Pacific Basin Shipping Limited

# Press Release
# Pacific Basin Announces 2014 Interim Results

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**A difficult half year characterised by an unexpectedly weak second quarter dry bulk market**

**Downgraded outlook and significant non-cash impairment for towage**

**Our Handysize earnings outperformed, and our expanded low-cost owned fleet positions us for expected stronger market ahead**

Hong Kong, 31 July 2014 – Pacific Basin Shipping Limited ("Pacific Basin" or the "Company"; SEHK: 2343), one of the world's leading dry bulk shipping companies, today announced the results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2014.

## RESULTS HIGHLIGHTS

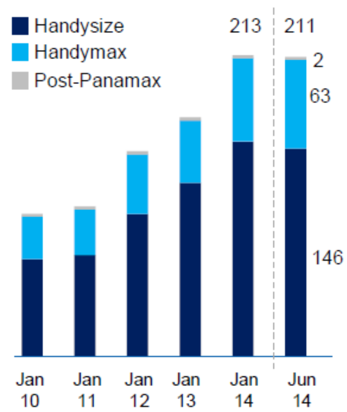
| **Key Numbers** | Six months ended 30 June | |
|---|---|---|
| *US$ million* | **2014** | 2013 |
| Revenue* | **910.0** | 766.8 |
| Underlying (Loss)/Profit | **(21.5)** | 13.6 |
| EBITDA (excluding impairments) | **38.9** | 59.4 |
| (Loss)/Profit Attributed to Shareholders | **(90.7)** | 0.3 |
| Basic Earnings per share (HK cents) | **(36.9)** | 0.1 |

* *relates to continuing operations*

### Group

- Results were mainly influenced by:
  - a US$63.9 million write-off and provision for our PB Towage business
  - losses from low-paying Handymax positioning voyages
  - a second quarter decline in the dry bulk freight market
  - loss of 450 revenue days from routine dry docking of a large proportion of our owned fleet

  mitigated by:
  - an effective business model enabling our daily earnings to outperform the Handysize market by 23%
  - good control of our owned vessel operating costs
- Balance sheet net gearing of 39% with cash and deposits of US$320 million
- Fully-funded dry bulk vessel capital commitments of US$410 million




### Fleet

- Purchased 4 dry bulk vessels in the year to date for a committed price of US$72.8 million, and long-term chartered another 3 newbuildings
- Owned fleet on the water grew from 73 to 79 dry bulk ships in the period
- Our fleet numbers 298 vessels (including newbuildings) comprising 248 dry bulk ships, 47 towage vessels and 3 RoRos
- Covered 59% of our contracted 21,470 Handysize revenue days in the second half of 2014 at US$9,400 per day net
- Current commitments for a further 37 newbuildings (18 owned and 19 long-term chartered)
- Secondhand Handysize values are down 7% in the year to date, but remain up 26% since the start of 2013

### Outlook

- Dry bulk market is expected to show improvement in the fourth quarter of 2014, albeit from a low base
- Future supply and demand fundamentals look favourable, but market recovery remains fragile as excessive dry bulk supply is not yet fully absorbed
- Our counter-cyclical owned fleet expansion at historically attractive prices positions us to leverage the expected market recovery ahead
- We expect to acquire further ships at a much slower pace compared to 2013
- Downgraded outlook for PB Towage and its long-term earnings capability
- We remain committed to our towage businesses and to our harbour and offshore towage customers

Mr. Mats Berglund, CEO of Pacific Basin, said:

*"It has been a difficult half year characterised by an unexpectedly weak second quarter dry bulk market and an increasingly competitive landscape in the towage sector.*

*We are encouraged by our dry bulk team's ability to generate daily earnings that continue to outperform the spot market indices – in the first half of 2014, by 23% in Handysize and 13% in Handymax.*

*Last year's dry bulk freight market gains have been eradicated underscoring the fragility of the market recovery. However, the future fundamentals look favourable, especially for smaller bulk carriers of the type in which we specialise. We are very happy with the 51 ships we have acquired in the past two years which more than doubled our owned fleet. Our counter-cyclical owned fleet expansion at historically attractive prices is reinforcing our dry bulk freight service platform to enhance customer satisfaction and position us to leverage the market recovery we expect ahead, generating increased shareholder value, a competitive cost base, sustainable growth and attractive long-term returns.*

*Our towage activities faced challenging market conditions in the first half of the year with increased competition for fewer employment opportunities in offshore towage and reduced or static volumes and increased competition for market share in harbour towage. We downgraded our outlook for PB Towage, but we remain committed to providing a secure and reliable service to our harbour and offshore towage customers, and we are fully supporting the new business tenders in which we are engaged."*

**BUSINESS COMMENTARY**

**Pacific Basin Dry Bulk**

| | |
|---|---|
| Dry Bulk net (loss)/profit | US$(6.5)m |
| Segment EBITDA | US$53.4m |
| Return on net assets (annualised) | (2)% |

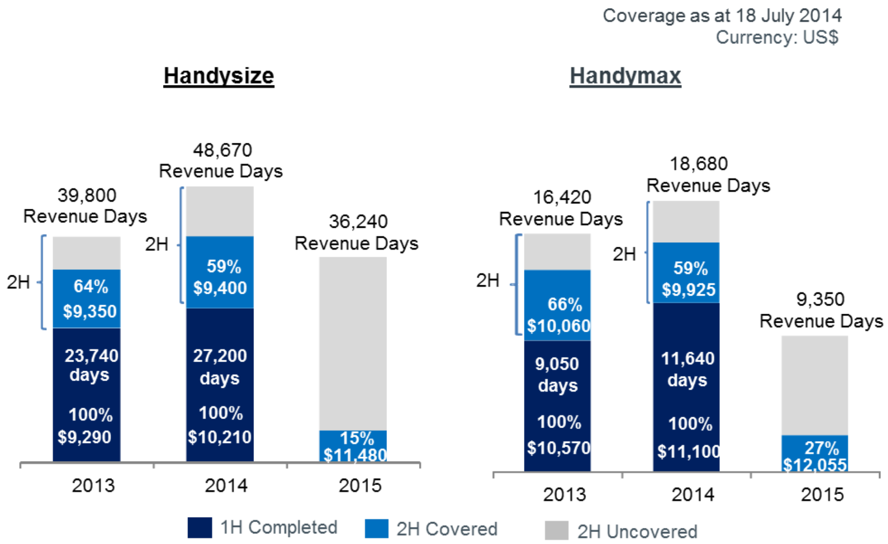
The contribution from our Handysize activity was marginally higher year on year benefitting from daily earnings that outperformed the market and good control of our owned vessel operating costs, but our overall dry bulk result was impacted by:

- 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;
- 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;
- the unexpectedly weak dry bulk market in the second quarter; and
- the loss of approximately US$5 million of notional TCE earnings from the scheduled dry-docking of a higher than normal proportion of our fleet.

Our average Handysize daily earnings increased 10% year on year to US$10,210 per day, beating the market index earnings of US$8,289 by 23% in the first half of 2014 and continuing to demonstrate the value of our business model and the cargo programme this brings.

Our Handymax earnings of US$11,100 outperformed the market by 13%, but losses on short-term chartered ships and repositioning voyages – both affected by the unexpectedly weak second quarter market – impacted our Handymax contribution and dry bulk result overall.

We operated an average of 152 Handysize and 65 Handymax ships, resulting in a 15% and 28% increase in our Handysize and Handymax ship revenue days respectively year on year.




We have covered 59% of both our Handysize and Handymax revenue days currently contracted for the second half of 2014 at average rates of US$9,400 and US$9,925 respectively.

**PB Towage**

| PB Towage net (loss)/profit | US$(9.2)m |
|---|---|
| Segment EBITDA | US$(3.0)m |
| Return on net assets (annualised) | (13%) |

Our towage activities were loss-making in the face of an increasingly competitive landscape. The wind-down of the construction phase of Gorgon and other gas projects has resulted in increasing competition for fewer employment opportunities which is impacting earnings and utilisation of our offshore towage fleet.

Our harbour towage volumes increased 29% year on year driven by the expanding activity of our young Newcastle operation which offset the reduced volumes in our other bulk ports and static volumes in our liner ports.

We operated an average of 49 towage vessels in the first half of 2014. Having expanded our barge fleet in the second half of 2013 for the new project in the Northern Territory, we have recently started to redeliver chartered-in tugs as they become surplus to requirements.

As announced on 25 June, our discussion with PSA Marine did not produce an offer for our harbour towage business due primarily to increased competition in recent months. We will therefore maintain our ownership of both our harbour and offshore towage businesses. The change in the competitive landscape resulted in our downgraded outlook for the long-term earnings capability of PB Towage, necessitating non-cash impairment charges and a provision together amounting to US$63.9 million in our consolidated half-year results. This comprises: (a) a vessel impairment charge of US$51.6 million and provisions of US$2.2 million which feature together in the consolidated income statement as “vessel impairment and provision”; and (b) a US$10.1 million impairment against our interest in joint ventures which is included in the consolidated income statement as “share of profits less losses/impairment of joint ventures”. The impairment will not impact the operating cash flows or operations of the Group, which will continue to benefit from a robust balance sheet.

We remain committed to providing a secure and reliable service to both our harbour and offshore towage customers. We are committed to our towage businesses and are fully supporting the new business tenders in which we are engaged.

**Investment and Balance Sheet**

Following our busiest ever year for dry bulk acquisitions in 2013, we have committed to purchase three secondhand vessels in the year to date. We have also ordered one newbuilding and committed to the long-term charter of three more.

At mid-year we operated 211 dry bulk ships of which 79 were owned. A further 37 newbuildings (18 owned and 19 chartered) are due to join our trading fleet over the next three years, with the next of our owned newbuildings scheduled to deliver in mid-2015. We remain very satisfied with the timing and purchase price of our acquisitions.

As at 30 June 2014, we had cash and deposits of US$320 million and net borrowings of US$655 million. We had 16 unmortgaged dry bulk ships on the water with a combined net book value of US$324 million.

Our vessel capital expenditure obligations amounted to US$410 million payable in 2014 to 2017 in respect of our 18 newbuildings on order and one secondhand ship. To finance these newbuildings, we secured attractive funding in the form of a US$350 million, 12-year Japanese export credit agency (“ECA”) loan as announced in April.

**Dry Bulk Outlook & Strategy**

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.

We believe the market recovery remains fragile because growing dry bulk demand has still not fully absorbed the excessive supply of mainly larger ships generated by the newbuilding delivery boom of 2010 to 2012. However, the worst of the influx of new capacity is behind us, having peaked in 2012, and the future fundamentals look favourable, especially for smaller bulk carriers of the type in which we specialise.

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. Our counter-cyclical owned fleet expansion at historically attractive prices is reinforcing our dry bulk freight service platform to enhance customer satisfaction and position us to leverage the market recovery we expect ahead, generating increased shareholder value, a competitive cost base, sustainable growth and attractive long-term returns. Our relationships will continue to generate ship acquisition and charter opportunities, but we expect a much slower pace of acquisitions compared to 2013.

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## About Pacific Basin

Pacific Basin Shipping Limited (www.pacificbasin.com) is one of the world's leading owners and operators of modern Handysize and Handymax dry bulk vessels. The Company is listed and headquartered in Hong Kong, and currently operates in two main maritime sectors under the banners of Pacific Basin Dry Bulk and PB Towage. Our fleet (including newbuildings on order) comprises 300 vessels directly servicing blue chip industrial customers. With approximately 3,000 seafarers and 380 shore-based staff in 16 offices in key locations around the world, Pacific Basin provides a comprehensive quality service to a wide range of customers.

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## Unaudited Condensed Consolidated Income Statement

| | *Six months ended 30 June* | |
|---|---|---|
| | **2014** | 2013 |
| **Continuing operations** | **US$'000** | US$'000 |
| Revenue | **909,970** | 766,793 |
| Cost of services | **(908,132)** | (741,126) |
| Gross profit | **1,838** | 25,667 |
| General and administrative expenses | **(4,927)** | (9,495) |
| Vessel impairment and provision | **(53,784)** | - |
| Other income and gains | **3,880** | 5,581 |
| Other expenses | **(7,848)** | (320) |
| Finance income | **6,081** | 8,547 |
| Finance cost | **(21,684)** | (24,869) |
| Share of profits less losses / impairment of joint ventures | **(8,032)** | 2,785 |
| Share of profits less losses of associates | **-** | 2,226 |
| (Loss)/profit before taxation | **(84,476)** | 10,122 |
| Taxation | **(703)** | (710) |
| (Loss)/profit for the period | **(85,179)** | 9,412 |
| **Discontinued operations** | | |
| Loss for the year | **(5,484)** | (9,147) |
| (Loss)/profit attributable to shareholders | **(90,663)** | 265 |
| Dividends | **-** | - |
| Earnings per share for (loss)/profit attributable to shareholders (in US cents) | | |
| Basic earnings per share | | |
| From continuing operations | **(4.47)** | 0.48 |
| From discontinued operations | **(0.29)** | (0.47) |
| From (loss)/profit attributable to shareholders | **(4.76)** | 0.01 |
| Diluted earnings per share | | |
| From continuing operations | **(4.47)** | 0.48 |
| From discontinued operations | **(0.29)** | (0.47) |
| From (loss)/profit attributable to shareholders | **(4.76)** | 0.01 |

## Unaudited Condensed Consolidated Balance Sheet

| | 30 June 2014 US$'000 | 31 Dec 2013 US$'000 |
|---|---|---|
| **Asset** | | |
| Non-current asset | | |
| Property, plant and equipment | **1,675,993** | 1,622,297 |
| Investment properties | **2,632** | 2,675 |
| Land use rights | **2,926** | 2,971 |
| Goodwill | **25,256** | 25,256 |
| Interests in jointly ventures | **15,060** | 26,650 |
| Investments in associates | **1,332** | 1,332 |
| Available-for-sale financial assets | **4,176** | 4,984 |
| Derivative assets | **14,008** | 13,175 |
| Trade and other receivables | **39,373** | 65,975 |
| Restricted bank deposits | **1,317** | 1,269 |
| Other non-current assets | **2,817** | 5,917 |
| | **1,784,944** | 1,772,411 |
| Current assets | | |
| Inventories | **97,417** | 104,006 |
| Derivative assets | **1,370** | 2,238 |
| Trade and other receivables | **165,866** | 142,374 |
| Restricted bank deposits | **1,118** | 1,593 |
| Cash and deposits | **317,810** | 483,200 |
| | **583,581** | 733,411 |
| Assets of discontinued operations classified as held for sale | **-** | 31,624 |
| | **583,581** | 765,035 |
| Total assets | **2,368,525** | 2,537,446 |
| | | |
| **Equity** | | |
| Capital and reserves attributable to shareholders | | |
| Share capital | **193,486** | 193,237 |
| Retained profits | **425,385** | 526,582 |
| Other reserves | **597,241** | 584,475 |
| Total equity | **1,216,112** | 1,304,294 |
| | | |
| **Liabilities** | | |
| Non-current liabilities | | |
| Derivative liabilities | **13,435** | 18,779 |
| Long term borrowings | **756,425** | 708,660 |
| | **769,860** | 727,439 |
| Current liabilities | | |
| Derivative liabilities | **6,144** | 4,580 |
| Trade and other payables | **155,748** | 166,475 |
| Current portion of long term borrowings | **218,311** | 328,565 |
| Taxation payable | **2,350** | 1,985 |
| Provision for onerous contracts | **-** | 656 |
| | **382,553** | 502,261 |
| Liabilities of discontinued operations classified as held for sale | **-** | 3,452 |
| | **382,553** | 505,713 |
| Total liabilities | **1,152,413** | 1,233,152 |
| | | |
| Net current assets | **201,028** | 259,322 |
| | | |
| Total assets less current liabilities | **1,985,972** | 2,031,733 |