Philly Shipyard ASA (OSE: PHLY)
Q3 2017 and First Nine Months 2017 Results

2 November 2017

Highlights

- ✓ Philly Shipyard entered into a Letter of Intent with TOTE Maritime for the construction and sale of up to four new, cost-efficient and environmentally friendly containerships for the Hawaii trade
- ✓ Philly Shipyard is continuing with construction activities on these vessels; design, planning and procurement work is progressing, with orders placed for all major long-lead items for the first pair to support their delivery in 2020
- ✓ Philly Shipyard delivered the third vessel (Hull 027) of a series of four product tankers to Kinder Morgan, as assignee of Philly Tankers, two days before its contract delivery date
- ✓ As of 30 September 2017, the four product tanker order for Kinder Morgan was approximately 99% complete and the two-containership order for Matson was approximately 38% complete
- ✓ Third quarter and first nine months 2017 net income of USD 17.1 million and USD 36.5 million, respectively, compared to USD 12.0 million and 19.3 million in the same periods in 2016
- ✓ Total cash and cash equivalents of USD 134.8 million at 30 September 2017, excluding USD 18.1 million of restricted cash securing certain shipbuilding contracts and loans
- ✓ Order backlog of USD 383.6 million on 30 September 2017

Operations and Shipping Investments

Vessel Construction

On 26 July 2017, Philly Shipyard delivered Hull 027, the third vessel in the four-ship order for Philly Tankers, a Jones Act shipping company that is majority-owned (but not controlled) by Philly Shipyard. This vessel was delivered to Kinder Morgan, as assignee of Philly Tankers, two days before its contract delivery date. At the end of the third quarter of 2017, Philly Shipyard was building one product tanker under contract with Philly Tankers (Hull 028) and two containerships under contract with Matson (Hulls 029-030). Hull 028 is on schedule for delivery to Kinder Morgan, as assignee of Philly Tankers, in Q4 2017. During Q3 2017, the aft part of Hull 029, the first of two new containerships to be delivered to Matson, was skidded into its final position in the dry dock. For Hull 030, the second of the two new containerships for Matson, the first Grand Block was completed during Q3 2017.

In addition, Philly Shipyard is continuing design, planning and procurement activities related to the construction of up to four new, state-of-the-art, cost-effective and environment-friendly vessels for the Hawaii containership trade. Philly Shipyard plans to deliver the first pair in 2020 and the second pair in 2021. Philly Shipyard has ordered a vast majority of all long-lead items, including the main engines and other high priority items, for the first pair to support their planned delivery dates.

Shipping Investments

In 2015, Philly Shipyard entered into definitive agreements to sell its future interests in the four-ship PHLY-Crowley joint venture (Hulls 021-024) to a subsidiary of Marathon Petroleum Corporation (Marathon). The closing of the sale of Philly Shipyard's interest with respect to each of Hulls 021-024 occurred at its delivery. As of the delivery of Hull 024 in Q3 2016, Philly Shipyard had sold all of these joint venture interests to Marathon and recognized all of the income from these sales.

Additionally, in 2015, Philly Tankers entered into definitive agreements to sell its four shipbuilding contracts with Philly Shipyard (Hulls 025-028) and related assets to Kinder Morgan. With the deliveries of Hull 025 in Q4 2016, Hull 026 in Q1 2017 and Hull 027 in Q3 2017, Philly Tankers has sold its shipping assets with respect to those vessels. The closing of the sale of Philly Tankers' shipping assets with respect to Hull 028 will occur at its delivery.

To date, the dividends paid by Philly Tankers to its shareholders total USD 74.2 million and Philly Shipyard's share of those dividends total USD 39.9 million. On 19 October 2017, Philly Tankers announced that it will not make any further dividend payments before liquidation other than any dividends necessary to cover U.S. tax withholding payments on behalf of its non-U.S. shareholders due at an earlier time. In this announcement, Philly Tankers confirmed its intention to initiate a liquidation process promptly following the delivery of Hull 028, which is scheduled to occur in Q4 2017. In addition, Philly Tankers stated its belief that this is the most cost and tax efficient manner to distribute its capital to its shareholders.

Health, Safety, Security and Environment (HSSE)

Philly Shipyard's 12-month trailing average for its Lost Time Incident Frequency Rate (LTIFR), as defined by the Occupational Safety and Health Administration (OSHA), at the end of Q3 2017 was 1.08 compared to 0.89 at the end of Q3 2016. Philly Shipyard's 12-month trailing average for its other Recordable Incident Frequency Rate, based on recordable incidents (other than lost time incidents) per 200,000 hours, at the end of Q3 2017 was 4.81 compared to 3.09 at the end of Q3 2016. Philly Shipyard continues to work proactively to further improve safety and reduce the number of incidents at the shipyard.

Financial Information

Third Quarter and Year-to-Date 2017 Results

Operating revenues and other income for the third quarter of 2017 were USD 200.8 million compared to operating revenues and other income of USD 23.7 million for the third quarter of 2016. Q3 2017 operating revenues and other income were driven by the delivery by Philly Shipyard of Hull 027 to Kinder Morgan, the related sale by Philly Tankers of its Hull 027 shipping assets to Kinder Morgan (profit and deferred gain from equity-accounted investees) and continued progress on the Matson vessels (Hulls 029-030), whereas Q3 2016 operating revenues and other income were primarily driven by initial progress on Hulls 029-030 and the gain-on-sale of the shipping assets pertaining to Hull 024.

Net income for Q3 2017 was USD 17.1 million compared to net income of USD 12.0 million for Q3 2016.

As previously disclosed, under International Financial Reporting Standards (IFRS), (1) with respect to each of Hulls 021-024, 49.9% of the profit on such vessel was deferred, and the total estimated deferred margin for all four vessels was recognized pro-rata (25% per ship) at delivery, and (2) with respect to each of Hulls 025-028, Philly Shipyard is required to defer the recognition of 100% of the revenue, cost and profit on such vessel until it is delivered. This accounting treatment is required for Hulls 025-028 because there were no external customers at the time these contracts were signed and shipbuilding activities commenced. With the deliveries of Hull 025 in Q4 2016, Hull 026 in Q1 2017 and Hull 027 in Q3 2017, 100% of the revenue, cost and profit on each of these vessels has now been recognized.

In addition to the IFRS financial measures reported above, EBITDA[1] and Adjusted EBITDA[2] are considered other relevant earnings indicators for PHLY as they measure the operational performance of the shipyard. In particular, Philly Shipyard believes presenting Adjusted EBITDA is useful to investors as it provides another measure of Philly Shipyard's profitability from its operations, as if Philly Shipyard never had an economic interest in the PHLY-Crowley joint venture vessels or investment in Philly Tankers, and more closely represents earnings from shipbuilding activities.

EBITDA for the third quarter of 2017 was USD 31.6 million compared to EBITDA of USD 17.3 million in the third quarter of 2016. The increase in EBITDA was mainly driven by the delivery by Philly Shipyard of Hull 027 to Kinder Morgan and the related sale by Philly Tankers of its Hull 027 shipping assets to Kinder Morgan (profit and deferred gain from equity-accounted investees). In addition, allocated depreciation expense for Hull 027 was included in cost-of-goods-sold during the vessel's construction and at delivery in Q3 2017 this amount was reclassified back to depreciation expense. Adjusted EBITDA for the third quarter of 2017 was USD 6.2 million compared to Adjusted EBITDA of USD 26.5 million in the third quarter of 2016. The decrease in Adjusted EBITDA was driven primarily by the significantly lower margin on the Matson project than the Crowley project.

Net financial items in Q3 2017 was income of USD 0.1 million compared to income of USD 1.9 million in Q3 2016. For both Q3 2017 and Q3 2016, the main financial income drivers were unrealized currency gains on foreign exchange forward contracts. Net financial items were significantly lower in Q3 2017 than Q3 2016 due

[1] EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

[2] Adjusted EBITDA is defined as EBITDA plus capitalized Welcome Fund interest expense plus or minus net deferred shipbuilding profits plus or minus loss or profit, respectively, in equity-accounted investees minus recognized deferred gain in equity-accounted investees.

to a USD 0.1 million gain on foreign exchange forward contracts in Q3 2017 compared to a USD 2.0 million gain on foreign exchange forward contracts in Q3 2016.

Operating revenues and other income in the first nine months of 2017 ended at USD 415.9 million compared to operating revenues and other income of USD 88.0 million in the first nine months of 2016. September 2017 year-to-date operating revenues and other income were primarily driven by the delivery by Philly Shipyard of Hull 026 and Hull 027 to Kinder Morgan, the related sale by Philly Tankers of its Hull 026 and Hull 027 shipping assets to Kinder Morgan (profit and deferred gain from equity-accounted investees) and continued progress on the Matson vessels (Hulls 029-030), whereas September 2016 year-to-date operating revenues and other income were comprised primarily of remaining continued progress on Hulls 021-024 and the gain-on-sale of the shipping assets pertaining to Hulls 023 and 024.

Net income for the first nine months of 2017 was USD 36.5 million compared to net income of USD 19.3 million in the same period of 2016.

EBITDA for the first nine months of 2017 was USD 65.8 million compared to EBITDA of USD 36.4 million in the same period of 2016. Allocated depreciation expense for Hulls 026 and 027 was included in cost-of-goods-sold during each vessel's construction and at their respective deliveries in Q1 2017 and Q3 2017 these amounts were reclassified back to depreciation expense. Adjusted EBITDA in the first nine months of 2017 totaled USD 31.4 million compared to Adjusted EBITDA of USD 63.0 million in the same period of 2016.

Balance Sheet

Total assets were USD 367.8 million at 30 September 2017 compared to USD 408.8 million at 31 December 2016. The decrease in total assets was primarily driven by a decrease in work-in-process, which decreased from USD 180.3 million to USD 94.5 million, and a decrease in equity-accounted investees, which decreased from USD 64.3 million to USD 40.2 million. This decrease is partially offset by an increase in income tax receivable from USD 1.8 million to USD 11.9 million due to the requirement to make payments to the Internal Revenue Service (IRS) and other taxing authorities based on estimates instead of actual tax liabilities and an increase in cash, which increased from USD 69.1 million to USD 134.8 million.

Total debt was USD 134.6 million at 30 September 2017 compared to total debt at year-end 2016 of USD 157.5 million. The net decrease was mainly due to full paybacks of the outstanding Caterpillar loans for Hulls 026 and 027 partially offset by draws made on the Caterpillar loan facility for Hull 028. The Caterpillar loan facility is described under Financing below.

Cash and cash equivalents (excluding restricted cash) were USD 134.8 million at 30 September 2017, compared to USD 69.1 million at 31 December 2016. The increase of USD 65.7 million was due primarily to the delivery of Hulls 026 and 027 to Kinder Morgan along with dividends paid by Philly Tankers to Philly Shipyard as well as additional customer payments made by Matson on Hulls 029 and 030. As of 30 September 2017, restricted cash consisted of (a) USD 5.0 million related to the SeaRiver project, which is expected to be released by the end of 2017, and (b) USD 13.1 million related to the Welcome Fund loan, which is expected to be released in 2020 when the loan matures.

Total equity increased to USD 124.9 million at 30 September 2017 from USD 91.4 million at year-end 2016 due to the net income of USD 36.5 million partially offset by the dividend paid of USD 3.0 million in Q1 2017.

Financing

The Company has a secured USD 150.0 million loan facility with Caterpillar Financial Services Corporation (Cat Financial), subject to a maximum borrowing amount of USD 75.0 million for construction financing on Hull 028. The entire USD 75.0 million amount was drawn under this facility as of 30 September 2017.

The Company also has a secured five-year term loan for up to USD 60.0 million from PIDC Regional Center, LP XXXI through the Welcome Fund loan program. The loan matures in March 2020. The entire USD 60.0 million amount was drawn under this facility as of 30 September 2017.

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

Shareholder Distributions
Due to the current main focus on securing new orders beyond Hull 030, the PHLY Board has decided not to pay any further ordinary or extraordinary dividends at this time. The PHLY Board will revisit the Company's dividend policy and dividend plan when it has more clarity about the Company's new order situation and related capital requirements.

Outlook

Shipbuilding
The contracts with Philly Tankers (Hull 028) and Matson (Hulls 029-030) provide for shipbuilding activity with delivery dates through Q1 2019. As of 30 September 2017, Philly Shipyard had an order backlog of USD 383.6 million.

Philly Shipyard expects to achieve record high revenues and profits in 2017. The main drivers of the record high revenues are the deliveries of Hulls 026 and 027 in Q1 and Q3, 2017, respectively, and the expected delivery of Hull 028 in Q4 2017, as well as continued progress on Hulls 029 and 030. While Philly Shipyard forecasts there will be no profit on the Matson project in 2017, Philly Shipyard has already recognized 100% of the profit (including profit and deferred gain from equity-accounted investees) on Hulls 026 and 027 in Q1 and Q3 2017, respectively, and expects to recognize 100% of the profit (including profit and deferred gain from equity-accounted investees) on Hull 028 in Q4 2017.

In contrast, in 2018, Philly Shipyard expects it will recognize revenues only for the continued progress on Hulls 029-030 and potentially some additional revenues on the new contracts contemplated by the letter of intent with TOTE Maritime, when secured, for revenue recognition over time if allowed under the new IFRS 15 standard. The revenues in 2018 will in any case be significantly lower than in 2017. The margin contribution from any project to be recognized in 2018 will not be significant and may be lower than overhead cost and SG&A for next year.

Key focus areas for Philly Shipyard's operations are delivery according to contract delivery date for the one remaining product tanker being built for Kinder Morgan (as assignee of Philly Tankers), and continued progress on the containerships under construction for Matson.

In addition, main focus areas for Philly Shipyard's business are securing new contracts to expand its order backlog beyond Hull 030 and seeking capital to finance the construction of new vessels. During Q3 2017, Philly Shipyard signed a Letter of Intent (LOI) with TOTE Maritime for up to four state-of-the-art, cost-effective and eco-friendly vessels. Under the terms of the LOI, it is contemplated that TOTE Maritime will make an initial order for two 3,700 TEU containerships (Hulls 031 and 032) with deliveries in 2020 and receive options to order two additional sister ships (Hulls 033 and 034) with deliveries in 2021. It is intended that these CV 3700 vessels will service the containership trade between the U.S. West Coast and Hawaii.

In order to support this timetable, Philly Shipyard is forging ahead with design, planning and procurement activities. The vessels are being designed to address the present market trends for larger sized containers, faster transit times and LNG fuel. Philly Shipyard has placed orders for all major long-lead items for the first pair of these vessels. If these orders were to be canceled, then the cancellation costs would be substantially lower than the value of the orders placed.

Start of full production for Hull 031 is planned for Q1 2018; however, full production start is dependent upon finalizing the definitive agreements contemplated by the LOI with TOTE Maritime and the satisfaction of certain customary contingencies, including arranging construction financing for this vessel. There can be no assurance these contingencies will be satisfied.

The delay in securing new orders beyond Hull 030 has already negatively affected the optimal production schedule for the series of CV 3700 vessels contemplated by the LOI with TOTE Maritime. Nonetheless, Philly Shipyard is confident that it can deliver the first pair in 2020 and the second pair in 2021, as planned.

Philly Shipyard has successfully built and delivered four containerships for Matson (Hulls 001-004) that are currently operating in the Hawaii trade. Given its deep experience, Philly Shipyard knows what it takes to successfully deliver these extremely complex and challenging vessels. There is a dramatic learning curve in building containerships and Philly Shipyard has significantly reduced the manhours required to complete these vessels since its first delivery for Matson in 2003.

Furthermore, the series of CV 3700 vessels contemplated by the LOI with TOTE Maritime is a direct continuation of the series of two similar 3,600 TEU “Aloha Class” containerships currently under construction at Philly Shipyard for Matson (Hulls 029-030). Philly Shipyard believes that the operational gains of series production with familiar ships, coupled with its experience in building quality containerships for the Hawaii trade and historical access to vessel financing, will significantly benefit Philly Shipyard in terms of cost and schedule.

While Philly Shipyard has decided on building large containerships for its next contracts after the Matson project, Philly Shipyard continues to explore potential new construction projects in other areas of the Jones Act market to secure new orders for deliveries beyond 2021. Among other endeavors, Philly Shipyard has teamed with Fincantieri Marine Group and Vard Marine to compete for the detail design and construction of the U.S. Coast Guard’s next generation heavy polar icebreaker. In support of this effort, the team is participating in a government funded industry study to develop a baseline icebreaker design, cost estimate, and project schedule and refine key vessel features and performance requirements.

Shipping

As Philly Shipyard and Philly Tankers completed definitive documentation in 2016 to divest their shipping assets related to Hulls 021-028, they will no longer have exposure to these vessels in service. These transactions streamlined the business and marked a successful conclusion to an innovative plan to invest in eight Jones Act product tankers with an approximate contract value of USD 1.0 billion through the PHLY-Crowley joint venture (Hulls 021-024) and Philly Tankers (Hulls 025-028). In line with its business strategy, the Company will continue to evaluate opportunities to participate in the post-delivery economics of the ships that it constructs.

Risks

The transaction contemplated by the Letter of Intent (LOI) between Philly Shipyard and TOTE Maritime is subject to agreement by the parties on definitive documents and fulfillment of certain closing conditions. The LOI provides for a period of exclusivity to negotiate and complete this transaction. There can be no assurance that an agreement will be reached or these conditions will be satisfied.

The Company faces risks if it experiences further delays in securing new contracts for work after the last vessel in the current backlog (Hull 030). Because multiple vessels are in production at any one time, lack of a continued firm backlog may cause operational inefficiencies for completion of the remaining vessels in the current backlog.

Philly Shipyard faces additional risks if it is unable to secure new orders and/or financing for vessels after Hull 030. If the shipyard is unable to avoid a significant interruption in shipbuilding activities, then the Company would incur significant expenses (including cancellation costs for long-lead items) and it would be challenging for the Company to continue operations after delivery of Hull 030.

Operational risk is the ability to deliver vessels under existing contracts at the agreed time, quality, functionality and cost. Delivering projects in accordance with the contract terms and the anticipated cost framework represents a substantial risk element. Results also depend on costs of goods and services, both Philly Shipyard’s own and those charged by suppliers, and on interest expense, exchange rates and customers’ ability to pay.

Philly Shipyard is dependent on commitments for debt financing and has exposure in the financial markets, including currency, interest rate, counterparty and liquidity risks. Philly Shipyard has established guidelines and systems to manage this exposure.

Philly Shipyard faces risks related to the contracts for its vessels, including the risk that those contracts are canceled and the underlying vessels are ultimately sold to third parties for less favorable terms. If this risk were to materialize, then it could have a negative effect on Philly Shipyard’s financial performance.

Philly Shipyard will during 2017 continue to transition from building a series of tankers to building prototype container vessels. Management views the container vessels as a higher risk since the Company’s main activity during the last ten years has been building tankers and the last container vessel built by the Company was delivered in 2006. Accordingly, there is a higher technical design risk and a higher project execution risk compared to the recent construction of multiple product tankers, which increases the current construction cost estimation uncertainty. In addition, due to the low projected margin on Hulls 029 and 030, there is a risk of a loss-making project.

Following the severe damage to Puerto Rico inflicted by Hurricane Maria, several measures are pending in the U.S. Congress seeking either a long-term suspension or outright repeal of the application of the Jones Act to this U.S. territory. If this legislation is passed, then the demand for U.S.-built vessels could be reduced.

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

Oslo, Norway
2 November 2017
Board of Directors and Chief Executive Officer
Philly Shipyard ASA

CONDENSED CONSOLIDATED INCOME STATEMENT

Amounts in USD millions (except number of shares and earnings per share)	Q3 Unaudited 2017	Q3 2016	Nine Months Ended 30 Sept. Unaudited 2017	Nine Months Ended 30 Sept. 2016	Full Year 2016 *
Operating revenues and other income	200.8	23.7	415.9	88.0	233.6
Operating expenses	(169.2)	(6.4)	(350.1)	(51.6)	(163.2)
Operating income before depreciation - EBITDA	**31.6**	**17.3**	**65.8**	**36.4**	**70.4**
Depreciation	(4.0)	(0.1)	(8.3)	(1.0)	(3.6)
Operating income - EBIT	**27.6**	**17.2**	**57.5**	**35.4**	**66.8**
Net financial items	0.1	1.9	1.0	4.0	1.5
Income before tax	**27.7**	**19.1**	**58.5**	**39.4**	**68.3**
Tax expense	(10.6)	(7.1)	(22.0)	(20.1)	(29.6)
**Income after tax ** **	**17.1**	**12.0**	**36.5**	**19.3**	**38.7**
Weighted average number of shares	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**	**12,107,901**
Basic and diluted earnings per share (USD)	**1.41**	**0.99**	**3.02**	**1.60**	**3.19**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in USD millions	Q3 Unaudited 2017	Q3 2016	Nine Months Ended 30 Sept. Unaudited 2017	Nine Months Ended 30 Sept. 2016	Full Year 2016 *
Income after tax	17.1	12.0	36.5	19.3	38.7
Other comprehensive income, net of income tax	-	-	-	-	-
**Total comprehensive income for the period ** **	**17.1**	**12.0**	**36.5**	**19.3**	**38.7**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in USD millions	Unaudited 30 Sept. 2017	31 Dec. 2016 *
Assets		
Non-current assets		
Property, plant and equipment	50.4	50.6
Restricted cash	13.1	13.1
Deferred tax asset	8.1	16.6
Equity-accounted investees	40.2	64.3
Other non-current assets	0.4	0.3
Total non-current assets	**112.2**	**144.9**
Current assets		
Work-in-process	94.5	180.3
Restricted cash	5.0	7.0
Prepayments and other receivables	9.4	5.7
Income tax receivable	11.9	1.8
Cash and cash equivalents	134.8	69.1
Total current assets	**255.6**	**263.9**
Total assets	**367.8**	**408.8**
Equity and liabilities		
Total equity	**124.9**	**91.4**
Non-current liabilities		
Interest-bearing long-term debt	59.4	59.3
Other non-current liabilities	-	-
Deferred tax liability	0.4	1.0
Total non-current liabilities	**59.8**	**60.3**
Current liabilities		
Construction loans	75.0	98.0
Interest-bearing short-term debt	0.2	0.2
Trade payables, accrued liabilities and provisions	46.5	58.9
Income tax payable	1.5	2.1
Customer advances, net	59.9	97.9
Total current liabilities	**183.1**	**257.1**
Total liabilities	**242.9**	**317.4**
Total equity and liabilities	**367.8**	**408.8**

* Annual 2016 financial information is derived from audited financial statements.
** All attributed to the equity holders of PHLY.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in USD millions	Nine Months Ended 30 Sept. Unaudited 2017	2016
As of beginning of period	91.4	143.4
Dividend paid	(3.0)	(87.9)
Total comprehensive income for the period *	36.5	19.3
As of end of period	**124.9**	**74.8**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Amounts in USD millions	Nine Months Ended 30 Sept. Unaudited 2017	2016
Net cash from/(used in) operating activities	57.5	(17.9)
Investment in property, plant and equipment	(5.7)	(6.9)
Dividend received from equity-accounted investees	39.9	-
Investment in equity-accounted investees	-	0.1
Sale of shipping assets, net of transaction costs	-	20.7
Net cash from investing activities	34.2	13.9
Proceeds from construction loans	127.0	184.0
Repayment of construction loans	(150.0)	(116.0)
Repayment of interest-bearing debt	-	(13.7)
Dividend paid	(3.0)	(87.9)
Net cash used in financing activities	(26.0)	(33.6)
Net change in cash and cash equivalents	**65.7**	**(37.6)**
Cash and cash equivalents at beginning of period	69.1	69.9
Cash and cash equivalents at end of period	**134.8**	**32.3**

* All attributed to the equity holders of PHLY.

Notes to the condensed interim consolidated financial statements for the 3rd quarter and year-to-date 2017

1. Introduction – Philly Shipyard ASA

Philly Shipyard ASA (PHLY) is a company domiciled in Norway. The condensed interim consolidated financial statements for the three-month and nine-month periods ended 30 September 2017 and 30 September 2016 are comprised of PHLY and its direct and indirect wholly-owned subsidiaries, including Philly Shipyard, Inc. (PSI).

This interim report has not been subject to audit or review by independent auditors.

The audited consolidated financial statements of PHLY as of and for the year ended 31 December 2016, which include a detailed description of accounting policies and significant estimates, are available at www.phillyshipyard.com.

2. Basis of preparation

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

3. Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of PHLY as of and for the year ended 31 December 2016.

4. Significant accounting principles

The accounting policies applied by PHLY in these condensed interim consolidated financial statements are substantially the same as those applied by PHLY in its audited consolidated financial statements as of and for the year ended 31 December 2016.

There have not been any new IFRS standards or interpretations which were effective 1 January 2017 that have had a significant impact on Q3 2017 or the year-to-date period. PHLY has started to analyze how the new IFRS 15 standard - Revenue from Contracts with Customers (effective 1 January 2018) - potentially will impact its current contract with Matson. The preliminary conclusion is that there will be no change in the way revenues have been recognized for the Matson contract.

5. Use of estimates

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The most significant judgments made by management in preparing these condensed interim consolidated financial statements in applying PHLY's accounting policies, and the key sources of estimation uncertainty, are the same as those that are applied to the audited consolidated financial statements as of and for the year ended 31 December 2016 unless described elsewhere in this report.

6. Tax estimates

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

7. Share capital and equity

At 30 September 2017 and 30 September 2016, PHLY had 12,107,901 ordinary shares (excluding 466,865 own shares) at a par value of NOK 10 per share. There were no share issuances or repurchases for the quarters or the year-to-date periods ended 30 September 2017 or 30 September 2016. Accordingly, 12,107,901 ordinary shares were used in the calculation of earnings per share for the quarters and for the year-to-date periods ended 30 September 2017 and 30 September 2016.

8. Interest-bearing debt

The following shows material changes in interest-bearing debt during 2017:

Amounts in USD millions	Non-current debt	Current debt	Total interest-bearing debt
Balance 31 December 2016	**59.3**	**98.2**	**157.5**
Proceeds from borrowings	-	127.0	127.0
Repayment of debt	-	(150.0)	(150.0)
Reclass of debt	0.1	-	0.1
Balance 30 September 2017	**59.4**	**75.2**	**134.6**

The Company has a loan agreement with Caterpillar Financial Services Corporation (Cat Financial) for a USD 150.0 million loan facility, subject to a maximum borrowing amount of USD 75.0 million for construction financing on the one remaining product tanker under contract with Philly Tankers (Hull 028). The loan is secured by a first lien on Hull 028. The loan accrues interest at three-month LIBOR plus 3.0% per annum as defined in the loan agreement. USD 75.0 million is drawn under this facility at 30 September 2017.

PSI has a secured term loan of up to USD 60.0 million (USD 59.3 million on the statement of financial position which is the loan amount net of unamortized loan fees) with PIDC Regional Center, LP XXXI, a partnership between CanAm Enterprises and the Philadelphia Industrial Development Corporation (PIDC). The loan has a fixed interest rate of 2.625% per annum through maturity. The loan matures in March 2020. This loan was made through the Welcome Fund loan program, a source of low-cost capital generally available to commercial, retail, industrial or non-profit firms that create significant job growth and are located in or planning to locate to the City of Philadelphia. The loan has a five-year term and is secured by: (1) a first lien on USD 13.1 million of cash collateral; (2) a second lien on Hull 028 during construction; and (3) a first lien on PSI's shares in Philly Tankers AS, which are held by PSI's wholly-owned subsidiary, APSI Tanker Holdings II LLC (ATH II). The loan also contains a covenant restricting dividends and other distributions by ATH II until an additional USD 39.3 million of cash collateral has been deposited to secure the loan. USD 60.0 million is drawn under this term loan at 30 September 2017.

The Company has an unsecured three-year revolving credit facility for up to USD 10.0 million from TD Bank, N.A., which automatically reduced from a maximum of USD 20.0 million on 1 May 2017. The facility terminates in April 2019. The loan accrues interest at 30-day LIBOR plus 2.50% per annum as defined in the credit agreement. USD 1.2 million of this facility was utilized as of 30 September 2017 for the issuance of letters of credit.

9. Related party transactions

Aker Capital AS, a wholly-owned subsidiary of Aker ASA, is the majority shareholder of PHLY, owning 57.6% of its total outstanding shares as of 30 September 2017.

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

Related administrative costs and financial statement amounts for the three-month period ending 30 September 2017 were USD 30 thousand (USD 30 thousand for the same period in 2016) and for the nine-month period ending 30 September 2017 were USD 90 thousand (USD 90 thousand for the same period in 2016).

PSI entered into an administrative services agreement with Philly Tankers LLC (PTLLC) whereby PSI will supply certain administrative services to PTLLC. Related revenues for the three-month period ending 30 September 2017 were USD 30 thousand (USD 30 thousand for the same period in 2016) and for the nine-month period ending 30 September 2017 were USD 90 thousand (USD 90 thousand for the same period in 2016).

10. Capitalized interest

	Q3		Nine Months Ended 30 Sept.	
Amounts in USD millions	**2017**	**2016**	**2017**	**2016**
Interest expense	(1.3)	(0.9)	(4.3)	(2.8)
Interest capitalized on construction contracts	0.8	0.8	2.9	2.3
Net interest expense	**(0.5)**	**(0.1)**	**(1.4)**	**(0.5)**

11. Construction contracts

The order backlog is USD 383.6 million at 30 September 2017 and represents a contractual obligation to deliver vessels that have not yet been produced for the Company's customers: Philly Tankers and Matson. Order backlog consists of future contract revenues and is subject to adjustment based on change orders as defined in the construction contracts.

Amounts in USD millions	Order backlog 30 Sept. 2017	Order intake 9 months to 30 Sept. 2017	Order backlog 31 Dec. 2016
	383.6	**(0.3)**	**784.4**

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

Amounts in USD millions	30 Sept. 2017
Contract revenue recognized to date	157.7
Less: contract expenses recognized to date	(157.7)
Profit recognized to date (Hulls 029-030)	**-**
Contract costs incurred to date (Hulls 028-030)	**298.4**

Contract revenue and profit recognized to date excludes revenue and profit for Hull 028 since the contract for this vessel is not accounted for as a long-term construction contract. Revenue, cost and profit for Hull 028 will be recognized at its delivery in Q4 2017. 100% of the revenue, cost and profit for each of Hulls 025-027 was recognized at its delivery in Q4 2016, Q1 2017 and Q3 2017, respectively.

As of 30 September 2017, the Company has one contract in progress that is accounted for using the percentage of completion method. The Company is building two containerships to be delivered to Matson in 2018 and 2019 (Hulls 029-030). These vessels are an all-new design and the Company last delivered a containership in 2006. Accordingly, there is a higher project execution risk compared to the recent construction of multiple product tankers, which increases the current estimation uncertainty. In addition, due to the low projected margin on Hulls 029 and 030, there is a risk of a loss-making project. Philly Shipyard recognizes revenues and expenses for the two-containership order from Matson as one project. As of 30 September 2017, the Matson project is approximately 38% complete.

Customer milestone payments excluding repayment of the USD 58.0 million Philly Tankers note as of 30 September 2017 and 30 September 2016 totaled USD 266.1 million and USD 148.1 million, respectively. Customer milestone payments pertaining to repayment of the USD 58.0 million Philly Tankers note as of 30 September 2017 and 30 September 2016 totaled USD 0 and USD 58.0 million, respectively.

Customer advances, net as of 30 September 2017 and 30 September 2016 totaled USD 59.9 million and USD 106.4 million, respectively. In 2017, costs incurred for the one remaining Philly Tankers vessel (Hull 028), which are not being accounted for under construction accounting rules, have been classified as work-in-process. As of 30 September 2017, customer advances, net represents the cash deposits on the one remaining Philly Tankers vessel (Hull 028) and the net liability on the two Matson vessels (Hulls 029-030).

Vessels-under-construction receivable as of 30 September 2017 and 30 September 2016 totaled USD 0 and USD 21.3 million, respectively. As of 30 September 2017, vessels-under-construction receivable represents the difference between costs incurred for the Matson vessels (Hulls 029-030) and customer advances received from Matson for those vessels.

Work-in-process as of 30 September 2017 and 30 September 2016 totaled USD 94.5 million and USD 194.6 million, respectively. Work-in-process related to non-percentage-of-completion accounting projects is presented gross (where costs incurred are presented as a work-in-process asset, and payments from customers received are presented as customer advances, net liability). Percentage-of-completion accounted projects are presented net.

As of 30 September 2017, PSI has non-cancellable purchase commitments for materials and equipment of approximately USD 39.4 million for the construction of Hulls 028-030.

12. Operating revenues and other income

	Q3		Nine Months Ended 30 Sept.	
Amounts in USD millions	**2017**	**2016**	**2017**	**2016**
Operating revenues	192.8	13.4	400.2	67.4
Profit/(loss) in equity-accounted investees (Hulls 025-028)	6.5	(0.1)	12.8	(0.1)
Recognized deferred gain in equity-accounted investees (Hulls 025-028)	1.5	-	2.9	-
Gain-on-sale of shipping assets (Hulls 021-024)	-	10.4	-	20.7
Operating revenues and other income	**200.8**	**23.7**	**415.9**	**88.0**

Profit/(loss) in equity-accounted investees (Hulls 025-028) represents the Company's 53.7% share of the net profit/(loss) of Philly Tankers, which at nine months ended 30 September 2017 and 30 September 2016 amounted to USD 12.8 million and negative USD 0.1 million, respectively.

Recognized deferred gain in equity-accounted investees (Hulls 025-028) represents the Company's USD 5.848 million gain that was deferred on the issuance of Philly Tankers shares in July 2014 to external parties at a price exceeding the Company’s cost basis, which at nine months ended 30 September 2017 and 30 September 2016 amounted to USD 2.924 million and USD 0, respectively. USD 4.386 million was evenly recognized at delivery of each of Hulls 025-027; the remaining USD 1.462 million will be recognized at delivery of Hull 028 in Q4 2017.

13. Financial instruments

As of 30 September 2017, the Company accounts for its forward exchange contracts with a notional value of USD 8.3 million at fair value (fair value of a USD 75 thousand liability at 30 September 2017, an improvement of USD 1.52 million from year-end 2016). These contracts are the only assets and liabilities accounted for at fair value. As disclosed in the Company’s 2016 annual report, the fair value of forward exchange contracts are determined by market observable inputs. Other than as noted above, there are no significant deviations between carrying amounts of financial assets and liabilities and their fair values due to short-term maturities.

14. Commitments and contingencies

As part of the transactions contemplated by the Authorization Agreement executed by PSI and Philadelphia Shipyard Development Corporation (PSDC) in 2011, PSI agreed to a new termination event under its shipyard lease, pursuant to which PSDC has the right to recapture the shipyard if PSI fails to maintain an average of at least 200 full-time employees at the shipyard for 90 consecutive days, subject to the right of PSI to complete work-in-process projects and a one-time, limited cure right which allows PSI to restore the lease to a five-year term under certain circumstances. Philly Shipyard expects that PSI will have at least 200 full-time employees on staff as long as there is ongoing shipbuilding activity at the shipyard.

15. Use and reconciliation of non-GAAP financial measures

	Q3		Nine Months Ended 30 Sept.	
	Unaudited		**Unaudited**	
Amounts in USD millions	**2017**	**2016**	**2017**	**2016**
EBITDA	31.6	17.3	65.8	36.4
plus: capitalized Welcome Fund interest expense	-	0.1	0.2	0.9
plus: deferred shipbuilding profits (Hulls 025-028)	8.3	15.6	29.5	34.6
less: recognized shipbuilding profits (Hulls 025-028)	(25.7)	-	(48.4)	-
(less)/plus: (profit)/loss in equity-accounted investees (Hulls 025-028)	(6.5)	0.1	(12.8)	0.1
less: recognized deferred gain in equity-accounted investees (Hulls 026-027)	(1.5)	-	(2.9)	-
plus: deferred shipbuilding profits (Hulls 021-024)	-	1.4	-	5.4
less: recognized shipbuilding profits (Hulls 021-024)	-	(8.0)	-	(14.4)
Adjusted EBITDA	**6.2**	**26.5**	**31.4**	**63.0**

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

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

Adjusted EBITDA, which is defined as EBITDA (i.e., earnings before interest, taxes, depreciation and amortization) plus capitalized Welcome Fund interest expense plus or minus net deferred shipbuilding profits plus or minus loss or profit, respectively, in equity-accounted investees minus recognized deferred gain in equity-accounted investees.

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

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