

BOARD OF DIRECTORS' REPORT



Mr. Khalid Moinuddin Hashim
Managing Director

TO THE SHAREHOLDERS:

The directors are pleased to present the 26th Annual Report of the Company along with the Audited Financial Statements as on 31st December 2014.

2014 the year of the unexpected: 2013 was a year of contrasts with the second half outperforming the first half creating the perfect conditions for the maritime world to expect a sterling performance in 2014 with the long-awaited recovery almost in sight. And we could not have been more wrong. 2014 was, for the maritime world, what Queen Elizabeth once referred to as the 'Annus Horribilis', a year that we would not look back with undiluted pleasure. The average BDI at 1,105 points for the year, the 6th lowest in history, tells the story. As a result of this disappointing year, the consensus opinion is that 2015 will be a very challenging year.

The difference between the second half of 2014 compared to the second half of 2013 was that iron ore from Brazil to China did not perform as well in 2014 as compared to 2013. The ton-mile intensity of Brazil as compared to Australia is about 3/3.5 times. In 2014 Australia supplied the entire excess of about 110 MMT of iron ore that China imported over the quantity imported in 2013. Normally all such increases, between any two years, are shared equally between Australia and Brazil. It apparently did not happen in 2014 and hence the dismal rates for the cape sector. The other difference was the complete absence in 2014 of any form of seasonality. The dry bulk market thrives on spikes or seasonality. The Chinese did not do any 'binge' buying due to tighter credit conditions and the South American grain season simply did not happen as the farmers preferred to hold their grain in silos rather than sell and be faced with the constant devaluation of their local currency. As a result, during June 2013 more than 100 ships were waiting to load grain outside just one port in Brazil, Paranagua, versus ZERO ships waiting to load grain during June 2014 in Brazilian waters.

The dry bulk markets propensity to surprise, therefore seems to be alive, and in good health! We were very bullish this time last year about the prospects in 2014 and got a 'rude shock', we are similarly bearish about the prospects for 2015, and we could be 'pleasantly surprised' with results that defy current expectations. It is now almost 7 years since the dry bulk markets have been in a crisis. Even the scriptures forecast a maximum of 7 years of famine so hopefully we have seen the last of the 'bad' years.

Hartland Shipping Services neatly summed up all that had gone wrong in 2014. "One thing is clear: 2014 dealt us a series of bad hands on the demand side. In dry cargo there is a chronological list of things that went wrong. A harsh winter in the US and mild one in Europe drastically reduced eastbound transatlantic coal volumes. Indonesia's January ban on the export of unprocessed minerals is still in place and has taken a lot of bauxite and nickel ore shipments from the market. In the spring, China cancelled 2 MMT of South American soya bean imports as a resurgence of bird flu hit demand for soya bean meal as feed. A wet summer in China increased hydropower by 40% year-on-year in August at the expense of thermal coal imports. Now all coal



Mr. Khushroo Kali Wadia
Executive Director

imports may be affected by October's introduction of import taxes designed to protect Chinese miners. Our view is that most of these negative factors could dissipate or even reverse, dealing us a better hand in 2015 just as tonnage supply growth is set to moderate. End October capesize rates soared as Chinese steel mills took advantage of lower iron ore prices to build inventories from Australia and Brazil. It shows that low prices can stimulate shipping activity regardless of the fact that final demand is soft. In China, steel is now as cheap as cabbage, so mills are exporting more with volumes up 73% year-on-year in September. Brent crude is down since mid June and US gasoline prices have fallen [significantly] from a peak of \$3.64 per gallon in April. That is a big tax cut for consumers. Hopefully it will feed through into rising consumption, ultimately leading to increased seaborne demand for a wide variety of processed and unprocessed goods. Most commodities have also fallen in price this year, extending losses from previous years. Iron ore has [more than] halved in price since its early 2013 peak of \$160 per ton. Corn is down almost 60% since its mid 2012 peak. Cotton is 70% cheaper than it was in early 2011. Copper is down 35% and thermal coal down 45% over the same period, and off 10% and 13% respectively this year alone. If lower commodity prices stimulate real global consumption, in ways that low interest rates have not, then 2015 could turn out to be a much better year for shipping than many are now expecting. Lots of things have to align themselves in just the right order, but we are overdue some luck after a really unhelpful sequence of events in 2014."

Shipping banks that contributed to the current debacle with 'easy loans', during the boom years prior to and including 2008, allowing ship owners to over-order/buy ships with little equity and no forward contract coverage, have for the most part taken big hits and where possible have sold their existing loan books at cents to the dollar. Restructuring, inside or outside the bankruptcy courts, has happened in quite a few cases and others are in negotiation. As a result many traditional shipping banks have sold their loans in specifically targeted companies. Others have reduced their shipping loan portfolio via a bulk sale to others or have simply exited this business all together and have retired or disbanded their shipping teams. All these actions have resulted in losses so banks are loath to lend any more funds to our industry. Ship finance is, therefore, not getting easier.

The situation at the **newbuilding shipyards**, especially those that had been newly developed in the boom years of 2006 to 2008, has become impossible. Those that have managed to survive have reduced their existing capacity via consolidation; some have gone back to block-building and ship repairing; and others have converted to 'green' recyclers. China and South Korea are home to many newbuilding shipyards that have been reported in the shipping press as having closed down or being in deep financial distress.

Low Oil Prices and the world economy: According to Deutsche Bank research, for every USD 10 drop in the price of oil on an annual basis, world GDP increases by 0.40%. As shipping derives its demand from world GDP growth rates, any increase in world GDP growth rates would therefore be beneficial for our business. The rule of thumb is that dry bulk demand increases by about 1.5/2.0 times world GDP growth rates. A lot depends

on how well the lower oil prices help push world GDP growth rates higher. For those of you old enough to have lived and worked through the Asian crisis of 1997 you would recall that oil prices had more than halved during that time (USD 20/23 down to USD 9/10 per barrel). That was one of the major factors that helped the Asian economies survive and eventually export and consume their way out of trouble. We are confident that low oil prices could, once again, be of great assistance in saving the current world economy and allowing individual countries to export and consume their way out of their current economic woes. Besides, most commodities incur about 50% of their cost of production on energy. If oil prices stay very low, then this would mean that all commodity prices must come down and stay low for a sustained period of time. Lower prices, in general, result in greater demand and that would mean more cargoes for ships. Let us see how this low oil price theme plays out during 2015.

Low Oil Prices and its impact on slow steaming: Lower bunker prices in theory should result in a reduction of slow steaming but only if the day rates are high enough. At current charter rates no one will speed up their ships. In fact every charterer still insists on getting the ships 'eco' speed and they instruct Masters to prosecute their voyages at these 'eco' speeds.

Scraping in 2012 had a stellar all time record of 35.97 MDWT dry bulk ships being scrapped. However, 2013 and 2014 scrapping came in at a disappointing 21.39 and 16.72 MDWT respectively. Scrapping rates are dependent on two main variables: the freight market (primary mover) and the price of scrap (secondary mover) and have no connection with lower or higher oil prices. The latest scrap prices at just below USD 400 per steel ton of scrapped dry bulk ships is probably at the trough and industry expectations are that scrap prices should go up from here onwards. If scrap prices do improve, and the freight markets remain as low as it currently is, we expect many more ships to be scrapped in 2015 than were scrapped in 2014. Basically, in a poor rate environment, where charterers are spoiled for choice of ships, they will not fix an older ship as they generally consume more oil, are more expensive to insure for their cargoes, their customers don't want shipment in older ships and younger ships are available at almost the same rates as the older ships. Therefore, older ships don't get employed in a low rate environment and cost their owners even to keep idle. Hence in a low rate environment, with no hope for employment, most owners of older ships would look at the scrapping route more closely and with a rise in scrap prices the decision making becomes easier.

Slippage is the difference between the DWT of new ships on order at shipyards at the beginning of the year and the actual deliveries of DWT of new ships at the end of the same year. Slippage in 2014 came in at 35.4% which was close to the average for the past 5 years. As a result, the net increase in supply for 2014 was 35.15 MDWT with a yearend number of 770.34 MDWT. This amounted to a 4.78% net increase in the World Dry Bulk fleet, the smallest in the last 9 years! With slippage and scrapping demonstrating such volatility, the net increase in DWT of ships in future years will remain difficult to predict with any real accuracy. We think that slippage and scrapping will retain their unpredictability and will fluctuate inversely with the strength of the Baltic Dry Index (BDI). If we assume annual slippage at 35% and scrapping at 20 MDWT, then net increase in the Dry Bulk Sector would be 4.61% or 28.64 MDWT to 805.84 MDWT at the start of 2016. Applying the same assumptions we get a net fleet growth of 26.79 MDWT or 5.30% to 848.51 MDWT by the start of 2017.

On the **demand front**, the large clouds of uncertainty are still on the horizon. **China**, the big mainstay of the dry bulk markets, has struggled with GDP growth at an anemic, at least for China, 7.4% in 2014. China's economy in 2015 is expected to grow around 7% based on the assumptions of modest easing, prudent monetary policy, a clampdown on corruption, increase in domestic consumption and an increase in exports due to the healthy macro economic trends exhibited in their largest market, the USA. China is trying to stimulate its domestic economy and curb its dependence on its export markets. In terms of actual imports for 2014, China surprised the markets by increasing iron ore imports dramatically to 933.11 MMT (13.75% y-o-y), soya beans to 71 MMT (12.6% y-o-y) and logs/lumber at 67 MMT (11.1% y-o-y) whilst disappointing on coal at 292 MMT (down 9.4% y-o-y). Chinese steel exports have sky rocketed by 50.5% over the 2013 figure to reach 93.78 MMT. All this growth has taken place whilst the headlines were screaming 'China is slowing down!' During 2014 the IMF has calculated that China has become the largest economy in the world at USD 17.6 trillion on a purchasing power parity basis pipping America (17.4 trillion) into second place. The Chinese economic juggernaut is supposed to

grow at 'just' 7% during 2015 and newspaper headlines all over the world are screaming gloom and doom whilst the 4 to 5% growth rate of the US economy seems to hold the same newspapers spell bound as if genuflecting to their creator!

Economic growth is beginning to take a firm hold in the **USA**, the largest market in the world, where the Federal Reserve has not only stopped QE but is even contemplating raising interest rates, albeit in a very gradual manner towards the second half of 2015 as the economy is able to stand on its own two feet.

The **EU** is the second largest economy in the world after the USA and one of the largest exporting blocs in the world. Their economy has disappointed to such an extent that the EU Central Bank is on the verge of commencing their very own QE program. As a result the Euro has fallen sharply versus the USD and there is talk that it could soon head to parity or below. This combination of QE and a falling currency could be the ingredients that finally spark their moribund economy into life. Their propensity to export must not be underestimated as Germany used to be one of the largest exporters in the world not too long ago. If they manage to grow their economy they will need more bulk imports to convert to semi-finished and finished products that would need to be shipped out requiring the services of our industry.

Japan, the second largest dry bulk player in the world, is facing economic uncertainty under Abenomics. However, Nuclear power remains shuttered so more coal is being imported. Japanese companies have made windfall profits, thanks to the Yen being allowed to depreciate from 75 to 115/120 Yen to the Dollar, and will likely reinvest in Japan as well as all their manufacturing plants in Asia/around the world requiring more dry bulk imports.

India, with its weak currency and new market oriented government could become a very large exporter of Agricultural products from their smaller, shallower drafted and inefficient ports which would result in massive congestion and consequently a reduction in effective supply of smaller ships. This would push the small handy sector in the right direction.

The consequence of increased demand would be a reduction in the scrapping of older ships. In the next four years time i.e. before the end of 2018, 17.4% of the current dry bulk fleet of 770.34 MDWT would be over 20 years of age, equal to 133.7 MDWT, and some part or all of them could head for the scrap yards.

To keep things in perspective with regards to PSL, we would like to highlight the annual net profit/loss over the past few years.

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Av. BDI	2,617	4,510	3,371	3,180	7,065	6,390	2,617	2,758	1,549	920	1,206	1,105
Net Profit(loss) \$m	24.8	110.1	154.2	92.6	125.1	148.1	88.1	35.5	23.6	4.5	17.5	(2.5)
Av. No. of Ships	28.39	44.63	52.89	54.00	44.97	44.12	32.79	21.39	21.91	30.44	38.93	41.66
Net Profit(loss)/Ship \$m	0.87	2.47	2.92	1.72	2.78	3.36	2.69	1.66	1.08	0.15	0.45	(0.06)

Our results for 2014 must be viewed against the average BDI for the year of 1,105 points, being the 6th lowest figure in BDI history. Whilst most of our peers were seeking protection under Chapter 11 or undergoing restructuring of some sort or the other, we managed to turn in a marginal loss. 2009 to 2011 will be remembered as the 'consolidation years' at PSL when we shrank our balance sheet, reduced our fleet size and prepared for the rejuvenation of our fleet with modern, efficient and larger ships.

AWARDS AND ACCOLADES:

The Stock Exchange of Thailand recognized PSL as one of the companies with a prominent CSR program. The Stock Exchange of Thailand also recognized PSL as one of the companies with the Best Investor Relations in 2014. As if to validate this recognition from the SET, we were chosen as 'the best in class' in Corporate Governance in Thailand, and ranked second best when compared with companies from 12 different countries, involving a total of 322 select analysts and investors voicing their opinions in the largest ever poll conducted by Asiamoney. We were finalists for the IBJ Awards 2014 for the Bulk Ship Operator of the Year. We were also finalists for the Lloyd's List Asia Awards 2014 in the Ship Operator of the Year category.

FINANCIAL HIGHLIGHTS (THAI BAHT TERMS) AND REVIEW OF THE YEAR:

In terms of operations, during the year under review, the Total Revenues of the Company were Baht 4,661.59 million [2013: Baht 4,828.61 million] and the Company incurred a Net Loss of Baht 80.22 million [2013: Net Profit of Baht 527.77 million]. The Shareholders' Equity of the Company is Baht 15,283.85 million [2013: Baht 15,631.03 million] and the Total Assets of the Company have increased during the year to Baht 27,908.53 million [2013: Baht 25,509.76 million] mainly due to the delivery of 5 Ships in 2014. The increase in Total Assets would have been higher had internal cash reserves not been utilized for prepayment of loans, payment of dividends and advance payments towards new buildings during the year. It is also to be noted that Total Assets in Thai Baht (Reporting Currency) being restated from U.S. Dollars (Functional Currency) was marginally higher due to depreciation of the Thai Baht against the U.S Dollar as at the end of year 2014 as compared that at the end of year 2013.

During the year, the Company incurred Baht 82.31 million [2013: profit of Baht 522.34 million] as Net Loss before Exchange gain of Baht 4.33 million [2013: Exchange Gain of Baht 13.33 million] and Income Tax of Baht 2.24 million [2013: Baht 7.90 million]. In terms of the Earnings, the Company's ships achieved an average time-charter equivalent earnings of USD 8,096 per day per ship as compared to USD 7,508 per day per ship for year 2013. The Net Ship Operating Income (net of voyage disbursements and bunker consumption) in absolute terms was higher than that of the previous year, mainly due to higher average ships operated in 2014 (42 ships) as compared to 2013 (39 ships) and average time-charter equivalent earnings per day per ship in year 2014 were higher as compared to year 2013. Absolute ship running expenses (Opex), also increased by about 19%, mainly due to an increase in average number of Ships operated in 2014 as compared to 2013. Average ship running cost per day per ship (Average Opex per Day) during the year was marginally higher as compared to 2013. The technical downtime was an average of 10.67 days per Ship, which is very good considering the average age of the fleet of about 10 years in 2014. The Company received Baht 1,454.28 million through cancellation proceeds and recorded gain of Baht 39.55 million on account of cancellation of 1 shipbuilding contract during the year. The Company has paid dividends of Baht 311.82 million during the year 2014.

We conducted an "in-house" exercise again this year to determine Total Return to Shareholders, which was calculated for the 21 years that we have been operating as a listed entity. Based on the closing share price as on Monday the 16th September 2014 of Baht 25.75 per share (we started trading on the SET on the 16th September 1993) and assuming you had subscribed at the IPO, then, at the end of 21 years, you would have 18.24 times your initial investment. This return does not assume any re-investment of the dividends into shares or any interest on the dividends received.

FLEET REJUVENATION:

At the start of 2015, our fleet had 44 ships in the water (2 Ultras, 9 Supras and 33 Handy sizes) with an aggregate capacity of 1,525,040 DWT. This worked out to an average 34,660 DWT per ship, and an average age of about 10.5 years.

In a highly capital intensive business with very high leverage characterized by unpredictable and wildly swinging cycles, the timing of the purchase of ships is possibly the single most important decision that has to be made.

The Fleet Rejuvenation Plan is being realized. 2015 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 18 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!

ABG Shipyard: We had contracted a total of 21 ships (12X34K, 6X54K and 3X20K Cement ships) to be built at ABG. From these the first 34K ship was delivered in the middle of June 2011, the second in the end of March 2012 and the third in January 2013. We then profitably 'sold', through novations, nine shipbuilding contracts (5X34K and 4X54K) to an unrelated third party during 2011 to 2013. Thereafter, we cashed refund guarantees on another 9 ship building contracts (4X34K, 2X54K and 3X20K Cement ships) during 2013 and July 2014. With that action we have come to an end of the ABG saga.

HIGHLIGHTS OF 2014:

The **dry bulk market** disappointed during 2014 with the impending recovery, which was promised to be just round the corner, failing to materialize. As a result most shipping companies found their share values tanking to almost all time lows by the end of the year. The year was characterized by Brazil steadily losing ground to the Australian iron ore export behemoth. Of the approximately 110 MMT of additional iron ore imported into China during 2014, Australia supplied almost all of it thereby reducing the ton-mile impact of this huge annual increase. This year also felt the complete and utter absence of any form of seasonality with the Chinese 'binge' buying being curtailed by tight credit conditions prevailing there. Grain shipments from South America were largely absent with not a single ship having to wait for grain cargoes in Brazilian waters as compared to the more than 100 ships that were waiting during June 2013.

The **Supply Side** numbers are finally showing light at the end of the proverbial dark tunnel. A total of 749 dry bulk ships or 51.88 MDWT entered the supply side during 2014. At the same time, owners have recycled as many ships as possible. Scrapping this year has not matched last year's 21.39 MDWT with 26 Capes, 26 Panamaxes, 47 Ultras, 59 Supras, 54 Handymaxes and 132 Handy sizes scrapped, equivalent to 16.72 MDWT. This has resulted in the global dry bulk fleet strength, at the start of 2015, reaching 770.34 MDWT. 2015 and 2016 have 85.40/66.52 MDWT of brand new ships scheduled for delivery. If we assume annual scrapping of 20 MDWT (it was 16.72 for 2014) and apply a 35% slippage (it was 35.40% in 2014) in expected annual deliveries, 2015 ends with a world fleet of 805.84 MDWT for a growth rate of just 4.6% over the year. Under the same twin assumptions, 2016 ends with 848.51 MDWT for a growth rate of just 5.3% over the end-year total of 2015. The tsunami of newbuilding deliveries has finally come to an end!

The effect of the **Global Financial Crisis** is finally dissipating with the major economies starting on an upward economic growth pattern. As highlighted in earlier parts of this report, the **USA** has taken the decisive step of stopping QE and indicating that interest rates would probably start being increased in the second half of 2015 as the Federal Reserve feels confident that the US economy is well enough to stand on its own two feet.

The largest economies within the **EU** block are exhibiting very mixed economic growth rates; the UK and Spain are in the ascendency; Germany, Italy and France are showing weakness; and Greece looks set to exit the EU post their elections on the 25th January 2015. As a result the EU Central Bank plans to commence a QE program shortly. The news of this program has resulted in the Euro falling sharply versus the USD and there is talk that the Euro could soon head to parity or below. This combination of QE and a falling currency could be the ingredients that finally spark the moribund EU economy into life. The EU is the second largest economy in the world, just a bit smaller than the massive US economy, and an extremely large exporter. Positive growth rates in the EU block would have a substantial impact on the dry bulk markets with large quantities of raw materials being shipped in and semi-finished/finished goods being shipped out.

Japan, the 'sick man' of the OECD under Prime Minister Abe, Abenomics has had mixed success in managing their economy. With the yen depreciating from 75 to about 115/120 to the USD acting as a 'get out of jail free' card, most Japanese corporate have been making record profits, which will be ploughed back into capital assets not just in Japan but including other countries where they have manufacturing units. This should have a multiplier effect with even greater demand for dry bulk commodities to feed the ever growing and hungry manufacturing facilities at Japanese units all over the world. Coal imports into Japan have started to increase as a result of the Japanese population's distaste for all things Nuclear following the Fukushima reactor melt-down post the Tsunami in March 2013.

India, the country that always flatters to deceive, may yet prove its support for the Dry Bulk markets, under its new market-oriented government, as more and more coal fired port based Power Plants come on stream. Reports by the Paris-based International Energy Agency suggest that India could overtake China as the world's biggest buyer of seaborne coal and increase its annual coal imports to the 300-350 MMT mark before the end of 2016. India's coal imports rose 19% to 196.12 MMT during 2014 as power producers bought more due to low prices and a domestic shortage and shipments could rise to 230 MMT during 2015. India is the No.

3 importer of coal, behind China and Japan. With its weak currency and bumper crops, India might become a very large exporter of Agricultural products from its smaller, shallower drafted and inefficient ports. This would result in massive congestion and a consequent reduction in effective supply of smaller ships. This would help push the small handy sector in the right direction.

China, the big mainstay of the dry bulk markets, has struggled with GDP growth figures decreasing quarterly from 7.4% to 7.5% to 7.3% before finally rounding off the year at 7.3% for an annual average of 7.4%. However, China's economy in 2015 is expected to grow around 7% based on the assumptions of the continuation of modest easing, prudent monetary policy, increased domestic consumption and an increase in exports due to the strengthening macro economic conditions in the world. The fact that the once-in-a-decade political transition occurred in the middle of a five-year economic plan suggests that there will be no fundamental change in economic policy and economic reforms will continue under the New Leadership.

China's Iron Ore imports were an astonishing 933.11 MMT in 2014 or 13.75% higher than the 820.3 MMT in 2013! The December 2014 import figure of 86.85 MMT of iron ore was the highest monthly figure ever for any commodity anywhere in the world! Future import figures are contingent on import pricing parity versus domestic production and transportation costs. Provisional Chinese steel production for 2014 reached a staggering figure of about 813 MMT or about 4.96% higher than the already phenomenal figure of 774.57 MMT in 2013. Coal represents about 80% of China's energy requirements. Historically, China was self-sufficient in coal, but that is no longer the case. China imported 126 MMT of coal in 2009, 164 MMT in 2010, 182 MMT in 2011, 288.9 MMT in 2012, a whopping 322.01 MMT in 2013 and a lower 291.63 MMT in 2014 making it the single largest importer of coal in the world, four years in a row, and displacing Japan from the pole position it had occupied continuously since 1975! Coal imports are expected to grow steadily but are contingent on import pricing parity versus domestic coal production/transportation costs. In a country that currently produces and consumes some 3,800 MMT of Coal per annum, with the figure expected to grow to 4,150 MMT in the near future, even a small change in China's coal imports could have a dramatic impact on the Dry Bulk freight markets.

The BDI started the year at 2,113 points, but ended the year at 782 points. This was despite the fact that China imported 13.75% more iron ore or about 110 MMT more in 2014 than in 2013. Most other imports into China were stronger during 2014 except Coal which fell from 322.01 MMT to 291.63 MMT or about 9.43% lower. Finally, it was the scrapping of 19.11 MDWT of dry bulk ships that kept the BDI on life support.

The BDI average for 2014 was 1,105 points the sixth lowest average in BDI history. And this was in the year that the recovery was supposed to have taken strong roots! To give this some perspective, the long term average for the BDI (1985 – 2003) prior to the recent Bull Run was 1,358 points; including the Bull Run period (1985 – 2010) was 2,133 points; and during the Bull Run (2004 – 2010) was 4,265 points.

The Time Charter Equivalent (TCE) earnings of our Fleet during 2014 averaged USD 8,096 per day per ship. In terms of daily average Operating Expenses (Opex), we were marginally higher than our target of USD 4,600 per day per ship reaching a figure of USD 4,695 per day per ship.

Market Segmentation/Benchmarking: During 2014, the Baltic Handy Size Index averaged 524 points derived from the average Time Charter (TC) rate of USD 7,681. Compared to that, our Handies earned USD 7,895 outperforming the BHSI TC rate by 2.79%. Further, the Baltic Supramax Index (BSI) averaged 939 points derived from the average TC rate of USD 9,818. Compared to that, our Supramaxes earned USD 9,034, underperforming the BSI TC rate by 7.99%.

THE INDUSTRY OUTLOOK:

Scraping: 132 ships were removed or scrapped whilst 119 ships were added, resulting in a decrease of 13 ships or 0.47%, with the world fleet decreasing from 2,770 ships to 2,757 ships in the Small Handy Size sector (10 – 30,000 DWT) during 2014. The continued weakness of the freight market is the main force driving the acceleration of scrapping rates. It also helps that scrap steel prices have remained reasonably robust. It is, however, impossible to escape the conclusion that the age profile of ships in our sector will lead to a continued healthy scrapping rate in the future.

A ‘normal’ supply of new ships is expected for 2015 and 2016:

The Cape sector (90,000+ DWT: 1,934 ships of 336 MDWT at the start of 2015): 386 ships of 74.2 MDWT or 22.1% of the existing DWT are scheduled for delivery up to end of 2018. In this sector, 282 ships of 52.4 MDWT or 15.6% will be over 20 years of age by 2018 and some or all of them are likely to be scrapped during 2015 to 2018.

The Panamax sector (70 – 90,000 DWT: 1,972 ships of 154 MDWT at the start of 2015): 366 ships of 29.8 MDWT or 19.4% of the existing DWT are to be delivered up to the end of 2018. The saving grace in the Panamax sector is that 271 ships of 19.9 MDWT or 13.0% of the fleet will be over 20 years of age by 2018 and some or all of them are likely to be scrapped during 2015 to 2018.

The Ultramax sector (60 – 70,000 DWT: 394 ships of 25.5 MDWT at the start of 2015): 613 ships of 38.6 MDWT or 151% of the existing DWT are scheduled for delivery up to the end of 2018. In this sector, 163 ships of 11.0 MDWT or 43.2% will be over 20 years of age by 2018 and some or all of them are likely to be scrapped during 2015 to 2018.

The Supramax sector (40 – 60,000 DWT: 2,767 ships of 145.5 MDWT at the start of 2015): 173 ships of 9.0 MDWT or 6.2% of the existing DWT are scheduled for delivery up to the end of 2018. In this sector, 491 ships of 22.2 MDWT or 15.2% will be over 20 years of age by 2018 and some or all of them are likely to be scrapped during 2015 to 2018.

The Handymax sector (30 – 40,000 DWT: 1,573 ships of 54.4 MDWT at the start of 2015): 446 ships of 16.4 MDWT or 30.2% of the existing DWT are scheduled for delivery up to the end of 2018. In this sector, 230 ships of 8.27 MDWT or 15.2 % will be over 20 years of age by 2018 and some or all of them are likely to be scrapped during 2015 to 2018.

The Small Handy sector (10 – 30,000 DWT: 2,757 ships of 55.3 MDWT at the start of 2015): 135 ships of 2.1 MDWT or 3.7% of the existing DWT are scheduled for delivery up to the end of 2018. In this sector, 939 ships of 20.0 MDWT or 36.1 % will be over 20 years of age by 2018 and some or all of them are likely to be scrapped during 2015 to 2018. With this extremely large overhang of very old ships, the supply dynamics appear to be the strongest in the small handy size sector, the sector in which we operate, of the Dry Bulk Tramp Freight market.

When reading the above numbers please keep in mind that Slippage has averaged 35% over the recent past and fluctuates inversely with the BDI and availability of finance.

Our **Competitive Position** based on our existing 44 ships-in-the-water plus the 25 ships on order, makes us one of the larger players in the market. With the ownership structure being extremely fragmented, we are recognized as an established brand name with clients wanting to do business with us first before they take their custom to any of the other smaller, and potentially weaker, players.

Additionally, our plan to rejuvenate our fleet with younger, larger, better geared and more economical vessels from the market at historically low levels will enhance our competitive position for years to come.

THE ISSUES FACING OUR INDUSTRY:

With the Freight Markets increasingly more volatile than ever before, most prudent companies that have very little debt on their balance sheets and a lot of cash in their pockets will likely consolidate the industry. This could happen through the judicious purchase of second-hand tonnage or new building ships at historically low prices or via mergers and acquisitions or via PE entities consolidating their disparate holdings into any one, preferably, listed entity. By whatever means consolidation takes place, it is to be welcomed, as it can only make life a bit better for the remaining participants.

Operating Costs of our Company continued steady in 2014. Most components have remained at their previous levels. Crew wages however were revised upwards and are expected to increase further in the years to come for us as well as the Industry. The requirement for experienced senior personnel continues to remain a serious issue. The shortage is due to reasonable employment available ashore and in the offshore industry -

a much safer environment. Technological advancements on board modern ships both in navigation systems and machinery operations demand highly trained officers which only serves to exacerbate the situation.

The Protection & Indemnity (“P&I”) insurers, ('P&I Clubs'), got a welcome respite by way of lower claims, and coupled with decent investment income, raked up the free reserves to record high levels. The “churn effect”, whereby old vessels paying high premium are scrapped/sold/replaced with new young & modern ones paying lower rates, was lower than in previous years, and this has also helped. Nevertheless, all Clubs belonging to the International Group of P&I Clubs continue to imposed a ‘general increase’, i.e. a fixed percentage increase in premium for the new policy year commencing 20th February 2014, in order to compensate for inflationary increases in cost of claims and to shore up finances generally. As reported earlier, the P&I insurance is unique and unavoidable as it provides almost limitless cover with top-quality claims-handling service for any situation that could arise from owning/operating ships. As such, shipowners have to contend with the increases, even if burdensome.

For all the reasons cited above, our average operating costs per day per ship for 2014 was marginally higher than the previous year; whilst we do not have figures for the industry norm, we expect we would have done better than others based on past experience.

International Maritime Organization (IMO) conventions are constantly updated to match demands for enhanced steps to protect the environment.

2014 saw a welcome drop in Fuel prices and a shift of focus to the impending use of ultra low sulphur fuel to comply with new onerous regulations for the protection of the environment.

Among several other requirements, engine exhaust emission standards are also controlled by the MARPOL regulations. Caribbean Emission Control Area (ECA) became mandatory from 01 January 2014. The emission standards applicable will be the same as those for the North American, North sea and Baltic ECA, i.e. vessels were allowed to use only Low Sulphur Fuel Oil (LSFO) with maximum 1% sulphur content during the first phase from January 2014 until January 2015. The second phase begins in January 2015, when vessels in all ECAs must use fuel with a maximum sulphur content of 0.1%. Due to non availability of suitable fuel worldwide, ships will need to burn Low Sulphur Marine Gas oil (MGO) which is much more expensive than heavy fuel oil being used now. Use of MGO in Main Engine is also a very big challenge technically as engines and fuel oil systems are not designed for its use on existing vessels. Technological challenges of the future will include operation of dual fuel engines (LNG/Fuel oil), as emission control laws become more strict. We are making efforts to install (on our new buildings) engines which can be adapted to dual fuel technology with some modifications.

More countries are insisting on stringent ballast water management practices on board ships. Ballast water management Convention will enter into force 12 months after ratification by 30 States representing 35% of world merchant shipping tonnage. Ballast water on board need to be treated to remove micro organism and mud etc to achieve minimum standards specified by IMO. Installation schedule for Ballast water treatment system applicable to our existing vessels have been relaxed recently. As per amended schedule, vessels are required to comply only at the time of first renewal survey of the International oil pollution prevention certificate (IOPP) following the date of entry into force of the convention. However the US environmental protection agency (EPA) has stipulated a slightly different schedule for compliance in the case of new building vessels. All new building vessels of the company (keel laid after 1st Dec 2013) are being equipped with ballast water treatment plants in accordance with US EPA requirement. As of now the convention has attained ratification by 43 countries amounting to only 32.54% of the required tonnage. Hence it is expected that ratification status of this convention will be achieved during the year 2015.

As a result of initiatives from the International Labor Organization (ILO), working and living conditions of crewmembers on board are receiving increased importance. In order to formalize this and ensure uniform compliance, (ILO) has adopted the Maritime Labour Convention 2006 (MLC 2006). A Maritime Labour Certificate (MLC) and a Declaration of Maritime Labour Compliance (DMLC) will be required on board to ensure compliance with the Convention for all ships above 500 tons in international trade. These certificates are to be obtained from the Flag state and their recognized organizations after thorough verification and surveys on board each

vessel. The MLC 2006 has attained the required number of member state ratifications in August 2012. All ships were required to meet the compliance requirement and have valid certificate for compliance with MLC convention before 20 August 2013. Since many flag states, including Thailand, have not fully complied with the MLC requirements, a grace period of one year expiring on 19 August 2014 has been agreed by ILO for all ships to be fully compliant. Thai flagged vessels operated by the Company have obtained a Statement of Compliance with the MLC 2006 after inspections and verification by the flag recognized organization. It is not clear if Thailand would ratify MLC convention any time soon. The Statement of Compliance with Maritime labour convention carried by Thai flag vessels may not be acceptable in countries that have ratified the convention. This may cause uncertainty in smooth trading of Thai flagged vessel worldwide. The Company is in discussion with the Thai Government authorities to address this issue at the earliest.

Singapore has ratified the MLC convention. Hence the Company's vessels flying the Singapore flag vessels are fully compliant with the MLC requirements.

Focus on the environment is becoming even more important. It is no longer just fashionable to say we are "Going Green"; organizations world-over are being pushed by their stakeholders to become more environment-conscious, guided by compliance with the newer regulations. The various measures adopted voluntarily by the Company to reduce its Carbon footprint has been explained in our Sustainability Report; besides, there are specific IMO Conventions and regulations mandated by individual countries, to control the emission of Sulphur dioxide, Nitrogen oxides, Halons and CFCs from our ships which contribute to Green House Gases. These regulations are expected to become more stringent in the coming years. In addition, certain states in the USA are likely to require ships calling their ports to use shore power which is greener than the power generated on board ships. 'Bonnet' technology is another concept, presently available only in certain ports, which can receive the exhaust gas from ships for treatment before discharging into the atmosphere. These measures are still evolving and there will likely be operational problems; besides, these will most likely result in additional expenses for the ship owners/operators. To formalize the Company's commitment towards preserving and conserving environment and to reduce carbon footprint, the Company has obtained ISO 14001:2004 certification from Class NK of Japan. The ISO 14001:2004 provides a framework for a holistic and strategic approach to the Company's environmental policy, plans and actions, and will demonstrate that the Company is an environmentally responsible organization. PSL vessels have implemented "Ship Energy Efficiency Management Plan" (SEEMP) required by MARPOL Annex VI regulations from January 2013. Vessels have also fully implemented the more stringent garbage disposal regulations required by MARPOL Annex V which came into force from January 2013.

Maritime Training Center: As previously reported, the Company set up a full-fledged Maritime Training Center at its Head Office in Bangkok in March 2008. The PSL Training Center includes a state-of-the-art Bridge Navigation Simulator for training of maritime personnel. Vessel-type specific Bridge Navigation Simulator recreates the actual maneuvering characteristics of the ship and its bridge controls as it enters a specific major port and provides ideal conditions in which to train Officers in hands-on practices for effective bridge teamwork and competence in ship-handling and navigation. This is a significant step taken by the Company to train and equip its Officers and Crew to take better care of themselves and their ships, all with a view to ensuring safety of the crew, cargo and the ship by preventing accidents, thus also helping to preserve the environment. In the current scenario of a worldwide shortage of trained personnel, and the rapid promotions that is a natural result of such a shortage, this is a major step to provide specialized training that would otherwise have been acquired 'on the job'.

Maritime Resource Management (MRM): MRM is a training program for ship's officers, engineers, pilots and shore-based personnel. The aim is to increase knowledge about human capabilities and limitations and to reinforce positive attitudes towards safety and teamwork. MRM is generally accepted to be one of the most efficient means of improving crew cooperation and minimizing the risk of accidents caused by human errors as well as failures in effective teamwork and resource management. The MRM course is authorized and licensed by The Swedish Club, a member of the International Group of P&I Clubs, and one of the few insurers providing Hull as well as P&I insurance covers. Apart from the MRM courses, the PSL Training Center has classrooms, Video-Based Training (VBT) and Computer based training (CBT) for the ship staff. Courses include MRM, Bridge

Team Management (BTM), Bridge Team Competency (BTC), Officer Of the Watch (OOW), Chief Mate Course (CMC), Command Course (Command), Shipboard Safety Course (SSC), Maritime Professional Briefing (MPB), Maritime English training (divided into 5 course levels) programs for safety and efficient ship operations of deck and engine departments. The Training Center also conducts lectures on VTS (Vessel Traffic Separation) & SMCP (Standard Marine Communication Phrases) within the BTM and MRM courses, with the aim of developing our officers' communication skills in communicating with a VTS officer using standard maritime phrases in various simulations. The courses are upgraded regularly and provide a solid foundation to the Company's training activities and enable our Officers and Engineers to keep abreast of the latest developments in ship operations.

The PSL Training Center liaises very closely with the Technical Department in order to identify the training needs of officers and crew and special training courses are designed to suit them. Accordingly, certain new training courses were introduced for Engineer officers: MAN Diesel Engine and Turbo "ME course", "Engine Room Management and Competency Enhancement" - "EMC" for Senior Engineers, and "Engineer on Watch" - "EOW" for Junior Engineers. Future plans include courses on "stern tube sealing systems" and "ships' cargo gears with special focus on hydraulic", and "Shipboard Safety for Ratings" (SSR) for crew. The PSL Training Center has certain basic (but important) equipment such as a turbocharger and a purifier for practical training to accompany class-room theoretical courses. These will augment the Bridge Simulator (which is essentially for Deck Officers) and enable the Training Centre to address the requirements of both Deck and Engine officers & crew. Considering the fact that the new vessels acquired (and on order) are fitted with more fuel efficient modern engines using advanced electronic controls and technology, the Company's senior engineers, Electrical Officers and shore-based Technical Superintendents are put through the engine-maker's specific training courses designed to better understand the operation and for effective trouble-shooting. Junior engineers are in turn trained at the Company's Training Center and by trickle-down method on board ships.

The use of "Electronic Chart Display and Information System" (ECDIS) is becoming mandatory for new ships built from July 2013. Many new vessels are already equipped with ECDIS. For existing vessels, ECDIS will become mandatory from 2018. ECDIS requires special generic training as well as specific training for each manufacturer's equipment. Navigating officers using ECDIS need to be suitably trained and certified before they can use it as a primary means for navigation.

With every other technical advance in navigation, such as radar, AIS and GPS, officers have gained an additional navigational aid. With mandatory ECDIS, on the other hand, a navigational aid will be taken away from them – the paper chart. ECDIS has to work and officers have to know how to work it. Any operational error could have disastrous consequence.

There are already conceptual designs on small crafts that try to eliminate or minimize the human effort onboard ships. Some experts in automation visualize that in the next twenty years or so, ships may be totally un-manned with automated equipment onboard, which can be monitored and controlled from shore based stations. Although this concept seems unrealistic at present, if and when such development takes place, it will drastically change the present model of shipping operations.

PSL is committed to ensure that navigating officers working on board vessels fitted with ECDIS are fully conversant with the equipment prior joining the vessel. Officers are given generic ECDIS training at approved institutes. They are also required to undergo maker specific familiarization training by the ECDIS manufacturer. Realizing the fact that certification alone does not make an officer fully familiar and confident to use ECDIS, PSL Training Centre has equipped itself and developed ECDIS training course. After attending approved ECDIS training course, officers are required to undergo further ECDIS familiarization course at our in-house facility.

The scourge of piracy, continues to be a cause for great concern.

No pirate attacks were reported in the two years 2013-14 in the Somali basin as opposed to 35 incidents in the previous year. There also was no confirmed reports of suspicious activity in the Horn of Africa High Risk Area during the year under review.

The recent decline in pirate successes was not taken lightly. The industry was fearful of possible revamping of the pirates' tactics to counter the protective measures now being employed by most vessels transiting the

dangerous areas. However, the presence of international Navies and their patrolling the high risk areas, and the use of security guards on board, have succeeded in making piracy for the Somalis less lucrative. It is now hoped that the insurance underwriters recognize this trend.

Apart from the Somali pirates and their attacks in the Arabian Sea/Indian Ocean, Nigeria and its offshore oil installations in the Gulf of Guinea continues to be vulnerable to pirate attacks. Recent months have seen an alarming increase in this region. The primary difference between the two is that Nigeria has an elected Government with clear policies to deter piracy in its waters and that helps localize the menace and also control/handle it.

Attacks in the South East Asia region appeared on the increase, targeted vessels usually smaller oil tankers with their cargo as the primary aim of the pirates. PSL has taken an active role in reporting to the IFC (Information Fusion Centre) a centre for monitoring the movement of all vessels in South East Asian waters. The IFC is based in the Singapore Naval Base and relays information to all regional Marine Coastguard units and has been effective in tackling piracy in the region.

JOINT VENTURES:

The status of our joint-venture investments is as follows:

- Southern LPG Pvt Ltd. (SLPG): The process of closing down this entity is going on but close to completion now.
- International Seaports (Haldia) Pvt Ltd: This is now our only operational investment in Ports in the Haldia Dock Complex (about 22.4% of the total capital) under our port projects investments. This JV continues to operate very well and we have to-date received total dividends of USD 2.48 million, which works out to about 121% of our original Investment made in years 2002-2003. We find strategic value in this investment and hope to increase our shareholding at an opportune time in the future.

IN CONCLUSION:

Demand: The environment for 2015 is going to be characterized by extreme volatility. Downside risks for 2015 will include, amongst others, Geopolitical tensions; China economically slowing down; BRICS economically slowing down; The Euro zone economically slowing down; Protectionism increasing; Surplus vessel supply not being absorbed fast enough; and excess Shipyard capacity holding the promise of more ships to come. But it is not all gloom and doom. The upside potential for 2015 consists of, amongst others, Slower ordering at shipyards due to poor markets; Higher slippage rates due to poor markets; Higher scrapping rates due to poor markets; The US economy continues to outperform expectations; Low oil prices lead to greater World economic growth rates; Low oil prices help to reduce all commodity prices resulting in more cargoes being shipped; and weaker currencies in Euro zone and Japan will help them export their economies out of trouble. The ban imposed on Nickel and Alumina ores from Indonesia which robbed 2014 of a lot of cargoes could finally turn out to be a positive event with China being forced to source these same cargoes from countries that are much further away thereby increasing the ton-mile demand. The excess stock of these ores, which China had built up during the last half of 2013 to beat the ban that was imposed by Indonesia on 12th January 2014, would have been fully absorbed and new supply has to now come from much longer distances. Time will tell in 2015 will end up with a pleasant surprise.

Supply: Due to the favourable freight markets of the past (2004 to 2008) most ship-owners have kept their older ships operating beyond their useful economic lives. Under normal freight market conditions, approximately 17.37% (133.77 MDWT) of the existing world fleet that would be over 20 years of age during 2015 to 2018, should head for the breakers yards, and would only be constrained by the available scrapping capacity.

With respect to the approximately 19.72% by DWT of new ships (151.92 MDWT) scheduled to be delivered to the end of 2017, the lack of funding coupled with delays in deliveries at ship yards would subject them to a slippage of about 35% which was the average over the last few years.

The supply side should come into balance with the demand side of the equation sometime during 2015/2016. We think that 2014 would therefore be remembered as the very last year of an extremely challenging environment for bulk shipping.

Financing: The Years 2011/2012 were the years of the Bond when shipping companies raised about USD 34 billion in this period through the Bond markets. This dropped to just about USD 11 billion in 2013 when the Private Equity (PE) Investor in search of quick returns made his “strategic” entry into the shipping space when shipping companies raised USD 12 billion through the private placement/equity route which was a whopping 3 times over that of year 2012. The PE Investor’s appetite for shipping paper remained quite robust until the 1st quarter of 2014 when it started to dawn on them that making quick returns on shipping investments is not as easy as it sounded. The promised upturn in the market and the consequent expected spike in asset prices never came last year and the PE Investor community is now waiting for the upturn to come belatedly or some of them are now actually looking at ways to make a graceful exit without hurting too much. As such the total fund raising from this avenue dropped substantially in year 2014 as compared to the previous year.

Traditional bank finance has a slightly different story to tell. The amount raised through this source by shipping companies in 2013 was a very healthy USD 56 billion which was an increase of about 40% over that of the previous year. Year 2014 figures are awaited but the spectacular growth seen in this source is not expected to be repeated for 2014.

So what does this foretell for us this year? We expect the PE Investors to remain at the sidelines and/or make their exits even with some losses. The Bond market as a source of financing for shipping companies again may not show the froth and enthusiasm seen in years 2011/2012 particularly if the Fed starts raising interest rates sooner rather than later. As such, the industry will continue to remain heavily dependent for its funding needs through the traditional Bank finance route, which, although available would remain in short supply given the weak risk appetite of Banks to increase exposure in a poor market environment. We will then likely see many more shipping companies getting into more stress situations with a possible new bout of bankruptcies and/or restructurings. We would only hope that the restructurings again do not adopt the “amend and extend” approach which is merely another way of kicking the can down the road with no final solution.

Concluding Remark: Considering all the above, we are taking advantage of the opportunities that are present in the market. We hope to deliver to all our stakeholders the promise of this potential. This will in no small measure be due to the very dedicated and hardworking professionals that make up the office, as well as, the floating staff at PSL.

**For and on behalf of the Board of Directors of
Precious Shipping Public Company Limited**



Mr. Khalid Moinuddin Hashim
Managing Director



Mr. Khushroo Kali Wadia
Executive Director

30th January 2015