

BOARD OF DIRECTORS' REPORT



Mr. Khalid Moinuddin Hashim

Managing Director

TO THE SHAREHOLDERS:

The directors are pleased to present the 27th Annual Report of the Company along with the Audited Financial Statements as on 31st December 2015.

The year of rude awakenings: 2015 will be remembered as one of, if not, the worst year ever for Dry Bulk shipping. The annual average BDI at 719 was just 4 points higher than the lowest in history, and tells its own story. As a result of this disappointing year, the consensus opinion is that 2016 will be an equally tough year.

The Baltic Dry Index started the year at 771 points and then hit a new all time low of 509 points on the 18th of February 2015. The BDI then struggled in the 500 point range all the way up to early June. Traditionally, as you know, the summer months of June, July and August are the weakest months of the years, but not this year. The market surprised us all by touching an annual high of 1,222 points on the 5th of August! It was, unfortunately, a downhill journey from there till we touched a new all time low of 471 points on the 17th of December, traditionally the strongest time of the year, a year when seasonality has been stood on its proverbial head! There was no surge in demand to justify the peak in rates reached in the summer months, however, at least 20m DWT of dry bulk ships had been scrapped in the FH of 2015 which helped narrow the gap between supply and demand and resulted in the spike in the BDI. New orders for ships were hovering near all time lows. All existing orders were being delayed and pushed back due to financial pressure either on the buyers or at the ship yard level. Many Dry Bulk ship orders for 2016 had been converted into Tankers and/or Container ships. All of this helped reduce the pressure from the Supply side of the equation, and as a result, the negative sentiment had started to disappear from the market by the middle of 2015. This is what allowed a spike in the BDI, led by the cape sizes where scrapping had resulted in a negative growth in the overall supply of ships in this sector. What this indicated was that the supply/demand balance was not that far off and any 'real' reduction in the supply side could bring better balance to this equation very quickly. Unfortunately the scrapping rates in the SH of 2015 came down significantly as compared to the FH, and as a consequence, the BDI came under tremendous pressure in the later part of 2015. We suspect that the prospects for the FH of 2016 will not look good with new supply still coming on stream and Demand not set to grow in any significant fashion. We will need a record for scrapped ships during all of 2016 if we are to see some semblance of balance return to the market with reasonably healthy rates towards the end of 2016. At the current BDI levels almost all sectors in the dry bulk market are operating below cash breakeven levels. Such an extreme aberration, logically speaking, should not last for long. But you know what Lord Keynes had to say about such logic – Markets can stay irrational far longer than you can stay solvent! We therefore think that the BDI will not push much lower than where we are today and will remain range bound within 350 to 750 points for the better part, or all, of 2016.

There are two issues that drive the BDI. One is (over) supply of ships with which we have been struggling for quite a while. If ship scrapping during 2016 exceeds the levels achieved during 2012 then we have some chance of finally coming to grips with this issue. The other matter is of course the demand side.



Mr. Khushroo Kali Wadia

Executive Director

There is no doubt that the overall macroeconomic situation is one that does not engender a lot of confidence for a significant increase in trade flows during 2016. The slowing down in the growth rate of demand and trade flows could not have come at a worse time. Having said that, please keep in mind that the Federal Reserve has already raised interest rates by 25 bps and intends to raise it by a further 100 bps during 2016. This tells us that the US, the largest economy in the world, is faring well enough for their central bank to push interest rates off the floor. With the current very low oil prices, and the prospects that this low-oil-price environment will continue for some time into the future, consumers should find they have much more spare change in their pockets to spend. This is what will drive the US economy forward and should help to suck in a lot of 'cheaply' manufactured goods from China and the rest of Asia. This will help drive trade flows in a more positive direction.

The dry bulk markets propensity to surprise, therefore, seems to be alive, and well! We were quite bearish this time last year about the prospects for 2015, we are similarly bearish about the prospects for 2016, but we hope to be 'pleasantly surprised' with results that defy current expectations. It is now almost 8 years since the dry bulk markets have been in a crisis. Even the scriptures forecast a maximum of 7 years of 'famine' so hopefully we have seen the last of the 'lean' years.

Shipping banks that contributed to the current debacle with 'easy loans', during the boom years prior to and including 2008, allowing ship owners to over-order/buy ships with little equity and no forward contract coverage, have for the most part taken big hits and where possible have sold their existing loan books at cents to the dollar. Restructuring, inside or outside the bankruptcy courts, has happened in quite a few cases and others are in negotiation. As a result many traditional shipping banks have sold their loans in specifically targeted companies. Others have reduced their shipping loan portfolio via a bulk sale to others or have simply exited this business all together and have retired or disbanded their shipping teams. All these actions have resulted in losses so banks are loath to lend any more funds to our industry. Ship finance is, therefore, not getting easier.

The situation at the **newbuilding shipyards** has become untenable and quite a few of them have simply closed shop, including state-owned shipyards in China, something that was simply inconceivable in the past. Those shipyards that have managed to survive have reduced their existing capacity via consolidation; some have gone back to block-building and ship repairing; and others have converted to 'green' recyclers. China and South Korea are home to many newbuilding shipyards that have been reported in the shipping press as having closed down or being in deep financial distress including the 'big 3' yards in South Korea who have reported staggering losses approaching billions of dollars during 2015.

Low Oil Prices and the world economy: Generally speaking, lower energy costs result in an increase in world economic growth rates. As shipping derives its demand from world GDP growth rates, any increase in world GDP growth rates would therefore be welcome. The rule of thumb is that dry bulk demand increases

by about 1.5 times world GDP growth rates. A lot depends on how well the lower oil prices help push world GDP growth rates higher. For those of you old enough to have lived and worked through the Asian crisis of 1997 you would recall that oil prices had more than halved during that time (USD 20/23 down to USD 9/10 per barrel). That was one of the major factors that helped the Asian economies survive and eventually export and consume their way out of trouble. We are confident that low oil prices could, once again, be of great assistance in saving the current world economy and allowing individual countries to export and consume their way out of their current economic troubles. We exist today in an environment where every commodity is in surplus leading to historically low prices. Lower commodity prices, in general, result in greater demand and that would mean more cargoes to ship, hopefully over longer distances. Let us see how this low oil price environment plays out during 2016.

Low Oil Prices and its impact on slow steaming: Lower bunker prices in theory should result in a reduction of slow steaming but only if the daily time charter rates are high enough. At current daily time charter rates no one will speed up their ships. In fact every charterer still insists on getting the ships 'eco' speed and they instruct Masters to prosecute voyages at these 'eco' speeds.

Scrapping in 2012 had a stellar all time record of 35.97 MDWT dry bulk ships being scrapped. However, 2013 and 2014 scrapping came in at a disappointing 21.39 and 16.72 MDWT respectively. 2015 was a far better year with a total of 32.09 MDWT being scrapped but was obviously not good enough as the BDI plunged to a fresh all time low of 471 points on the 16th December 2015. Scrapping rates are dependent on two main variables: the freight market (primary mover) and the price of scrap (secondary mover) and have no connection with lower or higher oil prices. The latest scrap price at below USD 300 per steel ton of scrapped dry bulk ships is probably at the trough and industry expectations are that scrap prices should not go down any further from this point. If scrap prices remain where they are, and the freight markets stays as low as it currently is, we expect many more ships to be scrapped in 2016 than were scrapped even in 2012. Basically, in a poor rate environment, where charterers are spoiled for choice of ships, they will not fix an older ship as they generally consume more oil, are more expensive to insure for their cargoes, their customers don't want shipment in older ships and younger ships are available at almost the same rates as the older ships. Therefore, older ships don't get employed in a low rate environment and cost their owners even to keep idle. Hence in a low rate environment, with no hope for employment, most owners of older ships would examine the scrapping option more closely, and with the threat of a fall in scrap prices, the decision making becomes easier.

In the next four years time i.e. before the end of 2019, 14.58% of the dry bulk fleet of 788.42 MDWT (as of 01 January 2016) would be over 20 years of age, or 114.93 MDWT, and some part or all of these ships could head to the scrap yards depending on the direction of the BDI and scrap prices.

Slippage is the difference between the DWT of new ships on order at shipyards at the beginning of the year and the actual deliveries of DWT of new ships at the end of the same year. Slippage in 2015 came in at 46.03% which was well above the average of about 35% for the past 5 years. As a result, the net increase in supply for 2015 was 18.08 MDWT with a year end number of 788.42 MDWT. This amounted to a 2.35% net increase in the World Dry Bulk fleet, the smallest percentage increase in the past 10 years! With slippage and scrapping demonstrating such volatility, the net increase in DWT of ships in future years will remain difficult to predict with any real accuracy. We think that slippage and scrapping will retain their unpredictability and will fluctuate inversely with the strength of the BDI. If we assume annual slippage at 45% and scrapping at 36 MDWT, then net increase in the Dry Bulk Sector would be 1.92% or 15.13 MDWT to 803.55 MDWT at the start of 2017. Applying the same assumptions we get a net fleet growth of 0.93 MDWT or 0.12% to 804.48 MDWT by the start of 2018.

On the **demand front**, the large clouds of uncertainty still loom ominously on the horizon. **China**, the big mainstay of the dry bulk markets, has struggled with GDP growth at an anemic, at least for China, 6.9% in 2015. China's economy in the current 5 year plan starting from 2016 is supposed to grow at an average rate of not less than 6.5%. China is trying to stimulate its domestic economy and curb its dependence on its export markets. In terms of actual imports for 2015, China surprised the markets by increasing iron ore imports to 953.37 MMT (+2.17% y-o-y) whilst disappointing on coal at 204.18 MMT (down 30% y-o-y). Chinese steel

exports have sky rocketed by 19.87% over the 2014 figure to reach 112.41 MMT. All this has taken place whilst the headlines were screaming 'China is slowing down!'

Economic growth is beginning to take a firm hold in the **USA**, the largest market in the world, where the Federal Reserve has already raised interest rates by 25 bps in December 2015 and intends to raise it by a further 100 bps during 2016. This tells us that the US, the largest economy in the world, is faring well enough for their central bank to push interest rates off the floor.

The **EU** is the second largest economy in the world after the USA and one of the largest exporting blocs in the world. Their economy has disappointed to such an extent that the EU Central Bank is still continuing with their QE program. As a result the Euro has fallen versus the USD and there is talk that it could head to parity or below. This combination of QE and a falling currency could be the ingredients that finally spark the moribund EU economy into life. Their propensity to export must not be underestimated as Germany used to be one of the largest exporters in the world not too long ago. If they manage to grow their economy they will need more bulk imports to convert to semi-finished and finished products that would need to be shipped out requiring the services of our industry.

Japan, the second largest dry bulk player in the world, continues to struggle. However, Nuclear power remains shuttered so more coal is being imported. Japanese companies have made windfall profits, thanks to the Yen depreciating from 75 to 120+ to the Dollar, and will likely reinvest in Japan as well as all their manufacturing plants in Asia/around the world requiring more dry bulk imports.

India, with its weaker currency and new market oriented government could become a large player in the Dry Bulk market. India is characterized with smaller, shallower drafted and inefficient ports which would result in massive congestion should import/export volumes climb appreciably. A consequent reduction in effective supply of smaller ships would result fairly quickly. This would push the geared handy to ultra sectors in the right direction. India is the world's third largest consumer of steel, consuming over 75 million tonnes in 2014. Steel consumption in India is forecast to grow 7 percent in 2015, compared to a global contraction of 2 percent. Considerable home-grown demand will be generated as the government invests heavily in road, commercial and residential construction. Various reports suggest that Power, Coal and New & Renewable Energy would be given a USD 250 billion boost under the current Indian government, the hope for shipping being that coal imports into India will keep increasing significantly to take up some, if not all of, the slack generated by the slowdown in coal imports into China. India became the largest importer of coal with a figure of 223.99 MMT in 2015 well above China's 204.18 MMT.

Argentine farmers will swiftly boost exports, increasing global supplies of wheat, corn and soybeans, as Mauricio Macri their new President heralds the end of punitive export taxes and government regulations. The country's farmers are ready to ship an estimated \$8 billion in stored crops as soon as export taxes are lifted or reduced as Macri promised. Macri has also lifted currency controls a move that investors see leading to a devaluation of as much as 35 percent for the peso, which would further help farmers trying to sell abroad. These moves could give a lift in the FH of 2016 especially to the Handy to Ultra sectors.

The one industrial sign that could point to a higher level of demand especially for bulk ships is the 'One Belt One Road' silk route that the Chinese leader Xi Jinping has hung his personal hat on. This is an infrastructure development of USD 10 trillion spread over 10 years linking Asia to Europe and will encompass between 30 to 60 countries via this massive land bridge that is to be built. Under development 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. This will do quite a few things not just for China but for the rest of the world.

1. It will allow China to utilize its ~30% idle steel mill capacity to produce steel at possibly the lowest cost in the world especially since the iron ore miners have dug themselves into such a low price hole that they cannot get out of, at least, in the medium term. Coal, the other ingredient required to produce steel, is in a similar oversupply position so steel should be produced very cheaply indeed. Similar results can be expected from Chinese Cement plants where there is ~40% idle capacity allowing

them to produce really cheap Cement for this project and correct this massive underutilization of their installed capacity. This will allow China to enjoy, and very possibly exceed, their 6.5%+ GDP growth rate which their leaders have collectively agreed upon for the next 5 years.

2. It will allow China to expand economic activity into their North Western heartland from where a lot of their geopolitical instability stems. Once economic activity in the North Western parts of China starts to pick up pace, the restive Uyghur problem would be largely defused if not completely resolved.
3. The countries just above this area of China are the various Central Asian Republics that have been a source of geopolitical instability the world over as they are governed by strong-men more interested in acquiring the wealth of their country for their own personal gain rather than spreading economic development to the rest of their fellow countrymen. As a result, these economies are in dire need of an infrastructure development boost that would spread economic benefits to the population at large and defuse most of the geopolitical instability that they are otherwise exporting to the rest of the world.
4. The world has not benefitted from having the USA as the sole super power. Now that China has started to emerge as a Super Power, their One-Belt-One-Road project will increase China's popularity and cement their role as a welcome counter balance to the USA.

All the above activities would require larger movements of iron ore, coal, limestone, coke, wood and other minerals like nickel ore, alumina etcetera than what are being shipped presently and that would benefit the dry bulk markets tremendously.

To keep things in perspective with regards to PSL, we would like to highlight the annual net profit/loss over the past few years.

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Av. BDI	2,617	4,510	3,371	3,180	7,065	6,390	2,617	2,758	1,549	920	1,206	1,105	719
Net Profit(loss) \$m	24.8	110.1	154.2	92.6	125.1	148.1	88.1	35.5	23.6	4.5	17.5	(2.5)	(69.41)
Av. No. of Ships	28.39	44.63	52.89	54.00	44.97	44.12	32.79	21.39	21.91	30.44	38.93	41.66	45.46
Net Profit(loss)/Ship \$m	0.87	2.47	2.92	1.72	2.78	3.36	2.69	1.66	1.08	0.15	0.45	(0.06)	(1.53)

Our results for 2015 must be viewed against the average BDI for the year of 719 points, being the second lowest annual average in BDI history, just 4 points from the lowest ever in 1986. Whilst most of our peers were seeking protection under Chapter 11 or undergoing restructuring of some sort or the other, we managed to keep costs under tight control; raised about USD 65 million from our shareholders via a rights offering in early 2015; raised about USD 100 million from a bullet repayment, 5 year maturity, unsecured bond and started selling our older and inefficient ships to raise further cash (3 ships sold in 2015 and 12 more to go in 2016/2017).

AWARDS AND ACCOLADES:

Precious Shipping won the IRMA South East Asia 2015 award for "Best in Sector: Industrials" category in Investor Relations (please see the attached flyer from the SET on this event). PSL was one of the recipients of the Thailand Sustainability Investment Awards, at the SET Sustainability Awards 2015 held by the Stock Exchange of Thailand. We were finalists for the Seatrade Maritime Awards Asia 2015 for the Ship Manager Award. We were also finalists for the Lloyd's List Asia Awards 2015 in the 'Dry Bulk Operator of the Year' and 'Investment in the Future' categories.

FINANCIAL HIGHLIGHTS (THAI BAHT TERMS) AND REVIEW OF THE YEAR:

In terms of operations, during the year under review, the Total Revenues of the Company were Baht 4,263.92 million [2014: Baht 4,661.60 million] and the Company incurred a Net Loss of Baht 2,425.78 million [2014: Baht 80.22 million]. During 2015, the Company performed impairment reviews in respect of the vessels expected to be sold in 2016 and recognised an impairment loss of Baht 840.77 million, which is included in Net Loss, based on fair value (net of direct selling expenses). 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 Shareholders' Equity of the Company is Baht 16,486.17 million, after the Company increased its equity

share capital in June 2015 through a rights offering [2014: Baht 15,283.85 million] and the Total Assets of the Company have increased during the year to Baht 32,457.82 million [2014: Baht 27,908.53 million] mainly due to the delivery of 4 Ships and cash received from increase in equity share capital in 2015. It is also to be noted that Total Assets in Thai Baht (Reporting Currency) being restated from U.S. Dollars (Functional Currency) was marginally higher due to depreciation of the Thai Baht against the U.S Dollar as at the end of year 2015 as compared that at the end of year 2014.

During the year, the Company incurred Baht 2,398.75 million [2014: Baht 82.31 million] as Net Loss before Exchange loss of Baht 25.37 million [2014: Exchange Gain of Baht 4.33 million] and Income Tax of Baht 1.66 million [2014: Baht 2.24 million]. In terms of the Earnings, the Company's vessels achieved an average time-charter equivalent earnings of USD 6,266 per day per vessel as compared to USD 8,096 per day per vessel for year 2014. The Net Vessel Operating Income (net of voyage disbursements and bunker consumption) in absolute terms was lower than that of the previous year, mainly due to the lower average time-charter equivalent earnings per day per vessel in year 2015. Absolute vessel running expenses (Opex), also increased by about 14%, mainly due to an increase in average number of vessels operated in 2015 (45 vessels) as compared to 2014 (42 vessels). Average vessel running cost per day per vessel (Average Opex per Day) during the year was marginally lower as compared to 2014. The technical downtime was an average of 10.36 days per vessel, which is very good considering the average age of the fleet of about 10 years in 2015. In 2015, the Company sold 3 vessels and received Baht 123.50 million, and recorded Loss on sale of vessels of Baht 279.03 million.

We conducted an "in-house" exercise again this year to determine Total Return to Shareholders, which was calculated for the 22 years that we have been operating as a listed entity. Based on the closing share price as on Monday the 16th September 2015 of Baht 7.25 per share (we started trading on the SET on the 16th September 1993) and assuming you had subscribed at the IPO, then, at the end of 22 years, you would have 10.29 times your initial investment. This return does not assume any re-investment of the dividends into shares or any interest on the dividends received.

FLEET REJUVENATION:

At the start of 2016, our fleet had 45 ships in the water (4 Ultras, 9 Supras and 32 Handy sizes) with an aggregate capacity of 1,628,398 DWT. This worked out to an average 36,187 DWT per ship, and an average age of about 9.8 years. We sold 3 older ships during 2015 and plan to dispose of another 12 older ships in 2016/2017 whilst 12 ships more are due for delivery in 2016. However, we expect that only 5 newbuilds (from the 12 due to be delivered by the end of 2016) would most probably be delivered, which will take our fleet to 38 ships in the water with an average age of just 7.1 years and an average size of 43,332 DWT by the end of 2017.

In a highly capital intensive business with very high leverage characterized by unpredictable and wildly swinging cycles, the timing of the purchase of ships is possibly the single most important decision that has to be made.

HIGHLIGHTS OF 2015:

The dry bulk market felt like it had a rude awakening during 2015 with the BDI collapsing to several new all time lows towards the end of the year. As a result most shipping companies found their share values tanking to almost all time lows. The year was characterized by Brazil steadily gaining lost ground over its arch rivals the Australian iron ore exporters. Of the approximately 953.37 MMT of iron ore imported into China during 2015, Australia supplied almost 607.64 MMT (annual increase of 59.18 MMT over the 548.46 MMT in 2014) with Brazil supplying 191.76 MMT (annual increase of 20.72 MMT over the 171.04 MMT in 2014). Despite the ton-mile impact of the increase in iron ore shipments from Brazil, the BDI plunged to fresh all time lows towards the end of the year. 2015 also felt the complete and utter absence of any form of traditional seasonality with the summer months producing the high points for the BDI.

The Supply Side numbers are finally showing light at the end of the proverbial tunnel. A total of 720 dry bulk ships or 50.17 MDWT entered the supply side during 2015. At the same time, owners have recycled as many ships as possible. Scrapping this year has come very close to 2012's stellar 35.97 MDWT with 97 Capes,

50 Panamax, 53 Ultras, 68 Supras, 88 Handymaxes and 113 Handy sizes scrapped, equivalent to 32.09 MDWT. This has resulted in the global dry bulk fleet strength, at the start of 2016, reaching 788.42 MDWT. 2016 and 2017 have 92.96/25.31 MDWT of brand new ships scheduled for delivery. If we assume annual scrapping of 36 MDWT (it was 32.09 for 2015) and apply a 45% slippage (it was 46.03% in 2015) in expected annual deliveries, 2016 ends with a world fleet of 803.55 MDWT for a growth rate of just 1.92% over the year. Under the same twin assumptions, 2017 ends with 804.48 MDWT for a growth rate of just 0.12% over the end-year total of 2016. The tsunami of newbuilding deliveries has finally come to an end!

The effect of the **Global Financial Crisis** is finally dissipating with the major economies starting on an upward economic growth pattern. As highlighted in earlier parts of this report, the **USA** has taken the decisive step of raising interest rates as the Federal Reserve feels confident that the US economy is well enough to stand on its own two feet.

The largest economies within the **EU** block are exhibiting mixed economic growth rates. As a result the EU Central Bank has continued with its QE program. This has resulted in the Euro falling sharply versus the USD and there is talk that the Euro could head to parity or below. This combination of QE and a falling currency could be the ingredients that finally spark the moribund EU economy into life. The EU is the second largest economy in the world, just a bit smaller than the massive US economy, and an extremely large exporter. Positive growth rates in the EU block would have a substantial impact on the dry bulk markets with large quantities of raw materials being shipped in and semi-finished/finished goods being shipped out.

Japan, the 'sick man' of the OECD has had mixed success in managing their economy. With the yen depreciating from 75 to about 120/125 to the USD acting as a 'get out of jail free' card, most Japanese corporate have been making record profits, which will be ploughed back into capital assets not just in Japan but including other countries where they have manufacturing units. This should have a multiplier effect with even greater demand for dry bulk commodities to feed the ever growing and hungry manufacturing facilities at Japanese units all over the world. Coal imports into Japan have increased as a result of the Japanese population's distaste for all things Nuclear following the Fukushima reactor melt-down post the Tsunami in March 2011.

India, the country that always flatters to deceive, may yet prove its support for the Dry Bulk markets, under its new market-oriented government, as more and more coal fired port based Power Plants come on stream. India's coal imports rose 2.61% to 223.99 MMT during 2015 as power producers bought more due to low prices and a domestic shortage.

China has struggled with GDP growth figures decreasing quarterly to average 6.9% for 2015. However, China's economy over the next 5 years is expected to grow at not less than 6.5% per annum. China's Iron Ore imports were 953.37 MMT in 2015 or 2.17% higher than the 933.11 MMT in 2014. Future import figures are contingent on import pricing parity versus domestic production and transportation costs. Provisional Chinese steel production for 2015 reached a figure of about 800.53 MMT or about 1.57% lower than the phenomenal figure of 813.30 MMT in 2014. China imported 204.18 MMT of coal in 2015 which was 30% lower than the 291.63 MMT imported in 2014. Coal imports are expected to shrink but are contingent on import pricing parity versus domestic coal production/transportation costs. In a country that currently produces and consumes some 3,900 MMT of Coal per annum even a small change in China's coal imports could have a dramatic impact on the Dry Bulk freight markets.

The BDI average for 2015 was 719 points the second lowest average in BDI history, just 4 points above the lowest levels ever reached in 1986. To give this some perspective, the long term average for the BDI (1985 – 2003) prior to the recent Bull Run was 1,358 points; including the Bull Run period (1985 – 2010) was 2,133 points; and during the Bull Run (2004 – 2010) was 4,265 points.

The Time Charter Equivalent (TCE) earnings of our Fleet during 2015 averaged USD 6,266 per day per ship. In terms of daily average Operating Expenses (Opex), we were marginally higher than our target of USD 4,600 per day per ship reaching a figure of USD 4,652 per day per ship.

Market Segmentation/Benchmarking: During 2015, the Baltic Handy Size Index averaged 366 points derived from the average Time Charter (TC) rate of USD 5,381. Compared to that, our Handies earned USD

6,184 outperforming the BHSI TC rate by 14.92%. Further, the Baltic Supramax Index (BSI) averaged 666 points derived from the average TC rate of USD 6,966. Compared to that, our Supramaxes earned USD 6,577, underperforming the BSI TC rate by 5.58%.

THE INDUSTRY OUTLOOK:

A more 'normal' supply of new ships is expected for the next few years.

The Cape sector (90,000+ DWT: 1,931 ships of 337.28 MDWT at the start of 2016): 249 ships of 49.21 MDWT or 14.6% of the existing DWT are scheduled for delivery up to end of 2019. In this sector, 215 ships of 41.46 MDWT or 12.3% will be over 20 years of age by end of 2019 and some or all of them are likely to be scrapped during 2016 to 2019.

The Panamax sector (70 – 90,000 DWT: 2,034 ships of 159.13 MDWT at the start of 2016): 320 ships of 26.22 MDWT or 16.5% of the existing DWT are to be delivered up to the end of 2019. In this sector, 285 ships of 20.95 MDWT or 13.3% of the fleet will be over 20 years of age by end of 2019, and some or all of them are likely to be scrapped during 2016 to 2019.

The Ultramax sector (60 – 70,000 DWT: 542 ships of 34.52 MDWT at the start of 2016): 477 ships of 29.98 MDWT or 86.8% of the existing DWT are scheduled for delivery up to the end of 2019. In this sector, 110 ships of 7.46 MDWT or 21.6% will be over 20 years of age by end of 2019, and some or all of them are likely to be scrapped during 2016 to 2019.

The Supramax sector (40 – 60,000 DWT: 2,765 ships of 145.89 MDWT at the start of 2016): 118 ships of 6.27 MDWT or 4.3% of the existing DWT are scheduled for delivery up to the end of 2019. In this sector, 459 ships of 20.86 MDWT or 14.3% will be over 20 years of age by end of 2019, and some or all of them are likely to be scrapped during 2016 to 2019.

The Handymax sector (30 – 40,000 DWT: 1,658 ships of 57.55 MDWT at the start of 2016): 371 ships of 13.74 MDWT or 23.9% of the existing DWT are scheduled for delivery up to the end of 2019. In this sector, 160 ships of 5.64 MDWT or 9.8 % will be over 20 years of age by end of 2019, and some or all of them are likely to be scrapped during 2016 to 2019.

The Small Handy sector (10 – 30,000 DWT: 2,720 ships of 54.15 MDWT at the start of 2016): 130 ships of 2.11 MDWT or 3.9% of the existing DWT are scheduled for delivery up to the end of 2019. In this sector, 876 ships of 18.56 MDWT or 34.3 % will be over 20 years of age by 2019, and some or all of them are likely to be scrapped during 2016 to 2019.

When reading the above numbers please keep in mind that Slippage was 46.03% in 2015 and averaged about 35% over the recent past and fluctuates inversely with the BDI and availability of finance.

Our **Competitive Position** based on our existing 46 ships-in-the-water (as of date) plus the 4 ships on order expected to be delivered in the rest of this year 2016, makes us one of the larger players in the market. With the ownership structure being extremely fragmented, we are recognized as an established brand name with clients wanting to do business with us first before they take their custom to any of the other smaller, and potentially weaker, players.

Additionally, our plan to rejuvenate our fleet with younger, larger, better geared and more economical vessels from the market at historically low levels will enhance our competitive position for years to come.

THE ISSUES FACING OUR INDUSTRY:

Barring a pleasant surprise, it is clear that **dry cargo shipping companies will need to raise cash in 2016**, preferably in the form of equity. Will capital markets be there for them? Will controlling shareholders (including private equity firms) shore up their investments? Conservation of capital and prudence will be the operative words to avoid another round of bankruptcies. Only one thing is sure; dry cargo shipping companies will have to be recapitalized, one way or another. (Lloyd's List)

Most Dry Bulk shipping companies, especially the smaller and non-listed ones, will simply give up as they will not be able to manage against such overwhelming odds. The survivors, however, will be those companies that are able to:

- Cut operational costs to the very bone without compromising safety.
- Sell non-core or older assets and raise cash.
- Call in more funds from their shareholders.
- Raise funds from alternate sources like bonds, leases etcetera as bank funding may not be available.

At PSL we have already raised about USD 65 million by way of Equity from our Shareholders by doing a Rights Issue in 2015. We have further raised approximately USD 100 million in the form of 5 year maturity, non-amortizing, bullet-repayment, unsecured bonds. We have been selling our older ships (3 ships sold in 2015) and will continue and complete that process (another 12 older ships to go) before the end of 2017. And we continue to be one of, if not, the lowest cost operator in the world in the geared ship segment (Handy to Ultras).

Operating Costs of our Company continued steady in 2015. Most components have remained at their previous levels. Crew wages however were revised upwards and are expected to increase further in the years to come for us as well as the Industry. The requirement for experienced senior personnel continues to remain a serious issue. Technological advancements on board modern ships both in navigation systems and machinery operations demand highly trained officers which only serves to exacerbate the situation. Insurance costs were under control, because of favorable claims record of the Company's fleet and also because the insurers are financially strong. In particular, the total free reserves of the Protection & Indemnity ("P&I") insurers ('P&I Clubs') belonging to the International Group of P&I Clubs is fast approaching US\$ 5 billion; many of them are also witnessing low levels of claims. This has enabled the Clubs to be supportive of their shipowner members in these times of depressed freight-market.

For all the reasons cited above, our average operating costs per day per ship for 2015 was marginally lower than in the previous year; whilst we do not have figures for the industry norm, we expect we would have done better than others based on past experience.

International Maritime Organization (IMO) conventions are constantly updated to match demands for enhanced steps to protect the environment.

2015 saw a further drop in Fuel prices but a shift of focus to the use of ultra low sulphur fuel to comply with new onerous regulations for the protection of the environment.

Among several other requirements, engine exhaust emission standards are also controlled by the MARPOL regulations. Caribbean Emission Control Area (ECA) became mandatory from 01 January 2014. The emission standards applicable will be the same as those for the North American, North sea and Baltic ECA, i.e. vessels were allowed to use only Low Sulphur Fuel Oil (LSFO) with maximum 1% sulphur content during the first phase from January 2014 until January 2015. The second phase began in January 2015, when vessels in all ECAs must use fuel with a maximum sulphur content of 0.1%. Due to non availability of suitable fuel worldwide, ships will need to burn Low Sulphur Marine Gas oil (MGO) which is much more expensive than heavy fuel oil being used now. Use of MGO in Main Engine is also a very big challenge technically as engines and fuel oil systems are not designed for its use on existing vessels. Technological challenges of the future will include operation of dual fuel engines (LNG/Fuel oil), as emission control laws become more strict. To deal with the sulphur content limits we have focused mainly on the new vessels. These vessels are fitted with 'chiller units' which serve to cool and thereby increase the viscosity of the low sulphur (0.1% max) gas oils being used by the engines in the ECA regions. Further, before the global cap of 0.5% Sulphur content is implemented for the use of marine fuels, we intend to deal with SOx emission limits by installing Exhaust Gas Cleaning Scrubbers on these new vessels.

More countries are insisting on stringent ballast water management practices on board ships. Ballast water management Convention will enter into force 12 months after ratification by 30 States representing 35% of world

merchant shipping tonnage. Ballast water on board need to be treated to remove micro organism and mud etc to achieve minimum standards specified by IMO. Installation schedule for Ballast water treatment system applicable to our existing vessels have been relaxed recently. As per amended schedule, vessels are required to comply only at the time of first renewal survey of the International oil pollution prevention certificate (IOPP) following the date of entry into force of the convention. As of now the convention has attained ratification by countries owning 34.56% tonnage, just under the 35% level required to bring the convention into force. It is expected that ratification status of this convention will be achieved during the year 2016. However the US environmental protection agency (EPA) has stipulated a slightly different schedule for compliance in the case of new building vessels and existing vessels. They are also considering further delayed implementation by granting extensions on the basis that they have not fully approved any treatment plant until now. All new building vessels of the company (keels laid after 1st Dec 2013) are being equipped with ballast water treatment plants in accordance with US EPA requirement. However until now, no treatment plant has received full approval of USCG. Presently USCG is accepting them as alternate management system (AMS) until approval is obtained. As a result of initiatives from the International Labor Organization (ILO), working and living conditions of crewmembers on board are receiving increased importance. In order to formalize this and ensure uniform compliance, (ILO) has adopted the Maritime Labour Convention 2006 (MLC 2006). A Maritime Labour Certificate (MLC) and a Declaration of Maritime Labour Compliance (DMLC) will be required on board to ensure compliance with the Convention for all ships above 500 tons in international trade. These certificates are to be obtained from the Flag state and their recognized organizations after thorough verification and surveys on board each vessel. The MLC 2006 has attained the required number of member state ratifications in August 2012. All ships were required to meet the compliance requirement and have valid certificate for compliance with MLC convention before 20 August 2013. Many flag states, including Thailand, have not fully complied with the MLC requirements. Thai flagged vessels operated by the Company have obtained a Statement of Compliance with the MLC 2006 after inspections and verification by the flag recognized organization. However, such The 'Statement of Compliance' carried by Thai flag vessels may not be acceptable in countries that have ratified the convention. This may cause uncertainty in smooth trading of Thai flagged vessel worldwide. The Company is in discussion with the Thai Government authorities to address this issue at the earliest.

Singapore has ratified the MLC convention. Hence the Company's vessels flying the Singapore flag vessels are fully compliant with the MLC requirements.

Focus on the environment is becoming even more important. It is no longer just fashionable to say we are "Going Green"; organizations world-over are being pushed by their stakeholders to become more environment-conscious, guided by compliance with the newer regulations. The recent Paris agreement on climate changes and Green House Gas emissions did not make specific reference to the maritime industry. However, it is expected that the IMO along with the ICS will take a pro-active role to put in place regulations which will apply to shipping on a global scale. One of these is likely to be the mandatory reporting of CO2 emissions (measured in grammes/tonne-mile) on voyages, similar to the European Union MRV rules (Monitoring, Reporting, Verification of CO2 emissions) – which will be implemented by 2018 for all vessels operating in the EU region. Global shipping is committed to reducing the CO2 emission by about 20% by 2020 as compared to the values in 2005. These regulations will in turn phase out several older, less efficient vessels. We have taken the initiative to prepare in advance for these regulations by monitoring and data collection of CO2 emissions on all vessels in the fleet. The vessels are also operated always with clean hulls (by using efficient anti fouling paints and also by hull cleaning when necessary) as this increases efficiency (thereby reducing carbon emission). More importantly, the new acquisitions for the fleet have been selected primarily on their 'Eco' operation characteristics. 'Eco' operation will be possible with larger cargo hauls on vessels with very fuel efficient engines, and optimised use of waste heat from the engines. We have aimed to achieve this with new vessels having fuel efficient engines and reduced waste heat (even the exhaust gases from the auxiliary engines is diverted through the boiler to use the available heat). The new vessels with larger cargo carrying capacity are expected to operate with low CO2 emissions especially (as world trade improves) with more regular fully laden voyages. Besides, there are specific IMO Conventions and regulations mandated by individual countries, to control the emission of Sulphur dioxide, Nitrogen oxides, Halons and CFCs from our ships which contribute to Green House Gases. These

regulations are expected to become more stringent in the coming years. In addition, certain states in the USA are likely to require ships calling their ports to use shore power which is greener than the power generated on board ships. 'Bonnet' technology is another concept, presently available only in certain ports, which can receive the exhaust gas from ships for treatment before discharging into the atmosphere. These measures are still evolving and there will likely be operational problems; besides, these will most likely result in additional expenses for the ship owners/operators. To formalize the Company's commitment towards preserving and conserving environment and to reduce carbon footprint, the Company has obtained ISO 14001:2004 certification from Class NK of Japan. The ISO 14001:2004 provides a framework for a holistic and strategic approach to the Company's environmental policy, plans and actions, and will demonstrate that the Company is an environmentally responsible organization. PSL vessels have implemented "Ship Energy Efficiency Management Plan" (SEEMP) required by MARPOL Annex VI regulations from January 2013. Vessels have also fully implemented the more stringent garbage disposal regulations required by MARPOL Annex V which came into force from January 2013.

Maritime Training Center: As previously reported, the Company set up a full-fledged Maritime Training Center at its Head Office in Bangkok in March 2008. The PSL Training Center includes a state-of-the-art Bridge Navigation Simulator for training of maritime personnel. Vessel-type specific Bridge Navigation Simulator recreates the actual maneuvering characteristics of the ship and its bridge controls as it enters a specific major port and provides ideal conditions in which to train Officers in hands-on practices for effective bridge teamwork and competence in ship-handling and navigation. This is a significant step taken by the Company to train and equip its Officers and Crew to take better care of themselves and their ships, all with a view to ensuring safety of the crew, cargo and the ship by preventing accidents, thus also helping to preserve the environment. In the current scenario of a worldwide shortage of trained personnel, and the rapid promotions that is a natural result of such a shortage, this is a major step to provide specialized training that would otherwise have been acquired 'on the job'.

Maritime Resource Management (MRM): MRM is a training program for ship's officers, engineers, pilots and shore-based personnel. The aim is to increase knowledge about human capabilities and limitations and to reinforce positive attitudes towards safety and teamwork. MRM is generally accepted to be one of the most efficient means of improving crew cooperation and minimizing the risk of accidents caused by human errors as well as failures in effective teamwork and resource management. The MRM course is authorized and licensed by The Swedish Club, a member of the International Group of P&I Clubs, and one of the few insurers providing Hull as well as P&I insurance covers. Apart from the MRM courses, the PSL Training Center has classrooms, Video-Based Training (VBT) and Computer based training (CBT) for the ship staff. Courses include MRM, Bridge Team Management (BTM), Bridge Team Competency (BTC), Officer Of the Watch (OOW), Chief Mate Course (CMC), Command Course (Command), Shipboard Safety Course (SSC), Maritime Professional Briefing (MPB), Maritime English training (divided into 5 course levels) programs for safety and efficient ship operations of deck and engine departments. The Training Center also conducts lectures on VTS (Vessel Traffic Separation) & SMCP (Standard Marine Communication Phrases) within the BTM and MRM courses, with the aim of developing our officers' communication skills in communicating with a VTS officer using standard maritime phrases in various simulations. The courses are upgraded regularly and provide a solid foundation to the Company's training activities and enable our Officers and Engineers to keep abreast of the latest developments in ship operations.

The PSL Training Center liaises very closely with the Technical Department in order to identify the training needs of officers and crew and special training courses are designed to suit them. Accordingly, certain new training courses were introduced for Engineer officers: MAN Diesel Engine and Turbo "ME course", "Engine Room Management and Competency Enhancement" - "EMC" for Senior Engineers, and "Engineer on Watch" - "EOW" for Junior Engineers. Future plans include courses on "stern tube sealing systems" and "ships' cargo gears with special focus on hydraulic", and "Shipboard Safety for Ratings" (SSR) for crew. The PSL Training Center has certain basic (but important) equipment such as a turbocharger and a purifier for practical training to accompany class-room theoretical courses. These will augment the Bridge Simulator (which is essentially for Deck Officers) and enable the Training Centre to address the requirements of both Deck and Engine officers & crew. Considering the fact that the new vessels acquired (and on order) are fitted with more fuel efficient modern engines using advanced electronic controls and technology, the Company's senior engineers, Electrical

Officers and shore-based Technical Superintendents are put through the engine-maker's specific training courses designed to better understand the operation and for effective trouble-shooting. Junior engineers are in turn trained at the Company's Training Center and by trickle-down method on board ships.

The use of "Electronic Chart Display and Information System" (ECDIS) has become mandatory for new ships built from July 2013. Many new vessels are already equipped with ECDIS. For existing vessels, ECDIS will become mandatory from 2018. ECDIS requires special generic training as well as specific training for each manufacturer's equipment. Navigating officers using ECDIS need to be suitably trained and certified before they can use it as a primary means for navigation.

With every other technical advance in navigation, such as radar, AIS and GPS, officers have gained an additional navigational aid. With mandatory ECDIS, on the other hand, a navigational aid will be taken away from them – the paper chart. ECDIS has to work and officers have to know how to work it. Any operational error could have disastrous consequence.

There are already conceptual designs on small crafts that try to eliminate or minimize the human effort onboard ships. Some experts in automation visualize that in the next twenty years or so, ships may be totally un-manned with automated equipment onboard, which can be monitored and controlled from shore based stations. Although this concept seems unrealistic at present, if and when such development takes place, it will drastically change the present model of shipping operations.

PSL is committed to ensure that navigating officers working on board vessels fitted with ECDIS are fully conversant with the equipment prior joining the vessel. Officers are given generic ECDIS training at approved institutes. They are also required to undergo maker specific familiarization training by the ECDIS manufacturer. Realizing the fact that certification alone does not make an officer fully familiar and confident to use ECDIS, PSL Training Centre has equipped itself and developed ECDIS training course. After attending approved ECDIS training course, officers are required to undergo further ECDIS familiarization course at our in-house facility.

Cyber Risks: Information technology has changed our world like never before, and has fuelled unprecedented productivity and efficiency, in business, government and our personal lives. Shipping is no exception, but lags behind other land-based industries in adopting Information and Communication Technology ("ICT") in ship operations and management.

In the shipping industry, ICT is being progressively integrated into operational and business processes resulting in considerable improvements in safety, efficiency and profitability. Shipping companies now use sophisticated and personalized software. Besides communications and navigation, it enables shipowners to place sensors on key equipment onboard ships to optimize operations, by improving efficiency and cutting down wastage, by closely monitoring fuel usage, speed, and other factors in real time.

E-navigation, an IMO-led initiative, will further accelerate shipping's embrace of ICT and the 'internet of things' by enabling sharing of information relating to navigation, routing, weather, tides, cargo loading, carriage, stowage and discharging in real time between ships and between ship and the shore office.

In the absence of appropriate protection and loss prevention measures, the increased reliance on technology for even the most basic operations can leave the industry exposed to 'cyber-attack', i.e. an offensive manoeuvre that targets IT systems, computer networks and personal computer devices in order to compromise, destroy or access company and ship systems and data.

Cyber security threats in present times have increased in variety, frequency and sophistication — from a Trojan USB stick that introduces malware aimed at acquiring sensitive commercial information or an email with detailed vessel itineraries sent to a large group of unknown people or the full-scale subverting of a company's IT system or the potential compromising of Automatic Identification System (AIS) and Electronic Chart Display and Information System (ECDIS) systems on board ships. The number of potential risk scenarios is significant and keeps growing. Fraudsters employ whatever hacking technology works, often tailored to specific targets of opportunity.

Ships nowadays regularly use Global Navigation Satellite System (GNSS) and ECDIS combined with Automatic Information System (AIS) transponders. An attack on Global Positioning Satellites (GPS) systems could threaten a vessel not knowing their precise location at sea or while manoeuvring in port. Recently the USCG has issued a Safety Alert about disruptions in the GPS system due to loss of signal and how some ships while navigating within congested waters had to rely on alternate means of position fixing until the signal was resumed. These types of events highlight the potential detrimental impact to navigation caused by GPS interference or jamming and the importance in understanding how a vessel's equipment could be impacted. The heavy reliance on GNSS navigation and its vulnerability to malicious attack by cyber criminals has brought to fore the importance of re-learning celestial navigation as a back-up measure for mariners.

At PSL we have reviewed and found that:

- Our present systems incorporated in Office environment and on board ships are “robust” enough and we have not come across any case of Cyber Crime as of date.
- We have a system of Firewall checks in Office and have permitted limited white-listed websites access on-board ships through Inmarsat Satellite internet system. That minimises, if not completely eliminates, the risk due to Cyber-attacks onboard ships.
- With regard to the most discussed topic on ship cyber-attack related references to AIS, ECDIS and Vessel Data Recorders (VDR) which are integrated as part of the Integrated Bridge System (IBS), our system setup on-board ensures that no data from these equipment is available or transmitted directly online as we do not allow a 24 hour online option for our fleet.

Nevertheless, in order to reduce vulnerability to both cyber accidents and cyber-attacks, and to ensure safe and efficient operations of our fleet, we are reviewing and addressing cyber security:

- at all levels of the company – from senior management ashore to the crew on-board, as an inherent part of the safety and security culture onboard each vessel;
- in company policies – by considering how to align cyber risks with the existing security and safety risk management requirements contained in the ISPS and ISM Codes; and
- in relevant onboard procedures – by including new related requirements in in-house training programs, day to day operations of the vessel and maintenance of critical cyber systems, if any, that may exist onboard.

The scourge of piracy, continues to be a concern notwithstanding the fact that no pirate attacks were reported in the three years 2013-15 in the Somali basin as opposed to 35 incidents in the previous year. There also was no confirmed reports of suspicious activity in the Horn of Africa High Risk Area during the year under review.

The presence of international Navies and their patrolling the high risk areas, and the use of armed security guards on board, have succeeded in making piracy for the Somalis less lucrative.

Apart from the Somali pirates and their attacks in the Arabian Sea/Indian Ocean, Nigeria and its offshore oil installations in the Gulf of Guinea continues to be vulnerable to pirate attacks, with incidents being reported at regular intervals. The primary difference between the two is that Nigeria has an elected Government with clear policies to deter piracy in its waters and that helps localize the menace and also control/handle it.

Attacks in the South East Asia region appeared on the increase, targeted vessels usually smaller oil tankers with their cargo as the primary aim of the pirates. PSL has taken an active role in reporting to the IFC (Information Fusion Centre) a centre for monitoring the movement of all vessels in South East Asian waters. The IFC is based in the Singapore Naval Base and relays information to all regional Marine Coastguard units and has been effective in tackling piracy in the region.

JOINT VENTURES:

The status of our joint-venture investments is as follows:

- Southern LPG Pvt Ltd. (SLPG): The process of closing down this entity is almost complete now. During the year 2015, the Company received INR 9.40 million, equivalent to USD 0.14 million (or approximately Baht 5.12 million) as the Company's share of Liquidation Proceeds which has been recorded as gain on sale of current investment.
- International Seaports (Haldia) Pvt Ltd: This is now our only operational investment in Ports in the Haldia Dock Complex (about 22.4% of the total capital) under our port projects investments. This JV continues to operate very well and we have to-date received total dividends of USD 3.02 million, which works out to about 148% of our original Investment made in years 2002-2003. We find strategic value in this investment and hope to increase our shareholding at an opportune time in the future.

IN CONCLUSION:

Demand: The environment for 2016 is going to be characterized by extreme volatility. Downside risks for 2016 will include, amongst others, Geopolitical tensions; China economically slowing down; BRICS, other than India, economically slowing down; The Euro zone economically stagnating at best; Protectionism increasing; Surplus vessel supply not being absorbed fast enough; and excess Shipyard capacity holding the promise of more ships to come. But it is not all gloom and doom. The upside potential for 2016 consists of, amongst others, the 'One-Belt-One-Road' that China proposes to build a land bridge linking some 30 to 60 countries from Asia/China to Europe spanning 10 years and expected to cost USD 10 trillion; Slower ordering at shipyards due to poor markets; Higher slippage rates due to poor markets; Higher scrapping rates due to poor markets; The US economy continuing to outperform expectations; Low oil prices leading to greater World economic growth rates; Low oil prices helping to reduce commodity prices resulting in more cargoes being shipped; and weaker currencies in Euro zone and Japan helping them to export their economies out of trouble. The ban imposed on Nickel and Alumina ores from Indonesia which robbed 2014 of a lot of cargoes has finally turned positive with China being forced to source these same cargoes from countries that are much further away thereby increasing the ton-mile demand. Time will tell if 2016 will end up with a pleasant surprise or be the source of more pain for the hapless dry bulk ship owners.

Supply: Under the current freight market conditions, approximately 14.58% (114.93 MDWT) of the existing world fleet that would be over 20 years of age during 2016 to end of 2019 should head for the breakers yards.

With respect to the approximately 16.18% by DWT of new ships (127.53 MDWT) scheduled to be delivered to the end of 2019, the lack of funding coupled with delays in deliveries at ship yards would subject them to a very high degree of slippage (it was 46.03% in 2015), higher than the average of 35% over the 2010 to 2014 period.

Financing: Just two years after the "strategic" entry of the Private Equity Investor into the shipping space in 2013 when shipping companies raised USD 12 billion through the private placement/equity route which was a whopping 3 times over that of year 2012, and robust interest until the 1st quarter of 2014, the PE Investor all but disappeared from the market, A mere USD 1 billion was raised from this source and with a drop in funds raised through the Bond market from USD 11 billion to just a shade over USD 6 billion (the lowest ever after year 2008), it was back to traditional sources. While the main traditional source of bank loans was not exactly freely available, it still emerged as the number one source of financing for Shipping in 2015. Last year (2014), bank loans provided over 70 percent of the Industry's financing, and this year the figure has gone up to over 80 percent! This is once again the highest ever in absolute terms as well as in percentage terms since 2008 (Source: Marine Money).

What does 2016 then have in store for Ship Financing is difficult to tell. PE Investors are no longer there and the bond markets are not showing any great signs right now of becoming an attractive source of financing for the Industry and the equity Investor is sitting on the sidelines perhaps expecting more pain to come. So it's going to be Bank Loans once again to the rescue.....or so the Ship-owner believes or rather likes to believe. However, it may come as a nasty surprise that Banks are now relooking at their "pretend and extend" policy

they have followed since 2008 and are seriously considering “pulling the plug” on their doubtful loans. We feel that many players in the Industry, particularly those who are not able to bolster their liquidity in the short term through their shareholders or other sources like non-core asset sales, would now find it very difficult for getting their banks to play along. Moreover, any new financing would be at very conservative levels of both, pricing as well as “loan-to-value” and gone are the days of single or even double digit margins and 90% loan-to-value lending. Banks on their part of course will struggle to get the “right” safe enough deals that they would want to do and all in all, this is the perfect recipe of a very tough and difficult financing environment for the Industry. Do not be surprised to see more bankruptcies and action brought on by the lending Banks on borrowers who have failed to show performance in terms of raising additional funds to bolster their liquidity to at least partially service their Debt since their shipping revenues are probably not going to be able to do that this year. For the Banks’ sake however, we hope that they are not too late in their action. .

Concluding Remark: Considering all the above, we are taking advantage of the opportunities that are present in the market. We hope to deliver to all our stakeholders the promise of this potential. This will in no small measure be due to the very dedicated and hardworking professionals that make up the office, as well as, the floating staff at PSL.

**For and on behalf of the Board of Directors of
Precious Shipping Public Company Limited**



Mr. Khalid Moinuddin Hashim
Managing Director



Mr. Khushroo Kali Wadia
Executive Director

8th February 2016