Pacific Basin

2015 Analyst Day Presentation
14 Oct 2015

Strategy and Market Update

As in Interim Results

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Our Increased Focus on Dry Bulk

Early 2012

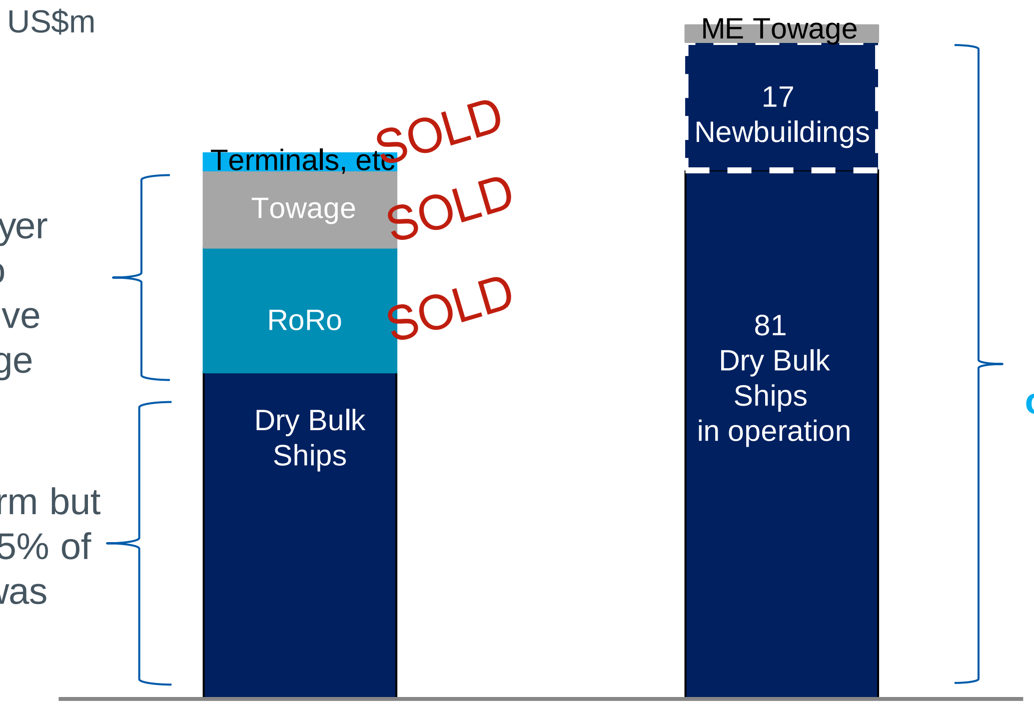
Four business units

2015

Fully dry bulk focused

Minor player with no competitive advantage

Strong platform but only about 25% of our fleet was owned



World's largest Handysize owner & operator

>40% of our fleet is owned

US$1.6 billion of long-term assets

US$2 billion of long-term assets including newbuildings

G&A: US$77million

G&A: US$57million

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Experienced Management - Team

Numbers Indicate Years in Company / Years in Shipping

Chairman & BOD

CEO
Mats Berglund
3/29

Asset Management
Morten Ingebrigtsen
26/29

HR
P.B. Subbiah
12/21

Finance & Accounting, CFO
Andrew Broomhead
12/12

Company Secretary & Risk
Kitty Mok
19/19

Chartering Pacific & Global Handysize
Surinder Brrar
8/30

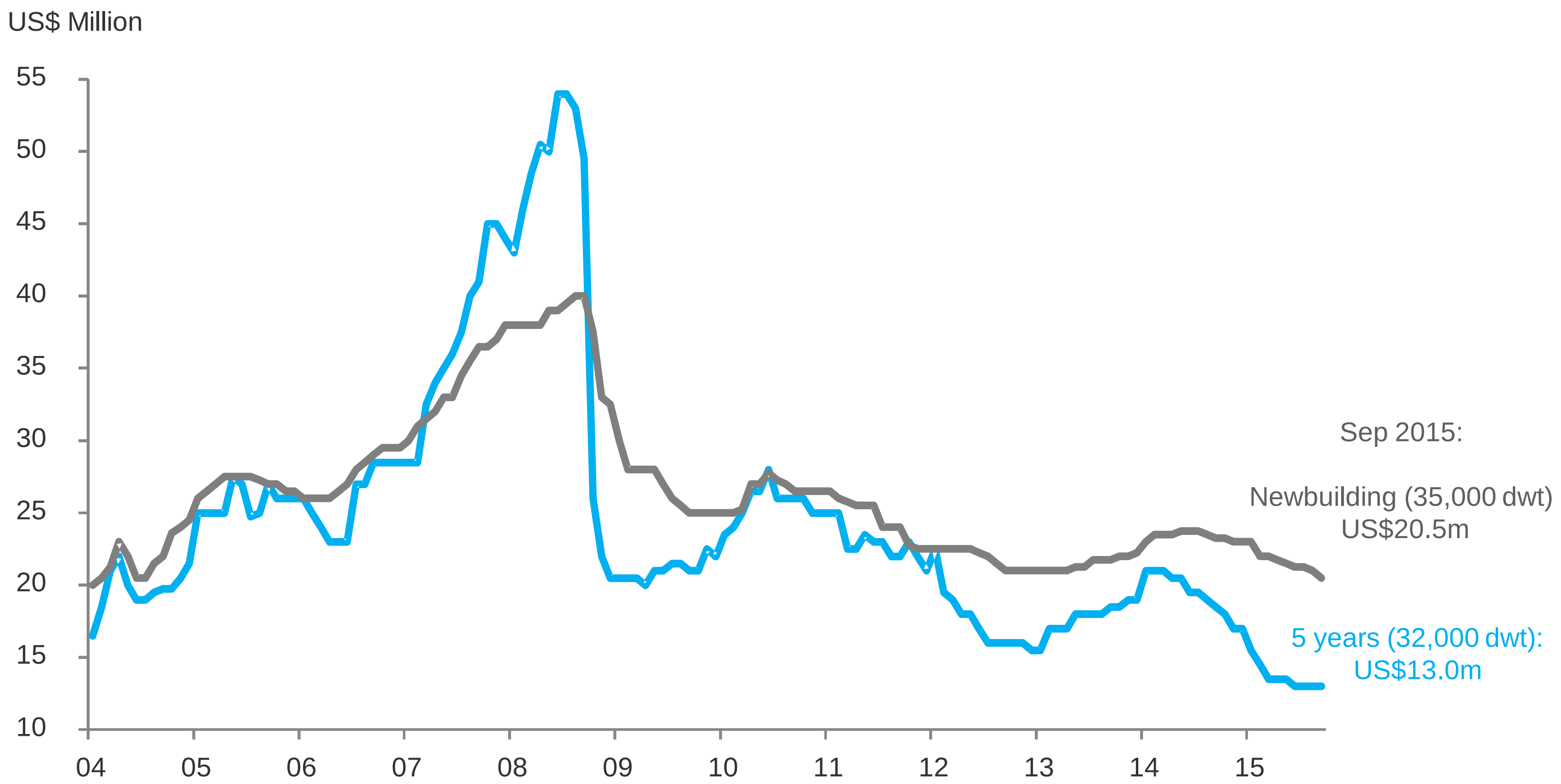
Chartering Atlantic & Global Handymax
Kristian Helt
13/15

Commercial Operation
Suresh Prabhakar
15/39

Technical & Crewing, CTO
Charlie Kocherta
15/37

Handysize Vessel Values

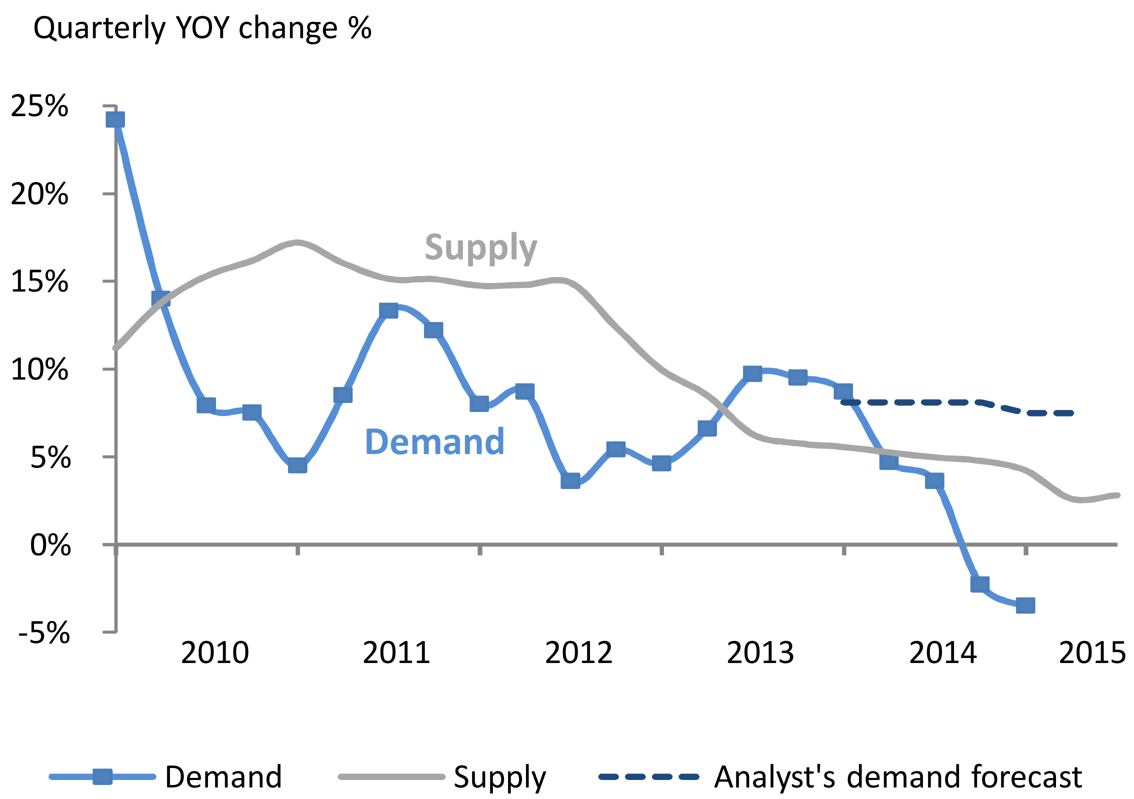
Handysize vessel values at historical lows



- Second hand values substantially flat in recent months

Source: Clarksons Platou

Dry Bulk Supply & Demand

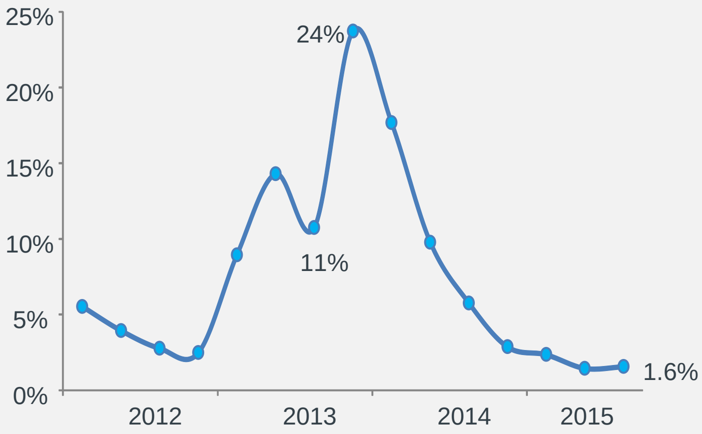


- Demand disappointment due primarily to much lower Chinese coal imports

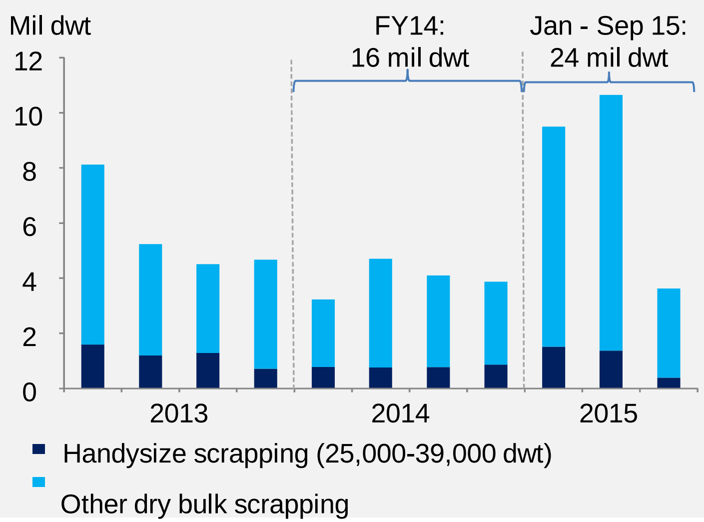
Source: Clarksons Platou

Dry Bulk Supply – Self Correcting Factors

New Vessel Ordering is Down



Increased Scrapping

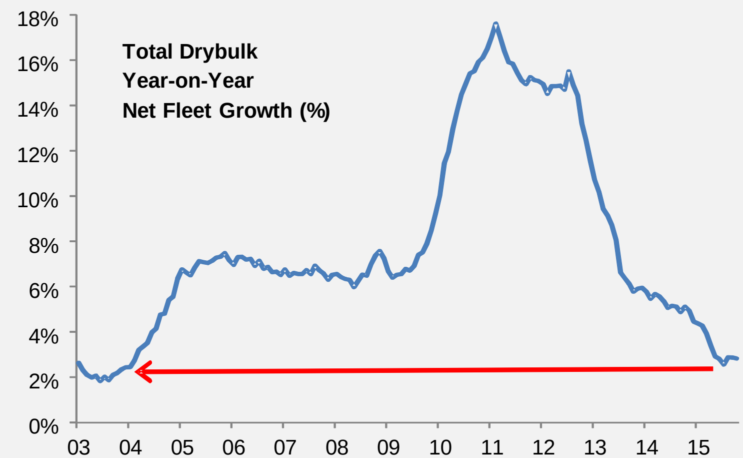


Number of Chinese yards delivering Handy bulk vessels decreased from 54 in 2012 to 21 in 2015

Delivery Slippage

Orderbook Cancellations & Conversions

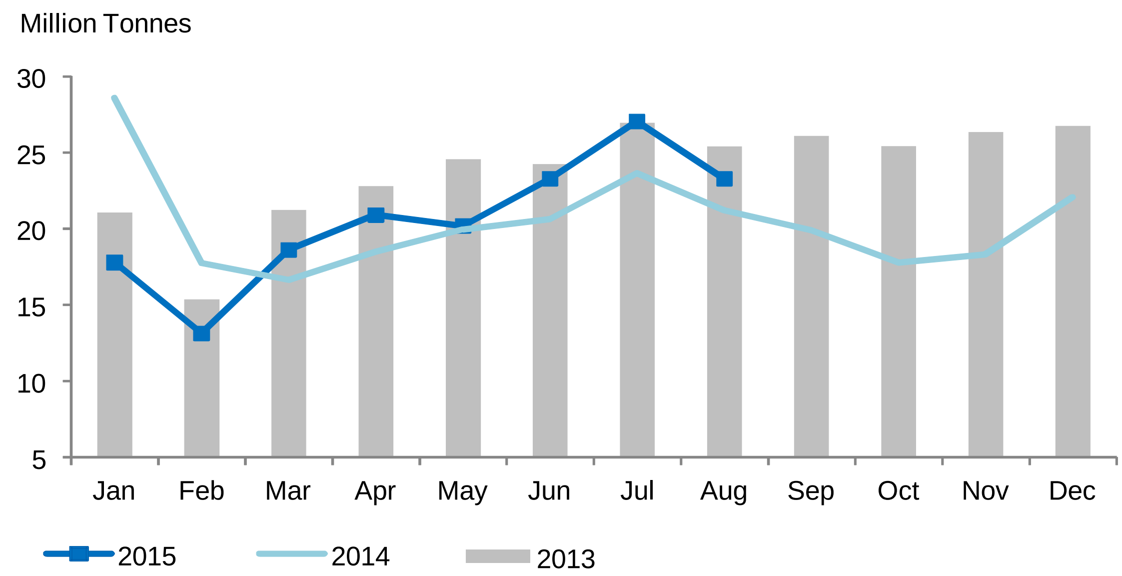
Fleet Growth is Reducing



- **Expecting net fleet growth for 2015 of about 2.5%**

Source: Clarksons Platou

Chinese Minor Bulk Imports



Chinese imports of 7 minor bulks including Logs, Soyabean, Fertiliser, Bauxite, Nickel, Copper Concentrates & Manganese Ore

These 7 commodities make up over one third of the cargo volumes we carry

- YTD Chinese imports of minor bulks down 2% yoy but growing since March to lend some support to demand for Handysize and Handymax ships
    - Chinese imports of Bauxite increased YOY and soybeans and cereal grains are up substantially;
    - Chinese steel exports also increased

Source: Bloomberg

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Beating the Markets

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Dry Bulk Market and Strategy

Dry Bulk Market

- Uncertain market situation - Oversupplied global fleet and reduced growth in dry bulk commodity demand – especially coal into China
- Scrapping, NB cancellations & postponements and very little new ordering are helping to mitigate supply growth

Strategy

- Fully focused on our world-leading Handy dry bulk business, now well structured and out of non-core
- Redelivering expiring and long-term chartered-in ships
- Relying more on owned ships, complemented by shorter-term and index-linked chartered ships
- Managing our business for a continued weak market in the medium term, focused on safeguarding our positive EBITDA generation and cash position
- Reduce costs, optimise our teams, fleet **and cargo combinations**

Pacific Basin Benefits:

Now fully Handy focused

+

Business Model → Premium

+

High-quality predominately Japanese-built fleet

+

Experienced staff, globally

+

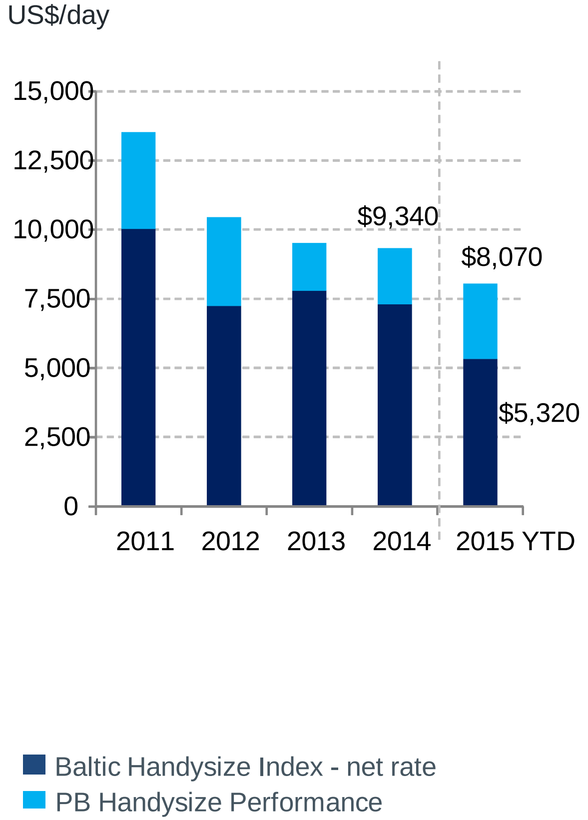
Access to Capital

→Well positioned

Cargo Mapping

Cargo System – Outperforming Market

Cargo Contract Business Model – Outperforming Market Indices



- Experienced staff & global office network
- Large fleet of high-quality substitutable ships
- Large portfolio of cargo contracts & relationships
  → Direct end-user interaction
- High laden percentage (<10% ballast legs)

➔ **Backhaul cargoes are the interlocking mechanism**

➔ **Average premium last 5 years = US$2,380/day**

A day in the life of a Chartering Manager – Cargo

Daily work

Calling

Collecting market information

Calculating

Port information

Daily work

Negotiating

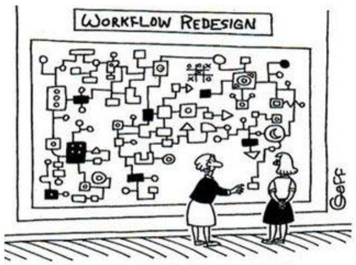
Following up

Team work

A day in the life of a Chartering Manager – Tonnage

Time Chartering In – A Brief Introduction

Typical would involve the following:



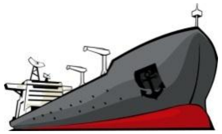
"And this is where our ED workflow redesign team went insane."

- Read overnight emails including BDI Market and fixture reports.
- Either a call with overseas offices or desk 'scrum'.
- Circulate market orders or discussion with brokers.
- Assess what comes in and market direction.
- Circulate market information to overseas offices throughout the day.
- COB send out a daily report advising market rumours, what ships are rating, fixtures and market commentary.
- Potentially concluded a fixture….afternoons into evenings is when most fixing actually takes place!!

Booking Ships.....

Pricing / Booking Cargo

Market the Order



Tonnage Lists

CP details. Lift subs and clean fix.

The Chartering In Process

Compare tonnage and run P/L

Fix on subjects / nominate to head charterers.

Enter into a firm trade

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Bunker Derivatives Mark-to-Market

Accounting Treatment

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Our hedging policy

- We HEDGE bunker exposure on ALL firm fixed-rate forward cargoes and Contracts of Affreightment (COAs)
- Any cargo loading >2 months from the date of fixing
- Assumptions considered based on:
  - Intended physical bunker port;
  - Ship’s deviation;
  - Speed; and
  - Bunker delivery cost

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Why hedge accounting doesn't qualify

- Accounting standards require very high correlation between the derivative and the physical commodity at execution date

  - Derivative month and voyage start/end dates do not match
  - Location of reference bunker derivative (Singapore, Rotterdam) and physical bunker lifting port do not match

- PB chooses not to use hedge accounting for those that qualify in order to:
  - Avoid confusion over qualifying / non qualifying portion
  - Reduce potential P/L impact of an expected qualify hedge turns out to not meet the hedge criteria

What happen to physical bunker

Physical Bunker Prices		
(1)	CoA fixing (30 Sep 15)	$230
(2) & (3)	In between (YE 15/16)	$330/270
(4)	CoA execution (30 Jan 17)	$270

		(1) 30/Sep/15 Fix CoA	Oct-Dec 15 value Change	(2) YE 2015 Balance	2016 value Change	(3) YE 2016 Balance	30/Jan/17 Cash settlement	(4) 30/Jan/17 Balance
Physical Bunker value		(230)		(330)		(270)	(270)	(270)
Change in value		-	(100)		60			
B/S								
Cash	(270)						(270)	(270)
P/L Reserve (earnings) / loss	270						270	270
	-						-	-
P/L								
Voyage results *before underlying profits*	(270)						(270)	
	(270)						(270)	

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What happen to bunker derivative during its life

Bunker Derivative Values		
(1)	CoA fixing (30 Sep 15)	$0
(2) & (3)	In between (YE 15/16)	$100/40
(4)	CoA execution (30 Jan 17)	$40

		(1) 30/Sep/15 Fix CoA	Oct-Dec 15 value Change	(2) YE 2015 Balance	2016 value Change	(3) YE 2016 Balance	30/Jan/17 Eliminate previous M2M	30/Jan/17 Cash settlement	(4) 30/Jan/17 Balance
Bunker swap									
Physical Bunker value		(230)		(330)		(270)		(270)	(270)
Change in bunker value		-	(100)		60		-		
Bunker swap value				100		40		40	-
Change in derivative value			100		(60)		(40)		
B/S									
Cash	40		-	-	-	-	-	40	40
Derivative assets / (liabilities)	-		100	100	(60)	40	(40)	-	-
P/L Reserve (earnings) / loss	(40)		(100)	(100)	60	(40)	40	(40)	(40)
	-		-	-	-	-	-	-	-
P/L									
Voyage results									
before underlying profits	40		-				-	40	
Derivative M2M									
after underlying profits	-		100		(60)		(40)	-	
	40		100		(60)		(40)	40	

A
M2M **profit** for increase in market value of original hedge goes to B/S & P/L

B
M2M **loss** for decrease in market value of hedge goes to B/S

C
Eliminate previous M2M balance due to settlement of hedge, nothing to do with change in bunker value

D
Cash received from bunker swap counter-party

How our bunker hedge works - summary

At Fixing of COA	
Physical bunker price	$230
Bunker derivative	$0

At Execution of COA	
Physical bunker price	$270
Bunker derivative	$(40)

Physical bunker	
B/S	
Cash	(270)
P/L Reserve (earnings) / loss	270
	-
P/L	
Voyage results *before underlying profits*	(270)
	(270)
	-

Bunker swap (net effect of A + B + C)	
B/S	
Cash	40
Derivative assets / (liabilities)	-
P/L Reserve (earnings) / loss	(40)
	-
P/L	
Voyage results *before underlying profits*	40
Derivative M2M *after underlying profits*	-
	40

Net effect of execution	
B/S	
Cash	(230)
Derivative assets / (liabilities)	-
P/L Reserve (earnings) / loss	230
	-
P/L	
Voyage results *before underlying profits*	(230)
Derivative M2M *after underlying profits*	-
	(230)

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Summary

2015 Interim Report: Note to Financial Statement Note 7(e)

Presentation in the Segment Information:

- *Revenue*
- *Bunkers & port disbursements*
- *Cost of services*
- *Other income/Other expenses*
- *Finance costs*
- *General and administration*
- *Profit for the period*

US$ Million	Realised	Unrealised	Six months ended 30 June 2015	2014
Net				
Forward freight agreements	(0.5)	0.2	**(0.3)**	(2.0)
Bunker swap contracts	(9.9)	15.7	**5.8**	0.5
Interest rate swap contracts	(3.6)	0.7	**(2.9)**	(3.5)
Forward foreign exchange contracts	–	0.1	**0.1**	–
	(14.0)	16.7	**2.7**	(5.0)

Presentation in the Financial Statements:

- *Revenue*
- *Bunkers & port disbursements*
- *Cost of services*
- *Other income/Other expenses*
- *Finance costs*
- *General and administration*
- *Profit for the period*

D
- *Cash settlement of contracts completed in the period*
- *Included in segment results*

- *Contracts to be settled in future periods* A + B
- *Accounting reversal of earlier period contracts now completed* C
- *Not part of segment results*

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Summary

- We HEDGE only. We do not trade.
- Hedge accounting not available for most derivatives
- M2M creates fluctuation in P/L during the derivative’s life
- M2M fluctuations are non cash
- We disclose M2M movement after Underlying Results
- Actual derivative settlements are included before Underlying Results

Disclaimer

This presentation contains certain forward looking statements with respect to the financial condition, results of operations and business of Pacific Basin and certain plans and objectives of the management of Pacific Basin.

Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of Pacific Basin to be materially different from any future results or performance expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding Pacific Basin's present and future business strategies and the political and economic environment in which Pacific Basin will operate in the future.

Our Communication Channels:

- **Financial Reporting**
  - Annual (PDF & Online) & Interim Reports
  - Voluntary quarterly trading updates
  - Press releases on business activities
- **Shareholder Meetings and Hotlines**
  - Analysts Day & IR Perception Study
  - Sell-side conferences
  - Investor/analyst calls and enquiries

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