

“The future depends on what you do today” Mahatma Gandhi

THE RESULTS reviewed by EY Office Limited, show you the latest financial position of the Company. The net loss for Q3 was USD 4.56 million from an average of 43 ships in the quarter. The earnings per day per ship during Q3 came in at USD 6,575. In this quarter, average daily operating costs per ship were USD 4,547. This figure is expected to average around USD 4,600 per day per ship for the year as a whole, a bit higher than our annual target of 4,500 per day per ship. The loss in Thai Baht for Q3 was Baht 0.14 per share.

THE HARD FACTS	Q3, 2013	Q3, 2014
Vessel Operating Days	3,650	3,967
Highest Earnings per day per ship in USD	13,936	15,000
Average Earnings per day per ship in USD	7,041	6,575
Operating cost per day per ship in USD	4,622	4,547
EBITDA in million USD (excluding Gain on Novations)	5.75	5.70
Net Profit/(Loss) before Extraordinary items (including exchange Gain (loss)) in million USD	(5.48)	(5.80)
Net Profit/(Loss) in million USD	0.65	(4.56)
Earnings/(Loss) Per Share in Thai Baht	0.02	(0.14)

PROSPECTS: The global economy is strengthening. The US continues to gain traction and robust growth is expected (3%+) through 2015. China is witnessing a cyclical upturn, and hard landing fears have eased. In contrast, the Eurozone failed to grow at all in Q2, in part due to headwinds from Russia. German quarterly growth lagged that of the Eurozone for the first time in five years, while Italy entered its third recession since 2008. Although we expect Eurozone growth to accelerate in the coming quarters, risks remain firmly to the downside. (Deutsche Bank)

Every year sees a surge in **Brazilian iron ore production (and shipments)** occur during the second half of the year, followed by a large decline during the first half of the following year, and then a large increase again during the second half of that year. For example, the first half of 2013 saw Vale’s iron ore shipments total 137.2 million tons. The second half of 2013 saw Vale’s iron ore shipments increase to 168.4 million tons. The first half of 2014 saw Vale’s iron ore shipments fall to 144.7 million tons. While Brazilian iron ore shipment volume and capesize rates experienced a lull in July, a very large surge in Brazilian iron ore shipments is about to begin. Vale also announced that its total shipment volume for this year is expected to reach at least 321 million tons. Vale is extremely likely to meet this target (and very possibly exceed it), which means that Vale’s iron ore shipments during the second half of this year will total at least 176.3 million tons. This would mark an increase of 31.6 million tons (22%) from shipments seen during the first half of this year. Great strength in the capesize market has all along been set to occur during the second half of this year; the fundamentals have not changed and Brazilian iron ore shipment volume is following its normal seasonal trends. At the same time, Vale’s iron ore production expansion program also remains on schedule. Going forward, a very large surge in Brazilian iron ore shipments is about to occur. (Commodore Research & Consultancy)

The completion of Ponta da Madeira's Pier IV (a berth dedicated to Vale's largest ships) in late April led to robust export volumes between May and July. During this period, an average of just over 30 MMT was shipped each month. The 15 percent m-o-m contraction in August sent alarm bells ringing and reinforced the view Chinese appetite for iron ore was cooling. However, the lower figure is largely due to loading issues at Ponta da Madeira in the middle of [August], and maintenance work at the end of the month at Tubarao, CSN and the Guaiba Island Terminal. Operations have since resumed and are now in full swing. Last week, Brazilian ports shipped out the annualised equivalent of 382 MMT, or 32 MMT/month. We do not expect Brazilian iron ore exports to decline in Q4. Volumes seen at present should be sustained over the rest of the year, with about 97 MMT shipped, near the level of volumes witnessed in Q4 2012. (Braemar ACM Weekly Report)

Analysts Erik Nikolai Stavseth and Kurt Waldeland noted in their Shipping report that despite increasing freight from Brazil, Vale could struggle to meet its targeted volumes. If this occurred, the downturn could last well into the fourth quarter, they noted, given Vale had a history of "missing production targets". Based on Vale's production guiding, exports in the second half year were expected to reach 202 MMT. "This suggests that total Q4 exports should reach 110 MMT – a 15% increase year over year," they noted. "We see it as difficult for Vale to reach their guided output through increased Q4/14 production as the average monthly volume needed to reach target would be 37 MMT per month, which compares to an all-time high of 35 MMT in May 2008." If Vale fails to deliver as earlier stated, the current downturn in capesize freight rates could be prolonged well into the fourth quarter. (Lloyd's List)

China's railway track should total more than 200,000 kilometers by 2030. In 2013, the country had 103,144 km of track. Domestic railway investment between 2013 and 2015 will come to 3.2 trillion Yuan (\$515 billion), and from 2016 to 2020, it will reach 4.8 trillion Yuan, and from 2021 to 2030, 8 trillion Yuan will be spent according to China Daily. (COSCO China News Letter)

China imported 11.34 MMT of cereals during the first seven months of 2014, up 80% year-on-year, according to data released by the General Administration of Customs. (Fairplay)

On last year's visit to Asia we become most positive on dry bulk, but this year we are more muted having met economists, real estate professionals, Shanghai steel exchange representatives, and shipping companies, due to: 1) a slower real estate market; 2) infrastructure investments are slowing; 3) expectations of lower steel production growth; 4) pollution being more of a problem each year; 5) weak coal imports; and 6) a focus on becoming a consumer-driven economy and a shift from 'China made' to 'China create'. (DNB Markets)

One factor which certainly contributed to lower China's thermal coal imports this year has been the remarkable performance of the hydro power sector in the country.

According to figures from the National Bureau of Statistics, Chinese total electricity generation increased by 7.2% year-on-year in the first 7 months of 2014. However, thermal power generation (which in the case of China uses almost exclusively coal as fuel) increased by only 4.3% year-on-year in the same period. Hydro power generation, on the other hand, surged by a whopping 16.6% year-on-year in the same period, thanks to new dam projects and sufficient rain. (Banchemo Costa Research)

The outlook for thermal coal import demand in China, the world's largest importer, is weak, rating agency Fitch said in its latest industry report. The report attributed the weakness to China's slowing industrial production, higher hydro-based generation, as well as ongoing implementation of policies aimed at curtailing coal consumption. (COSCO China News Letter)

China will impose a 3% tax on imports of coking coal and anthracite products starting October 15, according to the Ministry of Finance. The move is expected to help China's mining sector compete with imports. The state council approved the reinstatement of the tariff along with 3-6% tax for other coal categories, according to a notice on the ministry's website. (Platts)

Guinea, Ghana and Sierra Leone together contribute 21 MMT of seaborne Bauxite, around 20% of the world's supply [will be lost due to Ebola]. Together with the loss of Indonesian supply, this would mean Chinese refiners may start facing shortages by the end of the year. (ACM Braemar Research)

Final demand [in China] is slowing, but it is still growing. The process of urbanisation and infrastructure development has not yet run its course; it simply requires greater discipline and better management. The anti-corruption drive of Xi Jinping, that has damaged sales of everything from flowers to fine wine, may be precisely what is needed in order to end the pork barrel waste so reminiscent of Japan's past. Steelmaker margins turned positive this year with raw material input prices falling faster than steel billet outturn prices. Chinese iron ore production is up about 10% this year, mostly from state-owned rather than private mines, but the Fe content of that iron ore is declining, meaning that more material needs to be dug up just to stand still. Finally, Chinese apparent steel consumption (production+imports minus inventories+exports) continues to rise in 2014. This is not the end of the Iron Age but we need to be mindful of China's new focus on the quality over quantity of growth, of the as yet unknown ramifications of its anti-corruption drive and of the government's determination not to provide more distorting credit stimulus, quite unlike the West that is totally hooked on it. When it comes to the future, the kaleidoscopic movement of so many variables in commodities and shipping defies the best forecasts. (Hartland Shipping Services)

The Chinese central bank injected some liquidity into the domestic banking system recently, but it was only for 3 months and not meant to address the more structural issue of declining private sector demand. While export growth and job creation still look pretty good, the overall picture is one of an economy growing at 7%, and that's with the contribution from government spending. Government spending is set to slow in the second

half of the year; the authorities continue to reduce the size of the shadow banking system which extends credit; and the overheated housing market is still in decline as well when looking at national home sales and a 70-city home price average. We expect continued weakness in Chinese data for the rest of 2014 and into next year as well. (JPMorgan)

US Corn exports continue to run at exceptionally high levels with latest forecasts estimating shipments at 49 MMT, 30 MMT more than the previous growing season. With another bumper harvest expected this year USDA predicts exports to continue at strong levels. (Howe Robinson Research)

Commodity prices are falling, not what one might expect in a global economic recovery. This speaks volumes of the manufactured and fragile nature of the recovery, and also of how production increases that were approved in better times are finally delivering into a market of weaker demand. The fate of the bulk carrier market may depend upon the extent to which Brazil can compete with Australia in raising ore output while lowering prices. We need growth in ton-mile demand to soak up excess tonnage supply caused by low ship prices. Hard-to-control ship supply meets almost uncontrollable demand. (Hartland Shipping Services)

The Thai government has started selling rice from the stockpile amassed during a recent disastrous subsidy scheme and aims to ship 10 MMT of the grain this year, which would make it again the world's largest rice exporter. However at least 500,000 tons have been delayed because of a labour shortage at ports after hundreds of thousands of foreign workers fled amid fears of a crackdown on illegal migrants. (Banchemo Costa research)

Danske Bank has released a **positive credit analysis** of the shipping industry, saying the industry is at the start of a five to seven-year upturn. "Shipping cycles historically last 5-7 years, 2014 looking to be the first year in the recovery stage and moving towards mid-cycle earnings," the bank said. The news that Danske Bank, a big lender to companies involved in the shipping industry, has upgraded the industry outlook to "improving" signals an expectation that the shipping industry is set to grow globally. (Ocean Resources Inc)

As coal block de-allocation looms, Glencore, the biggest trader of fuel, sees **India imports rising** to 180 MMT in 2015 and then to 300 MMT by 2020. With de-allocation of coal blocks putting a question mark on India's ability to meet any significant part of the country's energy need, the country could soon overtake China as the world's biggest consumer of imported coal, global analysts including Glencore, one of world's largest trader of coal, predict. (DNA India)

India may become the largest exporter of rice next year amid higher demand anticipated from African and Middle East countries and competitive prices. "From the current 4 MMT of annual export of non-basmati rice, we should be able to export 7 MMT," said BV Krishna Rao, managing director of Pattabhi Agro Foods, the country's biggest exporter of non-basmati rice. Rao said basmati and non-basmati rice exports should be 10-11 MMT, a level last seen in 2012. (Economic Times, India)

Rates in global shipping could rise, but only moderately, in the next 12-18 months, and capacity will outstrip demand and limit the ability of shipping lines in three sectors to improve their operating earnings. That is the sober assessment of Moody's Investors Service in its annual outlook on the industry. Moody's nevertheless said the industry would be stable for the next 12-18 months. (Lloyd's List)

The global shipping industry is not expected to find any firm footing going forward as the global economic recovery remains fragile and uneven. "Shipping being a derived demand of global economic growth, will see lower demand in coming years, all other things being equal, than what was previously expected," said Peter Sand, chief shipping analyst at Bimco. (BIMCO)

In Northern Europe, IP in Germany, France and the UK combined is around 7% down on 2007 levels, and in Southern Europe things have been even worse, with IP in Italy and Spain combined down a whopping 27% on 2007. As a result, Europe's coal imports in 2014 are projected to remain below 2007 levels at just under 200 MMT and iron ore imports are set to be well below 2007 levels at less than 130 MMT. (Clarksons Research)

China's GDP growth numbers have been mixed: 7.4% in Q1, 7.5% in Q2 and 7.3% in Q3. However, despite the mixed macroeconomic numbers, Chinese Iron Ore imports reached 699.46 MMT by end September for an annualized total import of 932.61 MMT or an increase of 13.69% compared to the 820.30 MMT in 2013. Chinese Steel production reached 614.39 MMT by end September for an annualized total of 819.19 MMT or an increase of 5.76% compared to the 774.57 MMT in 2013. Coal imports into China reached 223.25 MMT by end September for an annualized total of 297.67 MMT or a decrease of 7.56% over the 322.01 MMT imported in 2013. In a country that currently produces and consumes just under 4.0 BMT of Coal per annum, with the figure expected to grow to 4.1 BMT by 2015, even a small change in their Coal requirements via imports could have a dramatic impact on the Dry Bulk freight markets.

The light at the end of the proverbial Supply Side tunnel is, unfortunately, starting to dim as scrapping has slowed down with an increase in the order-book for delivery of new ships. Dry bulk ships scrapped in the first 3 quarters of this year consist of 23 Capesizes, 44 Panamaxs, 37 Supramaxes, 41 Handymaxes and 95 Handysizes, equivalent to 11.89 MDWT. In the first 9 months of this year, the dry bulk sector added 3.96% by DWT (29.10 MDWT) with another 3.85% (28.32 MDWT) scheduled for delivery in the last quarter. If we apply a 35% slippage factor to expected deliveries and assume an additional 8.11 MDWT of ships scrapped in Q4, we will end up with an increase of about 5.36% by DWT to reach 774.59 MDWT for this year. 2015 has 72.63 MDWT of ships scheduled for delivery; add the 35% slippage in expected deliveries from the Q4'14 numbers of 9.91 MDWT; assume annual scrapping of just 20 MDWT; apply a 35% slippage in expected annual deliveries and we would end 2015 with a world fleet of 808.24 MDWT for a growth rate of just 4.34% over the 774.59 MDWT expected at the end of 2014.

A symptom of the above challenges is that companies are currently struggling. Just to name a few that have been in the shipping press recently:

- **Under the deal [with Commerzbank] Box Ships is only paying \$15m of the outstanding \$21.5m, which represents 70% of the full amount. (Lloyd's List)**
- **Hanjin Shipping has posted a loss of KRW 200bn (\$195m) against a loss of KRW 80bn in the corresponding [Q2] period last year [2013]. (TradeWinds)**
- **Hyundai Merchant Marine incurred a KRW10Bn (\$9.8M) loss for 2Q14, reversing a KRW7Bn profit for the same period last year. (Fairplay)**
- **The 2Q14 loss that Hyundai HI (HHI), the world's biggest shipbuilder, posted was its worst ever performance. HHI had a net loss of KRW616.6Bn (\$600.2M) and an operating loss of KRW1.1Trn in 2Q14, a result that shocked investors and analysts. (Fairplay)**
- **The holding company for the six Santa P boxships, operated by German shipowner Reederei Claus-Peter Offen, has itself filed for insolvency, following the earlier insolvency of two individual vessels within the series [on Monday 11th August 2014]. (Lloyd's List)**
- **NASDAQ-listed Eagle Bulk has sought Chapter 11 bankruptcy protection to facilitate a pre-packaged debt restructuring plan. The beleaguered dry bulk company filed its petition in the New York Southern District Court [on 6 August.] The plan calls for all current Eagle Bulk equity to be extinguished and for lenders holding \$1.2Bn in debt to receive 99.5% of the new equity, while current shareholders would receive the remaining 0.5%, plus seven-year warrants to acquire an additional 7.5%. (Fairplay)**
- **Eagle Bulk Shipping's loss continues to grow with its second-quarter red ink coming hot on the heels of it [filing] Chapter 11 papers. Its loss for the three months to the end of June was \$44.7m compared to \$3m a year ago. (TradeWinds)**
- **Established in 1999, the South Korean-owned Samjin Shipbuilding Industries located in Weihai in China's Shandong province has confirmed that it is in discussions to sell itself due to its financial troubles. (Fairplay)**
- **Danish shipowner Torm has continued to suffer in the first half of this year with a \$246m pre-tax loss. Torm has a remaining interest bearing debt of \$1.4bn. (Lloyd's List)**
- **A total of six additional bulk carriers [7 were initially put up for auction] owned by Guangdong Lanhai Shipping, a Chinese bulker operator, will be put on auction block to repay bank loans. (Fairplay)**

PSL has a three pronged strategy for the current very challenging years. Firstly, to future proof our assets, via the purchase of brand new eco engine ships and the simultaneous sale of 21 older and non-eco engine ships, which should be completed by the early part of 2016. Secondly, as you all know, PSL is one of those unique organizations that has never faced natural attrition in our staffing with people only leaving the Company once they reach retirement age. Whilst this has stood the Company in very good stead in the past, it also means that we will have a spate of retirements over the next few years. However, the good news is that we have been planning for this and will have a complete Succession Plan in place before the end of 2014, not only for the next generation that will

succeed those who will retire in the coming years, but also their replacements. Finally, we have set a target to, through the judicious sale of ships as well as our Chartering strategy, become debt free before the end of 2018, well before the maturity of our long term loans.

LONG TERM VERSUS SHORT TERM CHARTERS: The long term charters already booked as of 30th September are shown in the chart below. As can be seen, our current and forward four year (2014 to 2018) rolling book is currently at the 16% level with a visible revenue stream of USD 200 million.

Year	2014	2015	2016	2017	2018
Total Available Days	15,507	18,795	25,007	25,550	25,550
Fixed T/C Days	5,798	2,717	2,562	2,555	2,240
%age Fixed T/C Days	37%	14%	10%	10%	9%
Av. T/C Rate/Day in USD	10,645	13,465	13,713	13,713	13,849
Contract value in USD	\$62m	\$37m	\$35m	\$35m	\$31m

It is our intention to continue to charter out our ships on long term period contracts whenever practical and economically viable.

Market Segmentation: During Q3, the Baltic Handy Size Index (BHSI 28,000 DWT) averaged 419 points derived from the average Time Charter (TC) rate of USD 6,218. Compared to that, our Handies (27,427 DWT, 2.1% smaller than the index ship) earned USD 6,586 outperforming the BHSI TC rate by 5.9%. During Q3, the Baltic Supramax Index (BSI) averaged 849 points derived from the average TC rate of USD 8,877. Compared to that, our Supramaxes earned USD 6,952 underperforming the BSI TC rate by 21.7%.

The Fleet Rejuvenation Plan is being realized. As of the end of this quarter, we had 44 ships in the water and another Cement Ship is scheduled for delivery during 2014. Next year will be the real challenging year from an operational stand point. We plan to dispose of 21 older, and some younger but not so eco engine ships whilst taking delivery of 17 brand new eco engine ships. Another 7 brand new eco engine ships will be delivered during the early part of 2016 to take our fleet to 48 ships in the water with an average age of just 3.5 years and an average size close to 50,000 DWT!

Dividends were paid for each of the last 30 consecutive quarters starting in Q1 2007 but we are unable to maintain this record due to the current market conditions. Cash flows and profitability permitting, we hope to renew our quarterly dividend payout in the future.

The next SET Opportunity Day featuring PSL will be held at the SET building at 10.00 hours on the 4th November 2014. We hope that many of you will attend this event where the Company will thoroughly discuss the current results, state of the freight markets and also clarify any doubts that may exist. This meeting is [web cast live by the SET](#) so you can catch it live via the net if you cannot be there physically.

SHIP SCRAPPING has slowed down considerably. In the first 3 quarters of 2014, just 95 ships were removed whilst a total of 104 ships were added resulting in the fleet increasing from 2,770 ships at the beginning of the year to 2,779 by the end of Q3 in the world fleet in our (10 to 30K) sector. If the freight markets remain weak, we expect scrapping rates to reach 8 to 12% in our sector. That will bring supply and demand back into some semblance of order.

Sincerely,

Khalid Hashim