Board of Directors’ report. The Company’s vision is “to be – and be recognized as – America’s leading commercial shipyard that delivers on its commitments, every time,” and its supporting strategies for 2016 are reducing the number of incidents, beating its budgets, developing its people and talents and securing new orders beyond 2018.

## Equity and dividends

### Equity

PHLY’s equity as of 31 December 2015 amounted to USD 143.4 million, which corresponds to an equity ratio of approximately 40% of total assets. PHLY regards the Company’s current equity structure as appropriate and adapted to its objectives, strategy, and risk profile.

### Dividends

The Company’s dividend policy is included in the section “Shares and shareholder matters” (see page 50). As stated in that policy:

*“The Company’s objective is to provide its shareholders with a competitive return on*

*its shares over time based on the Company’s earnings. The Company aims to pay a quarterly dividend of USD 0.25 per share, beginning with the second quarter of 2014, with intentions of increasing the amount over time. Any payment of dividends 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.”*

Based on the equity level of the parent company, Philly Shipyard intends to continue paying quarterly dividends during 2016. In addition, based on the Company’s strong cash position, the Company intends to pay a series of extraordinary dividends in 2016 subsequent to the future deliveries of Hulls 023, 024 and 025. The first extraordinary dividend payment is planned for Q2 2016.

## Board authorizations

It is the intention that the Board’s proposals for future Board authorizations to issue shares and to undertake share buy-backs are to be limited to defined purposes and to be valid only until the next annual shareholders’ meeting.

To facilitate the payment of dividends on an on-going basis in accordance with the Company’s dividend policy, the Board of Directors has an authorization to pay dividends based on the Company’s annual accounts for 2014.

The Board of Directors has an authorization to increase the share capital by up to NOK 12,574,766, which can only be used to raise equity capital for new shipbuilding projects or other future investments within the Company’s scope of operations.

The Board of Directors has an authorization to purchase own shares with a total nominal value of NOK 12,574,766 which can only be used in connection with buy-back programs for the Company’s shares or for future investments within the Company’s scope of operations.

All of these Board authorizations are valid up to the annual shareholders’ meeting in 2016.

The Board currently has no other authorizations to issue shares or undertake share buybacks. The Board will propose to the annual shareholders' meeting in 2016 that the Board is granted an authorization for payment of dividends, an authorization to increase the share capital and an authorization to purchase own shares.

### Equal treatment of shareholders and transactions with close associates

The Company has a single class of shares, and all shares carry the same rights in the Company. Equal treatment of all shareholders is crucial. If existing shareholders' pre-emptive rights are proposed waived upon an increase in share capital, the Board will justify the waiver. The Board will also publicly disclose such justification in a stock exchange announcement issued in connection with such increase in share capital. Transactions in own (treasury) shares are executed on the Oslo Stock Exchange or by other means at the listed price.

If there are material transactions between the Company and a shareholder, Board member, member of Executive Management, or a party closely related to any of the aforementioned, the Board shall ensure that independent valuations are available.

The Company has prepared guidelines designed to ensure that members of the Board of Directors and Executive Management notify the Board of any direct or indirect stake they may have in agreements entered into by PHL Y.

See additional information on transactions with related parties in note 27 to the consolidated accounts. As of 31 December 2015, 57.6% of the shares in PHL Y are owned by Aker Capital II AS (f/k/a Convento Capital Fund AS), an investment fund controlled by Aker ASA. For further details on the relationship between PHL Y and Aker ASA, see note 27 to the consolidated accounts.

### Freely negotiable shares

The Company's shares are freely negotiable. No restrictions on transferability are found in the Company's articles of association.

### Annual shareholders' meetings

The Board of Directors encourages shareholders to participate in shareholders' meetings. It is the Company's priority to hold the annual shareholders' meeting as

early as possible after the year-end. Notices of shareholders' meetings are sent physically by post and comprehensive supporting information, including the recommendations of the nomination committee, are made available for the shareholders on the Company's home page, in each case not later than 21 days prior to the annual shareholders' meeting. The Board seeks to ensure that the resolutions and supporting information are sufficiently detailed and comprehensive to enable the shareholders to form a view on all matters to be considered at the meeting. The deadline for shareholders to register to the shareholders' meetings is set as close to the date of the meeting as possible and the deadline for registration may not expire earlier than five days prior to the date of the shareholders' meeting. Shareholders who are unable to attend the meeting in person may vote by proxy, and normally the proxy may be given to the chairman of the meeting or any other person appointed by the chairman. Both on the attendance and proxy form and the notice of meeting, all procedures for registration are thoroughly explained. In addition, information on how to propose a resolution to the items on the agenda at the annual shareholders' meeting will be included in the notice.

Pursuant to the Company's articles of association, the Chairman of the Board, or any other person appointed by the Chairman, chairs the shareholders' meetings. Although the Code of Practice recommends an independent chair for annual general meetings, it is the view of the Company that the procedure followed by the Company provides efficient and well prepared general meetings and is in the interests of the shareholders. The shareholders are invited to make a joint voting on the composition of the Board of Directors as proposed by the nomination committee and not on each board member separately. Hence, the Company deviates from the Code of Practice in this regard as the nomination committee emphasizes that the Board's composition shall reflect a variety of experience, knowledge and qualifications.

To the extent possible, the CEO/General Manager, nomination committee leader and auditor attend annual shareholders' meetings.

Minutes of shareholders' meetings are published as soon as practically possible on the Oslo Stock Exchange, [www.newsweb.no](http://www.newsweb.no) (ticker: PHL Y) and on the Company's home

page [www.phillyshipyard.com](http://www.phillyshipyard.com), under the heading "Media Center".

### Nomination committee

PHLY has a nomination committee, as set forth in Section 7 of the Company's articles of association. Pursuant to the articles of association, the nomination committee is to comprise no fewer than three members. Each member is normally elected for a two-year period. The composition of the nomination committee reflects the interests of the shareholders, and its members are independent from the Board and Executive Management. The members and Chairman of the nomination committee are elected by the Company's annual shareholders' meeting, which also approves the remuneration payable to committee members.

Pursuant to the Company's articles of association, the nomination committee recommends candidates for members of the Board of Directors. The nomination committee also makes recommendations as to remuneration of the members of the Board and the nomination committee. The nomination committee will justify its recommendation and such justification will address the criteria specified in Section 8 of the Code of Practice on the composition of the Board of Directors.

The nomination committee comprises the following members:

- Leif Arne Langoy, Chairman (2015-2017)
- Gerhard Heiberg (2015-2017)
- Arild Støren Frick (2015-2017)

None of the members of the nomination committee is a member of the Board of Directors. Neither the CEO/General Manager nor any other senior executive is a member of the nomination committee.

The shareholders' meeting has stipulated guidelines for the duties of the nomination committee.

The Company provides the shareholders with information on how to submit proposals to the nomination committee for candidates for election to the Board of Directors on the Company's website.

### Board composition and independence

The Company does not have a corporate assembly because PHL Y, excluding its subsidiaries, has fewer than 200 employees.

Pursuant to Section 4 of the Company's articles of association, the Board comprises between three and seven

members. The Board is currently comprised of a total of four members. The Company's shareholders elect the Chairman of the Board at the annual shareholders' meeting. The Board may elect its own Deputy Board Chairman. Board members are elected for a period of two years.

The composition of the Board of Directors is designed to ensure that it can operate independently of any special interests and function effectively as a collegiate body. A majority of the shareholder-elected Board members are independent of the Company's Executive Management and its significant business associates. The Board of Directors does not include any executive personnel. Further, three of the four shareholder-elected Board members are independent of the Company's main shareholder, Aker ASA. Audun Stensvold, the Deputy Chairman of the Board of Directors of PHL Y, is Financial Investment Director of Aker ASA.

The current composition of the Board, as well as the Board members' expertise, capabilities, and experience, are presented on pages 56-57 of this annual report. The shareholder-elected Board members represent a combination of expertise, capabilities, and experience from various businesses and industries.

The Board members' shareholdings are presented in note 23 to the consolidated accounts. The Company encourages the Board members to invest in the Company's shares.

Two of the shareholder-elected Board members are up for election. PHL Y will provide the relevant information regarding such Board members in accordance with the Code of Practice guidelines in advance of the annual general meeting.

### The work of the Board of Directors

The Board of PHL Y annually adopts a plan for its work, emphasizing goals, strategies, and implementation. The plan also recognizes the Company's corporate social responsibility. Also, the Board has adopted instructions that regulate areas of responsibility, tasks, and division of roles of the Board, Board Chairman, and the CEO/General Manager. These instructions feature rules governing Board schedules, rules for notice and chairing of Board meetings, decision-making rules, the CEO's/General Manager's duty and right to disclose information to the Board, professional secrecy, impartiality, and other issues.

In order to ensure a more independent consideration of matters of a material character in which the Board Chairman is, or has been, personally involved, the Board's consideration of such matters are chaired by the Deputy Board Chairman, if there is one serving at the time, or some other member of the Board in the absence of a Deputy Board Chairman.

The Board of PHL Y established an audit committee in 2010. The audit committee consists of two members, Elin Karfjell (Chairperson) and Audun Stensvold. Both members are independent from operations of the Company. As discussed above, Mr. Stensvold is linked to the Company's main shareholder.

The Board of PHL Y established a tendering committee in 2012 to review tenders for new business. The tendering committee consists of two members, Jim Miller (Chairman) and Amy Humphreys. Both members are independent from operations of the Company and neither member is linked to the Company's main shareholder.

PHLY does not have any other active Board committees at this time. In particular, the Company does not have a remuneration committee because all members of the Board are independent of the Company's executive personnel.

The Board evaluates its own performance and expertise once a year.

### Risk management and internal control

The Board is to ensure that the Company maintains solid in-house control practices and protocols and appropriate risk management systems tailored to the Company's business activities. These practices and systems encompass the Company's corporate values, ethical guidelines and guidelines for corporate social responsibility. The Company's policy regarding corporate social responsibility is set forth on pages 14-15 of this annual report. The Board annually reviews the Company's most important risk areas and internal control systems and procedures, and these risk areas are mentioned in the Board of Directors' report. Through the use of a risk matrix and log, the Board also monitors the key risks related to the Company's business goals and assesses those risks, taking into account mitigating actions, on a quarterly basis. The issue is further described in notes 1 and 22 to the consolidated accounts.

### Audit committee

The audit committee has reviewed the Company's internal reporting systems, internal control and risk management and had dialogue with the Company's auditor. The audit committee has also considered the auditor's independence.

PHLY's financial policies ensure follow-up of financial risk. Key targets are identified by the Board and management to ensure timely follow-up of currency exposure, interest rate exposure and compliance with covenants.

The Company has prepared an authorization matrix and approval procedures for costs included in the Company's governing documents.

### Financial statement close process

The Company has implemented Aker ASA's accounting and reporting guidelines which contains requirements and procedures for the preparation of both the quarterly and annual reporting. The reporting is done quarterly through PHL Y's reporting and consolidation system. Consolidation and control over the financial statement close process is the CFO's responsibility. Financial results and cash development are analyzed and compared to the budget by the CEO/General Manager and CFO and reported to the Board monthly.

### Remuneration of the Board of Directors

Board remuneration reflects the Board's responsibility, expertise, time spent, and the complexity of the business. Remuneration does not depend on PHL Y's financial performance and the Company does not grant share options to members of its Board. Board members and companies with whom they are associated are not to take on special tasks for the Company beyond their Board appointments unless such assignments are disclosed to the full Board and the remuneration for such additional duties is approved by the Board. In this respect, Jim Miller provides consulting services to PHL Y against a monthly fee to Kvaerner, which has been handled by the Board of Directors in accordance with the said procedure.

Additional information on remuneration paid to Board members for 2015 is presented in note 23 to the consolidated accounts.

### Remuneration of Executive Management

The Board has adopted guidelines for remuneration of Executive Management in

accordance with Section 6-16a of the Norwegian Public Limited Company Act. Salary and other remuneration of the CEO/ General Manager of PHL Y are determined in a Board of Directors' meeting. The basis of remuneration of Executive Management has been developed in order to create a performance-based system. The system of reward is designed to contribute to the achievement of good financial results and increase in shareholder value.

PHLY does not have stock option plans or other such share award programs for employees. Further information on remuneration for 2015 for members of the Company's Executive Management is presented in note 23 to the consolidated accounts. PHL Y's guidelines for remuneration to Executive Management are discussed on page 37 of this annual report and will be presented to the shareholders at the annual shareholders' meeting. The maximum size of any payment under the existing performance-related remuneration program to any executive is linked to the size of the executive's base salary.

The Board's guidelines for remuneration of executive management will be made available as a separate appendix to the agenda for the annual shareholders' meeting. The statement will include information on which aspects of the guidelines are advisory, and which, if any, are binding. The Company currently does not grant remuneration to Executive Management being subject to binding guidelines.

### Information and communications

The Company's reporting of financial and other information is based on openness and on equal treatment of shareholders, the financial community, and other interested parties.

The long-term purpose of PHL Y's investor relations activities is to ensure the Company's access to capital at competitive terms and to ensure shareholders' correct pricing of shares. These goals are to be accomplished through correct and timely distribution of information that can affect the Company's share price; the Company is also to comply with current rules and market practices, including the requirement of equal treatment.

All stock exchange notifications and press releases are made available on the Company's home page [www.phillyshipyard.com](http://www.phillyshipyard.com); stock exchange notices are also available from [www.newsweb.no](http://www.newsweb.no). All information that is distributed to shareholders is simultaneously published on PHL Y's home page.

The Company's financial calendar is found on the inside front cover of this annual report.

The Company's investor relations staff is responsible for maintaining regular contact with the Company's shareholders, potential investors, analysts and other financial market stakeholders. The Board is regularly informed about the Company's investor relations activities. For more information regarding the Company's guidelines for reporting of financial and other information, see pages 50-51.

### Takeovers

The Company has not produced special principles for how it will act in the event of a takeover bid. However, if a takeover bid occurred the Board would follow the overriding principle of equal treatment for all shareholders. Unless the Board has particular reasons for so doing, the Board will not take steps to prevent or obstruct a takeover bid for the Company's business or shares, nor use share issue authorizations or other measures to hinder the progress of the bid, without such actions being approved by a shareholders' meeting after the take-over offer has become public knowledge.

The Company will not enter into any agreement with a bidder that acts to limit the Company's ability to arrange other bids for the Company's business or shares unless it is self-evident that such an agreement is in the common interest of the Company and its shareholders. This provision shall also apply to any agreement on the payment of financial compensation to the bidder if the bid does not proceed. Any financial compensation will be limited to the costs the bidder has incurred in making the bid.

Agreements entered into between the Company and a bidder that are material to the market's evaluation of the bid will be announced to the public no later than at the same time as the disclosure that the bid has been made is published.

Upon the issuance of an offer for the Company's shares, the Board will make a statement to the shareholders that provides an assessment of the bid, the Board's recommendations, and reasons for these recommendations. If the Board cannot recommend to the shareholders whether they should or should not accept the bid, the Board will explain the reasons for this. The Board's statement on the offer will

make it clear whether the views expressed are unanimous, and if this is not the case it will explain the basis on which specific members of the Board have excluded themselves from the Board's statement.

For each instance, an assessment will be made as to the necessity of bringing in independent expertise and obtaining a third party valuation. If a third party valuation is obtained, such valuation will include an explanation, and the Board will aim at recording such valuation in its statement. It may be necessary to obtain a valuation from an independent expert where a competing bid is made and the bidder either is the main shareholder or has a connection to the Board members or executive personnel.

Transactions that have the effect of sale of the Company or a major component of it are to be decided on by shareholders at a shareholders' meeting.

### Auditor

The auditor makes an annual presentation to the Board of a plan for the auditing work for the year. Further, the auditor has provided the Board with a written confirmation that the requirement of independence is met.

The auditor participates in the Board meeting that deals with the annual accounts, and the auditor has reviewed the companies' internal control with the Board. At these meetings, the auditor reviews any material changes to the Company's accounting principles, comments on any material estimated accounting figures and reports all matters on which there have been disagreement between the auditor and the Company's executive personnel. Once a year a meeting is held between the auditor and the Board, at which no representatives of Executive Management are present. In addition to the presentations to the full Board, the auditor is present at all audit committee meetings which occur throughout the year and presents both its preliminary and final audit findings to the committee during such meetings.

Guidelines have been established for Executive Management's use of auditors for services other than auditing. Auditors are to provide the Board with an annual overview of services other than auditing that have been supplied to the Company.

Remuneration for auditors is presented in note 5 to the consolidated accounts and note 2 to the parent company accounts, detailed in auditing and other services. In addition, these details are presented at the annual general meeting.

# Presentation of the Board of Directors



**James H. Miller**  
*Chairman*

James H. Miller (b. 1955) is Executive Vice President – Americas at Kvaerner. Prior to that Mr. Miller served as President and CEO of Philly Shipyard from June 2008 to April 2011. Before coming to the shipyard, Mr. Miller was President of Aker Solutions Process and Construction (P&C) Americas, where he was responsible for the operations of seven business units which generated approximately 8-9 billion NOK in revenues per year. During his tenure, Aker Solutions P&C Americas became a leading provider of global engineering and construction solutions with 7,500 employees, including 4,500 construction trades personnel. Prior to joining Aker Solutions P&C Americas, Mr. Miller held the position of President of Aker Construction, Inc., which was one of the largest union construction companies in North America and was recognized as one of the largest employers of the union construction trades. Mr. Miller is a Director and Officer for all remaining Kvaerner U.S. based legal and operating entities. Mr. Miller currently serves as Board Director of Matrix Services Inc. based in Tulsa, Oklahoma which is a public company listed on the Nasdaq Exchange. Mr. Miller previously served as Chairman of the Board for Philly Shipyard ASA from June 2011 to April 2014. Mr. Miller graduated from the University of Edinboro in Pennsylvania with a BA. Mr. Miller is a U.S. citizen. Mr. Miller holds zero shares in the company and has no stock options. He has been elected for the period 2016-2018.



**Amy Humphreys**  
*Board Member*

Amy Humphreys (b. 1966) is CFO of Darigold, one of America's largest dairy cooperatives producing a variety of dairy products, which are sold and consumed worldwide. Prior to joining Darigold, Ms. Humphreys was President and CEO of Icicle Seafoods, Inc., a seafood manufacturing company including salmon, pollock, crab, halibut, cod and herring fisheries throughout Alaska, with both on-shore and floating processing facilities. Icicle also owns the largest United States salmon farming company located in the Pacific Northwest. Prior to joining Icicle Seafoods, Ms. Humphreys served as CFO of North Star Petroleum Group, the Petroleum Division of Saltchuk Resources including five fuel distribution operating companies. Prior to her current role, Ms. Humphreys was President of Delta Western, Inc., a leading petroleum marketing and distribution company in Alaska and a subsidiary of Saltchuk Resources. From 1996 to 2006, Ms. Humphreys held various leading positions in her 10 year tenure with American Seafoods Group, including VP Corporate Development and Treasurer. For the past 15 years, Ms. Humphreys has worked within companies operating under the Jones Act and, for the past several years, has managed companies in the oil industry within an environment subject to OPA 90 regulation. Ms. Humphreys holds a Master of Business Administration (MBA), with honors, from University of Washington, is a Certified Public Accountant (CPA) and holds a Bachelor of Arts (BA) in Accounting and Finance, magna cum laude, from University of Puget Sound. Ms. Humphreys is a U.S. citizen. Ms. Humphreys holds zero shares in the company and has no stock options. She has been elected for the period 2014-2016.



**Elin Karfjell**  
**Board Member**

Elin Karfjell (b. 1965) is Managing Partner of Atelika AS. Prior to that, she was CEO of Fabi Group and Director of Finance and Administration of Atea AS. She is former partner of Ernst & Young AS. Ms. Karfjell joined Ernst & Young AS in 2002. Prior to this, Ms. Karfjell held various positions including partner at Arthur Andersen. At Ernst & Young/Arthur Andersen, she held various leading positions, both within advisory and audit, and she has experience from a broad specter of industries. Ms. Karfjell is also a Board member of North Energy ASA, DNO ASA, Hent ASA and Contesto AS. Previously, she has been a Board member of Norse Energy Corporation ASA, Aktiv Kapital ASA and Aker Floating Production ASA. Ms. Karfjell is a state authorized public accountant. She has a bachelor accountant's degree from Okonomisk College (Hoyskolen i Oslo) and a master of accounting and auditing from the Norwegian School of Economics and Business Administration. Ms. Karfjell is a Norwegian citizen. Ms. Karfjell holds 1,200 shares in the company and has no stock options. She has been elected for the period 2015-2017.



**Audun Stensvold**  
**Deputy Board Chairman**

Audun Stensvold (b. 1972) holds the position of Investment Director for Aker ASA. Previously, he was CFO and Investment Director for Convento Capital Management. Prior to joining Convento Capital Management in 2009, Mr. Stensvold worked for Aker ASA as Vice President of the M&A and Business Development team, and was involved in the initial stock exchange listing of Philly Shipyard (then named Aker American Shipping ASA) and later follow-up of Aker's ownership in the yard. Before joining Aker, Mr. Stensvold worked as a strategy and finance consultant for Selmer, and as a financial analyst for DnB NOR. Mr. Stensvold holds an MSc in Business and Economics from the Norwegian School of Economics and Business Administration (NHH). Mr. Stensvold is a Norwegian citizen. Mr. Stensvold holds zero shares in the company and has no stock options. He has been elected for the period 2014-2016.

# Presentation of the Management Team



**Steinar Nerbøvik**  
*President and CEO*

Steinar Nerbøvik (b. 1961) was appointed CEO in November 2014 after serving as Managing Director since April 2014. Previously, Mr. Nerbøvik served as SVP Operations from October 2013. Prior to that, Mr. Nerbøvik served as SVP Yard Director for Norwegian Shipyard VARD Langsten (former Aker Yards and STX OSV Langsten), a leading provider of sophisticated offshore support vessels. Mr. Nerbøvik first joined Philly Shipyard in 2003 as Vice President Projects. Mr. Nerbøvik has held other management positions as combined Design Manager and Project Manager at Aker Langsten from 1991-2003. Mr. Nerbøvik holds a Master of Science in Ship Naval Engineering from the Norwegian Institute of Technology (NTNU) in Trondheim. Mr. Nerbøvik lives in Wilmington, DE, USA. Mr. Nerbøvik is a Norwegian citizen. As of 1 February 2016, Mr. Nerbøvik holds 1,000 shares in the company and has no stock options.



**Jan Ivar Nielsen**  
*Chief Financial Officer*

Jan Ivar Nielsen (b. 1962) was appointed CFO of Philly Shipyard in October 2015. Previously, Mr. Nielsen was the Chief Financial Officer of VARD after serving as the VP of Finance for VARD's operations in Brazil from 2007. Prior to working at VARD, Mr. Nielsen was CFO and Head of Investor Relations for Aker American Shipping from its formation in 2005-2007, and its predecessor Aker Philadelphia Shipyard from 2002-2005. From 1998-2002 he was CFO for Kvaerner Shipbuilding in London and had CFO assignments for Kvaerner Masa Yards in Finland and Warnow Werft in Germany. Mr. Nielsen had various finance positions in the process industry from 1990-1997. Mr. Nielsen holds a Master of Science in Business degree from Bodo Graduate School of Business and an Executive MBA degree from Temple University in Philadelphia, PA, USA. Mr. Nielsen lives in Philadelphia, PA, USA. Mr. Nielsen is a Norwegian citizen. Mr. Nielsen holds zero shares in the company and has no stock options.



**Jari Anttila**  
*Senior Vice President Operations*

Jari Anttila (b. 1966) joined Philly Shipyard in 2015 as SVP Operations after serving as Director of Operations for Meyer Turku in Finland. Mr. Anttila has over 20 years of shipbuilding experience within Turku Meyer including serving as the shipyard's Executive Vice President, Chief Operating Officer and Senior Vice President. Mr. Anttila holds a Master of Science in Mechanical Engineering, Production Technology and Steel Structures from Lappeenranta University of Technology in Finland. Mr. Anttila lives in Penn Valley, PA, USA. Mr. Anttila is a Finnish citizen. As of 1 February 2016, Mr. Anttila holds zero shares in the company and has no stock options.



**Dean Grabelle**  
*General Counsel*

Dean Grabelle (b. 1970) was appointed General Counsel at Philly Shipyard in May 2008. Prior to joining the shipyard, Mr. Grabelle was employed with the law firm Drinker Biddle & Reath LLP in Philadelphia, PA, USA where he established a legal career spanning 12 years. Past experience includes mergers and acquisitions, business counseling, lending, private equity and corporate finance. Mr. Grabelle graduated from Duke University with a Bachelor of Arts in Economics and Public Policy Studies. He also holds a Juris Doctor from the University of Pennsylvania Law School. Mr. Grabelle lives in Voorhees, NJ, USA. Mr. Grabelle is a U.S. citizen. As of 1 February 2016, Mr. Grabelle holds zero shares in the company and has no stock options.



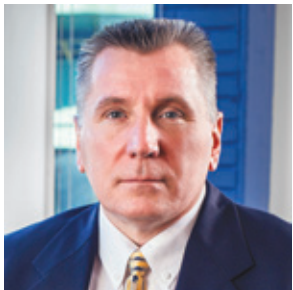
**Michael Giantomaso**  
*Vice President Human Resources*

Michael Giantomaso (b. 1966) joined Philly Shipyard as Human Resources Manager in May 1998 and was the shipyard's first locally hired manager. Mr. Giantomaso was promoted to VP in August 2001. He has over 20 years of human resources experience in the manufacturing and health care fields. Mr. Giantomaso holds a Bachelor of Arts in Business Administration and Human Resources from Temple University. Mr. Giantomaso lives in Huntingdon Valley, PA, USA. Mr. Giantomaso is a U.S. citizen. As of 1 February 2016, Mr. Giantomaso holds zero shares in the company and has no stock options.



**Jeffrey Greenwell**  
*Vice President Purchasing*

Jeffrey Greenwell (b. 1966) joined Philly Shipyard in 2015 as Vice President Purchasing. Mr. Greenwell previously served as Vice President, Operations from 2008-2014 and as Director of Engineering from 2007-2008 at GEA Heat Exchangers in Lakewood, CO. Mr. Greenwell began his career with U.S. Steel at Gary Works, amassing 16 years of experience, with roles ranging from Project Engineer/Manager and Area Manager Gary Works, Chief Engineer Granite City Works and Vice President – Technology Kosice, Slovakia. Mr. Greenwell holds a Bachelor of Science in Mechanical Engineering Technology from Purdue University. Mr. Greenwell lives in Mickleton, NJ, USA. Mr. Greenwell is a U.S. citizen. As of 1 February 2016, Mr. Greenwell holds zero shares in the company and has no stock options.



**Robert Fitzpatrick**  
*Vice President Production*

Robert Fitzpatrick (b. 1964) joined Philly Shipyard in 2001 and had held numerous key positions including Prefabrication Manager and Senior Production Manager before being promoted to VP Production in January 2007. Prior to coming to the shipyard, Mr. Fitzpatrick amassed 20 years of experience in industrial manufacturing including 12 years as a production manager responsible for the fabrication of naval circuit breakers and switchgear. Mr. Fitzpatrick holds a Bachelor of Science in Mechanical Engineering from Spring Garden College in Philadelphia, PA, USA. Mr. Fitzpatrick lives in Burlington, NJ, USA. Mr. Fitzpatrick is a U.S. citizen. As of 1 February 2016, Mr. Fitzpatrick holds zero shares in the company and has no stock options.



**Jeremy Small**  
*Vice President Engineering*

Jeremy Small (b. 1975) was promoted to Vice President Engineering in 2016 after serving as Technical Director with responsibility for all engineering activity during the design and construction of the Liberty Class MT115 tanker, MT50 product tanker and Aloha Class CV3600 containership projects. Since joining the shipyard in 2001, Mr. Small held numerous key positions including Engineering Manager, Naval Architect and Project Engineer. Prior to joining the shipyard, Mr. Small worked as a Naval Architect on various ice breaker, tugboat and barge design projects. Mr. Small holds a degree in Ocean and Naval Architectural Engineering from Memorial University of Newfoundland (Canada). Mr. Small lives in Washington Crossing, PA, USA. Mr. Small is a Canadian citizen. As of 1 February 2016, Mr. Small holds zero shares in the company and has no stock options.



**Stian Myhre**  
*Vice President*

Stian Myhre (b. 1984) is Vice President of Philly Shipyard. In addition to this responsibility he serves as Controller for Aker ASA. Prior to joining Aker ASA in 2014, Mr. Myhre worked 7 years as an auditor in PwC's Oslo office, primarily serving shipping and energy related clients. Mr. Myhre holds a MSc from the Norwegian School of Economics and Business Administration (NHH) and is a State Authorized Public Accountant (Norway). Mr. Myhre lives in Oslo, Norway. Mr. Myhre is a Norwegian citizen. As of 1 February 2016, Mr. Myhre holds zero shares in the company and has no stock options.

### **Disclaimer**

This annual report includes and is based, inter alia, on forward-looking information and statements that are subject to risks and uncertainties that could cause actual results to differ. Such forward-looking information and statements are based on current expectations, estimates and projections about global economic conditions, the economic conditions of the regions and industries that are major markets for Philly Shipyard ASA and its subsidiaries and affiliates (the “Philly Shipyard Group”) lines of business. These expectations, estimates, and projections are generally identifiable by statements containing words such as “expects”, “believes”, “estimates” or similar expressions. Important factors that could cause actual results to differ materially from those expectations include, among others, economic and market conditions in the geographic areas and industries that are or will be major markets for the Philly Shipyard Group’s businesses, oil prices, market acceptance of new products and services, changes in governmental regulations, interest rates, fluctuations in currency exchange rates and such other factors as may be discussed from time to time. Although Philly Shipyard ASA believes that its expectations and the information in this annual report were based upon reasonable assumptions at the time when they were made, it can give no assurance that those expectations will be achieved or that the actual results will be as set out in this annual report. Neither Philly Shipyard ASA nor any other company within the Philly Shipyard Group is making any representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of the information in the annual report, and neither Philly Shipyard ASA, any other company within the Philly Shipyard Group nor any of their directors, officers or employees will have any liability to you or any other persons resulting from your use of the information in the annual report.

Philly Shipyard ASA undertakes no obligation to publicly update or revise any forward-looking information or statements in the annual report, other than what is required by law.

The Philly Shipyard Group consists of various legally independent entities, constituting their own separate identities. Philly Shipyard is used as the common brand or trade mark for most of these entities. In this annual report we may sometimes use “Company”, “Philly Shipyard”, “Group”, “we” or “us” when we refer to Philly Shipyard companies in general or where no useful purpose is served by identifying any particular Philly Shipyard company.

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## **Save the environment — read reports online**

The annual reports of Philly Shipyard ASA are available via the Internet: [www.phillyshipyard.com](http://www.phillyshipyard.com). Alternatively, Philly Shipyard ASA encourages its shareholders to subscribe to the company's annual reports via the electronic delivery system of the Norwegian Central Securities Depository (VPS). Please note that VPS services (VPS Investortjenester) are designed primarily for Norwegian shareholders. Subscribers to this service receive annual reports in PDF format by email. VPS distribution takes place at the same time as distribution of the printed version of Philly Shipyard's annual report to shareholders who have requested it.

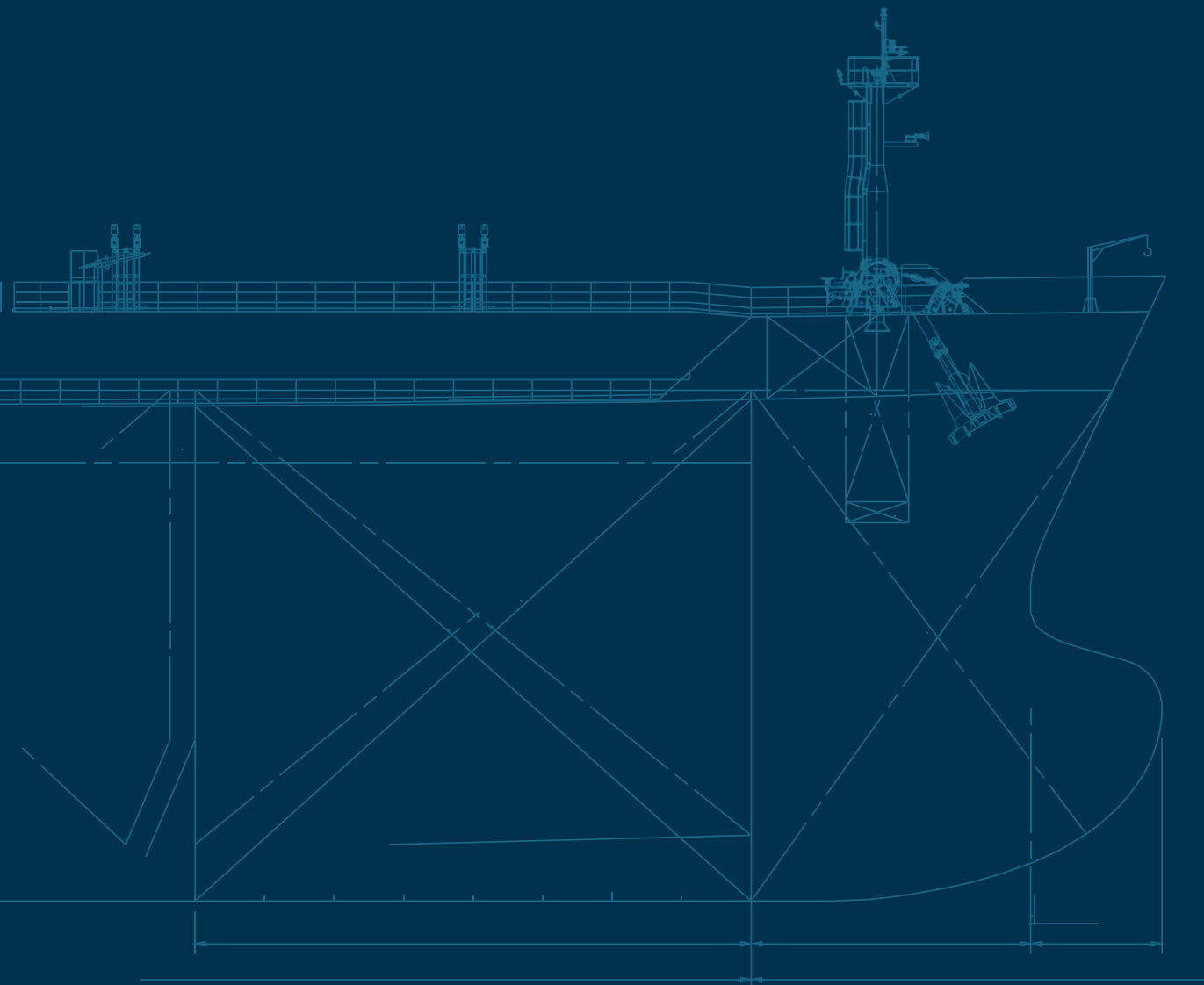
Electronic distribution is the fastest channel for accessing company information; it is also cost-effective and environmentally friendly.

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**Layout/production:**

RR Donnelley



Philly Shipyard ASA

Annual report 2015

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