# Pacific Basin Shipping Limited

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

# THIRD QUARTER 2013 TRADING UPDATE

## HIGHLIGHTS

**Pacific Basin vessel earnings outperform third quarter market**
**32 dry bulk ships acquired since September 2012**
**Dry bulk market expected to be stronger in fourth quarter of 2013**
**Dry bulk fleet expansion efforts continue, though good value opportunities are fewer**
**PB Towage makes progress in new project development**

### *Pacific Basin Dry Bulk*

- We achieved third quarter average daily earnings of US$9,550 net on 14,410 Handysize revenue days
- By comparison, third quarter Handysize spot market rates averaged US$7,500 per day net in a market that has gradually trended upwards since the fourth quarter low in 2012
- 72% of our 9,470 contracted Handysize revenue days in the final quarter of 2013 are covered at US$9,500 per day net; 22% of our 30,400 contracted Handysize revenue days in 2014 have so far been covered at US$10,320 per day net
- Our 27% outperformance over third-quarter average spot market rates underscores the continued strong value of our fleet scale and cargo-focused dry bulk business model
- We expect seasonally stronger demand combined with reduced newbuilding deliveries to support a stronger Handysize spot market in the fourth quarter
- Global Handysize capacity registered zero net fleet growth in the third quarter of 2013
- Five year old Handysize ship values stand at US$18.5 million – up 19% since the nine-year low point at the start of the year
- Since September 2012, we have acquired 32 dry bulk ships and chartered 23 ships on long-term inward charters
- Our strategic priority remains to expand our fleet of owned and chartered Handysize and Handymax ships
- In view of the growing difficulty in finding good value opportunities, our pace of acquisitions is likely to be slower than it was in the past 12 months
- We currently operate 164 Handysize and 60 Handymax ships, with 25 newbuildings (8 owned and 17 chartered) scheduled to join our core fleet in 2014 to 2016

### *PB Towage*

- In July, we commenced operations in Newcastle where our initial job numbers are encouraging
- Our OMSA joint venture's contract to supply marine logistics services to the Gorgon project was recently extended from April 2014 to December 2015, although we expect a gradual and phased decline in activity levels as the project approaches its production phase
- We have secured a five-year contract for the trans-shipment of iron ore in Australia's Northern Territories providing employment for four of our tugs and four barges
- The Board has recently confirmed its approval to sound out the market for potential third-party acquisition interest in PB Towage; the process is at a preliminary stage and there is no certainty that we will proceed with any transaction

### *Financing*

- We secured a further US$51 million, 12-year Japanese export credit agency loan in respect of two Japanese-built Handymax vessels which delivered in October 2013

## PACIFIC BASIN DRY BULK

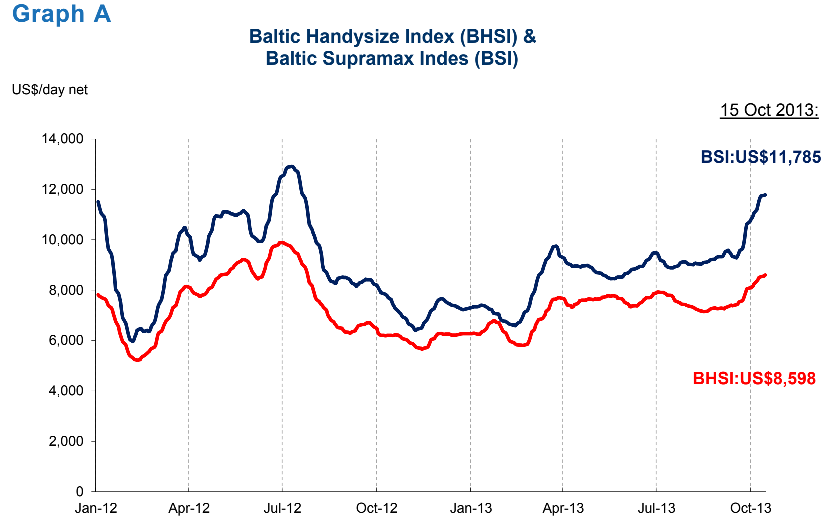
### MARKET REVIEW

*Freight Market Summary*

Handysize and Handymax spot market rates averaged US$7,500 and US$9,300 per day net respectively in the third quarter of 2013, reflecting a gradual upward trend in Handy rates since the fourth quarter low in 2012. Rates for these smaller bulk carriers in which we specialise traded within a narrow band in the third quarter and have improved since August to reach their highest levels since mid-2012.

Overall dry bulk freight market developments were dominated by a strong increase in Capesize spot rates from US$5,000 per day just four months ago to over US$40,000 at the end of September – levels last seen in late 2010 – despite significant expansion of Capesize capacity over the past three years.

**Graph A**




*Source: The Baltic Exchange, as at 15 October 2013*

While pre-winter stock building for key commodities often leads to a seasonal improvement towards the fourth quarter, this increase in Capesize earnings has come sooner and stronger than expected due to the combined effect of iron ore restocking in China, increased exports from expanding mining capacity and significantly lower net fleet growth in the Capesize segment, which has led to improved dry bulk market sentiment overall. The sharp rise in Capesize rates – which is most likely a short-term seasonal improvement to be followed by a softer first quarter in the new year – highlights the much greater volatility in the market for large bulk carriers and demonstrates that freight market conditions can change quickly even in dry bulk market segments widely perceived to be oversupplied.

Notwithstanding this significant recent Capesize market strengthening, it is worthwhile noting that average Handysize and Handymax rates have been higher than Capesize rates over much of the past two years demonstrating the better fundamentals in the smaller vessel segments.

*Key Demand Developments*

Dry bulk transportation demand in the first and second quarters of 2013 is estimated by R.S. Platou to have increased by 5.0% and 5.5% respectively year on year.

Chinese imports of iron ore set new all-time highs in July and September and, in the first nine months of the year, were 9% greater than in the same period in 2012. We observed continued solid imports of key dry bulk commodities overall despite reduced Chinese GDP growth forecasts at the start of the quarter which resulted in less optimistic sentiment surrounding China's market-driving appetite for dry bulk commodity imports.

Chinese imports of seven key minor bulks increased 19% year on year in the first eight months of 2013, or a still healthy 10% if we exclude bauxite which registered particularly strong growth from an unusually low base last year. Chinese log imports continue to expand and, in the first nine months, increased 16% compared to the same period last year.

*Global Fleet Developments*

The pace of newbuilding deliveries in all four dry bulk segments has continued to slow, as has the rate of dry bulk capacity growth despite a slow-down in scrapping from record highs in 2012.

The global fleet of 25,000-40,000 dwt Handysize vessels registered zero net growth during the third quarter while dry bulk capacity overall expanded by 1% net.

We expect newbuilding deliveries in the full-year 2013 to fall significantly short of the planned deliveries as scheduled at the start of 2013, and R.S. Platou forecast 7.9% overall dry bulk net fleet growth for the full year – marginally below their forecast of 8.1% demand growth.

We anticipate more favourable fundamentals to prevail starting in 2014 when dry bulk supply is forecast to grow at below 5% in the context of around 7% growth in demand.

### *Orderbook*

The surprising level of new ship ordering activity in the first half of the year continued through the third quarter with a particular focus since mid-year on Capesize and large Handymax vessels. New orders in the year to date (relating mainly to 2015 and increasingly 2016 deliveries) are up 110% year on year (source: Clarkson) albeit from restrained levels in 2011-2012. The scheduled orderbook for 2015 and 2016 deliveries as a percentage of the overall fleet remains relatively small by historical standards, but continued ordering at this pace would be a cause for concern.

As at 1 October, the published orderbook for Handysize vessels stood at 18% as compared to 20% a year ago. The orderbook for dry bulk vessels overall has also reduced to 18%.

### *Ship Values*

Clarksons' valuation of their benchmark five year old 32,000 dwt Handysize bulk carrier stands at US$18.5 million – up 3% since mid-year and 19% since the nine-year low point at the start of the year.

The recent increase reflects improved sentiment and a general lack of good quality sales candidates. Traditional bank financing is showing renewed interest in the dry bulk sector on a selective basis. Investment capital has increased via public market fundraising and private equity funds seeking increased exposure to dry bulk shipping.

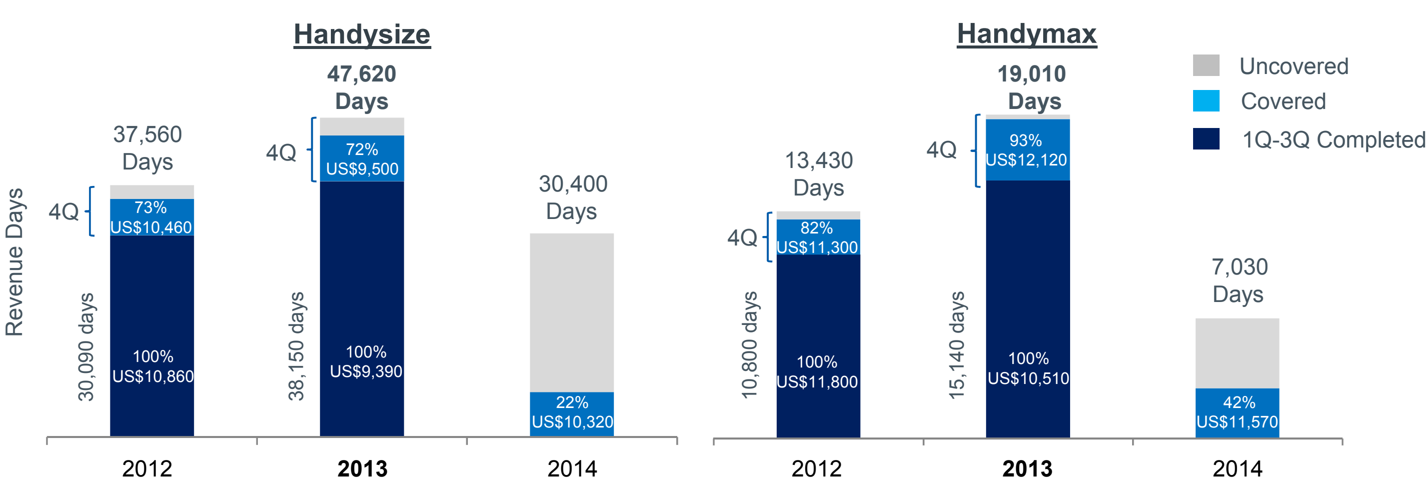
## DRY BULK ACTIVITY SUMMARY

In the third quarter of 2013, we achieved average daily earnings of US$9,550 net on 14,410 Handysize revenue days, and US$10,420 net on 6,090 Handymax revenue days.

The US$2,000 per day Handysize uplift that we have achieved over third-quarter average spot market rates (representing a 27% outperformance of the market) underscores the continued strong value of our fleet scale and cargo-focused dry bulk business model.

As at 15 October, we had covered 72% of our 9,470 contracted Handysize revenue days in the final quarter of 2013 at US$9,500 per day net. 93% of our 3,870 Handymax revenue days in the final quarter were covered at US$12,120 per day net. 22% of our 30,400 contracted Handysize revenue days in 2014 have so far been covered at US$10,320 per day net (see Graph B).

**Graph B**




*Cargo cover secured as at the time of Third Quarter Trading Update*
*Cover excludes revenue days related to vessels chartered in on a variable rate, index-linked basis*

Since announcing our interim results on 1 August, we have committed to purchase another one ship and we have leased seven on long-term charters of three years or more. This brings to 32 and 23 the number of dry bulk vessels we have purchased and long-term chartered since we returned to the ship acquisitions market a year ago. Our commitments to date are scheduled to expand our owned fleet on the water from 37 dry bulk ships at the start of 2013 to 72 ships by the end of the year.

We currently operate 164 Handysize and 60 Handymax ships on the water, with 25 newbuildings (8 owned and 17 chartered) scheduled to join our core fleet in 2014 to 2016.

### PB TOWAGE

PB Towage's harbour division continues to experience good support in Australia's main liner ports and the dry bulk port of Townsville. Our third quarter harbour job numbers increased 15% year-on-year.

In July, we commenced operations in the bulk port of Newcastle where our initial job numbers are encouraging. We are especially fortunate to have secured NYK as our foundation client. We expect to benefit from the support of our Australian customer base and see steady growth in job numbers for our four-tug operation in Newcastle in the months ahead.

In the offshore project and logistics sector, our OMSA joint venture's contract to supply marine logistics services to the Gorgon project was recently extended from April 2014 to December 2015. This extension represents welcomed recognition of the quality of OMSA's service to the Gorgon project. While we are encouraged by this contract extension, we expect a gradual and phased decline in the construction work scope as the project approaches its production phase. Accordingly – and having also completed project work in Gladstone earlier in the year – we have been pursuing new opportunities, preferring to focus on longer term rather than spot market work.

In a significant step in generating new business, we have secured a five-year contract for the trans-shipment of iron ore at a new location in Australia's Northern Territories. Commencing in November, this business will provide employment for four of our tugs which completed their QCLNG and APLNG deployment in Gladstone earlier in 2013 or were operated in the spot market. We will also acquire four barges for the project.

The Middle East oil and gas sector is showing some improvement, but demand for aggregates for marine construction work has weakened considerably on uncertainty over long-term projects in Qatar and the UAE.

PB Towage continues to tender for other LNG related projects, work on longer-term opportunities to fill gaps in the market for project cargo transportation services, and pursue potential expansion into neighbouring geographic and niche markets.

PB Towage's third quarter results have been significantly impacted by: i) the costs incurred in winding down the Gladstone projects; ii) the mobilisation costs incurred ahead of the Northern Territories project commencing this November; iii) the initial Newcastle operational costs while business builds up; and iv) the reduction in revenue from the OMSA joint venture as construction work nears completion and our work on the Gorgon project becomes increasingly maintenance related. However, the one-off nature of some of these factors means that PB Towage's performance in the fourth quarter is expected to support a positive contribution overall in the second half of the year.

## FINANCING

As announced on 16 August, we have secured a further US$51 million, 12-year Japanese export credit agency ("ECA") loan in respect of two already contracted Japanese-built Handymax vessels which delivered in October 2013. This new financing is in addition to the US$85 million ECA loan facility that we secured and announced in April 2013.

We are working to finalise around US$175 million of additional commercial bank loans for existing vessels with repayment terms which we consider beneficial to our shareholders.

# OUTLOOK

## MARKET OUTLOOK

We expect seasonally stronger demand combined with reduced newbuilding deliveries late in the year to support a stronger Handysize and Handymax spot market in the fourth quarter of 2013 before the typical January rush of new ship deliveries and Chinese holiday and weather-related disruptions cause rates to soften early in the new year.

With the minor bulk segments less volatile than large vessel types, we expect the Handysize and Handymax spot markets to continue to demonstrate gradual recovery in the medium term.

While dry cargo demand is likely to remain similarly healthy as in the past year, and notwithstanding the current seasonally high Capesize rates, it will take some time for the market to absorb the over-supply of larger dry bulk ships and for a sustained recovery to take hold. We believe the positive long-term demand fundamentals for dry bulk remain intact.

LNG projects currently under construction are expected to drive continued long-term demand for PB Towage's logistics and construction support services on the Australian coast. We also anticipate that further expansion of mines and the minerals sector will support Australian seaborne trade growth and, in turn, sustained steady growth in harbour towage job numbers. As a result, the long-term outlook for PB Towage remains positive, although the shorter-term contribution from PB Towage is likely to be impacted by costs and reduced revenue and utilisation as we redeploy our assets and resources from completed projects to new projects (see PB Towage business review above).

## BUSINESS STRATEGY

Our strategic priority remains to expand our fleet of owned and chartered Handysize and Handymax ships, drawing on our strong balance sheet and cash position to pursue further ship acquisitions provided asset prices remain attractive relative to our market expectations. In view of the increasing prices and growing difficulty in finding good value opportunities, our pace of ship acquisitions is likely to be slower than it was in the first half of this year.

We will also continue to grow our dry bulk customer and cargo portfolio in tandem with our core fleet expansion. We work closely with our customers to develop long-term freight contracts which enable them to secure visibility for their freight costs, currently at historically attractive levels, with a strong ship owner who has a proven track record in service delivery. Our partnership with customers has resulted in several long-term cargo contracts – some extending beyond 2020 – which provide us with a reasonable return on the ships we have purchased and chartered during the cyclical downturn.

In January 2014, we will be enhancing our global network with a new Pacific Basin Dry Bulk presence in Dubai (where we already have a PB Towage office) to better serve customers with cargo to and from the Middle East and India. The ability to meet our customers' needs on any route, anywhere in the world and at any time is key to our evolving service offering to cargo owners.

These initiatives serve to reinforce the platform on which our dry bulk freight service is anchored – thus enhancing customer satisfaction – and to position ourselves optimally for a stronger market in the longer term, and to generate increased shareholder value, a competitive cost base, sustainable growth and attractive long-term returns.

PB Towage will target profitable growth opportunities in both the harbour and marine logistics support sectors. In the harbour sector, we will continue to consolidate our position in existing ports, including Newcastle, and pursue potential opportunities to operate at exclusive ports. In the project sector, our concentration remains on delivering the best possible service on existing contracts while also seeking opportunities in Australia and internationally including the shipment of modular project cargo.

As announced on 15 October 2013, the Board of directors of Pacific Basin confirmed its approval to sound out the market for potential third-party acquisition interest in PB Towage. The process is at a preliminary stage and there is no certainty that the Company will proceed with any transaction. If any transaction proceeds, the Company will comply with its disclosure obligations and make further announcements as and when required in accordance with the Listing Rules. Shareholders of the Company and potential investors are advised to exercise cautions when dealing in securities of the Company as these soundings may not lead to a binding agreement.

## FLEET

As at 15 October 2013, the Group's fleet (including newbuildings) numbered 306 vessels, and our fleet commitments are currently as follows:

| | Vessels in operation | | Newbuildings on order | | |
|---|---|---|---|---|---|
| | Owned | Chartered | Owned | Chartered | **Total** |
| **Dry Bulk Fleet** [1] | | | | | |
| Handysize | 58 | 106 | 6 | 14 | **184** |
| Handymax | 12 | 48 | 2 | 3 | **65** |
| Post Panamax | 1 | 1 | – | – | **2** |
| **Total Dry Bulk Vessels** | **71** [2] | **155** | **8** | **17** | **251** |
| **Towage** | | | | | |
| Tugs | 31 | 8 | – | – | **39** |
| Barges | 9 | – | – | – | **9** |
| Other PB Towage Vessels | 1 | 1 | – | – | **2** |
| **Total Towage Vessels** | **41** | **9** | **–** | **–** | **50** [3] |
| **Roll-on Roll-off** | **5** [4] | **–** | **–** | **–** | **5** |
| **Grand Total** | **117** | **164** | **8** | **17** | **306** |

Note:

1 average age of our dry bulk core fleet: 6 years

2 including recent secondhand acquisitions of 2 Handysize and 1 Handymax vessels not yet delivered

3 comprising 39 tugs, 9 barges, 1 passenger/supply vessel and 1 bunker tanker

4 sold with forward delivery

**www.pacificbasin.com**
**about us > fleet > fleet download**
PB fleet development since 30 June 2013

By Order of the Board

**Mok Kit Ting, Kitty**
*Company Secretary*

Hong Kong, 18 October 2013

*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 18 October 2013 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.*