# Pacific Basin Shipping Limited

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

## FIRST QUARTER 2014 TRADING UPDATE

## HIGHLIGHTS

**Pacific Basin Dry Bulk is well positioned to benefit from seasonal and cyclical recovery expected in second half 2014**

**First quarter impacted by short-term weakening freight market, regional volatility and low-paying positioning voyages**

**Harbour towage shows growing volumes year on year while offshore towage faces more difficult market conditions**

### *Pacific Basin Dry Bulk*

- We generated Handysize average daily earnings of US$10,390 on 13,540 revenue days in the first quarter; by comparison, Handysize spot market rates averaged US$9,470 per day net
- Our Handymax daily earnings were only marginally higher than our Handysize earnings reflecting our large seasonal programme of low-paying positioning voyages to benefit from higher paying front-haul voyages we anticipate later in the year
- While indices were improved compared to the same period last year, freight rates have experienced a seasonal first quarter decline since the end of 2013 and the minor bulk freight market has been characterised by geographic differences in vessel earnings
- We faced the higher cost of chartering in Handymax ships during the unexpected regional market spike at the end of 2013 to perform our US Gulf front-haul cargo commitments in the first quarter of 2014
- 42% of our 26,510 contracted Handysize revenue days in the last three quarters of 2014 are covered at US$10,070 per day net – a low level of cover for Pacific Basin in the expectation of improving market strength ahead
- We expect minor bulk freight earnings to improve in the second half of 2014 on seasonally stronger cargo volumes and more favourable supply fundamentals as the cyclical recovery progresses
- In the year to date, we have taken delivery of four owned ships and our owned fleet on the water now stands at 80 ships compared to 37 at the start of 2013
- We currently operate 230 dry bulk ships with a further 38 newbuildings (19 owned and 19 long-term chartered) due to join our core fleet in the next three years

### *PB Towage*

- Our first quarter harbour towage job numbers increased 18% year on year despite a disruptive cyclone season partly due to our steadily expanding volumes and market share in the port of Newcastle where we commenced operations in 2013
- Our offshore towage business continues its efforts to secure contract renewals and new contracts; our barging operation in Australia's Northern Territory was adversely affected by unusually heavy rainfall early in the cyclone season and, because of the physical difficulties of the location, the terms of this project have been restructured
- Following a review of third-party acquisition interest in PB Towage, we announced on 10 March our decision to: (a) discontinue this exercise in respect to our offshore towage business; and (b) enter into an exclusive discussion with PSA Marine regarding a possible sale of our harbour towage business

### *Financing & Corporate*

- Holders of our US$230 million 2016 Convertible Bond put back to the Group bonds with face value of US$20.4 million which was repaid on 14 April 2014. The remaining US$209.6 million of the bonds mature on 12 April 2016.
- We are in the documentation stage of a further US$350 million, 12-year Japanese export credit agency ("ECA") loan
- Mrs. Irene Waage Basili has been appointed as an Independent Non-executive Director of the Company with effect from 1 May 2014

# PACIFIC BASIN DRY BULK

## MARKET REVIEW

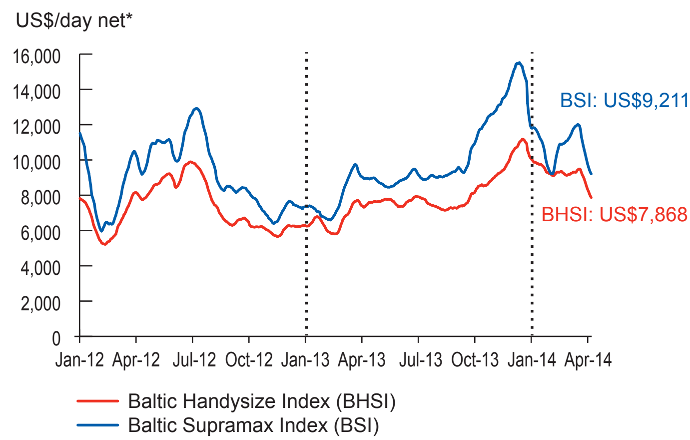
### *Freight Market Summary*

Handysize and Handymax spot market rates averaged US$9,470 and US$11,050 per day net respectively in the first quarter of 2014. While indices were improved compared to the same period last year, freight rates in the first quarter experienced a seasonal decline from end 2013 levels and weakened further going into the second quarter (see Graph A).

The freight market was characterised by imbalances in demand which drove geographic differences in vessel earnings. Regional strength in the US Gulf resulted in a significantly stronger market in the Atlantic than in the Pacific at the beginning of the year. The overall market declined in January on Pacific weakness before stabilising in February and March when Atlantic weakness was off-set by recovery in the Pacific. However, by the end of March the market was in decline in all areas due to a delayed South American grain season resulting in a disappointing weak start to the second quarter.

**Graph A**

**Baltic Dry Bulk Earnings Indices**




* US freight rates are net of 5% commission

Source: The Baltic Exchange, data as at 11 April 2014

### *Key Demand Developments*

R.S. Platou estimate dry bulk transportation demand in 2014 will grow approximately 8%, exceeding growth in vessel supply and thus improving the balance of supply and demand.

Evidencing continued healthy demand, Chinese imports of seven key minor bulks increased 27% year on year in the first two months of 2014. Excluding bauxite and nickel ore imports which were unusually low due to an Indonesian export ban, the remaining five commodities registered a 33% volume increase compared to the first two months in 2013.

Chinese imports of iron ore reached an all-time high in January and in the first quarter were 19% greater than in same period in 2013. Increased mining output, particularly in Australia, has resulted in lower iron ore prices. Although the Chinese economy is reportedly experiencing slower growth and the post Lunar New Year recovery was slower than in previous years, we have seen no evidence of a slowdown in terms of the volumes of trade in iron ore or in the minor bulk commodities we carry.

### *Global Fleet Developments*

The pace of newbuilding deliveries in all four dry bulk segments has continued to slow with new capacity delivered in the first quarter of 2014 down one third year on year. During the quarter, the global dry bulk fleet expanded by 1.7% net despite reduced scrapping. The global fleet of 25,000-40,000 dwt Handysize vessels registered 1.1% net growth during the first quarter.

We expect newbuilding deliveries in 2014 to again fall short of planned deliveries as scheduled at the start of the year. R.S. Platou forecast 5% overall dry bulk net fleet growth for the full year – well below their 8% demand growth forecast.

### *Orderbook*

New dry bulk ship ordering activity in the first three months of 2014 was 38% down on the previous quarter but 33% up compared to the first quarter of 2013. Most new orders were for delivery in 2016 and 2017 when scheduled deliveries as a percentage of the overall fleet remain relatively small. While visibility on actual future deliveries is not fully clear, we do not expect the orderbook to impede further freight market improvement in the coming few years. However, sustained ordering at the pace seen at the end of 2013 would be a cause for concern.

As at 1 April, the published orderbook for Handysize vessels stood at 21% as compared to 17% a year ago. The orderbook for dry bulk vessels overall has also increased to 22%.

*Ship Values*

Driven by expectations of freight market recovery and in turn by renewed interest in the dry bulk sector, Clarksons currently value their benchmark five year old 32,000 dwt Handysize bulk carrier at US$21 million representing a 24% increase year on year and a 35% increase since the market low at the end of 2012.

## DRY BULK ACTIVITY SUMMARY

In the first quarter of 2014, we generated Handysize average daily earnings of US$10,390 on 13,540 revenue days representing our strongest first quarter “TCE” performance since 2011. However, these stronger daily earnings will be partly off-set by the increased cost of the ships we use under short-term and index-linked charters to optimise the execution of our cargo systems.

Our Handysize earnings continue to outperform the market despite the expiry of higher paying cargo contracts secured in better markets and despite the reducing gap between our contract cover rates and the generally stronger spot market compared to a year ago.

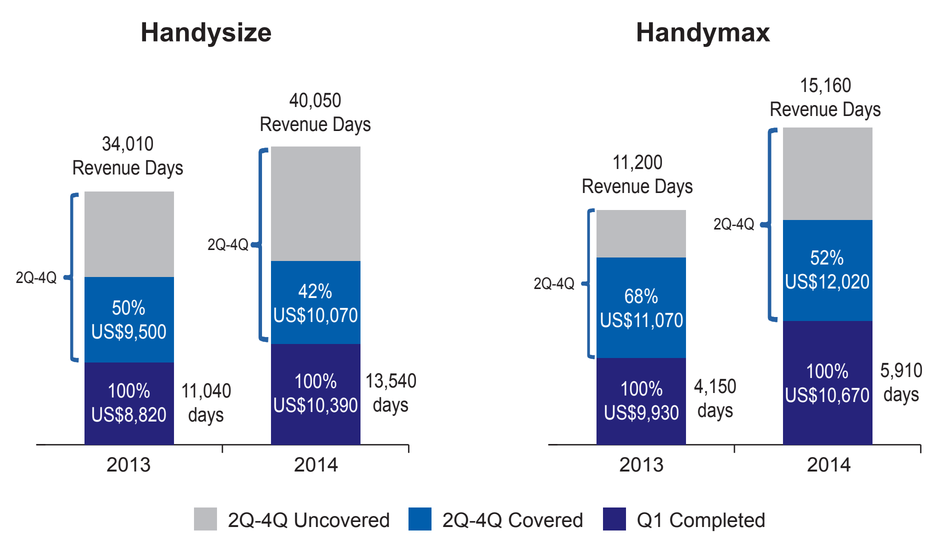
Our owned and long-term chartered ships which we acquire during cyclical lows to expand our low-cost core capacity are expected to deliver increasing margins as market conditions improve. We use short-term and index-linked chartered ships in addition to – not instead of – owned and long-term chartered ships to optimise the execution of our cargo systems.

Our Handymax average daily earnings of US$10,670 on 5,910 revenue days were only marginally higher than our Handysize earnings reflecting our large seasonal programme of low-paying positioning voyages to benefit from higher paying front-haul voyages that we anticipate later in the year. We also faced the higher cost of chartering in Handymax ships during the unexpected regional market spike at the end of 2013 to perform our US Gulf front-haul cargo commitments in the first quarter of 2014. Combined with the current market weakness, this will negatively impact our Handymax performance in the first half of 2014 but will support a stronger second half performance if the market improves as we anticipate.

Our Handymax fleet continues to be dominated by short-term inward chartered vessels (66% of 5,910 revenue days in the first quarter) giving rise to continued volatility in our Handymax performance. However, our recent additions and commitments to acquire more owned and long-term chartered ships at historically attractive levels will support an increasingly stable cost base and, in time, allow our Handymax activity to replicate our Handysize business model – with a low-cost, high-quality core fleet enabling efficiencies of scale in our selected cargo trades – albeit on a smaller scale and with a narrower geographical focus.

As at 7 April, we had covered 42% of our 26,510 contracted Handysize revenue days in the last three quarters of 2014 at US$10,070 per day net. 52% of our 9,250 Handymax revenue days in the last three quarters of 2014 were covered at US$12,020 per day net (see Graph B). In aggregate, these represent a historically low level of cover for Pacific Basin in the expectation of improving market strength ahead. However we continue to discuss cargo contract opportunities with our customers provided we can secure cover at reasonable long-term rates. During the first quarter, we entered into several long-term cargo contracts with customers for periods extending to December 2021. We currently have 19,820 uncovered revenue days for the balance of 2014.

**Graph B**




Cargo cover secured as at 7 April 2014
Uncovered days excludes capacity chartered in on a variable rate, index-linked basis

Following our busiest ever year for dry bulk acquisitions in 2013, we committed in the first quarter to purchase one newbuilding and two secondhand vessels, and to long-term charter two newbuildings.

In the year to date, four owned ships (including one of the secondhand acquisition commitments mentioned above) and eight long-term chartered ships delivered into our fleet.

We currently operate 230* dry bulk ships of which 80 are owned, 40 are long-term chartered and 110 are on index-linked or short-term charters. A further 38 newbuildings (19 owned and 19 chartered) are due to join our core fleet over the next three years.

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 dry bulk commercial network now covers all major continents and oceans ensuring we can provide a localised service and meet our customers' cargo requirements on any route, anywhere in the world and at any time.

### PB TOWAGE

PB Towage continued to experience mixed fortunes in the first quarter of 2014.

Our harbour towage activity in Australian container and bulk ports was adversely affected by a disruptive cyclone season. However, our first quarter job numbers increased 18% year on year, which was partly due to our steadily expanding volumes and market share in the port of Newcastle where we commenced operations in mid-2013.

Our offshore towage business continues its efforts to secure contract renewals and new offshore construction and project transportation contracts to increase its revenue book following the completion of our Gladstone projects in 2013 and as activity declines on the Gorgon project as it approaches its production phase.

Our barging operation in Australia's Northern Territory was adversely affected by unusually heavy rainfall early in the cyclone season. Due to the physical difficulties of the location, the terms of this project have been restructured such that (i) our four barges will remain deployed on the project albeit on a bareboat charter basis for five years with various purchase and put options in favour of the charterer and Pacific Basin respectively, and (ii) our four tugs are now deployed on a bareboat charter basis until they redeliver to us within the coming months. The mobilisation and related costs and weather-impacted revenue are expected to result in unrecoverable project costs of approximately US$3.5 million in the first half of 2014. We will seek new employment for our tugs as part of our wider efforts to develop new projects for our offshore towage business.

We maintain good utilisation of our three tugs and three barges in the Middle East despite continued over-supply in the region. One tug is operating under a long-term charter in oilfields off the UAE, while two tugs and three barges are deployed in the transportation of aggregate to Qatar and other spot market opportunities.

## FINANCING & CORPORATE

Holders of our US$230 million 2016 Convertible Bond put back to the Group bonds with face value of US$20.4 million which was repaid on 14 April 2014. The remaining US$209.6 million of the bonds mature on 12 April 2016.

We are in the documentation stage of a further US$350 million, 12-year Japanese export credit agency ("ECA") loan in respect of 18 already contracted newbuilding vessels scheduled to deliver from mid-2015 onwards. We expect the facilities to be finalised in May this year. This new financing, which we consider beneficial to our shareholders, is in addition to US$314 million of loans we secured in 2013 in the form of ECA and commercial bank loans.

The PB RoRo wind-down that started in 2012 is progressing as planned. The last of our four remaining RoRo vessels is expected to commence its bareboat charter to Grimaldi on 15 April which will trigger the recognition of a US$5 million exchange loss as projected in our 2012 Annual Report. Such exchange loss represents the final release of the cumulative foreign exchange reserves relating to the owning company of the subject vessel to the consolidated income statement of the Company at the bareboat commencement date. Our four remaining RoRo vessels are all on charter until Grimaldi take ownership of at least one vessel in each six-month period until the end of 2015.

As announced on 13 March, Mrs. Irene Waage Basili has been appointed as an Independent Non-executive Director of the Company with effect from 1 May 2014. The Board considers Irene to represent a well-qualified and very suitable addition to our INED team, bringing extensive commercial, strategic and operational experience in the dry bulk and other shipping sectors which will no doubt be beneficial to the Company's business and development.

* average number of vessels operated in March 2014

# OUTLOOK

## MARKET OUTLOOK

The start of the dry bulk cyclical recovery has been evidenced by a strong increase in secondhand ship prices with increased freight earnings lagging the rate of secondhand asset value appreciation. Even so, earnings in the first quarter of 2014 were above the levels of a year ago and, with cargo volumes traditionally biased towards the second half of the year and newbuilding deliveries greatest in the first half, we expect earnings to improve in the second half of 2014.

We expect the Handysize and Handymax spot markets to demonstrate gradual recovery in the remainder of the year reflecting the healthy supply and demand balance that characterises the minor bulk segments and the reduced knock-on impact of weak Panamax earnings as the cyclical recovery progresses.

Despite some recent concern about the Chinese economy, we have not seen any trend pointing to a reduction in trade volumes for the cargoes that we typically carry. This is reflected in published commodities import volumes for the year to date which are significantly increased year on year, and is likely to be further supported by recent news of the Chinese government's new stimulus plans covering continued investment in urbanisation and railway infrastructure expansion. We believe the positive long-term demand fundamentals for dry bulk remain intact.

We expect further expansion of mines and the minerals sector to support continued steady growth in Australian seaborne trade and, in turn, harbour towage demand in PB Towage's core Australian market in 2014.

The outlook for offshore towage services on the Australian coast is more challenging as LNG projects approach their production phase, construction support contracts scale down and competition for new contracts has increased.

## BUSINESS OUTLOOK

Having invested very actively in dry bulk ships during 2013, our expanding low-cost fleet on the water will enhance our ability to increase customer satisfaction and maintain a competitive cost base, reinforcing our position in a strengthening market and generating sustainable growth, significant cash flow and attractive shareholder returns. Our investment in low-paying positional voyages in the first quarter is positioning our fleet favourably to benefit from stronger freight markets which we expect to see in the second half of 2014.

The outlook for our towage business is mixed with our harbour towage activities expected to provide relatively stable earnings while our offshore towage business faces more volatile and difficult conditions of the offshore logistics sector. Our harbour towage performance in the short-term will primarily depend on the rate of growth of our new operation in Newcastle. We expect to generate weak short-term offshore towage results due to the restructuring of the contract in the Northern Territory, and future performance will be affected by the speed at which we secure new employment of assets following the wind-down of completed projects.

In October 2013, we commenced a review of third-party acquisition interest in PB Towage to enable the Board to assess the value to our shareholders of a possible sale of our towage businesses. On 10 March 2014, we announced our decision to:

(a) discontinue this exercise in respect to our offshore towage business; and

(b) enter into an exclusive discussion with PSA Marine regarding a possible sale of our harbour towage business.

This discussion is still in progress and there is no certainty that we will conclude a sale of our harbour towage business. If any transaction should proceed, we will comply with our disclosure obligations and make further announcements as and when required in accordance with the Listing Rules.

## FLEET

The following table summarises the size and composition of our fleet on the water and our current newbuilding commitments.

| | Vessels in operation | | | Newbuildings on order | | | |
|---|---|---|---|---|---|---|---|
| | Owned | Chartered | Total | Owned | Chartered | Total | Total |
| ***Dry Bulk Fleet*** | | | | | | | |
| Handysize | 64 | 91 | 155 | 13 | 15 | 28 | 183 |
| Handymax | 15 | 58 | 73 | 6 | 4 | 10 | 83 |
| Post Panamax | 1 | 1 | 2 | – | – | – | 2 |
| Total Dry Bulk Vessels | 80 | 150 | 230[1] | 19 | 19 | 38 | 268 |
| ***Towage*** | | | | | | | |
| Tugs | 31 | 8 | 39 | – | – | – | 39 |
| Barges | 10 | – | 10 | – | – | – | 10 |
| Other PB Towage Vessels | 1 | 1 | 2 | – | – | – | 2 |
| Total Towage Vessels | 42 | 9 | 51[2] | – | – | – | 51 |
| ***Roll-on Roll-off*** | 4 | – | 4[3] | – | – | – | 4 |
| **Grand Total** | 126 | 159 | 285 | 19 | 19 | 38 | 323 |

Note:

1 Dry bulk fleet in operation defined as average number of vessels operated in March 2014

2 Towage fleet comprised 39 tugs, 10 barges, 1 passenger/supply vessel and 1 bunker tanker

3 RoRo vessels sold with forward delivery

By Order of the Board
**Mok Kit Ting, Kitty**
*Company Secretary*

Hong Kong, 15 April 2014

*As at the date of this announcement, the executive Directors of the Company are David Muir Turnbull, Mats Henrik Berglund, Jan Rindbo, Andrew Thomas Broomhead and Chanakya Kocherla, and the independent non-executive Directors of the Company are Robert Charles Nicholson, Patrick Blackwell Paul, Alasdair George Morrison and Daniel Rochfort Bradshaw.*

*Shareholders and investors are reminded that this trading update for the period ended 15 April 2014 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 update and are advised to exercise caution when dealing in the shares of the Company.*