Good afternoon ladies and gentlemen, and thank you for attending Pacific Basin’s 2014 Annual Results presentation.

I am joined by our CEO Mats Berglund and our CFO Andrew Broomhead.

We will follow our usual format and, as such, I will hand over to Mats who will present our results and business activities with input also from Andrew. I will then invite you to ask any questions you may have.

Speaker: Mats Berglund

Slide 2 – Group Highlights

In very difficult market conditions in 2014, Pacific Basin produced an underlying loss of $56 million, and a net loss of $285 million. Our EBITDA was positive $82 million.

Our results were influenced by a number of challenges, including:

(a) the impact on our revenues of very low dry bulk market rates;

(b) $130 million non-cash impairments and provisions reflecting significant changes in the dry bulk and bunker fuel markets; and

(c) $91 million towage-related impairment and business disposal charges.

These are obviously very poor results, but it says much about our effective business model and competitive cost base that we remain EBITDA positive in these testing times, and able to generate Handysize earnings that outperformed spot market rates by 28%.

An important development in the year was the sale of our harbour towage business and the sale of our interest in OMSA, leaving us with a much smaller remaining towage organisation and freeing up cash and management time for our core dry bulk business.

In dry bulk, we have taken delivery of all 33 secondhand ships that we committed to purchase between late 2012 and early 2014. They have slotted into our cargo systems well and have made a positive cash contribution despite the weak market.

Our exit from the RoRo sector continues on schedule with two of our RoRo vessels delivered into Grimaldi’s ownership in 2014. The remaining two are due to follow within 2015 generating proceeds of around $60 million.

As at 31 December 2014, we had total cash and deposits of $363 million and net gearing of 40% illustrating our continued robust balance sheet.

We have $350 million of undrawn committed bank facilities, and we received towage sale proceeds of $69 million in early 2015 relating to the sale of our harbour towage business and our interest in OMSA.

The Board has recommended a final dividend of 5 HK cents per share for 2014 in view of the positive EBITDA generated by the business.
Slide 3 – Pacific Basin Dry Bulk – 2014 Performance

Our dry bulk business made a net loss after overheads of $30 million and generated a positive EBITDA of $94 million.

The net loss reflects the impact on our revenues of weak dry bulk spot market rates, which fell more than 60% over the year.

Our $94 million positive EBITDA in this challenging market was partly driven by more owned ships and our Handysize and Handymax daily earnings outperforming their corresponding markets by 28% and 12% respectively, reflecting the value of our business model, fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes.

We stopped buying ships in early 2014 as we saw prices increasing on overly optimistic sentiment without a supporting increase in freight rates.

The Group’s consolidated results were affected by dry bulk-related non-cash accounting charges and provisions of $130 million comprising:

(a) a non-cash provision of $101 million for inward chartered vessel contracts taken at higher rates primarily in 2010; and  
(b) a non-cash unrealised derivative charge of $29 million relating mainly to the fair value change of bunker fuel hedges following a more than 50% drop in fuel prices. Accounting rules do not allow us to offset the benefit of lower physical bunkering costs on the related fixed-rate cargo contracts.

Slide 4 – Pacific Basin Dry Bulk Earnings Cover

We currently operate approximately 218 dry bulk ships of which 80 are owned. A further 18 owned newbuildings are due to join our core fleet over the next two years.

The composition of our fleet continued to change with a higher proportion of owned ships providing better stability, a lower cash break-even and quality service.

As at 23 February 2015, we had covered 56% of our 40,220 Handysize revenue days in 2015 at $8,880 per day. We had also covered 66% of our 12,480 Handymax revenue days at $10,120 per day.

Slide 5 - Dry Bulk Market Information

Reversing developments of the previous year, the freight market trended sharply down in 2014 as characterised by a 63% fall in the Baltic Dry Index over the year, led by declines in the Capesize segment. This was driven by negative demand-side surprises, compounded by continued global oversupply.

The unexpected decline in the second quarter was led by a collapse in Atlantic rates following the repositioning of more ships than usual into the Atlantic for the South American grain season. Bearish conditions prevailed until July.

Improvement in the fourth quarter was less pronounced and more short-lived than the seasonal strengthening that is typical at the year end.

Conditions have remained very bearish at the start of 2015 and, in February, the BDI has fallen to its lowest since indices began in 1985.

Handysize daily spot rates averaged US$7,300 net in 2014, and today they are about $4,000 net.

Five year old Handysize values are estimated by Clarksons to be US$14.5 million – down 34% from a year ago, and at a level last seen in 2003.

Handysize newbuilding prices remained relatively flat over the past year and currently stand at $22 million.
**Slide 6 – Dry Bulk Demand**

Platou estimate dry bulk transportation demand in 2014 to have increased by 4.1% year on year – weighed down by particularly disappointing second half cargo volumes into China.

Chinese coal imports declined by 36 million tonnes (or 11%) due to increased use of hydro-electric power and China’s actions to protect its domestic coal industry at the expense of imports.

Conversely, coal imports into India grew by 26 million tonnes, although not enough to offset China’s reduction.

While Chinese imports of iron ore grew by 14%, most growth came from Australia where mining capacity had been increased, taking away market share from Brazilian miners. This resulted in shorter average sailing distances thereby impacting tonne-mile demand for large bulk carriers.

Most relevant for our smaller ships, there was a 12% reduction in China’s imports of a basket of 7 main minor bulks. Fully explaining this was the continuing Indonesian ban on bauxite and nickel ore exports. China replaced some imports of these two commodities from other countries, but the overall impact on dry bulk demand was negative. Other minor bulks increased, but not enough to offset the reductions in the larger bauxite and nickel trades.

**Slide 7 – Dry Bulk Fleet Development**

The market remained weighed down by the continued oversupply of dry bulk ships despite reduced net fleet growth of 4.4% in 2014 – the lowest level in over 10 years.

The global fleet of 25–40,000 tonne Handysize ships in which we specialise expanded by a more moderate 2.7% net in 2014, driven by 6.8% newbuilding deliveries and 4.4% scrapping.

On a more positive note, new ship ordering decreased steadily during 2014 to the lowest levels since 2001, and scrapping in 2015 has increased.

Widespread slow steaming had continued to curtail capacity, but the dramatic drop in crude oil and fuel prices during the last quarter resulted in early signs of increased average vessel operating speeds, potentially increasing global shipping supply.

**Slide 8 – Dry Bulk Orderbook**

The Handysize orderbook currently stands at 23% and the overall dry bulk orderbook stands at 21%.

The majority of dry bulk capacity on order is from Chinese shipyards, and we expect current market pressures to result in actual deliveries falling well short of scheduled deliveries. Cancellations, delays and conversions will have a larger effect on the 2016 deliveries as 2015 deliveries are already under construction.

**Slide 9 – Dry Bulk Outlook**

We take a cautious view on the freight earnings outlook in the medium term.

2015 has started with a larger dry bulk supply surplus than a year ago due to the unexpected failure of demand to outpace moderate fleet growth last year.

The freight market has become dysfunctional in some regions where cargo availability is very limited – exacerbated by the lull around the lunar new year holidays in China.

Demand growth continues to be impacted by the Indonesian mineral exports ban, reduced Chinese coal imports, lower growth in Chinese economic and industrial development, and the softer growth outlook for most developed economies with the notable exception of the US.

The longer term outlook for our own business remains more positive as the versatile Handysize vessel class is better protected in weak markets by greater geographical and cargo diversification and less exposure to the iron ore and coal trades where the vessel surplus is concentrated.
Strategically, we are managing our business for a weak market scenario and we are well placed to capitalise on improved trading conditions when they return. We strive to deliver profitable contributions even in a weak market, and we seek to safeguard the Company’s continued strong cash position and EBITDA generation.

We are working hard on making our dry bulk platform even more robust through initiatives to reduce our costs and grow our customer relationships which enhance our access to cargoes – in turn facilitating our continued outperformance of the market.

Good control of our vessel operating expenses, efficient workflows and minimising administrative costs are especially important. We are implementing new ship management and accounting software to facilitate these objectives.

In Handymax, we will concentrate our fleet and cargo focus on a tighter geographical range to enable better ship/cargo matching and to optimise our front and backhaul combinations to generate better vessel earnings.

With weakening markets and values, we have neither been buying nor taking ships on long-term charter. We will however continue to supplement our core fleet with low rate short-term chartered ships, which make a good contribution to our service and our results even in the depressed market.

It is important to remember that this difficult market may well also present interesting opportunities for companies able to access capital.

**Slide 10 – PB Towage – 2014 Performance & Highlights**

Our towage division generated a net loss of $15.1 million reflecting the impact on our revenues of an increasingly competitive landscape.

Additionally, our consolidated Group results were affected by towage-related one-off items including:

1. non-cash impairments and provisions of $71 million – mainly comprising the $64 million impairment and provision we booked in the first half; and
2. business disposal losses of $8 million and related exchange losses of $13 million.

In the **offshore towage sector**, as announced in November, we sold our 50% interest in the Gorgon-focused OMSA joint venture to our joint-venture partner resulting in a $2.3 million gain on disposal and $3.4 million non-cash charge from foreign exchange reserves.

Our **harbour towage activity** was affected by reducing port volumes and increased competition in open ports and, with PSA Marine backing away from the acquisition of this business, this necessitated a non-cash impairment charge and a provision amounting to $64 million in our interim results.

We reached agreement in December to sell our harbour towage business to Smit Lamnalco. The transaction completed this February, generating in our 2014 results i) a net book loss of $10 million, and ii) a $9.3 million non-cash charge from foreign exchange reserves.

The disposal saves us the significant cost of vessel dockings scheduled for this year and generated proceeds equivalent to US$63 million which we received earlier this year. We also received a $6 million second payment for our OMSA sale, so we have a total $69 million of towage sale proceeds since the year end.

The completion of these sales leaves Pacific Basin with its towage presence primarily in the Middle East.

We have downsized our New Zealand and Australian offshore towage organisation significantly, and we are marketing the remaining idle assets for sale.

Our remaining towage vessel net book value is approximately US$41.5 million including 13 offshore tugs and 6 barges.

I will now pass you to Andrew, our CFO, who will present the financial section.
The Group reported a segment net loss of US$45.9m and an Underlying loss of US$55.5m mainly due to a weak second half dry bulk market and weak towage results.

The loss attributable to shareholders was impacted by a number of items which have been the subject of previous announcements:

- a US$101m non-cash provision against our dry bulk vessel inward charter contracts;
- a US$71m non-cash towage assets impairment charge;
- a US$20m loss and FX release upon the sale of our harbour towage business and the OMSA joint venture; and
- US$29m of non-cash mark-to-market expenses mainly on our bunker swaps used to hedge our bunker exposure on forward cargo cover.

On a more encouraging front, we generated an EBITDA of US$82m and our Handysize daily earnings outperformed the market by 28%.

Non Direct G&A reduced significantly over the year, and total G&A reduced slightly to US$75.7 million despite the increase in technical and operations staff to manage the expanded owned fleet. We are focused on managing these costs, which have been further reduced with the sale of most of the towage operations.

Our dry bulk segment’s overall result turned to a loss of US$30m but strong EBITDA generation of US$94m.

We managed to narrow down the loss on the Handymax segment following the redelivery of short-term higher cost chartered ships that we operated in the first half.

Direct overheads increased mainly due to the full year effect of a step increase in dry bulk headcount to provide technical management of our much larger fleet of owned vessels. Spread across our vessel days, the US$49.2m aggregate overhead translated into a daily cost of US$620 per day, reverting to 2011 and 2012 levels.

Analysing our dry bulk results further:

Our Handysize and Handymax revenue days increased 7% and 8% respectively as our purchased and long-term chartered vessels continued to deliver.

The weak second half dry bulk market impacted the performance of both our Handysize and Handymax vessels. Our Handysize TCE earnings decreased 2% to US$9,340 per day, whilst blended daily costs increased by 3%. Coupled with the increase in revenue days, the result was a positive Handysize contribution of US$29m.

However, the Handymax contribution turned to a negative US$14.8 million. At the end of 2013, we had chartered in a number of Handymax vessels on short-term basis at high cost during the unexpected regional US Gulf market spike to perform our US Gulf cargo commitments in the first half of 2014. The majority of these charters expired during the first part of the year, thereby benefitting the second half of the year.

Handysize blended operating costs of US$8,750 per day increased 3% compared to 2013.

Owned vessel costs increased 6% mainly due to crew wages and more vessels trading in the Atlantic which incurred higher costs for stores and spares.
The break out graph shows the chartered daily cost split between short term, long term and index charters, with 2015 fixed charter-in costs lower than 2014.

We continue to make use of short-term and index-linked vessels which are able to make a good contribution to our service and our results even in the weak market.

The number of lower cost owned vessel days increased 24% compared to 2013, due to the delivery of purchased vessels, and represented 42% of our total Handysize fleet.

**Slide 15 – Daily Vessel Costs – Handymax**

Handymax blended operating costs of US$11,050 per day increased 6% compared to 2013 on the back of a 9% increase in chartered in vessel rates to US$11,810 per day.

Our Handymax chartered-in days during the second half of the year decreased 13% when compared to those in the first half of the year due to a reduced level of expensive short-term inward chartered vessels.

For 2015, we have committed 5,440 days at fixed rates significantly lower than last year’s, which represents only 32% of the 2014 chartered days. The uncommitted charter days will be at market rates.

The number of lower cost owned vessel days increased 82% compared to 2013 and represented 24% of our total Handymax fleet.

**Slide 16 – Balance Sheet**

Our owned fleet includes 67 delivered Handysize vessels with an average book value of US$16.1m and an average age of 8.9 years, and 15 delivered Handymax vessels with an average book value of US$23.7m and an average age of 5.9 years.

At the end of December we had cash and deposits of US$363m, a net borrowings position of US$636m, giving a net gearing of 40% reflecting cash paid on vessel investments.

We maintain as a KPI that net gearing should remain below 50%; a number that we believe is conservative in an asset intensive industry.

**Slide 17 – Borrowing and Capex**

Turning to our borrowing and capex payment obligations.

We have US$385m of capex commitments spread over the coming three years. This will be funded by our attractive undrawn US$350 million Japanese export credit facilities coupled with operating cash flows.

US$20m of the US$230m 2016 convertible bonds have been put back to us on 12 April 2014. The remaining US$210m is now due in April 2016.

The borrowing maturities are managed so as to remain spread over the coming years and will be met from existing cash resources, re-financing new borrowings and future operating cash flows.

**Slide 18 – Cash Flow**

The Group generated operating cashflows of US$94m for the year and received US$70 million of cash proceeds for the second pair of RoRo vessels.

Capex during the year included US$195m of vessel payments, for 5 Handysize and 2 Handymax all delivered during the year, and instalments for another 13 dry bulk newbuildings, leaving PB with cash of US$363m at the year end.
Our 2015 and 2016 cash flows include:

US$179 million bank loan payments due during 2015 that are covered by US$122 million of secured borrowings we drew in late 2014 and the $60m proceeds for the final pair of RoRo vessels.

US$109 million of newbuilding vessel payments due in 2015 for which we will draw down US$94 million of our Japanese export credit facilities, from which another US$154m will be drawn to fund the US$190m of capex in 2016.

Our US$210m convertible bond maturity in 2016 will be funded from the US$69m proceeds we received for the OMSA and harbour towage sales and new secured loans that are being arranged using our unmortgaged dry bulk vessels.

This means our balance sheet remains in a robust position.

Speaker: Mats Berglund

Slide 19 – Concluding Remarks

Thank you Andrew. Just four important points to wrap up:

1/ We have limited exposure against today’s spot rates. The current spot index rates of US$4-5,000 per day are extremely low due to a combination of overall poor supply demand balance, but also the seasonal factors including a lot of newbuilding deliveries early in the year and the typical lower activity around Chinese New Year. However, please note that we did a decent job of fixing out our first quarter exposure early, and you can see from the fixed rates disclosed for 2015 that we are not making the US$4-5,000 per day but more like double that with about US$8,000 for Handysize and US$10,000 for Handymax. If spot rates continue this low, it will catch up with us and our averages will go down. But please note that, so far, we have managed to limit our exposure to the extremely low rates early this year.

2/ We are arguably better equipped than any other dry bulk company to manage in this weak market. In bad times you really need the platform that we have – cargo systems, an office network with good people, experience, skill, relationships and cargo contracts. These really make a difference in tough times and, importantly, we have a better fleet than we have ever had. We are in the segment that generally withstands a weak market the best and we have a strong financial position. If ever cargo and cash is king, that time is now. We do not control the market but we control how we do against the market and we focus harder than ever on cargo combinations, outperformance, optimized speed and bunkerings, strict opex control and hard efforts on primarily administrative G&A savings.

3/ We are out of substantially all non-core business. It has been a painful process but I think the right thing to do long term to get out of both RoRo and our Australian Towage business which has been somewhat of an overhang on the company in recent time. We have now freed up substantially all resources, both capital and management, to be fully focused on our core and world market-leading Handy Dry Bulk position. This is where we have an edge and that's where our full attention should be.

4/ Finally, times will not be bad forever. Remember the cyclical nature of our business. In shipping, everybody tends to think the same way and it is causing the markets to overshoot in both directions. A year ago, everybody wanted to own a dry bulk ship and today nobody wants to own a dry bulk ship. In tankers, it’s the other way around. Today’s dry bulk bearishness will lead to changes and also maybe to opportunities. Now new ship ordering is substantially zero and instead cancellations, deferrals and conversions are being worked on and scrapping is increasing. We also need some help on the demand side, and timing is very difficult to forecast, but what I am saying is that the market has always been cyclical and it always will be. We are managing the business for a continued weak market in the medium term – it would be irresponsible not to, but things will turn around and I believe we are very well positioned with a strong platform and a better fleet than ever that will serve us well for many many years.

So to recap –

1/ Limited exposure to the record low rates early in the year;
2/ We are very well equipped to weather the storm;
3/ We are out of non-core and now in my view a well-structured and fully focused world leading handy dry bulk company, and
4/ Remember it’s a cyclical market – things won’t be bad forever.

Thank you for your patience and with that I hand you back to David for Q&A.