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## **To the bondholders in:**

**ISIN: NO 001 067557.2 - "3mN+6.75 per cent Western Bulk Senior Unsecured Bond Issue 2013/2017"**

Oslo, 20 November 2015

## **Summons to Bondholders' Meeting**

Nordic Trustee ASA acts as trustee (the "Trustee") for the holders of the Bonds (the "Bondholders") in the above mentioned bond issue with ISIN NO 001 067557.2 (the "Bond Issue") issued by Western Bulk ASA (the "Issuer" or the "Company").

All capitalized terms used herein shall have the meaning assigned to them in the bond agreement dated 17 April 2013 and amended 15 August 2014, made between the Trustee and the Issuer (the "Bond Agreement"), unless otherwise stated herein. References to Clauses and paragraphs are references to Clauses and paragraphs of the Bond Agreement.

*The information in this summons regarding the Issuer and market conditions are provided by the Issuer, and the Bond Trustee expressly disclaims all liability whatsoever related to such information.*

## **1 BACKGROUND**

Following a period with continuously challenging dry bulk market, the Company's revenues have been negatively affected over a long period of time. This has also affected the Company's book equity and cash position. As of 30 September 2015, Western Bulk had an adjusted equity of USD 50.9 million and an adjusted equity ratio of 28.6%. This is close to the financial covenant thresholds as set out in the Bond Agreement of minimum book equity of USD 50 million and a minimum book equity ratio of 25.00%. The Company expects to be in breach with these covenants on or about the next Calculation Date, 31 December 2015.

The Company's business is divided into two business segments; WB Chartering and WB Shipholding. WB Chartering is delivering decent results despite the current market conditions. However, with an average charter-in rate of USD 13,500 per day on the Japanese leases in WB Shipholding, the Shipholding division is facing a negative margin. The Supramax spot rates are currently averaging a TC-equivalent of about USD 7,300/day (year-to-date 30 October 2015). The Company expects low rates to continue for the remainder of 2015 and into 2016.

The Company is however more optimistic with respect to its financial prospects from 2017 and onwards. This is due to the fact that the current downturn in the rates to a large extent is driven by an oversupply of new vessels that have been ordered in previous years, and rates have declined as the net fleet growth has been larger than the demand growth for transportation. The delivery of new vessels currently on order will continue in 2016, and the expected net fleet growth for 2016 is more or less equal to the expected demand growth. Consequently, low rates are expected also for 2016, but from 2017 the delivery of new vessels is expected to decline as very few new orders have been placed during 2015 for delivery in 2017 and onwards. Hence, the market balance is expected to start improving from 2017 unless the demand growth becomes very weak, or significant orders for new vessels are being placed.

The Company is currently working on several arrangements and initiatives to strengthen the balance sheet and reduce its financial obligations going forward:

- The Company is contemplating to raise the NOK equivalent to USD 15 million of new equity, subject to necessary corporate resolutions including approval by the extraordinary general meeting by requisite majority (the “**Equity Issue**”).
- The Company's single largest shareholder, Kistefos AS, has undertaken to guarantee and subscribe for an amount of USD 10 million in the Equity Issue, subject to the Proposal being accepted by the Bondholders’ meeting. This is governed by a separate subscription and guarantee agreement between the Company and Kistefos AS, as further described in the Company’s announcement on 20 November 2015. Under the guarantee agreement, Kistefos AS has also undertaken a lock-up on its shareholding in the Company until completion of the equity transaction and undertaken to vote in favour of the proposal for the equity transaction at the extraordinary general meeting. The implementation of the Proposal shall also be subject to evidence satisfactory to the Trustee that the subscription and guarantee agreement between Kistefos AS and Western Bulk ASA has been executed.
- In WB Shipholding, the Issuer has already obtained agreement with counterparties for some of the Japanese leases giving rate reductions of about USD 1.5 million for 2016 and 1H17 against a similar rate increase paid in the following two years. The Issuer is in or is about to launch discussions with the other lease counterparties with the aim to achieve a further substantial rate reduction for 2016 and 2017. Also for the rest of the Japanese leases, the Issuer expects that a subsequent rate increase for the years following 2017 is needed in order to be able to achieve the targeted rate reductions for 2016 and 2017.
- The Company is also focused on margin improvement and operational cost cutting. During the last year, the following has been done:
  - o Significantly increased contract coverage for WB Chartering to reduce earnings risk.
  - o WB Chartering has seen a sharply improved base margin so far in 2015, and has also successfully achieved rate reductions on some of its chartered-in tonnage for 2016 and 2017.
  - o WB Chartering’s Panamax business unit has been closed.
  - o A more efficient and improved vessel management system has been launched including upgraded routines and policies to work smarter and more efficient.
  - o Strengthened counterpart vetting, approval and monitoring procedures to have even tighter control of counterparty risk in a very challenging market environment.
  - o Headcount has been reduced from 130 to 112 currently and reduced office space in Oslo by 20%.
  - o Cost cutting program for bunker procurement, legal cost, consultancy cost etc.

- Through cost cutting and the weakening of the USD against the NOK, the Issuer's G&A is expected to decline by USD 7.5 million in 2016 compared to 2015.

## 2 PROPOSAL AND RATIONALE

In accordance with Clause 16.2 of the Bond Agreement, the Issuer has approached the Bond Trustee to convene a Bondholders' Meeting in order to obtain the Bondholders' approval to the proposed amendments to the Bond Agreement as described below, pursuant to the authority given to the Bondholders' Meeting under Clause 16.3 of the Bond Agreement.

The Issuer proposes the following (the "Proposal"):

### 2.1 Amend the financial covenants in clause 13.7.1 as follows:

- The Book Equity Ratio is proposed to be reduced to minimum 20% on a permanent basis for the Group (the current threshold is 25%, and is increasing to 30% from April 2016);
- The minimum Book Equity Amount is proposed to be reduced to minimum USD 30 million for the Group on a permanent basis (the current threshold is USD 50 million);
- The minimum Liquidity amount is proposed to be increased from USD 10 million to USD 20 million for the Group. However, the amount shall be reduced if the Company buys back its own Bonds. The minimum Liquidity amount shall be reduced with the corresponding par value amount of the Issuer's Bonds being bought back and based on a NOKUSD FX of 6.06 which is the average FX swap rate that the Company has in place for the principal Bond amount (i.e. if the Company buys back USD 3 million of principal amount Bonds, then the minimum Liquidity amount shall be reduced to USD 17 million). The minimum Liquidity amount shall however never be less than USD 10 million; and
- the Gearing Ratio is proposed to be removed on a permanent basis (currently maximum 3.75x for the Group).

#### *Rationale:*

*By issuing USD 15 million of new equity, equalling approximately 40% of the current market capitalization of the Issuer, Western Bulk will strengthen its balance sheet considerably. The guaranteed amount of USD 10 million from the majority shareholder sends a strong signal in terms of willingness to support the Issuer. This guaranteed amount equals Kistefos' pro rata share of USD 15 million (approx. USD 9.1 million) plus an additional approx. USD 0.9 million (subject to pro-rata allocation principles in accordance with the Norwegian Public Limited Company's act). In addition to the equity injection, the targeted modification on the Japanese leases and operational cost cutting will, if obtained, reduce cash outflow over the next two years significantly.*

*More flexibility on the financial covenants is however needed as the dry bulk market is expected to remain challenging through 2016. It is important for the Issuer's day to day business to avoid noise with respect to funding and covenant situation, and potential repeating covenant breaches are therefore unfortunate. The new covenant levels will allow the Issuer to operate within reasonable limits at the same time as the Bondholders' position is protected. With respects to the Gearing Ratio, the Company proposes to remove this covenant as EBITDA is negative, and expected to be negative throughout the tenor of the Bonds, hence the covenant gives no meaning.*

*To ensure that the Company maintains free liquidity it has agreed to increase the Minimum Liquidity amount from USD 10 million to USD 20 million. The buy-back allowance will encourage the*

*Company to acquire Bonds in the market which will further reduce the amount of Bonds to be refinanced at maturity.*

## **2.2 Increase the frequency of covenant testing from semi-annually to quarterly**

- Today the financial statements of the Issuer are reported to the Bond Trustee semi-annually and the financial covenants are thus tested on a semi-annual basis. It is proposed that reporting and testing is done on a quarterly basis.
- The proposal implies that covenants shall apply at all times, be tested on the last day of each quarter and that the financial statements shall be reported within 60 days after the end of each quarter, except for the annual financial statements which will be reported within 90 days after the end of the calendar year.
- In respect of the Minimum Book Equity Ratio, it is proposed that the Issuer will need to be in breach on the end of two consecutive quarters in order to be in default under the Bond Agreement.

### *Rationale:*

*It is deemed that an increase of the frequency of reporting and testing financial covenants from a semi-annual basis to a quarterly basis will increase the transparency and further improve the Bondholders' ability to monitor the financial state of the Issuer.*

## **2.3 No dividends or other distributions shall be allowed prior to final Maturity Date**

No dividends, share buy-back or other distributions shall be allowed until final Maturity Date.

## **2.4 Company not to sell its own Bonds**

The Company agrees not to sell nor discharge or cancel, until the Bonds mature, the Bonds it currently holds on its books amounting to NOK 29 million in par value. The same shall apply for any other Bonds acquired by the Group in the future.

## **2.5 New events to be included as an Event of Default**

### *2.5.1 Failure to get approval on the extraordinary general meeting by 31 March 2016*

It shall be an event of default if the extraordinary general meeting of the Company fails to approve the Equity Issue of the NOK equivalent to USD 15 million by 31 March 2016. As the equity issue will be in NOK, the NOK amount shall be based on the Norwegian Central Banks official exchange rate for NOK/USD on the date the board meeting approving the summons to the extraordinary general meeting (the “**Exchange Rate**”).

### *2.5.2 Failure to allocate minimum USD 10 million of equity within 31 March 2016*

It shall be an event of default if the Company fails to allocate shares for an amount of minimum the NOK equivalent to USD 10 million in the Equity Issue within 31 March 2016. As the equity issue will be in NOK, the NOK amount shall be based on the Exchange Rate.

## **2.6 Consequence if the Company fails to raise USD 15 million of Subordinated Capital**

From the date of the Bondholder's Meeting approving the Proposal until the Company has allocated the NOK equivalent to USD 15 million of Subordinated Capital (Subordinated Capital to be defined as a combination of (a) the NOK equivalent to USD 10 million of guaranteed equity and (b) either (i) further equity or (ii) one or several fully subordinated loan(s)), the Group may not draw on any Credit Facility (as defined in the Bond Agreement). Such subordinated loans may be granted by Kistefos AS or any other related party. As the Equity Issue will be in NOK, the NOK amount shall be based on the Exchange Rate.

If the company fails to allocate the NOK equivalent to USD 15 million of Subordinated Capital by 31 March 2016 (based on the Exchange Rate), all Credit Facilities shall be terminated and no further Credit Facilities shall be established until after the maturity of the Bond and any security granted under any Credit Facility shall cease to exist.

For avoidance of doubt, the limitation above shall not limit the Issuer and the Chartering Group to establish customary set off arrangements, security over accounts receivables, bank accounts and/or cash securing bid bonds, performance bonds and bonds in connection with disputed claims, always provided that the amount of such security shall not exceed USD 10 million (which is in accordance with the existing Bond Agreement).

## **2.7 Amendment fee**

As compensation to the Bondholders, the Issuer offers the Bondholders a one-time amendment fee of 1.00% (flat) of the Face Value of the Bonds, payable to the Bondholders registered in the VPS end-of-business the date of the Bondholders' Meeting, within 10 Business Days after the Bondholders' Meeting, provided that the Bondholders' Meeting approves the proposed changes as set out in Clause 2 of this summons.

The Proposal has been detailed in the Appendix to this summons where the proposed changes to the relevant clauses of the Bond Agreement have been set out.

### **3 EVALUATION OF THE PROPOSED AMENDMENTS**

#### **3.1 The Issuer's evaluation**

In the Issuer's opinion, the proposed amendments, together with the above mentioned initiatives, will maintain the Bondholders' position as creditor. The Issuer believes the proposed Equity Issue, the one-time waiver fee and the structural amendments together should be a fair compensation for the Bondholders to accept the Proposal.

The Issuer has engaged Pareto Securities AS as its financial advisor (the "Advisor") with respect to the Proposal. Accordingly, Bondholders may contact Pareto Securities AS Fixed Income Sales at +47 22 87 87 70 for further information.

The Advisor is acting solely for the Issuer and no-one else in connection with the Proposal. No due diligence investigations have been carried out by the Advisor with respect to the Issuer and the Advisor expressly disclaim any and all liability whatsoever in connection with the Proposal (including but not limited to the information contained herein).

#### **3.2 Support from the Bondholders**

Prior to this summons letter being distributed, the Issuer has informed the Bond Trustee that they have received support for the Proposal from a majority of the Bondholders representing approximately 2/3 of the Voting Bonds.

#### **3.3 The Bond Trustee's disclaimer/non-reliance**

The request is put forward to the Bondholders without further evaluation or recommendations from the Bond Trustee. Nothing herein shall constitute a recommendation to the Bondholders from the Bond Trustee. Each Bondholder should independently evaluate the Proposal and vote accordingly.

*The information in this summons regarding the legal, operational and financial status of the Issuer is provided by the Issuer. The Bond Trustee expressly disclaims any and all liability whatsoever related to such information given from the Issuer.*

### **4 BONDHOLDERS' MEETING**

To enable the Issuer to conduct the proposed change of the Bond Agreement, the Issuer has requested the Bond Trustee to summon a Bondholders' meeting to consider the approval of the proposed changes.

**Bondholders' meeting:**

Bondholders are hereby summoned to a Bondholders' meeting:

**Time:** 4 December 2015 at 13:00 hours (Oslo time),  
**Place:** The premises of Nordic Trustee ASA,  
Haakon VII's gt 1, 0161 Oslo - 6<sup>th</sup> floor

**Agenda:**

1. Approval of the summons.
2. Approval of the agenda.
3. Election of two persons to co-sign the minutes together with the chairman.
4. Request for adoption of proposal:

**It is proposed that the Bondholders' Meeting resolve the following:**

*The Bondholders approve the Proposal as described in section 2, including (for the avoidance of doubt) Appendix 1 and 2, of the Summons.*

*The Bondholders further authorise the Bond Trustee to enter into such agreements and documents, consent to such waivers and amendments, take any actions and do all such things on behalf of the Bondholders as may be necessary or desirable to support or give effect to the Proposal and the Proposal Conditions, and/or the exercise of the Bond Trustee's discretion, including, without limitation, amending and/or waiving the terms of the Bond Agreement"*

To approve the above resolution, Bondholders representing at least 2/3 of the Bonds represented in person or by proxy at the meeting must vote in favour of the resolution. In order to have a quorum, at least 5/10 of the voting Bonds must be represented at the meeting. If the proposal is not adopted, the Bond Agreement will remain unchanged.

Please find attached a Bondholder's Form from the Securities Depository (VPS), indicating your bondholding at the printing date. The Bondholder's Form will serve as proof of ownership of the Bonds and of the voting rights at the Bondholders' meeting. (If the Bonds are held in custody - i.e. the owner is not registered directly in the VPS - the custodian must confirm; (i) the owner of the Bonds, (ii) the aggregate nominal amount of the Bonds and (iii) the account number in VPS on which the Bonds are registered.)

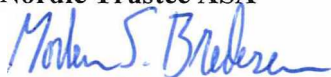
The individual Bondholder may authorise the Nordic Trustee to vote on its behalf, in which case the Bondholder's Form also serves as a proxy. A duly signed Bondholder's Form, authorising Nordic Trustee to vote, must then be returned to Nordic Trustee in due time before the meeting is scheduled (by scanned e-mail, telefax or post).

In the event that Bonds have been transferred to a new owner after the Bondholder's Form was made, the new Bondholder must bring to the Bondholders' meeting or enclose with the proxy, as the case may be, evidence which the Bond Trustee accepts as sufficient proof of the ownership of the Bonds.

For practical purposes, we request those who intend to attend the Bondholders' meeting, either in person or by proxy other than to Nordic Trustee, to notify Nordic Trustee by telephone or by e-mail (mail@nordictrustee.com) within 16:00 hours (4 pm) (Oslo time) the Business Day before the meeting takes place.

Yours sincerely

**Nordic Trustee ASA**



Morten S. Bredesen

Enclosed:

Appendix 1: Proposed changes to the Bond Agreement

Appendix 2: Conditions Precedent for the Proposal to Become Effective



## APPENDIX 1: PROPOSED CHANGES TO THE BOND AGREEMENT

The following definitions set out in clause 1.1 (Definitions) of the Bond Agreement shall be amended and restated as follows:

“**Calculation Date**” means 31 March, 31 June, 30 September and 31 December each year.

“**Effective Date**” means the date the Bondholders’ Meeting approves the amendments to the Bond Agreement, expected to be on or about 4 December 2015.

“**Equity Issue**” means the contemplated equity issue of the NOK equivalent to USD 15 million, of which the NOK equivalent to USD 10 million is guaranteed by Kistefos AS, where the extraordinary general meeting of the Issuer shall, in accordance with the principles set out in the Norwegian Public Limited Liability Company's Act section 10-1 c.f. section 10-4, resolve an issuance of new shares with gross proceeds equal to the minimum NOK amount equivalent to USD 10 million and the maximum NOK amount equivalent to USD 15 million, with issuance of tradable subscription rights based on the NOK amount equivalent to USD 15 million. When calculating the NOK amounts the calculation shall be based on the Exchange Rate.

“**Exchange Rate**” means the Norwegian Central Bank’s official NOK/USD exchange rate on the date the board of directors of the Issuer approve the summons to the extraordinary general meeting for the approval of the Equity Issue.

“**Reporting Date**” means in respect of the Interim Accounts the date falling 60 days after each respective Calculation Date and in respect of the Financial Statements the date falling 90 days after the end of each calendar year.

“**Subordinated Loans**” means one loan or several loans incurred by the Issuer which is fully subordinated to the Bonds and governed by one or several loan agreements which shall be in form and substance satisfactory to the Bond Trustee. The Issuer shall ensure that any such Subordinated Loan shall in all respects be fully subordinated to the Bonds with no repayments of principal and payment of cash interest before the payment obligations under the Finance Documents are fully discharged. For the avoidance of doubt, any accrued interests shall be accumulated and added to the principal of such Subordinated Loan.

“**Subordinated Capital**” means the sum of all shares allocated by the Issuer under the Equity Issue and all Subordinated Loans granted to the Issuer within 31 March 2016 which shall be equal the NOK equivalent to USD 15 million. When calculating the NOK amounts the calculation shall be based on the Exchange Rate.

**Clause 12 (Issuer’s acquisition of Bonds) shall be amended and restated as follows:**

The Issuer has the right to acquire and own Bonds (Issuer’s Bonds). The Issuer’s holding of Bonds from time to time shall be retained by the Issuer and shall not be sold, cancelled or discharged.

**Clause 13.3 (f) (Arms' length transactions) shall be amended to include the following section:**

- (iii) incur any Subordinated Loans in the amount of the Subordinated Capital less the amount allocated under the Equity Issue.

**Clause 13.4 (a) (Dividends and other distribution) shall be amended and restated as follows:**

The Issuer shall not declare or make any dividend payment, repurchase of shares or make other distributions to its shareholders (included but not limited to total return swaps) during the term of the Bonds.

**Clause 13.4 (b) (iii) (one section of “Financial Assistance”) shall be amended and restated as follows:**

- (iii) provided that the Subordinated Capital has been allocated to the Issuer within 31 March 2016: granting of security as described in the definition of Credit Facilities.

**Clause 13.5 (b) (i) (one section of “Negative pledge”) shall be amended and restated as follows:**

- (i) establish set off arrangements, security over accounts receivables, bank accounts and/or cash securing (a) the Credit Facilities, and/or (b) bid bonds, performance bonds and bonds in connection with disputed claims, always provided that the amount of such security shall not exceed the Permitted Security. However, if the Issuer fails to allocate Subordinated Capital within 31 March 2016, all such Security created in respect of the Credit Facilities shall immediately be cancelled and no set off arrangements, security over accounts receivables, bank accounts and/or cash securing the Credit Facilities shall be allowed. Provided always that the Issuer and the Chartering Group may continue to provide set off arrangements, security over accounts receivables, bank accounts and/or cash securing bid bonds, performance bonds and bonds in connection with disputed claims up to a maximum amount of USD 10 million.

**Clause 13.5 (c) (ii) and (v) (two sections of “Financial Indebtedness restrictions”) shall be amended and restated as follows:**

- (ii) provided that the Subordinated Capital has been allocated to the Issuer within 31 March 2016: the Credit Facilities.
- (v) provided that the Subordinated Capital has been allocated to the Issuer within 31 March 2016: granting of guarantees and indemnities (including counter-guarantees and letters of indemnities) relating to the Credit Facilities.

**Clause 13.7.1 (Financial ratios) shall be amended and restated as follows:**

- (i). **Book Equity Ratio:** The Issuer shall ensure that the Group maintains a Book Equity Ratio of minimum 20.00% at all times. However always provided that the Issuer will only be in breach of this Clause 13.7.1 (i) if the Book Equity Ratio is measured to be below 20.00% on two consecutive Calculation Dates;
- (ii). **Book Equity Amount:** The Issuer shall ensure that the Group maintains a Book Equity in the minimum amount of USD 30 million at any time; and
- (iii). **Liquidity:** The Issuer shall ensure that the Group maintains free and unrestricted cash and cash equivalents (for the avoidance of doubt excluding undrawn credits) in a minimum of USD 20 million at any time. The minimum liquidity shall be reduced with the corresponding

par value amount of Issuer's Bonds being bought back after the Effective Date and based on a NOK to USD exchange rate of 6.06. Provided that the free and unrestricted cash and cash equivalents shall never be less than USD 10 million.

**The following paragraphs shall be added as Events of Defaults under Clause 15.1:**

(j) *Failure to approve the Equity Issue*

The extraordinary general meeting of the Issuer fails to approve the Equity Issue within 31 March 2016.

(k) *Failure to allocate shares for an amount of minimum USD 10 million*

The Company fails to allocate shares for an actual amount equalling the NOK equivalent to minimum USD 10 million (such amount to be based on the Exchange Rate) in the Equity Issue within 31 March 2016. Payment shall take place as soon as practically possible thereafter.

**APPENDIX 2: CONDITIONS PRECEDENT FOR THE PROPOSAL TO BECOME EFFECITIVE**

1. Notice from the Bondholders' Meeting evidencing the resolution of the Bondholders' Meeting to approve the Proposal
2. The subscription and guarantee agreement between Kistefos AS and Western Bulk ASA duly executed.
3. All necessary corporate resolutions of the Issuer (duly executed).
4. Certified copies of the constitutional documents of the Issuer.
5. A certified copy of a power of attorney from the Issuer to the relevant individuals for their execution of this Agreement or extracts from the relevant register or similar documentation evidencing such individuals' authorisation to execute this Agreement.