Ref.: 2016-008

8 February 2016

To : The President of the Stock Exchange of Thailand

Subject : The 4th Quarter of 2015 Management Discussion and Analysis (MD&A)

Our Key Performance Indicators:

The results, audited by EY Office Ltd., show you the latest financial position of the Company. The earnings per day per ship during Q4 came in at USD 5,955, taking the annual figure to USD 6,266. Please take a look at the Market Segmentation report that shows you the relative performance of the PSL fleet's earnings per day per ship compared to the Index ships. In this quarter, daily operating costs were USD 4,718, which has taken the annual costs to USD 4,652 per day per ship, or marginally higher than our target of USD 4,600 for the year but still lower than the actual of the previous year. The EBITDA was USD 1.76 million during Q4 and USD 13.97 million for the year. In Q4 we made a net loss of USD 42.16 million. The earnings per share (eps) in Thai Baht stood at Baht (0.97) for this quarter and Baht (1.82) for the year. To put our annual loss for 2015 of USD 69.41 million into perspective, please keep in mind that the average BDI for this year at 719 was just 4 points higher than the lowest in BDI history. Please note that during 2015, the Company performed impairment reviews in respect of the vessels expected to be sold in 2016 and recognised an impairment loss of USD 23.45 million based on fair value (net of direct selling expenses), which is included in the net loss in Q4 and the net loss for 2015. 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	2015	2014	Q4 2015	Q4 2014
Highest Earnings per day per ship in USD	15,000	19,702	15,000	15,000
Average Earnings per day per ship in USD	6,266	8,096	5,955	8,032
Operating cost per day per ship in USD	4,652	4,695	4,718	4,824
EBITDA in million USD	13.97	41.61	1.76	11.05
Net Profit/(Loss) in million USD before Income Tax	(69.36)	(2.47)	(42.15)	(0.46)
Net Profit/(Loss) in million USD	(69.41)	(2.54)	(42.16)	(0.63)
Earnings Per Share in Thai Baht	(1.82)	(0.08)	(0.97)	(0.02)

Awards and Accolades: Precious Shipping won the IRMA South East Asia 2015 award for "Best in Sector: Industrials" category in Investor Relations. 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.

The Fleet Rejuvenation Plan has progressed well with 45 ships in the water (including 1 X 38K Handy delivered on 6th January 2016). Another 11 X 64K brand new Ultras (based on un-cancelled Shipbuilding Contracts) are due in the next 12 months. We have sold 3 ships during 2015, 1 ship in February 2016 and plan to sell another 11 older ships during 2016/2017.

Update on disputes with Sainty Marine Shipyard: As of date, 6 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 relevant shipbuilding contracts. Further, there were 3 shipbuilding contracts which have been purportedly cancelled by Sainty Marine, which cancellations have been disputed by us. Arbitration proceedings have been initiated by Sainty Marine for 7 out of the 9 aforementioned cancellations. Therefore, there are 3 remaining un-cancelled Shipbuilding Contracts against which Sainty Marine is supposed to deliver the ships in 2016.

Market Segmentation: During Q4, the Baltic Handy Size Index (BHSI) averaged 322 points derived from the average Time Charter (TC) rate of USD 4,692. Compared to that, our Handies earned USD 6,333 and beat the BHSI TC rate by 34.97%. During Q4, the Baltic Supramax Index (BSI) averaged 553 points derived from the average Time Charter (TC) rate of USD 5,779. Compared to that, our Supramaxes earned USD 4,831 and underperformed the BSI TC rate by 16.4%. Our target has been to outperform both the indexes.

The SET Opportunity Day where PSL will be presenting will be held at the SET building at 1010 hours on Tuesday the 16th February 2016. We hope that many of you will attend this event where the Company will get a chance to thoroughly discuss the 2015 results and the prospects for 2016. 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 second best year in history with a total of 32.09 MDWT of ships being scrapped during 2015 across all sectors in the dry bulk market as compared to 16.72 MDWT in 2014. 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 December are shown in the chart below. As can be seen, our current and forward four year rolling book is currently at the 13% level with a visible revenue stream of USD 167.3 million.

Year	2015	2016	2017	2018	2019
Total Available Days	16,593	17,922	18,250	18,250	18,250
Fixed T/C Days	2,641	2,562	2,555	2,240	2,190
%age Fixed T/C Days	16%	14%	14%	12%	12%
Av. T/C Rate/Day in USD	13,548	13,713	13,713	13,849	13,875
Contract value in million USD	35.8	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:

In our last quarterly news letter we had stated that *"the scrapping rates in Q3 2015 have come off significantly as compared to the FH and as a consequence, the BDI has come off during the month of October. We suspect that the yearend rally, if any, will be tame compared to previous years unless scrapping increases dramatically in Q4. We also suspect that the prospects for the FH of 2016 may not look too good with new supply still coming on stream but scrapping taking a back seat in SH 2015. We will need another big record for scrapped ships during all of 2016 if we are to see balance return with reasonably healthy rates towards the end of 2016."* We could not have been more prescient with the BDI touching a new low of 471 points on the 16th December 2015. Our views and prognosis for the inverse relationship between scrapping and the BDI for 2016 remains unchanged.

Key Supply Side Developments:

Supply Side developments in the world bulker fleet makes for interesting reading. We started 2015 with 770.34 MDWT and have increased to 788.42 MDWT for a 2.35% net fleet growth during 2015. A further 11.79% (92.96 MDWT) is scheduled for delivery in 2016. If we were to apply a slippage factor of 45% (it was actually 46.03% in 2015) to these scheduled deliveries and further assume that scrapping reaches 36 MDWT (it was 32.09 MDWT in 2015) per annum we would be left with a net fleet growth of 1.92% (803.55 MDWT) in 2016 and another 0.12% (804.48 MDWT) in 2017. Net fleet growth is finally heading in the right direction.

Vessel Values: An incredible example of how volatile the bulker market has become is the reported sale of 4 Supras built 2005 to 2008 for region $27m en bloc. The ships were purchased by a Turkish Owner in late 2007 and early 2008 for just under $200m! (Compass)

The 171,000-dwt bulker RZS Fortune (built 1996) has been sold for demolition for $6.2m. The vessel was bought at the peak of the market in November 2007 at a massive $106m. (TradeWinds)

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: 7% in Q1, 7% in Q2, 6.9% in Q3 and 6.8% in Q4 for an annual average of 6.9%. However, despite the macroeconomic numbers, **China's Iron Ore import**, according to preliminary Custom's data, was an astonishing 953.37 MMT in 2015 or about 2.17% higher than the 933.11 MMT in 2014! 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 2015 was about 800.53 MMT or 1.57% less than the phenomenal figure of 813.30 MMT in 2014. **China's Coal imports** totaled 204.18 MMT in 2015 or 30% lower than the 291.63 MMT imported in 2014 losing its title as the largest importer in the world to India where they imported 223.99 MMT in 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 skyrocketed by 19.87% to 112.41 MMT in 2015 compared to the record busting exports of 93.78 MMT in 2014 all of which is carried by geared ships from the Handy to the Ultramax sectors.

The International Energy Agency cut its five-year coal demand forecast for a third year as it said the "**golden age of coal in China seemed over"** amid a slowdown in the world's second-biggest economy. Coal use will rise by 0.8 percent a year through 2020 to 5.8 BMT of coal equivalent, less than the 2.1 percent predicted last year for the following five years, the Paris-based agency said in its Medium-Term Coal Market Report. Half of the increase will come from India and a quarter from Southeast Asia, offsetting declining consumption in the U.S. and Europe, the group said. The fuel's role in total electricity generation is poised to fall for the first time in two decades to 37 percent in 2020 from 41 percent now, the IEA said. The global climate deal in Paris will likely spur increased use of renewables, while an abundance of shale gas means the fuel's decline is inevitable in the U.S., it said. Chinese demand last year fell by 2.9 percent to 3.9 billion tons in its first annual drop since 1999, according to the report. Even though India overtook the U.S. as the second largest user last year and will become the largest importer of thermal coal, the nation is unlikely to replace China as its energy-intensive industry is smaller. (Bloomberg)

China - Peak Coal Production and Consumption: Given the significant efforts being made by the Chinese government in trying to tackle air pollution, which is by now considered a social emergency, the development of renewable energy sources, and the challenges coming from a slowing economy and shift from heavy industry to services, peak coal production and consumption in the country has probably arrived. Nevertheless, seaborne imports will still have (relatively) fair game competing for a shrinking but still huge 3 billion tonnes coal market, against a high cost, inefficient and environmentally-disastrous domestic mining industry. (Banchero Costa)

China's Steel mills — which produce about half of worldwide steel output — are battling against oversupply and sinking prices as local consumption shrinks for the first time in a generation amid a property-led slowdown. If anyone doubted the magnitude of the crisis facing the world's largest steel industry, listening to Zhu Jimin would put them right, fast. Demand is collapsing along with prices, banks are tightening lending and losses are stacking up, according to the deputy head of the China Iron & Steel Association. (Bloomberg)

"China was committed to eliminating surplus steel capacity with 77.8 MMT already shuttered and more closures planned. Overcapacity was a global problem, not just a Chinese problem" said Xi Jinping on his visit to the UK. (Reuters)

China's leaders signaled they will take further steps to support growth, including widening the fiscal deficit and stimulating the housing market, to put a floor under the economy's slowdown. Monetary policy must be more "flexible" and fiscal policy more "forceful" as leaders create "appropriate monetary conditions for structural reforms," according to statements released at the end of the government's Central Economic Work Conference by the official Xinhua News Agency. It said the fiscal deficit ratio should be raised gradually. Officials also pledged assistance for rural residents seeking to buy homes in urban areas and encouraged cheaper residential prices, which would help shrink a glut of unsold properties. The government will promote "consolidation of property developers" and encourage them to change marketing strategies, Xinhua reported. Outdated restrictions on home ownership will be removed, according to the report. The latest round of economic data showed signs the economy is stabilizing after policy makers unleashed several rounds of monetary and fiscal stimulus. (Bloomberg)

China's imports of sugar have been surging this year, with the country importing as much as 3.7 million tonnes in the first 9 months of 2015. This is 55 percent more than in the same period last year. Already last year, China was the largest importer of sugar in the world ahead of the United States and the European Union, accounting for about 10 percent of global volumes. (Banchero Costa)

On 3rd January 2014 Australian **Coal** Prices stood at $84 PMT, a year later it had slipped to $51; whilst **Iron Ore** has endured a calamitous fall from $135 PMT to stand at $39. **BDI** has endured an even sharper comparative fall from 2,036 in January 2014 to stand at a record low of 474!! **So will we see any relief from this dire freight market in 2016?** Until commodities and in particular the **oil price** find a floor, the potential size of the 2016 order-book and overcapacity will continue to haunt the Dry Bulk Market. However any rise in commodity prices could be the precursor to a change in sentiment and direction in our markets. (Howe Robinson Research)

The thermal coal industry's hopes of Indian demand growth helping absorb global oversupply are being dashed by a jump in domestic production from the world's second largest importer. India is looking to more than double its total coal output to 1.5 BMT by the end of this decade, with 500 MMT coming from the private sector. State run Coal India's output grew 32 MMT to 494.2 MMT in the fiscal year 2014/15, the biggest volume rise in its four-decade history. Speaking at the Coaltrans world coal conference in Barcelona, Sabyasachi Mishra, head of minerals sourcing at Tata International, said demand for imported coal would be flat at around 163 MMT per year going forward. (Reuters)

Clarksons estimates **global coal trade** to increase by 2% year on year in 2016 on the back of **increasing Indian import demand**, partly offsetting weaker Chinese intake. Clarksons suggests that global seaborne minor bulk trade will grow by 2% to reach 1.5 BMT next year, which could help freight rates find a bottom in the coming months. (Lloyd's List)

Despite significant growth in absolute volumes, **steel consumption per capita in India** still remains extremely low, indicating huge growth potential. Steel consumption per capita in India is 59 kg per capita, compared to 1,118 kg per capita in Korea, 510 kg per capita in China and 331 kg per capita in the U.S. The Indian government has announced a series of plans to increase spending on construction and infrastructure projects, which are expected to drive steel demand going forward. For example, in the 12th Five Year Plan the government stated their intention to spend USD 1 trillion on infrastructure projects. (Banchero Costa)

Yours Sincerely,

Precious Shipping Public Company Limited

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Khalid Hashim
Managing Director