Pacific Basin

# 2016 Annual Results

29 Feb 2016

**28 Feb 2017**

# 2016 Annual Results – Highlights

| | 2016 | 2015 |
|---|---|---|
| **Operating Cash Flow** | **US$50m** | US$99m |
| **EBITDA** | **US$23m** | US$93m |
| **Cash Position** | **US$269m** | US$358m |
| **Net Gearing** | **34%** | 35% |

- Record low dry bulk market conditions significantly undermined our results in 2016
- Net loss of US$87m
- Our Handysize daily TCE earnings outperformed market index by 34%
- Our G&A and Handysize operating costs further reduced to US$52.9m and <US$4,000/day respectively
- Positive US$50m operating cash flow and US$23m EBITDA
- Rights Issue of new shares raised US$143m net & repaid US$230m Convertible Bonds
- US$158m of undrawn committed loan facilities at year end exceeding US$119m of dry bulk capex
- Sale of towage and other non-core assets generated US$22m cash and our exit from towage is substantially complete
- Well positioned for recovery in dry bulk market

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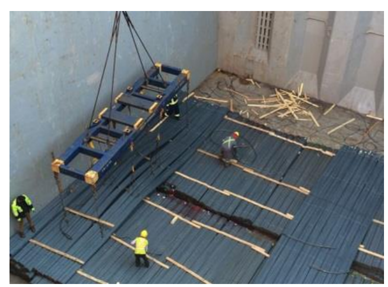
# Our Performance in 2016 and Cover for 2017

As at 23 Feb 2017

| | US$/day | Handysize | Supramax |
|---|---|---|---|
| 2016 | PB daily TCE rate [1] | $6,630 | $6,740 |
| | Market Index Rate | $4,950 | $5,920 |
| | PB Outperformance | $1,680 | $820 |
| | | 34% | 14% |
| 2017 | PB daily TCE cover | $8,200 | $8,680 |
| | % of Contracted Days Covered | 44% | 71% |

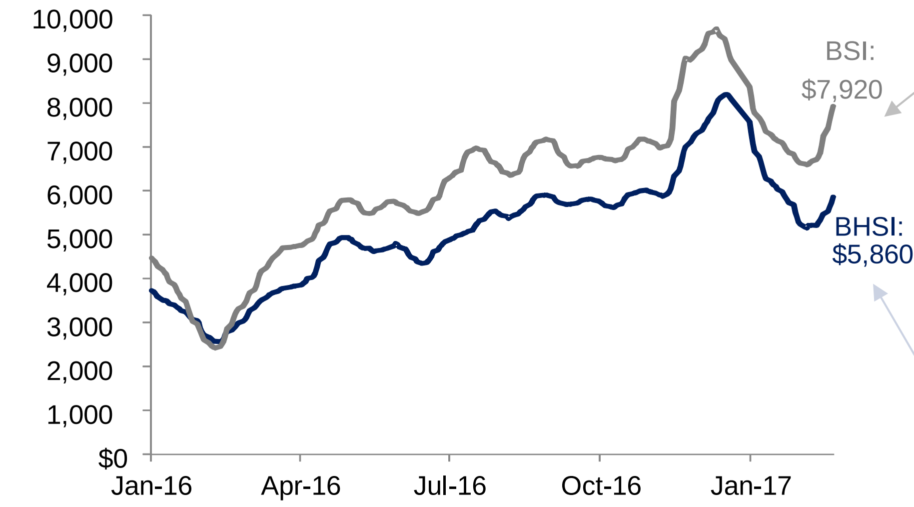
[1] Excluding short-term days: Handysize daily TCE US$6,720; Supramax daily TCE US$7,940



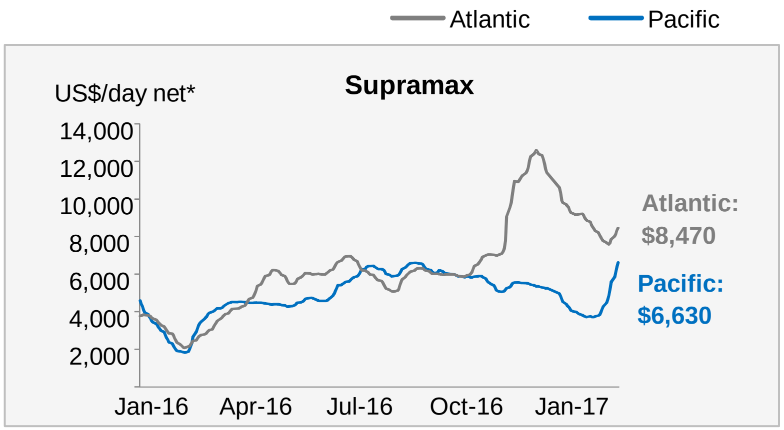


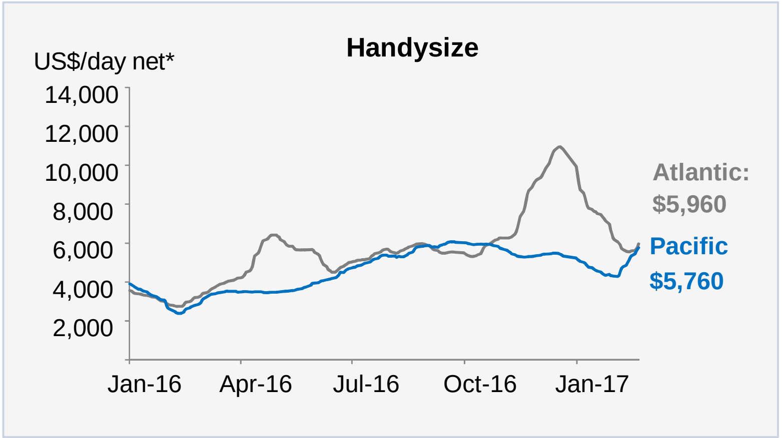

# Freight Market Improves From Very Low Base

## Baltic Handysize Index (BHSI) and Baltic Supramax Index (BSI)




## Atlantic vs Pacific Spot Rates



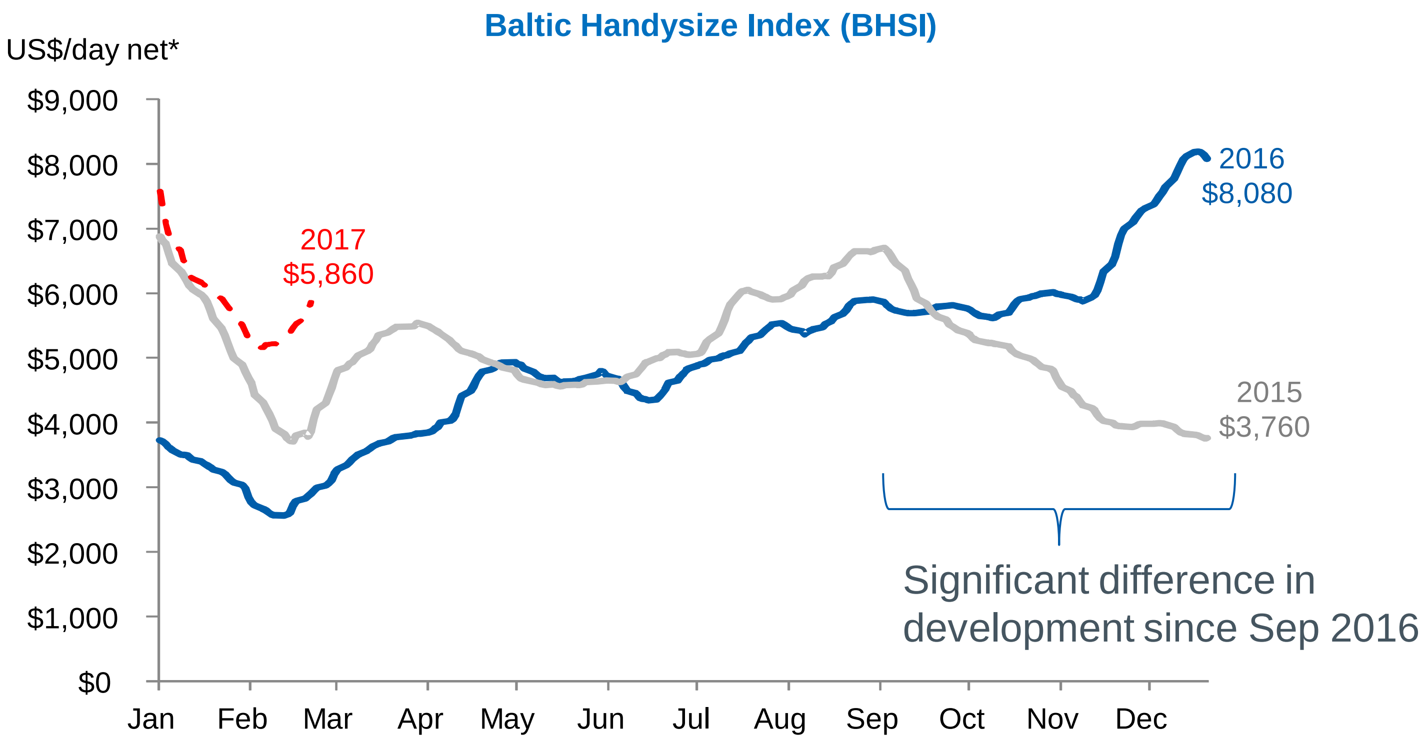




- 45-year market lows in mid-Feb16
- Rates improved over the remainder of the year benefitting from:
  - Increased South American grain exports in 2Q16
  - Stronger US grains exports in 2H16
  - In China, industrial activity was significantly down in 1Q16 but improved from March with a revival in Chinese imports
- Atlantic freight market was markedly stronger than Pacific from 4Q16 owing primarily to strong Atlantic grain & coal volumes

* excluded 5% commission

Source: Baltic Exchange, data as at 23 Feb 2017

# Market Freight Rates Development




Typical seasonal decline in early 2017 but rates are well above levels of one year ago and rates are strengthening following CNY

# Global Dry Bulk Demand

## Global Dry Bulk Seaborne Trade Growth in FY 2016

| | (Volume) Million Tonnes | YOY Change |
|---|---|---|
| Iron Ore | 1,412 | 4% |
| Coal | 1,135 | 0% |
| Sub major bulk total | 2,547 | 2.0% |
| **PB Focus** | | |
| Copper Concentrates | 29 | 12% |
| Sugar | 62 | 11% |
| Cement | 109 | 6% |
| Soybean | 134 | 4% |
| Wheat / Grains | 342 | 4% |
| Forest Products | 347 | 2% |
| Others | 311 | 0% |
| Agribulks | 161 | -1% |
| Steel Products | 400 | -1% |
| Scrap Steel | 99 | -2% |
| Fertiliser | 151 | -3% |
| Manganese Ore | 25 | -4% |
| Nickel Ore | 41 | -7% |
| Bauxite / Alumina | 116 | -8% |
| PB focus cargoes total* | 2,327 | 0.5% |
| 2016 Total Dry Bulk | 4,873 | 1.2% |

-10% -5% 0% 5% 10%

2016:

- Dry bulk volume growth: 1.2%
- Dry bulk effective demand: 2.0%
- Soybean and wheat/grain trade volumes both grew 4%
- Chinese iron ore & coal imports increased
- Minor bulk is not minor – minor bulks & grain comprises 48% of total dry bulk demand

* *Minor bulk trade: 1,851mil tonnes*

*Source: Clarksons Platou, as at 20 Feb 2017*

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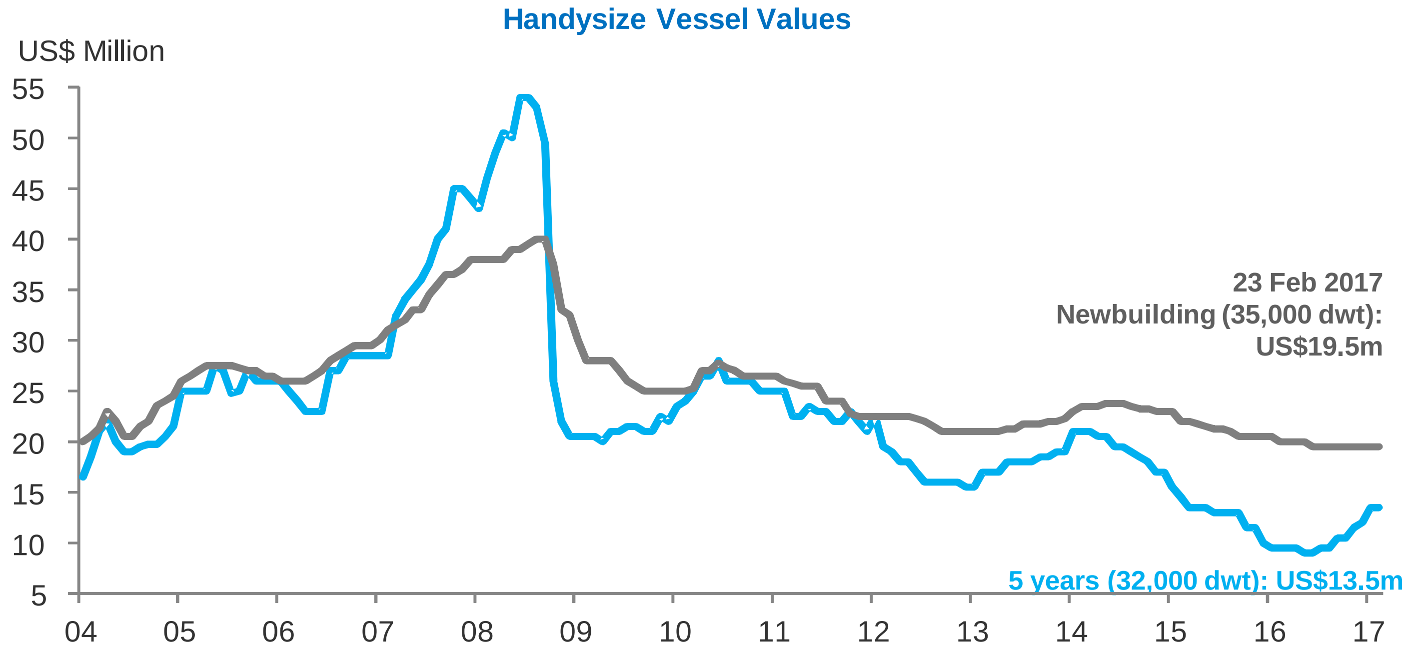
# Secondhand Vessel Values Recovering

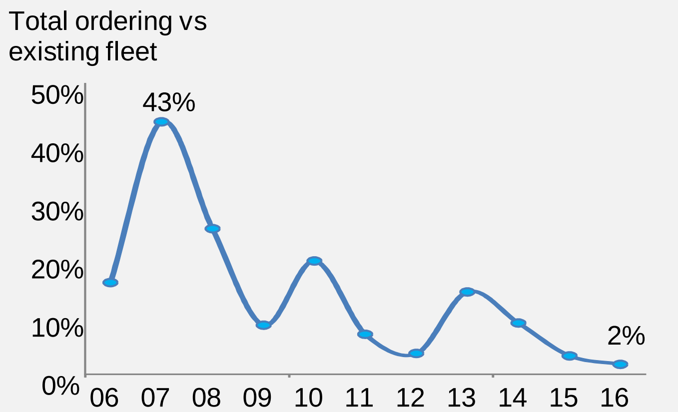



- Ship values stabilised at end 1Q16, have since increased with improved freight rates
- Sale and purchase activity has returned
- Secondhand Handysize value up 42% since a year ago
- Similarly Supramax values up 25% since a year ago
- Still significant gap between newbuilding and secondhand prices continues to discourage new ship ordering

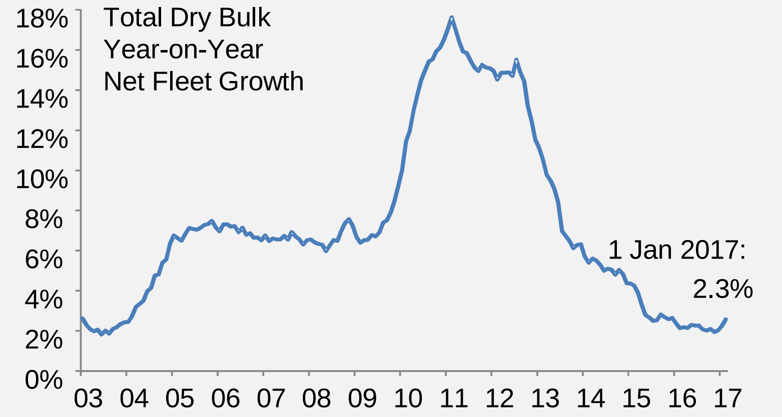
*Source: Clarksons Platou, as at 23 Feb 2017*

# Self Correcting Supply Factors

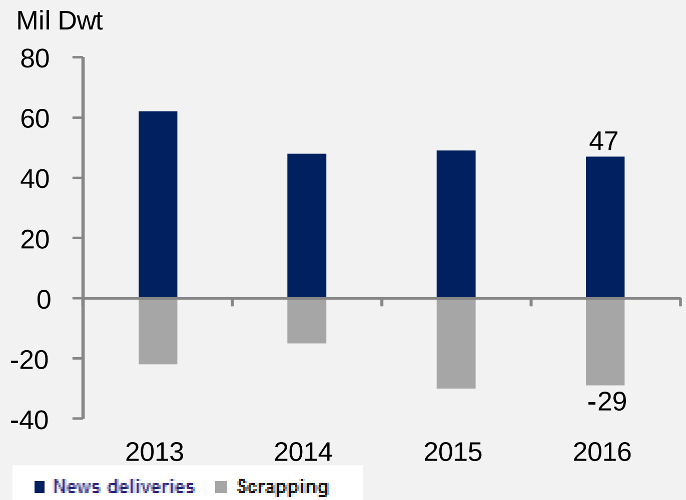
### New Vessel Ordering is Down




### Fleet Growth is Reducing




### New Deliveries Partly Offset by Scrapping



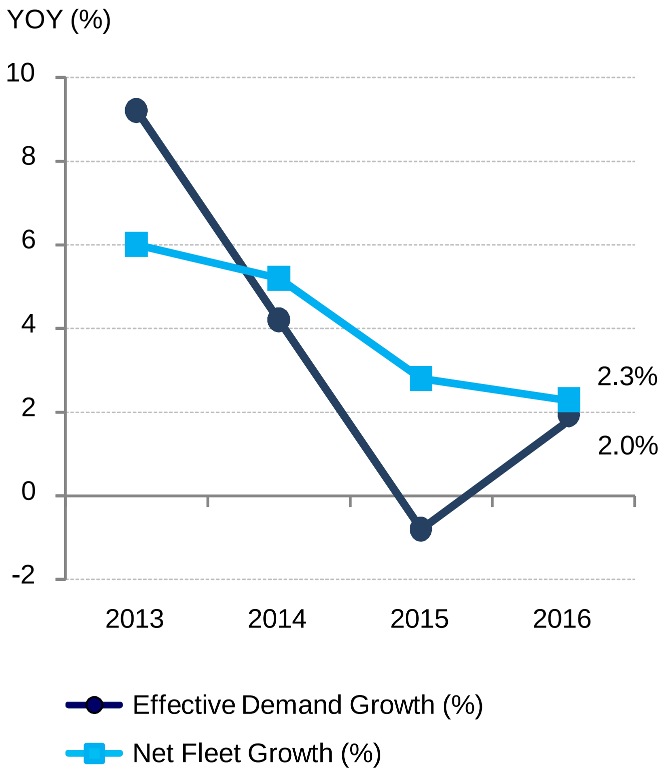

- Negligible new ship ordering
- Continued orderbook delivery shortfall

  (2016: 47% Handysize; 49% overall dry bulk)
- 5.9% New deliveries partly offset by 3.6% scrapping in 2016

➔ Expect actual deliveries in 2017 around 35m dwt

*Source: Clarksons Platou*

# Dry Bulk Supply & Demand




**Supply:**

- FY2016 global net fleet growth about 2.3%
- Positive factors:
  - Fewer ships delivering in 2017-18
  - Higher oil prices reduces sensitivity of ship operating speeds to increasing freight rates
  - Ballast water management convention will encourage scrapping older ships & poor performers

**Demand:**

- FY2016 overall effective demand grew about 2.0% after contraction in 2015:
  - Seasonally strong US grain and soybean exports in 2H16
  - 4% increase in iron ore volumes mainly into China
  - Overall minor bulk trade was flat in 2016

*Source: Clarksons Platou, Pacific Basin*

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# 2016 Financial Highlights

| US$m | 2016 | 2015 |
| --- | --- | --- |
| **Dry Bulk** | (87.6) | (34.7) |
| **Towage & Others** | (0.1) | 6.9 |
| **Underlying loss** | (87.7) | (27.8) |
| ▪ Unrealised derivative income | 23.6 | 8.8 |
| ▪ Sale of properties | 1.7 | - |
| ▪ Vessel impairments | (15.2) | - |
| ▪ Sale of towage assets | (4.9) | 2.8 |
| ▪ Towage exchange charge | (2.8) | (1.5) |
| ▪ Other impairments | (1.2) | (0.8) |
| **Loss attributable to shareholders** | (86.5) | (18.5) |

- US$23.6m unrealised derivative accounting gain mainly from completed prior year bunker swap contracts
- US$15.2 impairment charge related to:
  - US$8m remaining towage vessels
  - One Supramax vessel sold after the year end

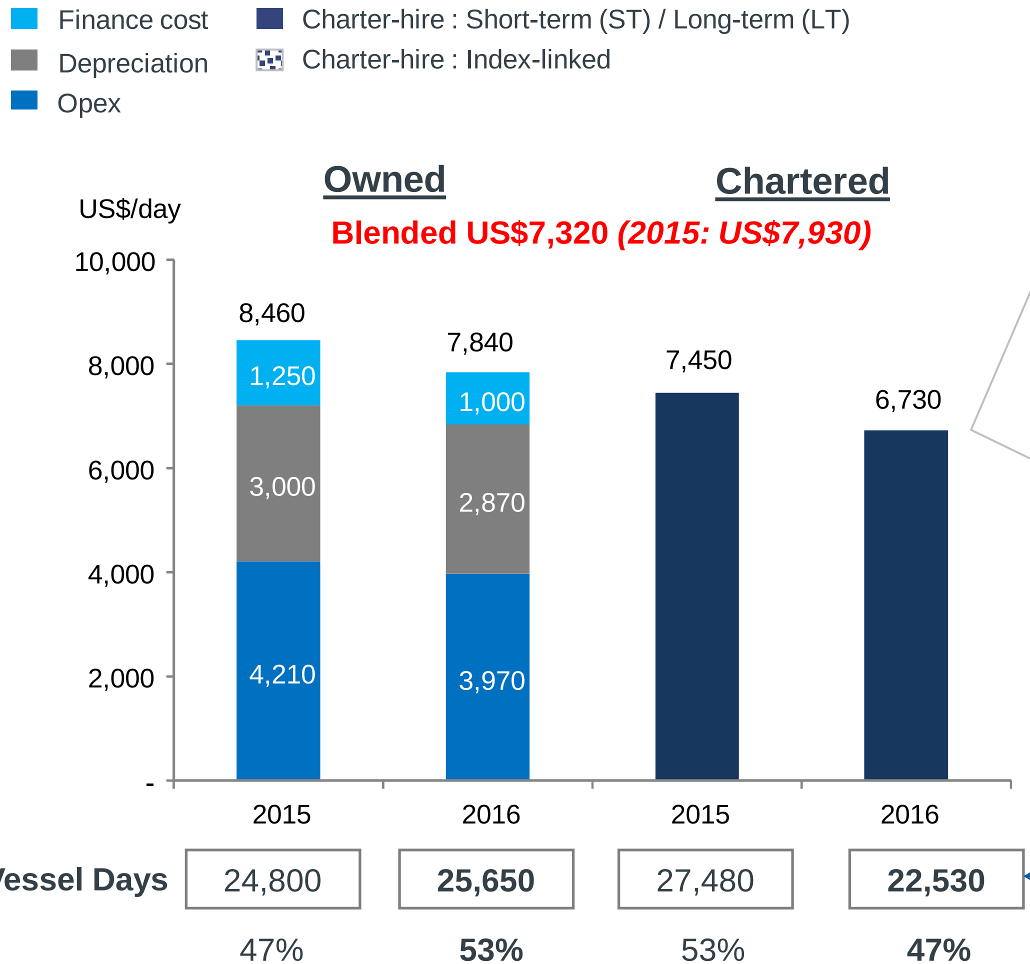
# 2016 Pacific Basin Dry Bulk

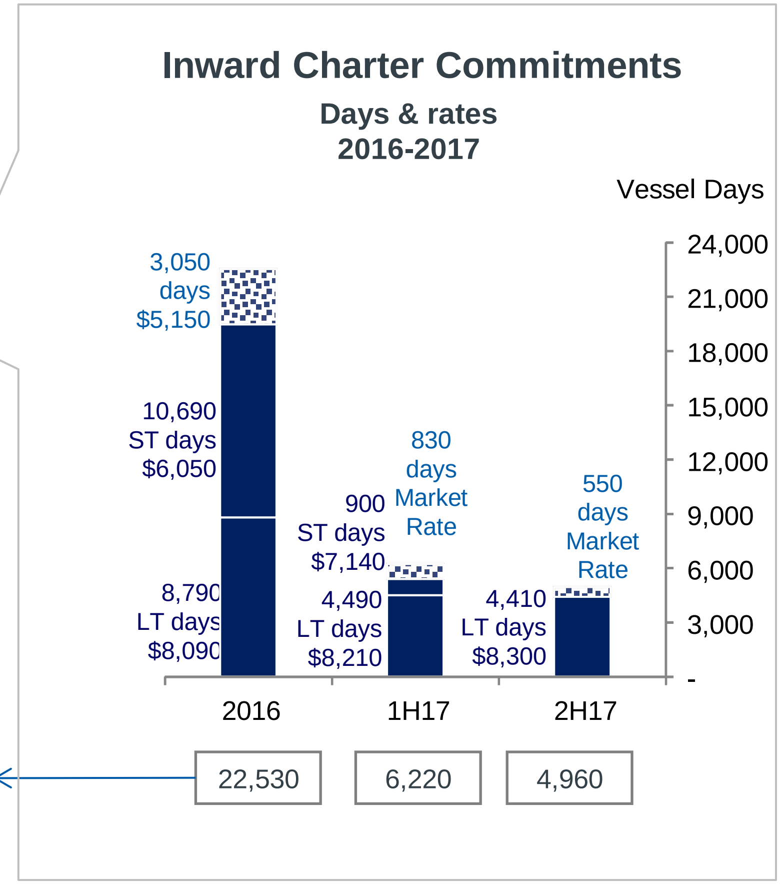
| Handysize | | 2016 | 2015 | Change |
|---|---|---|---|---|
| Revenue days | (days) | 47,590 | **51,600** | -8% |
| TCE earnings | (US$/day) | 6,630 | **7,870** | -16% |
| Owned + chartered costs | (US$/day) | 7,320 | **7,930** | +8% |
| Handysize contribution | (US$m) | (37.1) | **(8.4)** | >-100% |
| **Supramax** | | | | |
| Revenue days | (days) | 29,590 | **23,300** | +27% |
| TCE earnings | (US$/day) | 6,740 | **9,170** | -26% |
| Owned + chartered costs | (US$/day) | 6,830 | **8,190** | +17% |
| Supramax contribution | (US$m) | (3.3) | **22.6** | >-100% |

- Weak market condition impacted both our Handysize and Supramax TCE
- Supramax generated a smaller loss, benefitting from the larger proportion of short-term inward chartered ships in the weak market
- Excluding short-term days:
  - Handysize daily TCE US$6,720 on 41,220 days
  - Supramax daily TCE US$7,940 on 14,230 days

# 2016 Daily Vessel Costs – Handysize

As at 31 December 2016



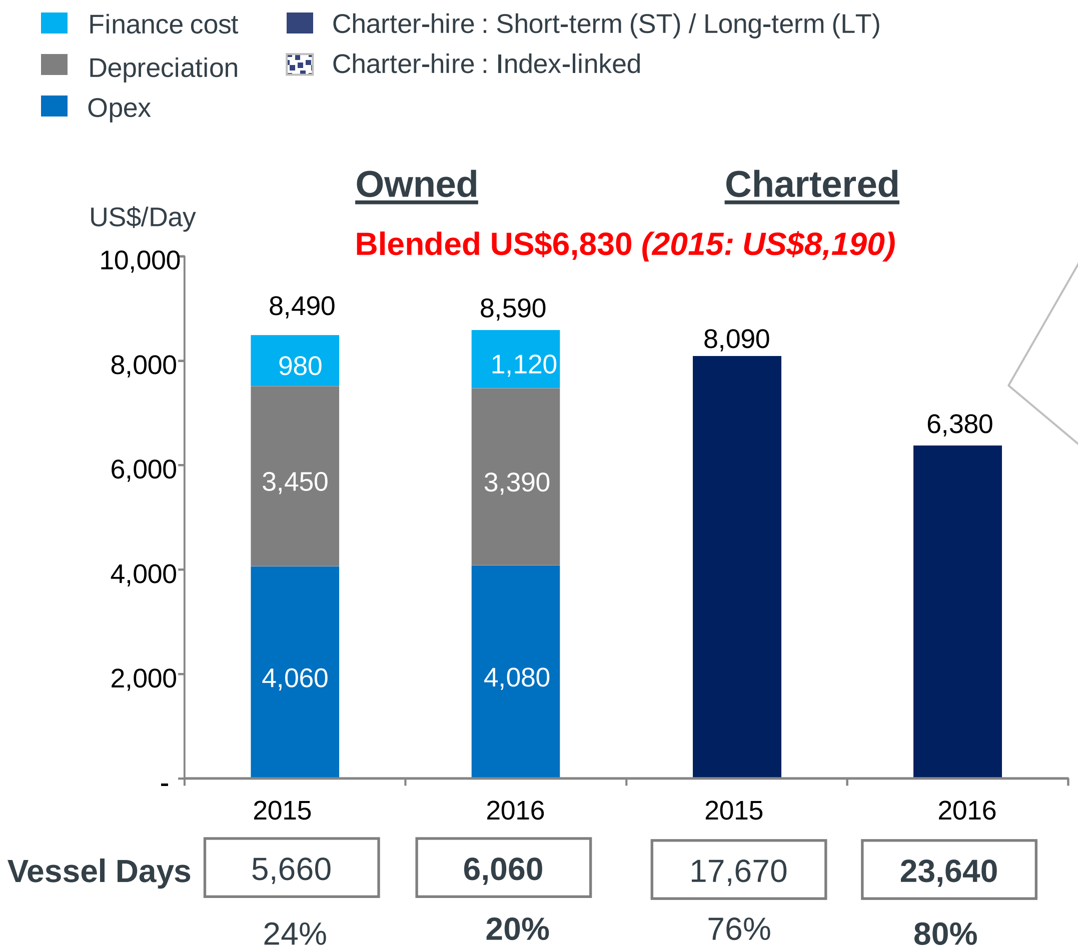



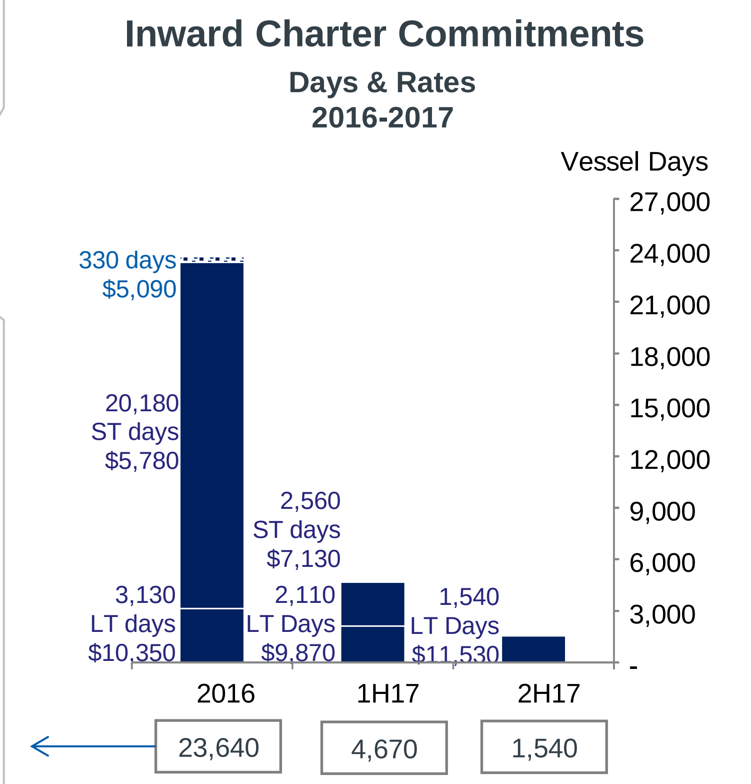

- Daily cash cost before overhead: US$6,090 (2015: US$6,570)
- Charter-hire costs significantly reduced
- Overheads reduced to US$660/day (2015: US$710/day) - includes all direct & indirect costs
- Reduction of vessel operating expenses (Opex)

** Chartered rates are shown net of provision*

# 2016 Daily Vessel Costs – Supramax

As at 31 December 2016




- Daily cash cost before overhead: US$6,390 (2015: US$7,720)
- Charter-hire costs significantly reduced
- Overheads reduced to US$660/day (2015: US$710/day) - includes all direct & indirect costs



* *Chartered rates are shown net of provision*

# 2016 Balance Sheet

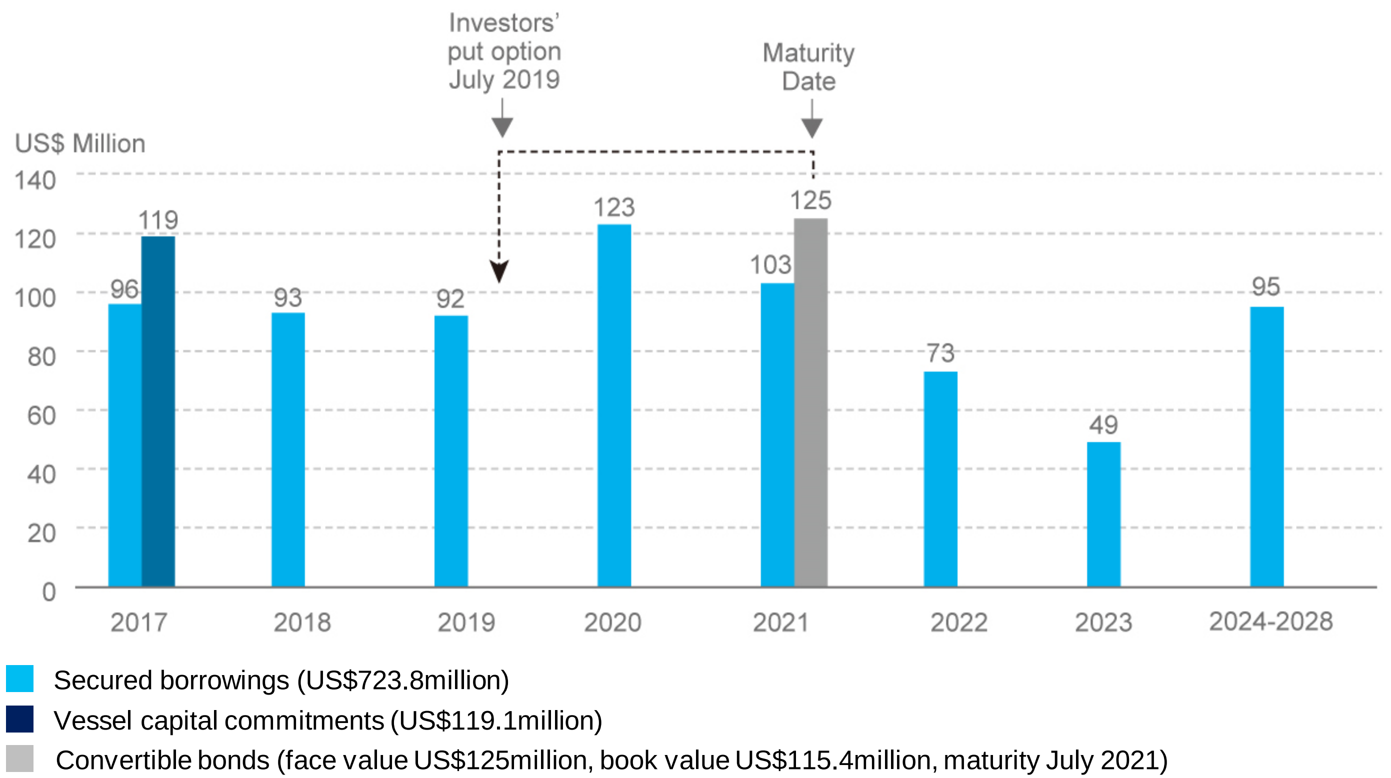
| US$m | 31 Dec 16 | 31 Dec 15 |
|---|---|---|
| Vessels & other fixed assets | **1,653** | 1,611 |
| Total assets | **2,107** | 2,146 |
| Total borrowings | **839** | 926 |
| Total liabilities | **1,066** | 1,175 |
| Net assets | **1,041** | 971 |
| Net borrowings (total cash US$269m) | **570** | 568 |
| Net borrowings to net book value of property, plant and equipment KPI | **34%** | 35% |

- Vessel average net book value: Handysize $15.8m (9.0 years); Supramax $22.0m (6.6 years)
- KPI: maintain net gearing below 50%
- Group in compliance with all loan covenants

# Borrowings and Capex

## Schedule of Repayments and Vessel Capital Commitments

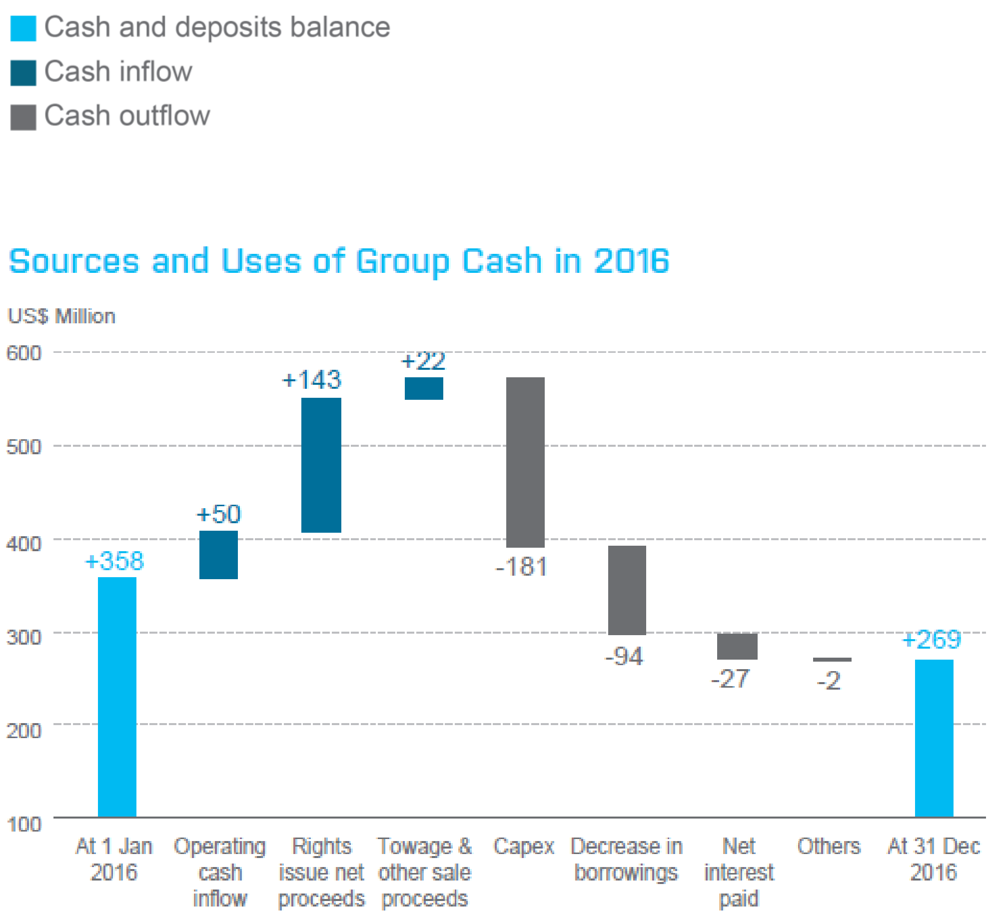
As at 31 December 2016




- US$158m of undrawn committed borrowing including:
  - US$140m of Japanese export credit facilities
  - US$18m of other secured borrowings

# Cash Flow in 2016

## Sources and Uses of Group Cash in 2016




As at 31 December 2016

| | |
|---|---|
| **Operating cash flow** | **US$49.5m** |
| **EBITDA** | **US$22.8m** |

Borrowings decreased by US$94m due to:

- 2016CB repayment of US$106m
- 2018CB repayment of US$124m
- Net repayment of US$70m of secured borrowings
- Drew down US$205m of new secured borrowings



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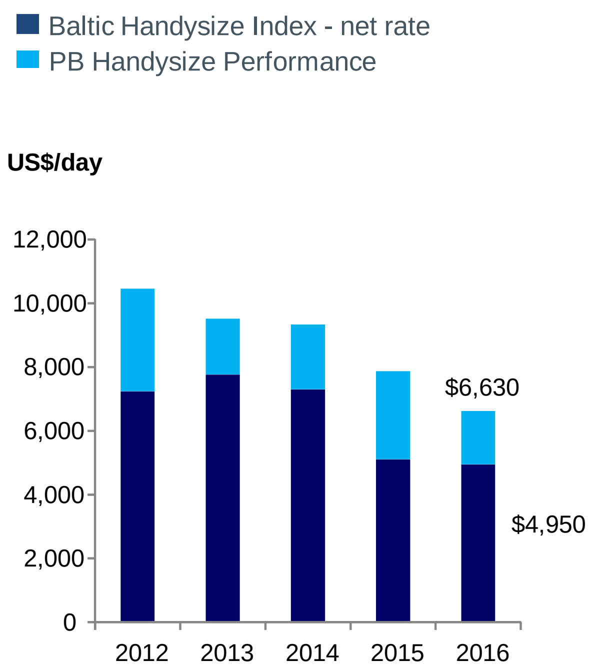
# Our Ability to Outperform

## Our TCE Outperformance Compared to Market




Our business model has been refined over many years. We are able to generate a TCE earnings premium over market rates because of our high laden percentage (minimum ballast legs), which is made possible by a combination of:

- Our fleet scale
- High-quality substitutable ships
- Experienced staff
- Global office network
- Our cargo contracts, relationships & direct interaction with end users
- Our fleet is high proportion of owned vessels facilitating greater control and minimising trading constraints
- Handysize segment's versatile ships and diverse trades

Average premium last 5 years:

- Handysize TCE: **US$2,300/day**
- Supramax TCE: **US$1,700/day**

# Our Outlook and Strategy

## Dry Bulk Outlook

- Demand is growing for agricultural products & construction material, our two largest cargo groups
- Infrastructure investment spending from China and US bodes well for dry bulk shipping
- Increasing fuel prices are positive for freight market, discouraging shipowners from increasing vessel speeds when freight rates increase
- Orderbook is shrinking but oversupply lingers and the fleet is still growing
- More patience, scrapping & lack of ordering is required
- We expect continued uncertain markets in 2017

## Strategy

- Make the most of our robust business model, experienced staff, quality fleet & strong balance sheet – enhanced by positive actions taken to stay strong, lean and competitive
- Continue to conduct our business efficiently and safely while combining ships and cargoes to maximise our margins
- Well positioned for continued challenging market conditions and recovery

**Pacific Basin Benefits:**

Fully Handy focused

+

Business Model → Premium

+

High-quality predominantly Japanese-built fleet

+

Experienced staff, globally

+

Strong counterparty

→ Well positioned

Pacific Basin

# 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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- **Company Website - www.pacificbasin.com**
  - Corporate Information
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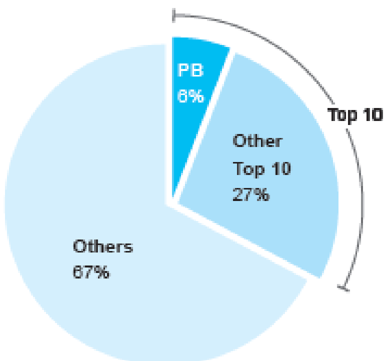
# Appendix:
# Pacific Basin Overview

- A leading dry bulk owner/operator of Handysize & Supramax dry bulk ships
- Cargo system business model – outperforming market rates
- About 200 dry bulk ships on the water serving major industrial customers around the world
- Hong Kong headquarters, 12 offices worldwide, 330 shore-based staff, 3,000 seafarers*
- Our vision: To be a shipping industry leader and the partner of choice for customers, staff, shareholders and other stakeholders

## OUR MARKET SHARE

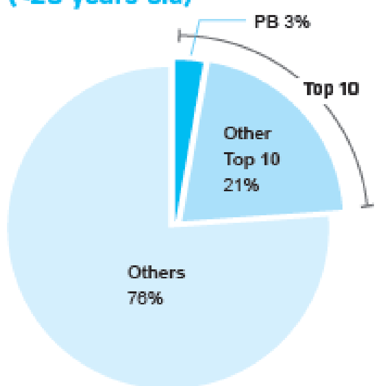
### Handysize
(<20 years old)




We operate approximately 6% of global 25-40,000 dwt Handysize ships of less than 20 years old

Source: Pacific Basin, Clarksons Platou

### Supramax
(<20 years old)




We operate approximately 3% of global 50-65,000 dwt Supramax ships of less than 20 years old


www.pacificbasin.com
Pacific Basin business principles and our Corporate Video

* As at Jan 2017

# Appendix: Strategic Model

## MARKET-LEADING CUSTOMER FOCUS & SERVICE

Priority to build and sustain long-term customer relationships

Solution-driven approach ensures accessibility, responsiveness and flexibility towards customers

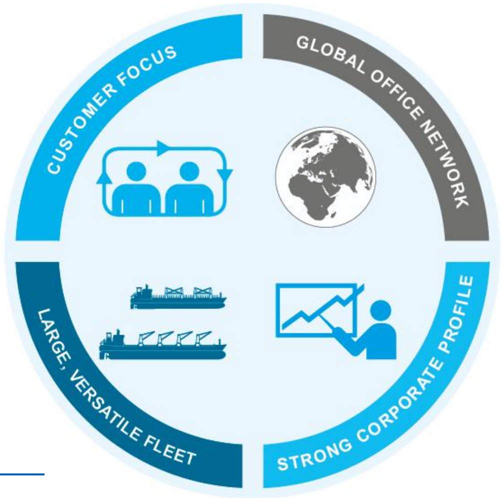
Close partnership with customers generates enhanced access to spot cargoes and long-term cargo contract opportunities of mutual benefit

## COMPREHENSIVE GLOBAL OFFICE NETWORK

Integrated international service enhanced by experienced commercial and technical staff around the world

Being local facilitates clear understanding of and response to customers' needs and first-rate personalised service

Being global facilitates comprehensive market intelligence and cargo opportunities, and optimal trading and positioning of our fleet




## LARGE FLEET & MODERN VERSATILE SHIPS

Fleet scale and interchangeable high-quality ships facilitate service flexibility for customers, optimised scheduling and maximised vessel and fleet utilisation

In-house technical operations facilitate enhanced health & safety, quality and cost control, and enhanced service reliability and seamless integrated service and support for customers

## STRONG CORPORATE & FINANCIAL PROFILE

Striving for best-in-class internal and external reporting, transparency and corporate stewardship

Strong cash position and track record set us apart as a preferred counterparty

Hong Kong listing, scale and balance sheet facilitate good access to capital

Responsible observance of stakeholder interests and our commitment to good corporate governance and CSR

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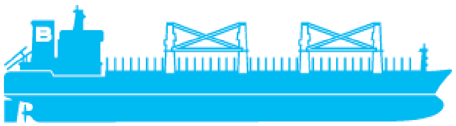
# Appendix: Understanding Our Core Market

## THE DRY BULK SECTOR



Bulk Carriers for dry bulk commodities

**OTHER MAINSTREAM SHIPPING SECTORS**

Containerships for containerised goods

Tankers for oil, gas & chemicals

| Bulk Carrier Ship Types | | Percentage of Global Dry Bulk Capacity | Versatility |
|---|---|---|---|
| Minor bulks with cranes (Our Focus) | **Handysize** 25,000-39,999 dwt | 10% | More Versatile |
| | **Handymax (incl. Supramax)** 40,000-64,999 dwt | 24% | |
| Major bulks without cranes | **Panamax & Post-Panamax** 65,000-119,999 dwt | 27% | Less Versatile |
| | **Capesize** 120,000+ dwt | 39% | |

**Main Commodities Carried**

**Minor Bulks**

Metals
- Ores & Concentrates
- Alumina
- Bauxite

Energy
- Coal/Coke
- Petcoke

Minerals
- Salt
- Sand & Gypsum

Agricultural Products
- Grains
- Fertiliser
- Sugar

Construction Materials
- Logs & Forest Products
- Cement & Clinker
- Steel & Scrap

Other Bulks

**Major Bulks**
- Iron ore
- Coal
- Grains

Few ports, few customers, few cargo types, low scope for triangulation

**Many ports, many customers, many cargo types, high scope for triangulation**

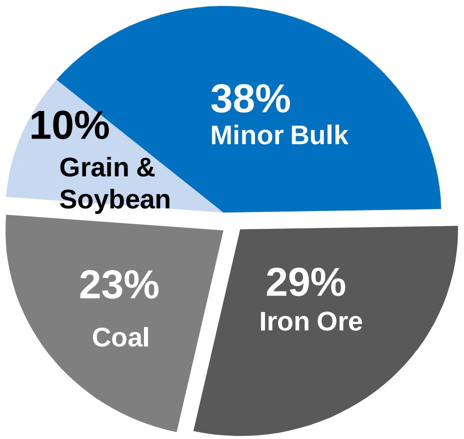
# Appendix:
# Why Handysize? Why Minor Bulk?

- More diverse customer, cargo and geographical exposure enables high utilisation
- A segment where scale and operational expertise make a difference
- Better daily TCE earnings driven by a high laden-to-ballast ratio
- Sound long-term demand expectations and modest historical Handysize fleet growth

**Estimated Full Year 2016 Global Dry Bulk Trade**
**4.9 billion tonnes (+1.2% YOY)**

Pacific Basin focuses on these growing markets

Minor Bulks & Grain is 48% of total Dry Bulk demand




*Source: Clarksons,, 1 Jan 2017*

# Appendix:
# Pacific Basin Dry Bulk – Diversified Cargo

## OUR DRY BULK CARGO VOLUMES IN 2016

**Minerals**

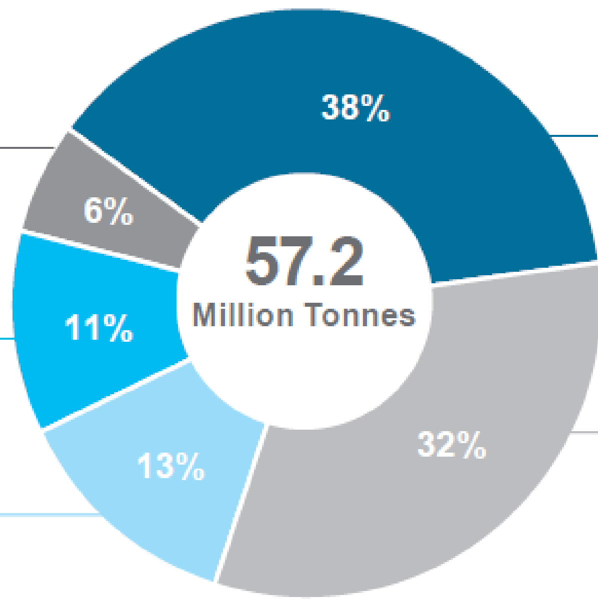
| | |
|---|---|
| Sand & Gypsum | 3% |
| Salt | 2% |
| Soda Ash | 1% |

**Energy**

| | |
|---|---|
| Petcoke | 5% |
| Coal | 5% |
| Wood Pellets | 1% |

**Metals**

| | |
|---|---|
| Concentrates & Other Metals | 7% |
| Ores | 4% |
| Alumina | 2% |




**Construction Materials**

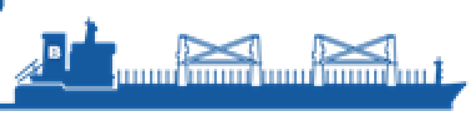
| | |
|---|---|
| Steel & Scrap | 15% |
| Logs & Forest Products | 14% |
| Cement & Cement Clinkers | 9% |

**Agricultural Products and Related**

| | |
|---|---|
| Grains & Agriculture Products | 19% |
| Fertiliser | 10% |
| Sugar | 3% |

- Diverse range of commodities reduces product risk
- China and North America were our largest market
- 60% of business in Pacific and 40% in Atlantic

approx. 500 customers





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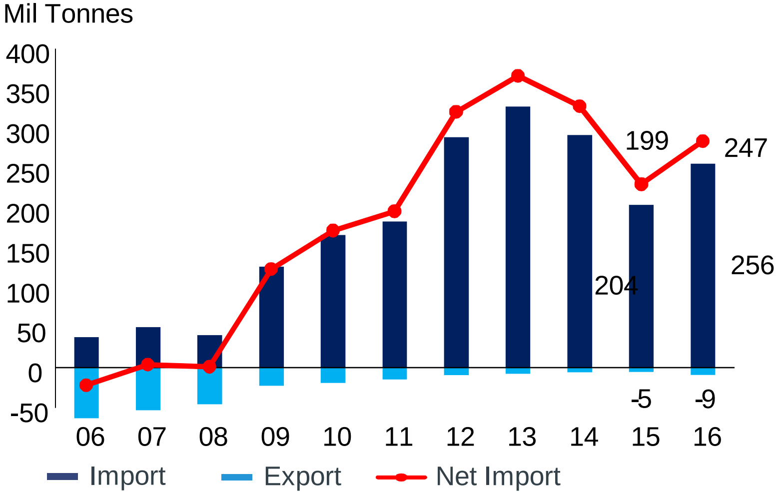
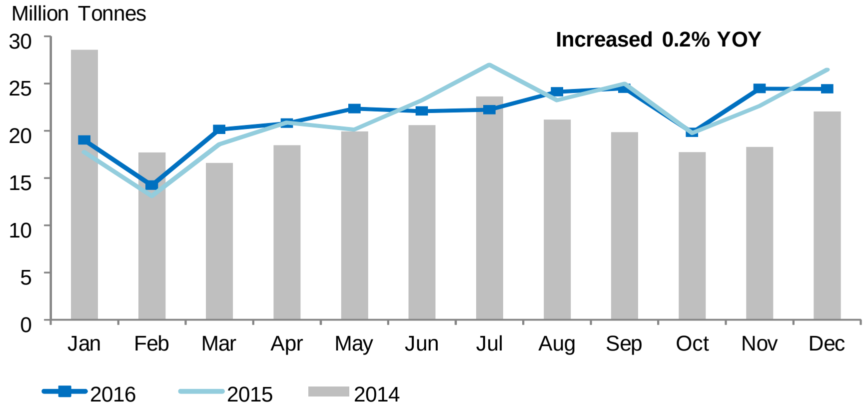
# Appendix:
# China Major and Minor Bulk Trade

## China Coal Trade

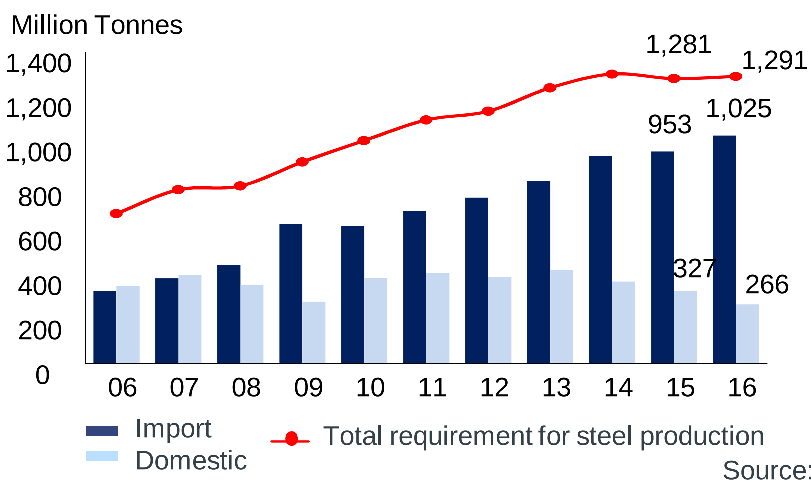



## 2016 Chinese Minor Bulk Imports

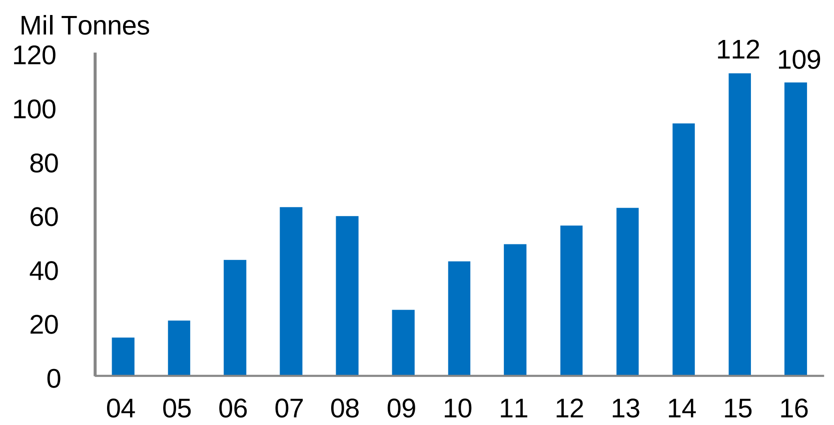



Chinese imports of 7 minor bulks including Logs, Soyabean, Fertiliser, Bauxite, Nickel, Copper Concentrates & Manganese Ore

## China Iron Ore Sourcing for Steel Production

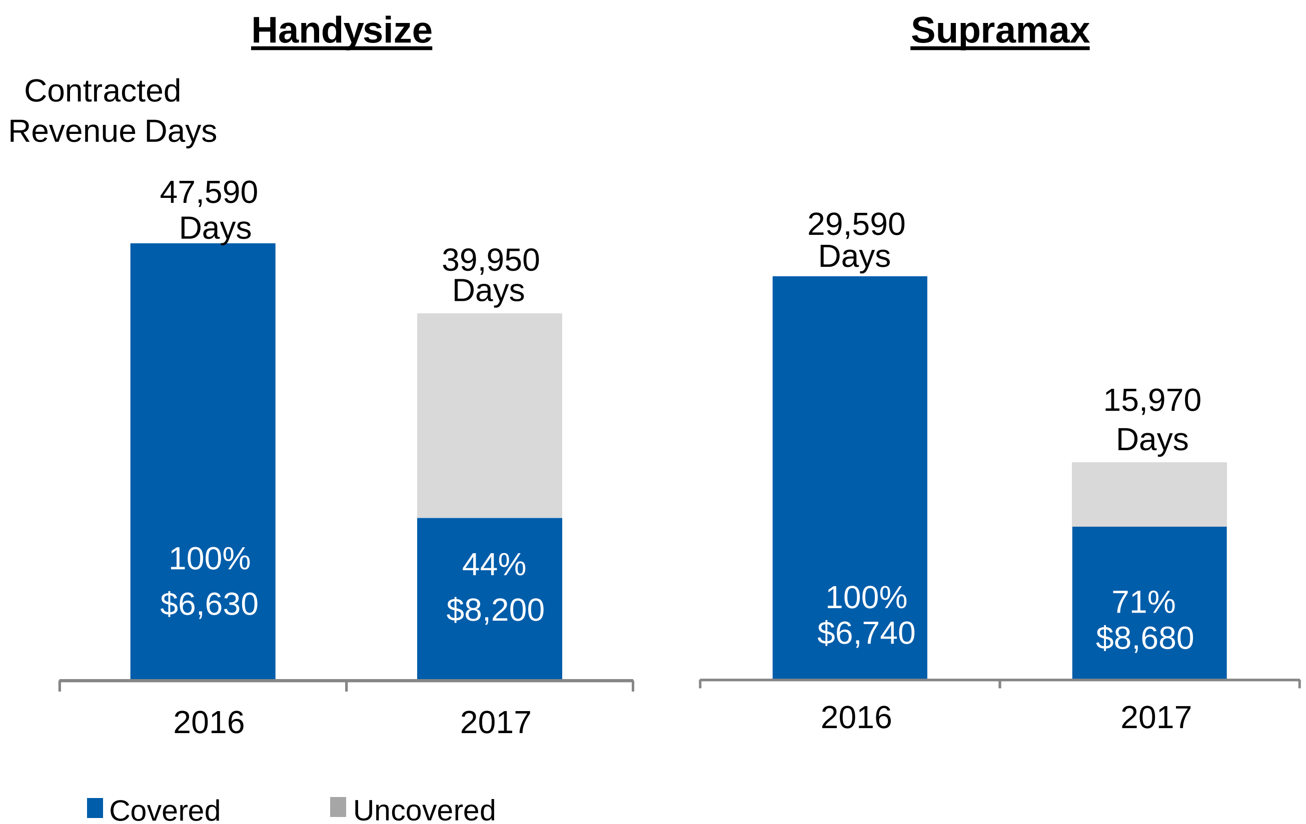



## China Steel Export




Source: Bloomberg, Clarksons Platou

# Appendix:
# Earnings Cover for 2016 and 2017




Currency: US$
Data as at 23 Feb 2017

Pacific Basin

# Appendix:
# Fleet List – 31 Jan 2017*

**Pacific Basin Dry Bulk Fleet: 226**
Average age of core fleet: 6.8 years old

www.pacificbasin.com
Customers > Our Fleet

| | Owned | | Chartered | | Total |
|---|---|---|---|---|---|
| | Delivered | Newbuilding | Delivered* | Newbuilding | |
| Handysize | 75 | 2 | 56 | 3 | 136 |
| Supramax | 20 | 1 | 67 | - | 88 |
| Post-Panamax | 1 | - | 1 | - | 2 |
| Total | 96 | 3 | 124 | 3 | 226 |

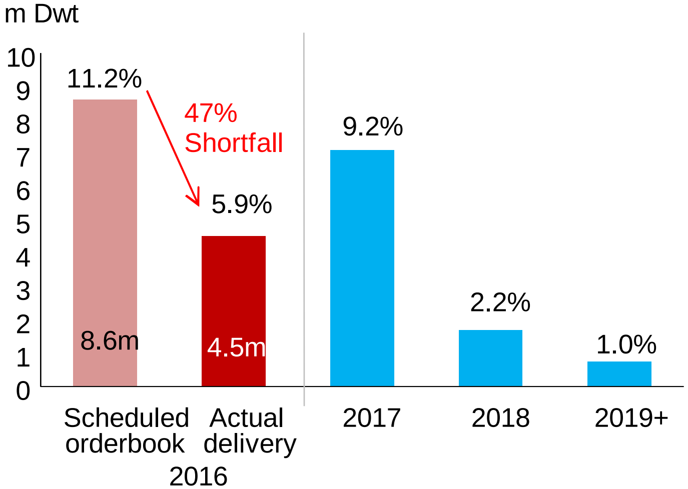

** Average number of vessels operated in January 2017*

Pacific Basin

# Appendix: Dry Bulk Supply

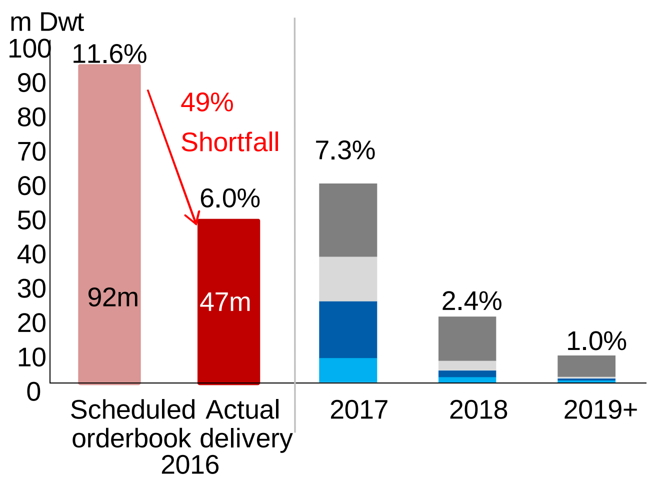
## Handysize Orderbook

258 vessels (9.54 million dwt)




## Total Dry Bulk Orderbook

954 vessels (85.6 million dwt)







| | Orderbook as % of Existing Fleet | Average Age | Over 20 Years | 2016 Scrapping as % of Existing Fleet as at 1 Jan 2017 |
|---|---|---|---|---|
| **Handysize** (25,000-39,999 dwt) | **12%** | **9** | **11%** | **3%** |
| **Handymax (incl. Supramax)** (40,000-64,999 dwt) | **10%** | **9** | **10%** | **2%** |
| **Panamax** (65,000-119,999 dwt) | **8%** | **9** | **7%** | **4%** |
| **Capesize** (120,000+ dwt) | **14%** | **8** | **8%** | **4%** |
| **Total Dry Bulk >10,000 dwt** | **11%** | **9** | **9%** | **4%** |

| | | |
|---|---|---|
| **Total Dry Bulk** | **>15 years** | **16%** |
| **Handysize** | **>15 years** | **18%** |

*Source: Clarksons Platou, as at 1 Jan 2017*

# Appendix: Sustainability

- **Applying sustainable thinking in our decisions and the way we run our business**
- **Creating long-term value through good corporate governance and CSR**

## Corporate Social Responsibility (CSR)

- Guided by strategic objectives on (i) workplace practices (primarily safety), (ii) the environment, and (iii) our communities (where our ships trade and our people live and work)
- Active approach to CSR, with KPIs to measure effectiveness
- Reporting follows SEHK's ESG Reporting Guide
- Disclosure also through CDP, HKQAA, CFR for HK-listed companies

www.pacificbasin.com
CSR report

## Corporate Governance & Risk Management

- Adopted recommended best practices under SEHK's CG Code (with quarterly trading update)
- Closely integrated Group strategy and risk management
- Transparency priority
- Stakeholder engagement includes in-depth customer and investor surveys
- Risk management committee interaction with management and business units
- Integrated Reporting following International <IR> Framework of IIRC

www.pacificbasin.com
Corporate Governance

Pacific Basin

# Appendix: Convertible Bonds Due 2021

| | |
|---|---|
| Issue size | US$125 million |
| Maturity Date | 3 July 2021 (approx. 6 years) |
| Investor Put Date and Price | 3 July 2019 (approx. 4 years) at par |
| Coupon | 3.25% p.a. payable semi-annually in arrears on 3 January and 3 July |
| Redemption Price | 100% |
| Initial Conversion Price | HK$4.08 (current conversion price: HK$3.07 with effect from 30 May 2016) |
| Intended Use of Proceeds | To maintain the Group’s balance sheet strength and liquidity and to continue to proactively manage its upcoming liabilities, including its Existing Convertible Bonds, as well as for general working capital purposes |

Conversion/redemption Timeline