

Ref.: 2016-024

28 April 2016

To : The President of the Stock Exchange of Thailand

Subject : The 1st Quarter of 2016 Management Discussion and Analysis (MD&A)

Our Key Performance Indicators:

The results, reviewed by EY Office Ltd., show you the latest financial position of the Company. The net loss for Q1 2016 was USD 15.04 million (excluding loss on sale of ships, loss on impairment and one-time write-off of deferred upfront fees related to the cancellation of certain loan facilities, all three items aggregating USD 19 million). The earnings per day per ship during Q1 came in at USD 4,797. Please take a look at the Market Segmentation report that shows you the strong performance of the PSL fleet's earnings per day per ship compared to the Index ships. In this quarter, daily operating costs were USD 4,528, lower than our target of USD 4,600 and lower than the actual for the previous year. The EBITDA was a negative USD 1.51 million during Q1. In Q1 we made a net loss of USD 34.04 million. The earnings per share (eps) in Thai Baht stood at Baht (0.78) for this quarter. To put our Q1 results into perspective, please keep in mind that the average BDI for this quarter at 360 was 50% below the lowest annual average BDI in history. The Company performed impairment reviews in respect of the vessels expected to be sold in 2016 and recognised an impairment loss of USD 4.35 million on 2 more vessels (apart from the 6 impaired in 2015) based on fair value (net of direct selling expenses), which is included in the net loss in Q1. The Company estimated the fair value of vessels based on an average of latest selling price of vessels sold in the recent past. However, actual results might differ from these estimates depending on the future economic environment and the specific timing of each sale.

THE HARD FACTS	Q1, 2015	Q1, 2016
Highest Earnings per day per ship in USD	15,000	15,000
Average Earnings per day per ship in USD (Handy Size)	5,815	5,209
Average Earnings per day per ship in USD (Supramax)	7,380	4,179
Operating cost per day per ship in USD	4,634	4,528
EBITDA in million USD	2.69	(1.51)

Net Profit/(Loss) in million USD (excluding loss on sale of ships, loss on impairment and one-time write-off of deferred fees)	(10.25)	(15.04)
Net Profit/(Loss) in million USD	(10.31)	(34.04)
Earnings(Loss) Per Share in Thai Baht (excluding loss on sale of ships, loss on impairment and one-time write-off of deferred fees)	(0.32)	(0.34)
Earnings (Loss) Per Share in Thai Baht	(0.32)	(0.78)

Update on disputes with Sainty Marine Shipyard: As of date, 8 ships were delayed and not delivered within the maximum period allowed under the relevant Shipbuilding Contracts with Sainty Marine. Therefore, the Company exercised its contractual right and cancelled the 8 relevant shipbuilding contracts. Further, there are 2 shipbuilding contracts (out of the balance 4 shipbuilding contracts against undelivered ships) which have been purportedly cancelled by Sainty Marine, which cancellations have been disputed by us. Therefore, there are 4 more remaining Shipbuilding Contracts (including the 2 cancelled by Sainty Marine but disputed by us) against which Sainty Marine is supposed to deliver the ships in 2016. Arbitration proceedings have been commenced for 9 shipbuilding contracts including the 2 ships delivered to us in 2014 against which we have initiated arbitration in respect of our Warranty claims.

Settlement Agreements with Sanfu Shipyard: The Company recently executed four settlement agreements and one amendment agreement with Sanfu Shipyard to capture the terms of the amicable settlements for the remaining eight shipbuilding contracts. The key terms of the settlements and the amendments are as follows:

- The contract price for each of the four remaining ships which are to be delivered this year has been amended to USD 25 Million per ship.
- Due to the expected delay in delivery for another four ships, three shipbuilding contracts shall be cancelled and one shipbuilding contract shall be retained with changes in the contract price to USD 18 Million (subject to an adjustment of the contract price based on the market price at the time of delivery) and the delivery to be not before 10 January 2018. All installments paid, along with interest thereon for these four ships shall be adjusted against the relevant delivery installments of each of the aforesaid four ships to be delivered this year.
- On delivery date of each of the four remaining ships, Sanfu Shipyard shall provide the Company an unsecured corporate loan of an amount of USD 6 million per ship. The repayment of these unsecured corporate loans shall be based on the outcome of the disputes as set out in the two settlement agreements for the first two ships which were delivered to the Company in 2015.

The Fleet Rejuvenation Plan has progressed well with 42 ships in the water (including 1 X 64K Ultra delivered by Sanfu Shipyard on 21st April 2016). 3 X 64K shipbuilding contracts with Sanfu Shipyard are slated to be cancelled during the course of this year. Another 3 X 64K brand new Ultras are due during the course of this year, another 1 X 64K brand new Ultra is due in 2018 which will complete the existing newbuilding program with Sanfu Shipyard. We have sold 2 ships during Q4 2015, and 5 ships up to date in 2016 and plan to sell another 7 older ships during 2016/2017.

Market Segmentation: During Q1, the Baltic Handy Size Index (BHSI) averaged 230 points derived from the average Time Charter (TC) rate of USD 3,405. Compared to that, our Handies earned USD 5,209 and beat the BHSI TC rate by 53%. During Q1, the Baltic Supramax Index (BSI) averaged 363 points derived from the average Time Charter (TC) rate of USD 3,801. Compared to that, our Supramaxes earned USD 4,179 and beat the BSI TC rate by 10%. Our target to outperform both the indexes was thus met in this quarter.

The SET Opportunity Day where PSL will be presenting will be held at the SET building at 15:20 hours on Wednesday the 11th May 2016. We hope that many of you will attend this event where the Company will get a chance to thoroughly discuss the Q1 results. For those of you who cannot attend physically, the SET [live web casts](#) the presentation giving you a chance to be present via the web.

Ship Scrapping has had the best quarter on record with a total of 14.09 MDWT of ships being scrapped during Q1 2016 across all sectors in the dry bulk market as compared to the last historic high of 35.97 MDWT in the whole of 2012. The existing age profile of the world fleet together with the lowest levels ever of the BDI should result in the world dry bulk fleet growing at the slowest pace since the turn of the century with record scrapping expected in 2016. This will help redress the imbalance between supply and demand.

Long Term versus short term Charters: The long term charters already booked as of 31st March are shown in the chart below. As can be seen, our current and forward four year rolling book is currently at the 14.5% level with a visible revenue stream of USD 131.5 million.

Year	2016	2017	2018	2019
Total Available Days	16,040	16,425	16,781	16,790
Fixed T/C Days	2,562	2,555	2,240	2,190
%age Fixed T/C Days	16%	16%	13%	13%
Av. T/C Rate/Day in USD	13,713	13,713	13,849	13,875
Contract value in million USD	35.1	35.0	31.0	30.4

It is our intention to continue to charter out our ships on long term period contracts whenever practical and economically viable.

BDI Developments:

The BDI reached an all time low of 290 points on the 10th February 2016. To understand the depths of this shipping downturn you have to only see the ‘lofty levels’ reached at the previous all time low reached in July 1986 of 554 points. From 290 the BDI has reached 704 points on the 26th April 2016 or roughly 2.4 times higher than the low reached in February. That should be cause for celebration but it still means that most owners would be cash negative even at the current level of the BDI. Our feeling is that the BDI will lose momentum as scrapping rates that were at all time highs during Q1 have already started to slow down as the BDI has crept up. As a result, fewer ships are being sent to the scrap yards. So far in the first 25 days of April, only 2.99 MDWT of ships have been scrapped showing the slowdown in scrapping rates. In the meantime, in the same 25 days of April, a total of 1.38 MDWT of ships were delivered, thereby still resulting in negative net fleet growth. We fear the BDI’s upward progression will be derailed if net fleet growth becomes, and stays, positive.

Key Supply Side Developments:

Supply Side developments in the world bulker fleet makes for interesting reading. We started 2016 with 788.42 MDWT and have increased to 791.83 MDWT during Q1 2016. A further 9.15% (72.17 MDWT) is scheduled for delivery in 2016. If we were to apply a slippage factor of 50% (it was actually 46.03% in 2015) to these scheduled deliveries and further assume that scrapping reaches 56.67 MDWT (annualized from the 14.09 MDWT scrapped in Q1 2016) we would be left with a negative fleet growth of **-0.39%** (785.34 MDWT) in 2016 and another negative fleet growth of **-3.19%** (760.28 MDWT) in 2017. Net fleet growth is finally heading in the right direction, but with the BDI having crept up from its all time low of 290 points in February to 704 points as of the 26th of April, we think that scrapping will slow down and not reach the annualized levels that we have used to arrive at our above conclusions.

Bulk carrier prices have followed the anemic BDI. It is interesting to compare the value of Supramax, Panamax and Cape bulkers vs. one year ago when the BDI was at the 740 level.

USD/mill	CAPE		PANAMAX		SUPRAMAX	
Dates	Jan-15	Jan-16	Jan-15	Jan-16	Jan-15	Jan-16
New Building	54	47	29	26	27	25
Resale	54	34	29	23	27	21
5 Year old	38	21	19	12	20	11
10 Year old	27	12	14	7	13	6

(Compass)

From the above table it can be seen that the 'New Normal' for 5 year old ships is to be priced at a discount of 50%+ compared to resale values. This tells us that either the resale/new building values are too high and have to come down significantly or that the useful economic lives of Dry Bulk ships have been reduced to a maximum of 15 to 20 years of age. Either way, the new normal will take some getting used to, as can be seen in the next report of a scrap candidate.

A relatively modern (i.e. only 15 years old) Caper, the M/V "JOHN OLDENDORFF" (169,229 DWT/Built 2001 at Samho in Korea) was scrapped. (Compass)

Dry bulk vessel demolition sales are likely to reach an all-time high this year, but due to weak demand the trading conditions are likely to remain challenging, said Peter Sand, chief shipping analyst at BIMCO in Denmark. Sand forecasts that 40 million dwt of dry bulk ship capacity will leave the market this year due to demolition sales, a sharp increase from 30 million dwt last year and a record of about the same set in 2012. (IHS Maritime)

Key Demand Developments:

The China Factor continues to have a disproportionate impact on the dry bulk markets. **China's GDP growth numbers** have been slowing to 6.7% in Q1. However, despite the macroeconomic numbers, **China's Iron Ore imports**, according to preliminary Custom's data, was 241.57 MMT in Q1 2016 or about 6.4% higher than the 227.07 MMT in Q1 2015! Volume of imported Iron Ore in China during 2016 is contingent on import pricing parity versus domestic production and transportation costs. Provisional **Chinese steel production** for Q1 2016 was about 191.72 MMT or 4.2% less than the 200.01 MMT in Q1 2015. **China's Coal imports** totaled 48.46 MMT in Q1 2016 or 1.24% lower than the 49.07 MMT imported in Q1 2015. Coal imports are contingent on import pricing parity versus domestic coal production/transportation costs. In a country that currently produces and consumes some 3.7 BMT of Coal per annum even a small change in China's coal imports could have a significant impact on the Dry Bulk freight markets. **Chinese steel exports** have risen by 8% to 27.83 MMT in Q1 2016 compared to the 25.78 MMT in Q1 2015 all of which is carried by geared ships from the Handy to the Ultramax sectors.

China Steel Plant Closures: According to China Reality Research, about 35 steel plants in 13 provinces with a combined capacity of 53 MTPA had shut down in 2015 (4.4% of national capacity around 1,200 MTPA), while we expect a big portion of these capacities to be closed permanently in 2016 and 2017. The state council announced a new target for further steel capacity closure at 100-150 MTPA (8-12% of total current capacity). The council indicated that the principals of closing overcapacities are: (these closures should be) forced by the market, carried out by enterprises, coordinated by local governments, and supported by the central government. (CLSA)

China's steel demand will keep declining in 2016 and beyond as the world's second-largest economy seeks to transition from growth led by investment and manufacturing to consumption and services said Zhang Guangning, head of the China Iron and Steel Association, according to a transcript of a CISA meeting posted on the China Metallurgical News website. Production will also fall, said Wang Liquan, vice chairman at CISA. Crude steel output will drop 25 MMT, or about 3%, to 781 MMT in 2016, according to estimates by the China Metallurgical Industry Planning and Research Institute. (Bloomberg)

China's steel exports reached 9.98 MMT in March, a 30% rise from the previous year and up 23% from Feb, data released by the General Administration of Customs showed. This was the highest figure since Dec. (Platts)

China's total coal imports according to a Citibank analysts research note is forecast to be 160 MMT for 2016, down about 22% from 2015 levels. (Platts)

China targets the closure of up to 1,000 coal mines in 2016 according to the National Energy Administration (NEA). These have a combined capacity of about 60 MMT. However, NEA also aims to remove some 500 MMT of coal production over the next three to five years. China is also planning to stop approving all new capacity, helping the future balance. The reason for cutting production is primarily related to environmental concerns but should the cut in production lead to higher imports [of high grade coal with lower emissions], Chinese coal imports could gradually recover from the declining trend since 2013. If 20% of the 500 MMT cut is balanced by increased imports, the scenario of 1% demand growth from additional Chinese coal imports in 2016 followed by a 2% increase next year could be pivotal in ending a long weak cycle in the dry bulk sector. (IHS Maritime)

Chinese energy consumption is still increasing so despite the increased share of oil, hydro, gas and renewables, coal still represents 64% of China's energy mix in 2015. The coal mining sector remains important to China employing 6 million people but it does seem the Government is now taking more active steps to cut back older and more inefficient mines whilst suspending the approval of any new coal mining projects for the next three years. According to a recent policy document China's aim is to close 4,300 mines out of a total 11,000 and cut annual production capacity by 700 MMT. This move may end up being positive for higher quality imports which are unlikely to register the same rate of decline in 2016. (Howe Robinson Research)

Imports of soybeans to China have more than tripled over the past decade, with imports to the country now accounting for two thirds of global imports. Imports to China are expected to reach over 80 MMT in 2015/16. Due to strong production growth and devaluation of the Brazilian Real, Brazil has increased its share of soybean imports to

China. Soybeans continue to provide strong volumes for Supramax vessels and to a lesser extend for Panamax vessels. A combination of strong production growth in Brazil and strong import demand in China provides a positive outlook for seaborne soybean trade volumes going forward. (Banchero Costa)

China, the world's top sugar buyer, imported 4.85 MMT of raw sugar in 2015, beating a record reached two years previously, as cheap global supplies poured into the country. Imports were up 39% on the previous year, and slightly higher than the 4.5 MMT in 2013, customs data showed. (Reuters)

A centrepiece of Chinese president Xi Jinping's foreign policy and domestic economic strategy, **One Belt, One Road** is a planned network of overland road and rail routes, oil and natural gas pipelines, and other infrastructure projects that will stretch from Xi'an in central China, through Central Asia, and reach as far as Moscow, Rotterdam, and Venice. The initiative also includes a network of planned port and other coastal infrastructure projects from South and Southeast Asia to East Africa and the northern Mediterranean. The AIIB was launched in December. It has 57 members, including France, Germany, India, Russia, Turkey, and the UAE and is expected to have a capital of USD100 billion. China has a 26.6% stake in the bank, which is chaired by the country's former vice finance minister, Jin Liqin. (IHS Maritime)

Loans to China's real estate sector continued to rise at a steady pace as the housing market gradually warmed up, data from the central bank showed. By the end of 2015, financial institutions in China had lent 21 trillion Yuan (\$3.2 trillion) to the property sector, up 21 percent year on year, according to a report from the People's Bank of China. The growth was 2.1 percentage points faster than the rate at the end of 2014, according to the report. (COSCO Steel and Coal Newsletter)

China economic growth will face great difficulty in achieving levels above 6.5% over 2016-2020 due to slowing global demand and rising labor costs, the China Securities Journal quotes a top state adviser Li Wei, president of the State Council's Development Research Centre, as saying. (Reuters)

Rule No.1 in China's blueprint for the next five years: "give top priority to development." That's the word from Premier Li Keqiang's work report delivered Saturday at the start of the annual National People's Congress in Beijing. (Bloomberg)

India's Reserve Bank Governor Raghuram Rajan, whose pronouncements on the economy have so far been cautious and conservative, on Thursday lauded the government's initiatives on infrastructure and gave an upbeat assessment of India's growth prospects. Rajan said India could be on the verge of a revolution and said everything is in place for a leap in production, whether it is manufacturing or services. (Times of India)

India is one of the most energy-deprived nations in the world. According to International Energy Agency (IEA), there were still 304 million people in India without access to electricity in 2012. Moreover there is a considerable number of people that do not have 24 hour access to power because of the rolling outages. As many as 760 million Indians have no refrigeration – normally the largest source of electricity demand in homes, and 820 million cook by burning wood or dung. Electricity use in India is just 700 kWh/capita/year, 80 percent below the global average. For comparison, China’s per capita electricity use is 3,200 kWh/capita/year, and the U.S. consumes 14,000 kWh/capita/year. (Banchemo Costa)

India’s transport minister is seeking as much as a record 700 billion rupees (\$10.3 billion) in government spending to boost road construction and spur economic growth. In addition to a more than 50 percent increase in budgetary allocations in the fiscal year starting April 2016, the transport minister said in an interview that his ministry is also looking to borrow overseas. The overall target is 5 trillion rupees (\$147.1 billion) of road projects over the next three years, he said. The transport minister aims to build 100 kilometers of roads a day, up from about 18 kilometers currently. (Bloomberg)

India plans to cut coal imports, despite being widely seen as replacing China as the world’s largest coal importer, and rely on domestic production for power generation in the coming years. The nation is looking to completely cease thermal coal imports in the next three years. (Lloyd’s List)

The four largest net oil importers – China, US, Japan and India – account for over 50% of the world’s \$77tn GDP. Their economies are growing, unemployment is falling and the boost from low oil prices soon will become apparent in consumption data. This will significantly outweigh the risks to the US banking system from failing shale oil drillers and defaulting high yield bonds and will compensate for slower growth and financial strains in oil exporting economies. (Hartland Shipping Services)

2015 has been a rather dramatic year for the **global steel industry**, which experienced the first overall contraction in production volumes since 2009. According to Worldsteel figures, total world output declined by 2.8 percent last year to 1,622.8 million tonnes. China, the single largest producer and consumer, and also the main engine of growth over the past decade, clearly disappointed. Output declined by 2.3 percent year-on-year to 803.8 million tonnes. This was somewhat expected given the unsustainably strong expansion in production over the past few years (output is still over 30 percent higher than it was just five years ago), and severe overcapacity driving steel prices well below production costs for most mills. We still believe that this is a cyclical slowdown, rather than the start of a new trend. China is still very much a developing country, with still generally poor housing and infrastructure, and low urbanization levels. Steel consumption per capita is still well below the levels reached by developed countries at the peak of their

economic growth and construction periods in the 1960s and 1970s. Peak steel in China is still ahead of us. That does not mean, however, that steel production will grow over the next 2 or 3 years. The main problem lies in the real estate sector in China, which is clearly taking a breather. Some developers clearly got carried away over the last few years, investing in projects which simply made little sense. Residential projects in downtown Beijing will still sell like hot cakes, and prices are still rising. Giant developments in the middle of nowhere, with no transport links, and still marketed at extortionately high prices, will not sell. The result is plenty of unsold stock. And here we get to the issue of prices. China does not have a housing supply bubble. It has a house price bubble. Whilst the country has hundreds of millions living in old shoddy houses, and millions moving from the countryside to major cities, prices are completely out of reach for the average home buyer. For years, the market was sustained by a select “one percent” buying dozens of apartment, often in cash, as a form of investment or store of wealth. No wonder a lot of apartments were lying empty. They were not “ghost towns”. They were “investments”. You did not even want to rent them out, because a “used” apartment depreciated faster than a brand new one. Now priorities have changed somewhat. Widely held expectations that the RMB could be devalued in the near future mean that people prefer to stash their money abroad (perhaps further inflating the bubbles in London and Vancouver). And the crackdown on corruption and lavish spending by officials is also a disincentive – sales of red wine and watches are sharply down, and so are sales of luxury apartments. At least those IN the country. (Banchemo Costa)

About **a third of the world's publicly-traded oil companies are at high risk** of going bankrupt this year warned consulting and audit firm Deloitte, as the sector faces a huge threat from crude prices that are hovering near 10-year lows. Deloitte warned that the 175 or so companies most at risk have more than \$150 billion in debt and they're having trouble generating cash given the decreased value of asset sales and secondary stock offerings. (Fortune)

Despite the general sense of doom and gloom hanging over **the iron ore industry**, and despite the fact that prices have fallen by 70 percent since 2013, trade has actually continued to grow. China's imports of the steel making commodity increased by 2.3% last year to 954 MMT. Brazil exported 192 MMT to China in 2015, up 12.1% from the 171 MMT of 2014. Australia exported 607 MMT to China in 2015, up 10.7% from the 548 MMT of 2014. So what can we expect from 2016? Until recently, most forecasts were extremely negative, given the expectation of falling steel demand in China and worldwide. Pretty much everyone was expecting prices to decline further and volumes to contract. And yet, iron ore prices rebounded 18% in the first two months of this year, to around USD50 per ton. China's iron ore imports in January were 4.6% higher than in the same month last year, at 82.2 MMT. Chinese mills are ramping up production after the lunar New Year festivities, and there are some signs of life in the real estate sector, especially in big cities like Shanghai. Also, domestic ore mines in China keep shutting down. Can the momentum last? (Banchemo Costa)

South Korean coal demand, as forecasted by The Korea Energy Economics Institute (KEEI), a government-run think tank, will rise 6.3% to more than 140 MMT in 2016, as 9 new plants with a combined capacity of 7.7 Gigawatts come online. Asia's fourth-largest economy plans to build 19 additional new coal-fired power plants by 2022. (Reuters)

Growth in the volume of world trade is expected to remain sluggish in 2016 at 2.8%, unchanged from the 2.8% increase registered in 2015. Imports of developed countries should moderate this year while demand for imported goods in developing Asian economies should pick up. Global trade growth should rise to 3.6% in 2017, WTO economists reported. (WTO)

Yours Sincerely,

Precious Shipping Public Company Limited

Khalid Hashim
Managing Director