Dry Bulk Market & Business Review

Freight Market Summary

Spot market rates for Handysize and Handymax bulk carriers averaged US$8,289 and US$9,812 per day net in the first half of 2014. While up 17% and 19% on the same period last year, these year-on-year figures mask a weaker second quarter than expected.

By mid-year, Handysize and Handymax rates had fallen 48% and 57% since peaking in December on the back of a strong US Gulf market, eradicating the improvement in rates made over the course of 2013. Rates have since fallen to levels last seen in February 2009 and February 2012.

Fundamentally we believe the market recovery remains fragile because growing demand has not yet fully absorbed the excessive overall dry bulk supply generated by the newbuilding delivery boom of 2010 to 2012.

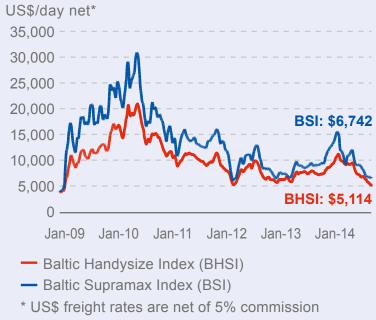
The decline in second quarter rates was not anticipated by the market and resulted in 7% lower average Handysize rates than in the second quarter of 2013.

In our view, the second quarter weakness was led by a collapse in Atlantic rates – unusually to below Pacific rates – following the repositioning of more ships than usual into the Atlantic in anticipation of the South American grain export season. This regional increase in supply was compounded by reduced South American port congestion.

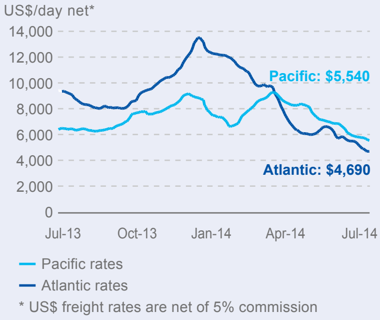
+17% ↑ US$8,289 net
Handysize 1H average market spot rate

+19% ↑ US$9,812 net
Handymax 1H average market spot rate

Baltic Handysize Index (BHSI) & Baltic Supramax Index (BSI)



Pacific vs Atlantic Handysize Rates



Source: The Baltic Exchange, data as at 25 July 2014

FREIGHT MARKET & OUTLOOK IMPACT SHIP VALUES

SUPPLY DRIVERS

Key Supply Developments

The global fleet of 25,000-40,000 dwt Handysize ships registered 1.9% net capacity growth during the first half of the year driven by 3.6% newbuilding deliveries and 1.7% scrapping.

The overall dry bulk fleet grew 2.7% net during the period on 3.6% newbuilding deliveries and 0.9% scrapping.

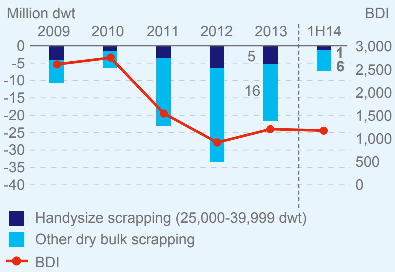
Widespread slow steaming continues to curtail effective dry bulk shipping capacity.

With newbuilding deliveries traditionally greater in the first half of the year, we expect supply growth to remain low for the remainder of the year.

+1.9% ↑
Global Handysize capacity

+2.7% ↑
Overall dry bulk capacity

Dry Bulk Scrapping versus BDI



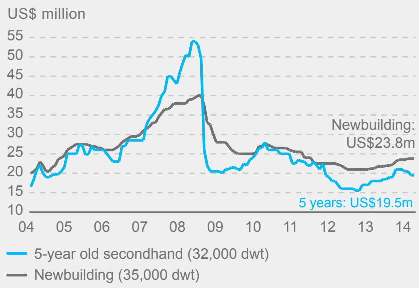
Source: Clarksons, Bloomberg

Ship Values

Clarksons currently value their benchmark five year old Handysize at US$19.5 million which represents a US$1.5 million (7%) decline since the start of the year but remains 26% above values at the start of 2013.

- 7% ↓ US$19.5m
Secondhand Handysize (since 1 Jan 2014)

Handysize Vessel Values



Source: Clarksons, data as at 25 July 2014

VALUES & OUTLOOK

Key Demand Developments

DEMAND DRIVERS

An Indonesian export ban has significantly reduced Chinese imports of bauxite and nickel ore. A surge in such trades at the end of 2013 gave way to zero exports since February. While representing a small part of global demand, the disappearance of these trades was abrupt and the effect therefore more pronounced on the supply/demand dynamics in the first half of 2014.

Chinese imports of other minor bulks not affected by the Indonesian ban showed solid growth of 21% year on year. Chinese iron ore imports in the period also expanded by a healthy 19%, while growth in coal imports slowed to 4%.

In Europe, a mild winter resulted in reduced coal imports.

Our segments were also affected by a hold on Argentinian grain exports partly in Argentina's anticipation of more favourable overseas pricing.

Dry bulk transportation demand is slowing, though, in the first quarter of 2014, is estimated by R.S. Platou to have increased by a still healthy 7.8% year on year.

Overall dry bulk demand

+7.8% ↑ Q1 YOY

Chinese imports – major bulks

+19% ↑ Iron Ore

+4% ↑ Coal

Chinese imports – minor bulks

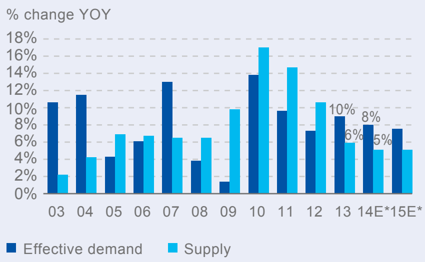
+24% ↑ Soya Bean

+27% ↑ Logs

- 40% ↓ Bauxite

- 26% ↓ Nickel Ore

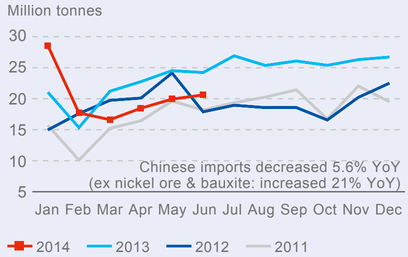
Dry Bulk Supply & Demand



Source: R.S. Platou, Clarksons

* Estimated by R.S. Platou

2014 Chinese Minor Bulk Imports



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

These 7 commodities make up over one third of the cargo volumes we carry

Source: Bloomberg

Orderbook

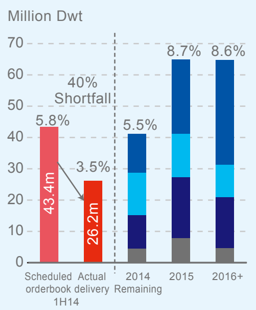
IMPACT NEW SHIP ORDERING

Due to the disappointing second quarter freight market, the high level of new dry bulk ship ordering activity in late 2013 gradually gave way to reduced orders which currently remain at low levels.

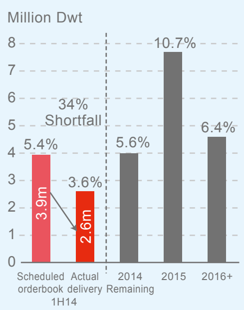
The published orderbook for Handysize vessels now stands at 23% as compared to 16% a year ago. The orderbook for dry bulk vessels overall also stands at 23%.

Dry bulk newbuilding deliveries in the first half fell short of the scheduled orderbook by 40% and we expect a significant shortfall also in the second half of the year.

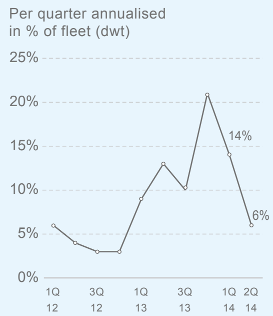
Orderbook by Year



Handysize Orderbook



Dry Bulk New Ship Contracting



Source: Clarksons, data as at 1 July 2014

	ORDERBOOK AS % OF EXISTING FLEET	AVERAGE AGE	OVER 25 YEARS OLD	SCRAPPING AS % OF EXISTING FLEET (ANNUALISED)
Handysize (25,000 – 39,999 dwt)	23%	10	13%	4%
Handymax (40,000 – 64,999 dwt)	28%	8	5%	2%
Panamax & Post-Panamax (65,000 – 119,999 dwt)	19%	8	2%	1%
Capesize (120,000+ dwt)	24%	8	1%	2%
Total Dry Bulk (10,000+ dwt)	23%	9	4%	2%

Pacific Basin Dry Bulk
How we performed in First Half 2014

Business Review

Net Loss

US$(6.5)m

EBITDA

US$53.4m

Our Pacific Basin Dry Bulk division generated a net loss of US$6.5 million (2013: net profit US$11.3 million) and a positive EBITDA of US$53.4 million in a weaker first-half market than expected.

The contribution from our Handysize activity was marginally higher year on year benefitting from daily earnings that outperformed the market and good control of our owned vessel operating costs, but our overall dry bulk result was impacted by:

- losses on Handymax vessels chartered in on a short-term basis at higher cost during the unexpected regional US Gulf market spike at the end of 2013 to perform our US Gulf cargo commitments in the first quarter;
- the unexpectedly weak dry bulk market in the second quarter;
- low-paying Handymax positioning voyages generating losses incurred in the first quarter that could not be fully recovered due to the poor second quarter market; and
- the loss of approximately US$5 million of notional TCE earnings (based on average earnings in the first half) from the scheduled dry-docking of a higher than normal proportion of our fleet amounting to 450 revenue days.

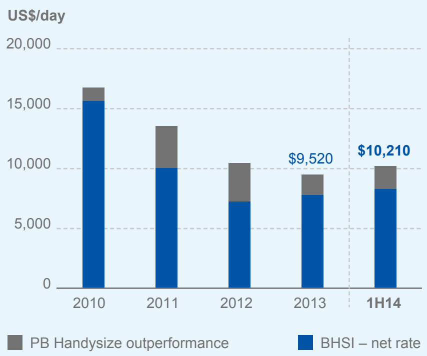
Segment Operating Performance

	Six months ended 30 June		
US$ Million	2014	2013	Change
Handysize contribution	26.2	22.4	+17%
Handymax contribution	(10.7)	4.3	-349%
Post-Panamax contribution	2.7	2.9	-7%
Segment operating performance before overheads	18.2	29.6	-39%
Direct overheads	(24.7)	(18.3)	-35%
Segment net (loss)/profit	(6.5)	11.3	-158%
Segment EBITDA	53.4	50.7	+5%
Segment vessel net book value	1,545.0	1,250.0	+24%
Segment net assets	663.0	885.1	-25%

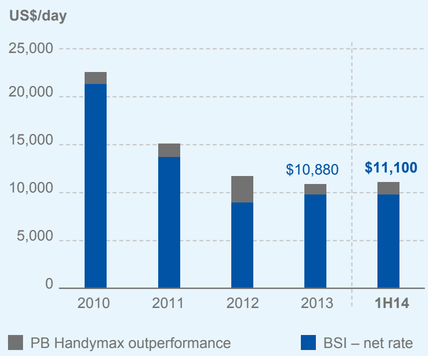
Key Performance Indicators KPI

Daily Earnings Performance vs Market

Handysize **23% outperformance compared to market**



Handymax **13% outperformance compared to market**

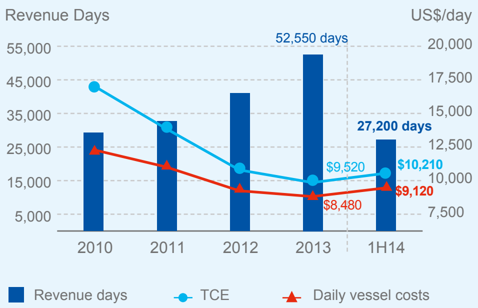


- Our average Handysize and Handymax daily earnings outperformed BHSI and BSI spot market indices by 23% and 13%.
- This outperformance reflects the value of our business model, fleet scale and cargo book, and our team's ability to achieve optimal cargo combinations and match the right ships with the right cargoes.

Profitability

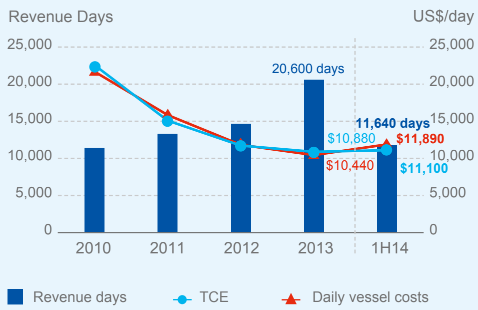
Handysize

US$26.2m **17% YOY**



Handymax

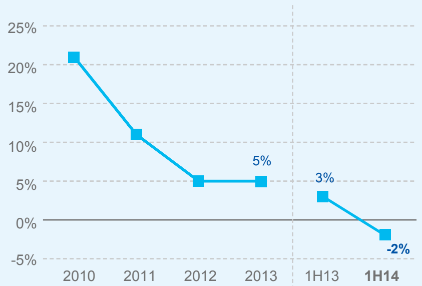
US$(10.7)m loss **349% YOY**



- A respectable Handysize result in a difficult market environment on Handysize daily earnings of US$10,210 and daily costs of US$9,120 on 27,200 revenue days.
- We operated an average of 152 Handysize and 65 Handymax ships resulting in 15% and 28% increases in our Handysize and Handymax revenue days.
- Our capacity increased as our purchased vessels continued to deliver and enhance our ability to service our expanding customer base, increasing the proportion of our owned ships compared to chartered ships.
- Handymax vessels chartered in on a short-term basis at higher cost at the end of 2013 resulted in losses for those vessels in the first quarter of 2014. Short-term chartered Handysize and Handymax capacity reduced in the first half of 2014 compared to the second half of 2013.
- Cost of services (previously "direct costs") grew 25% mainly due to increases in (i) charter-hire expenses, (ii) bunkers, (iii) port disbursements and (iv) finance costs (with a full allocation of borrowings and associated interest from treasury to the Pacific Basin Dry Bulk segment).

Return on Net Assets

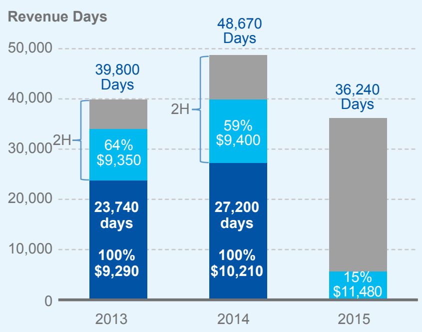
(2%) Annualised **5 points YOY**



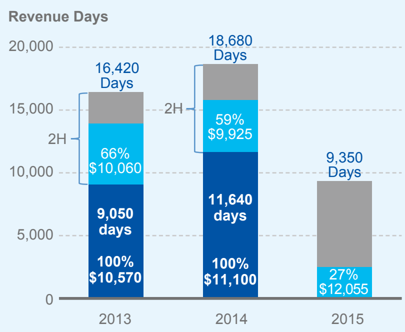
- Our annualised return on dry bulk net assets was negative 2% which we consider unsatisfactory although driven by the weak market.
- We aim to achieve solid long-term returns on assets, so we have invested counter-cyclically for enhanced returns in the stronger market we expect ahead.

Future Earnings and Cargo Cover

Handysize



Handymax



1H Completed 2H Covered 2H Uncovered Currency: US$

- We have covered 59% of both our 21,470 Handysize and 7,040 Handymax revenue days currently contracted for the second half of 2014 (cargo cover excludes revenue days related to vessels chartered in on variable, index-linked charter rates).

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- While our long-term contract cover provides a degree of earnings visibility, our uncovered capacity gives us exposure to the spot market which we expect to strengthen in the fourth quarter.

Analysis of Daily Vessel Costs

The cost of owning and operating dry bulk ships is the major component of our Group's total costs, and our ability to maintain good control of our "daily vessel costs" has a significant bearing on our operating margins and our financial performance overall. We provide below a short analysis of our daily vessel costs for a better understanding of their components and development.

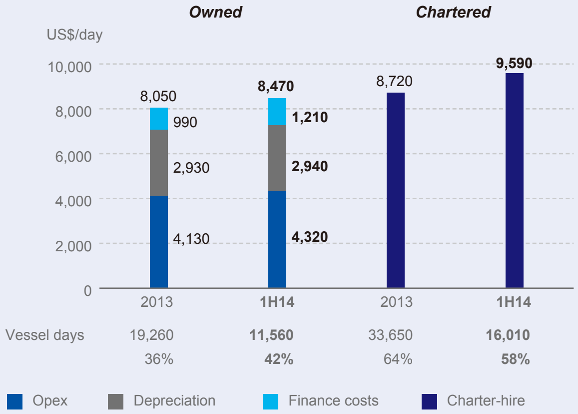
Our dry bulk fleet incurred cost of services (including bunker fuel costs and port disbursements) of US$856.0 million (2013: US$683.5 million) representing 94% of total Group cost of services (2013: 92%).

Our Handysize and Handymax blended daily costs increased 8% and 14% respectively compared to full year 2013 mainly due to increased inward charter costs.

Our proportion of lower cost owned Handysize and Handymax vessels increased 6% and 8% to 42% and 22% respectively with delivery of last year's second hand purchases.

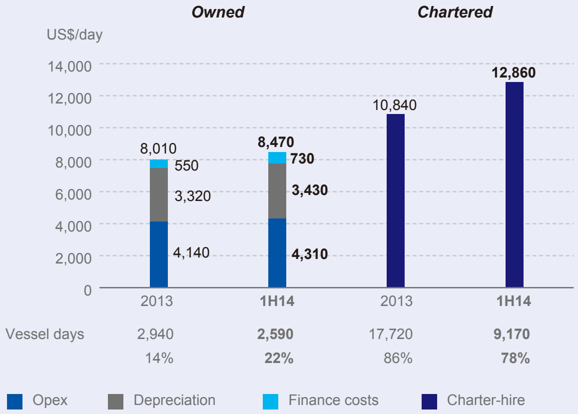
Handysize Daily Vessel Costs

Blended US$9,120 (FY2013: US$8,480)



Handymax Daily Vessel Costs

Blended US$11,890 (FY2013: US$10,440)



Opex – The daily opex element of our vessel costs increased 5% for Handysize and 4% for Handymax mainly due to inflation in crew wages.

Depreciation – Daily depreciation (including capitalisation of dry-docking costs) was substantially unchanged compared to 2013.

Page 19
2014 Proforma daily depreciation

Finance costs – Daily finance costs increased due to i) the reallocation of all the financing and associated costs for dry bulk vessels from treasury to the Pacific Basin Dry Bulk segment, and ii) the increase in bank borrowings which were drawn down towards the end of last year.

Charter-hire – Chartered-in days represented 58% and 78% of our total Handysize and Handymax vessel days respectively. Our Handysize chartered-in days increased 5% to 16,010 days (2013: 15,230 days) while our Handymax chartered-in days increased 14% to 9,170 days (2013: 8,070 days). However, they decreased 13% and 5% respectively when compared to our Handysize and Handymax chartered-in days in the second half of 2013 due to a reduced level of short-term inward chartered vessels. Despite currently depressed dry bulk spot market rates, longer term charter rates remain strong as dry bulk market conditions are expected to strengthen.

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2014 Commitments Including Index-linked vessels
Analysis of our long-term, short-term and index-linked charter commitments

Direct overheads comprising chartering, operations and technical staff and office costs related to our dry bulk ships. Its increase was mainly due to a 22% step increase in dry bulk headcount following our vessel expansion in 2013 and inflation increases in overhead costs. Due to the higher vessel days the aggregate overhead translated into a lower 13% increase in daily cost to US$620 per day (FY2013: US$550 per day), reverting to 2011 and 2012 levels.

During the period, we secured 6,090 Handysize vessel days (2013: 5,040 days) and 1,350 Handymax vessel days (2013: 1,070 days) via variable-rate, inward charters with rates linked to the Baltic Handysize and Supramax indices. These index-linked vessels represented 38% and 15% of our chartered Handysize and Handymax vessel days respectively.

Our fleet of owned and finance-leased dry bulk vessels experienced an average 0.5 days unplanned technical off-hire per vessel during the period – down from 1.3 days in the same period last year.

Dry Bulk Business Highlights

In January 2014, we enhanced our global network with a new Pacific Basin Dry Bulk presence in Dubai to better serve customers in the Middle East and India and to expand our customer relationships and cargo portfolio in the region. Our service delivery is now backed by eleven customer-facing offices providing our customers with localised commercial and operational support. They cover all major continents and oceans so that we can offer a reliable, tailored and flexible freight service anywhere in the world and at any time.

In the first half of 2014, we committed to purchase one newbuilding and three secondhand vessels, and long-term charter three newbuildings. Eight owned and long-term chartered ships delivered into our fleet during the period, including four owned and two chartered Handysize vessels and two owned Handymax vessels. A further four delivered in July. At mid-year we operated 211 dry bulk ships of which 79 were owned, 40 were long-term chartered and 92 were on index-linked or short-term charters. A further 37 newbuildings (18 owned and 19 chartered) are due to join our trading fleet over the next three years.

Pacific Basin is the world's largest owner and operator of Handysize ships supplemented by a growing fleet of Handymax ships. By operating one of the largest "Handy" fleets of owned and long-term chartered 25-60,000 dwt vessels – supported by our award-winning in-house technical management team – we can deliver industry-leading reliability and shipment frequency for our customers without dependence on third-party spot market ships.

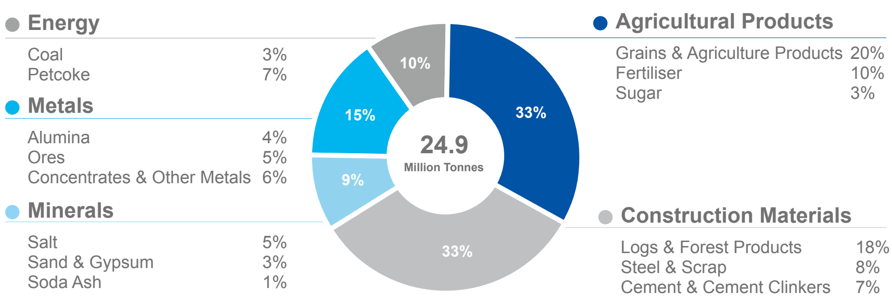
> We continue to make every effort to develop our service capability

The synergies of our fleet scale, global office network and operational expertise enable us to generate respectable vessel earnings in a depressed market, as evidenced by our average daily vessel (or time charter equivalent "TCE") earnings which outperformed the BHSI and BSI spot market indices by 23% and 13% respectively in the first half of 2014.

Underpinning our strengths relative to the market are the endorsement and support we have earned from our over 400 customers last year for whom we carried 24.9 million tonnes of cargo in the first half of 2014. In April we were awarded the first ever "BIMCO Shipping Company of the Year" award for our "innovative customer service, business profitability and solid service reliability" – high recognition and a great honour coming from our industry's largest association.

We have an unusually busy routine dry-docking programme this year with 41 of our owned ships due to dock. By comparison, 18 of our ships docked in 2013. We are taking the opportunity to upgrade our recently acquired ships that were due for docking to the usual high standard that Pacific Basin expects so as to reliably service our customers' needs. The 41 ships scheduled to be docked in 2014 represent over 50% of our owned fleet. Of these, 24 completed docking in the first six months when we incurred 450 docking-related off-hire days on our owned fleet (about two thirds of docking off-hire projected for 2014) with the consequential loss of revenue impacting our half-year results. Dockings were completed efficiently and at competitive cost and, by docking this large number of ships in the weak market, we expect to benefit from less docking off-hire in the stronger market we anticipate ahead. Our scheduled dockings are projected to reduce to 20 in 2015.

Our Handysize and Handymax Cargo Volumes in First Half 2014



Dry Bulk Outlook & Strategy

Market Outlook

OPPORTUNITIES

- Continued strong Chinese demand for minor bulk commodities
- Increased overseas mining output and lower commodity prices leading to increased Chinese imports replacing higher-cost domestic resources
- Continued OECD economic recovery, revival in North American industrialisation and a stronger than expected recovery in Europe contributing to healthy global dry bulk demand growth
- A smaller scheduled newbuilding orderbook for 2014-2016 leading to moderate global fleet growth
- Continued scrapping and moderate newbuilding deliveries leading to modest Handysize net fleet growth

THREATS

- Ship owner optimism may return driving reduced scrapping and increased new ship ordering, which could generate oversupply in the longer term
- Credit squeeze in China and other emerging economies leading to slower economic and industrial growth and slower growth in dry bulk trades
- Lower fuel prices causing the world's dry bulk fleet to speed up resulting in an effective increase in capacity
- Increased national protectionism (such as the Indonesian minerals export ban) impacting key cargo trades, although possibly triggering a beneficial increase in tonne-miles through imports from further afield

Outlook for our Dry Bulk Business

We expect the dry bulk freight market to show improvement in the fourth quarter of 2014, albeit from a low base given the current weak spot market. The second half of the year typically sees fewer shipyard deliveries and greater dry bulk cargo volumes which combine to support a healthier balance of supply and demand.

The year started with China holding an enlarged stockpile of bauxite and nickel ore in preparation for the Indonesian export ban, and we will have to wait for stocks to be depleted before we see how the trade in these commodities will develop in the longer term. If the Indonesian ban should remain in force for much longer, we would expect future Chinese demand for bauxite and nickel ore in the medium term to be satisfied by new supply sources mostly further afield.

The expanding supply and decreasing price of iron ore will likely lead to increased Chinese imports replacing higher-cost domestic ores, directly benefiting the Capesize segment but indirectly also improving conditions for smaller bulk carriers. Increasing environmental pressure may lead to continued weaker growth in Chinese demand for coal – especially from Indonesia.

Notwithstanding the unexpectedly protracted weakness in the market in the year to date, the outlook for our own business is positive.

STRATEGY

Our core business remains firmly focused on the Handysize and Handymax segments and we will continue to work hard on making our already strong dry bulk platform even stronger.

We are committed to our cargo focused business model and are proactively working to further strengthen our cargo systems and customer relationships in order to optimise the utilisation of our fleet. We continue to work closely with our customers on both spot and contract cargoes and, during the first six months of the year, we concluded several contracts of affreightment at reasonable long-term freight rates.

We are very happy with our significant counter-cyclical ship acquisition programme and the 51 vessels (33 secondhand and 18 newbuildings) we have purchased in the past two years. All but one are from Japanese yards and all are high-quality vessels very suitable for our cargo systems.

A larger owned fleet acquired at historically attractive prices means a larger EBITDA generating capacity, high operational flexibility and significant upside in the cyclical recovery that we expect ahead.

We remain selectively open to the acquisition of Handysize and Handymax ships at appropriate prices but we expect a much slower pace of acquisitions compared to 2013.

We will continue our use of short-term and index-linked chartered ships which we use in addition to owned and long-term chartered ships (our "core" fleet) to optimise the execution of our cargo systems. This generates synergies from better ship and cargo combinations and enhances the timeliness and flexibility of our service to our customers.

Our exposure to the freight market is influenced by our cargo book which currently provides cover for 59% of our dry bulk revenue days in the second half of 2014.