# Pacific Basin Shipping Limited

*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 2343)**

## THIRD QUARTER 2009 TRADING UPDATE

### Handysizes outperform in a stronger than expected third quarter for the dry bulk market

- The dry bulk market performed better than we expected due to stronger cargo demand, principally from China, and weaker than projected ship supply growth.
- Handysize freight rates continued to rise during the third quarter due to increased Chinese imports of minor bulk cargoes, a growing imbalance between dry bulk capacity in the Pacific and Atlantic oceans, scrapping of older vessels and limited deliveries of newbuilding tonnage. However, freight rates for larger bulk carriers declined during the same period due to the normal seasonal slowdown in demand, temporarily reduced spot ore shipments into China, easing port congestion and accelerating newbuilding deliveries. The Baltic Handysize Index ("BHSI") increased from US$10,260 per day net on 1 July to US$11,806 per day net on 28 October whilst the Baltic Dry Index ("BDI") fell from 3,757 points at 1 July to a third quarter low of 2,163 points on 24 September before recovering to 2,986 points on 28 October 2009.
- We have become more optimistic for the remainder of 2009 but remain cautious for 2010 when we expect a difficult and volatile freight market with healthy levels of cargo demand being outstripped by escalating vessel supply. Accordingly, we have reduced our market exposure by increasing the proportion of short term charterered tonnage in our fleet and by securing a high level of cargo cover at attractive rates well above both today's equivalent forward rates and our blended daily cost:
  - 97% of our 25,580 contracted handysize revenue days in 2009 are covered at US$14,210 per day and 49% of our 19,510 contracted revenue days in 2010 are covered at US$14,260.
  - 100% of our 10,180 contracted handymax revenue days in 2009 are covered at US$19,640 per day and 108% of our 2,110 contracted revenue days in 2010 are covered at US$27,780, meaning that we have more cargo contract days than ship days in our handymax book.
  - Our combined handysize and handymax fleet has cover of 98% for 2009 and 57% for 2010 in terms of handysize-equivalent days.
- Our other core businesses have reached important milestones. Development of the "Gorgon" gas project off Western Australia has been approved by the Australian Government, paving the way for PB Towage and its joint venture partners to commence towage logistics services for the project. PB RoRo has taken delivery of its first Roll On Roll Off ("RoRo") newbuilding which is now operating in the North Sea under a three year charter to Norfolkline Shipping BV, a wholly-owned subsidiary of A.P. Moller-Maersk.
- Since 30 June 2009, we have not engaged in any new sale or purchase transactions but, following a net increase in the number of our chartered in dry bulk ships, our fleet size has expanded to 161 vessels.

## Market and Business Review

*Dry Bulk*

The decline in the BDI during the period was chiefly attributable to the normal seasonal slowdown compounded by a reversal of the factors that drove the dramatic capesize market rally of the second quarter including reduced spot ore shipments into China, lower levels of congestion in Chinese ports, accelerating new ship deliveries from shipyards and less scrapping.

Supply growth, albeit less than projected, contributed to the softening of the overall freight market. Preliminary data from Clarksons suggests that 12.4 million tonnes of newbuilding capacity delivered in the third quarter accounting for a 2.9% expansion in the dry bulk fleet. Further additions from bulk carrier conversions and deletions through scrapping resulted in a net increase in dry bulk capacity of 3.1% over these three months. As of 30 September 2009, the world dry bulk fleet was 7.5% larger than a year ago through a net increase in capacity of approximately 31 million tonnes.

The less volatile handysize sector fared much better. A smaller influx of newbuilding vessels combined with growth in the trade of certain minor bulks and an increase in the tonnage imbalance between the Pacific and Atlantic oceans drove spot earnings up during the quarter. This imbalance contributes to tonne-mile demand as ships are performing longer ballast voyages from the main discharge ports in Asia back to loading ports in the Atlantic where fewer spot ships are available. Notable minor bulk trades included steel exports (especially from China), seasonal grain exports from the Americas and a variety of Chinese raw material imports.

The dry bulk orderbook stands at a still enormous 63% of the fleet afloat and is expected to impose considerable pressure on the market, albeit that much of this orderbook is likely to be delayed further and some of it will never deliver. Thus only 59% of the January to September scheduled orderbook appears to have delivered. We expect that this significant shortfall between scheduled and actual deliveries will reduce only marginally by year-end and that approximately 45 million tonnes of new dry bulk capacity will deliver in the full year compared with approximately 70 million tonnes scheduled at the start of 2009. Meanwhile, the orderbook specifically for 25,000-35,000 dwt handysize vessels, the type in which we specialise, stands at 44%.

The surge in dry bulk scrapping early this year was short-lived: only 0.7 million tonnes of dry bulk vessels was scrapped in the third quarter, representing less than one tenth of capacity deleted in the first nine months of the year. Approximately 50% of the scrapped capacity in deadweight terms was handysize. If the freight market declines then we are very likely to see scrapping pick up again.

At the end of September, shipbroker R.S. Platou estimated a benchmark five year old 28,000 dwt handysize vessel to be worth approximately US$22 million – unchanged since the end of July. However, recent relevant sales and other broker estimates indicate a value today of approximately US$21 million.

We are encouraged by the recovery in October of the influential capesize freight rates which have increased by 75% in the month to date. We are now somewhat optimistic that the dry bulk market will remain buoyant during the remainder of 2009 as a result of continued strong demand from China, restocking in developed countries, and the growing imbalance between dry bulk capacity in the Pacific and Atlantic oceans.

However, we remain cautious as to the outlook for dry bulk shipping in 2010 and expect a volatile and generally lower dry bulk market due to i) excessive newbuilding deliveries; ii) a bumpy global economic recovery that may be undermined as governments attempt to reduce their fiscal deficits; and iii) China's erratic demand for imports of raw materials, which depends on commodity prices and the price of freight.

Our flexible business model allows us to manage this anticipated volatility to our advantage. Our contracts of affreightment (COAs) give us a relatively high level of cargo cover which reduces our market exposure. Furthermore we can quickly adjust our mix of owned and long or short term chartered tonnage so as to reduce or increase our exposure when the timing is right. In the year to date, we have supplemented our core fleet of owned and long term chartered vessels with the inward charter of approximately 170 ships for short term or voyage charter.

Our handysize blended daily cost in the first half of 2009 was more than 35% lower than our cost for 2008 mainly due to the charter provisions we made in our 2008 accounts and our cost saving initiatives taken at the end of 2008 and during early 2009. This reduces our profit and loss breakeven level and reinforces the competitiveness of our fleet.

We continue to conserve our capital so as to be able to use our cash reserves to take full advantage of the opportunities that we expect to arise in future.

In the longer term we expect reduced newbuilding orders, continued scrapping and the sustained industrialisation of China, India and other developing nations – combined with some recovery in industrialised nations – to lead to an improvement of the overall supply/demand balance.

*Other Businesses*

In September 2009, final government and shareholder approvals for the "Gorgon" project were granted, thus paving the way for PB Towage and its joint venture partners to commence towage logistics services for the development of the Greater Gorgon gas fields, Australia's largest-known gas resource. Successes in construction and oil and gas projects such as this and in new harbour towage contracts support the case for significant further expansion of our towage fleet. Since 30 June 2009, PB Towage has taken delivery of two newbuilding tugs; its fleet now comprises 21 tugs, six barges and one bunker tanker in operation plus another seven tugs to be delivered between November 2009 and July 2010.

PB RoRo took delivery of its first RoRo vessel from Odense Steel Shipyard towards the end of September 2009. She is now operating in the North Sea between Vlaardingen in the Netherlands and Killingholme in the UK under a three year charter to Norfolkline Shipping BV. Whilst we are examining potential employment opportunities for our five further vessels, the current depressed state of the RoRo market means we do not expect to secure acceptable employment for them until closer to the time of their deliveries between the middle of 2010 and the end of 2011. In August, we secured approximately US$200 million in new long term vessel financing for our RoRo newbuildings.

**Fleet Development**

In the period since 30 June 2009, we have taken delivery of one handysize bulk carrier, two tugs, and one RoRo vessel. Our long term chartered fleet reduced by one ship following the expiry of a charter, whilst our short term chartered fleet increased by 11 ships over the period.

As at 29 October, the Group's fleet (including newbuildings) numbered 161 vessels comprising 120 dry bulk ships, 34 tugs and barges, one bunker tanker and six RoRos. Our dry bulk core fleet has an average vessel age of seven years.

The following Fleet Table summarises our fleet composition as at 29 October 2009:

| | Delivered | | Newbuildings on order | | |
|---|---|---|---|---|---|
| | Owned | Chartered[1] | Owned | Chartered | Total |
| **Dry Bulk Fleet** | | | | | |
| Handysize | 19 | 60 | 2 | 2 | 83 |
| Handymax | 1 | 33 | – | 1 | 35 |
| Post Panamax | – | – | 1 | 1 | 2 |
| **Total Dry Bulk Vessels** | 20 | 93 | 3 | 4 | 120 |
| **Towage** | | | | | |
| Tugs | 21[2] | – | 7 | – | 28 |
| Barges | 6 | – | – | – | 6 |
| Bunker Tanker | 1[2] | – | – | – | 1 |
| **Total Towage Vessels** | 28 | – | 7 | – | 35 |
| **Roll on Roll off** | 1 | – | 5[3] | – | 6 |
| **Grand Total** | 49 | 93 | 15 | 4 | 161 |

1 Our dry bulk chartered fleet comprises 13 vessels under finance lease and 80 vessels under operating lease. It also includes 35 non-core vessels chartered in for shorter term periods.

2 The Group has a 50% interest in one of the tugs and in the bunker tanker.

3 Includes two RoRo newbuilding vessels which can be acquired by the Group within approximately two months of their delivery from the shipyard subject to the exercise of purchase options.

A table detailing our fleet development in the period since 30 June 2009 can be found in the Fleet section of our website at www.pacificbasin.com.

By Order of the Board
**Richard Hext**
*Chief Executive Officer*

Hong Kong, 29 October 2009

*As at the date of this announcement, the executive directors of the Company are David Muir Turnbull, Richard Maurice Hext, Klaus Nyborg, Wang Chunlin and Jan Rindbo, the non-executive directors of the Company are Dr. Lee Kwok Yin, Simon and Daniel Rochfort Bradshaw, and the independent non-executive directors of the Company are Robert Charles Nicholson, Patrick Blackwell Paul and Alasdair George Morrison.*

*Shareholders and investors are reminded that this trading update for the period ended 29 October 2009 is based on the Group's internal records and management accounts, and has not been reviewed or audited by external auditors. Shareholders and investors are cautioned not to rely unduly on this trading activities update and are advised to exercise caution when dealing in the shares of the Company.*