Ref : 2010-011

5th February 2010

To : **Director and Manager of the Stock Exchange of Thailand**

Subject : **Submitting the Annual Review – 2009 of Precious Shipping Public Company Limited**

ANNUAL REVIEW

Last year we began our Annual Review with a quote from that immortal classic ‘A Tale of Two Cities’ By Charles Dickens, ‘It was the best of times, it was the worst of times’. For 2009 we could say that as the shipping world said farewell to its Annus Horribilis, the prospects for the dry bulk market was more confused than ever before. Clarity, or more correctly the lack of it, on the New Building front is what is creating the maximum doubts. Today no one is quite sure just how much of the new buildings on order will be delivered over the next few years. The short-term imbalance between demand and supply will fluctuate according to the timing of ships entering the fleet and how that coincides with demand will ensure big troughs and peaks. To add to this confusion, we have the on-again off-again, Iron Ore Annual Contract pricing saga being played out, making analysis of the demand side of the same equation even more problematic. To increase the confusion further, China's third-biggest steelmaker signed a long-term iron ore contract with Venezuela's state-run company in November 2009. This agreement will help China to diversify its Iron Ore sources and get it cheaper due to a pricing mechanism different from the traditional annual contract. According to a senior ship-broking researcher, some 250 MMT of Iron Ore remains unaccounted for in China if you take the Domestic Iron Ore produced add the Imported Iron Ore and reduce from this total, the raw Pig Iron produced in just the first 10 months of 2009. This 250 MMT ‘ace up the buyer’s sleeve’ could end up having a significant impact on the Annual Iron Ore Contract pricing row as it unfolds. If nothing else, it could end up pushing demand over the cliff bringing the dry bulk freight market to its proverbial knees.

To keep things in perspective on your Company, we would like to highlight the annual net profit/loss from the Restated US Dollar Financial Statements over the past few years.

Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Net Profit - $m	(0.48)	24.79	110.10	154.22	92.63	96.48	148.14	88.09
Av. No. of Ships	29.22	28.39	44.63	52.89	54.00	44.97	44.12	32.79
Net Profit/Ship - $m	-0.02	0.87	2.47	2.92	1.72	2.15	3.36	2.69

Our result for 2009 must be viewed against the US Dollar 11 Billion losses racked up by twenty two players (16 publicly listed and 6 private) in the Container Sector in just nine months of 2009 with only marginally smaller losses being shown by players in the Tanker and Dry Bulk sectors. **When viewed**

against this backdrop, our results are like a shining beacon in the darkness and gloom that surrounds us.

Awards and Accolades:

2009 is the second time (the first time was in 2006) that our Managing Director has been one of the very select nominees for **The BEST CEO Award** by the Stock Exchange of Thailand (SET).

2009 has been crowned with the **December 2009/January 2010 issue of Asiamoney,** under their Corporate Governance Poll, conferring the title of **Best Overall for Corporate Governance and Best for Disclosure and Transparency** in Thailand to your Company.

We have also been awarded with **The Best CEO** in the small and medium cap companies' category by the **Securities Analysts Association of Thailand.**

The Marine Money June 2009 'ranking' issue had PSL as the 7th best shipping company in the world based on our financial results of 2008. The methodology used by Marine Money for their rankings was a simple aggregate of 6 criteria: Total return to shareholders, Asset turnover, Profit margin, Return on Equity, Return on Assets and Price to book value.

Investor Relations is an area where we accord the greatest importance and have our Managing Director handle the Press/analysts briefings part of investor relations. The **December 2009/January 2010 issue of Asiamoney,** under their Corporate Governance Poll, conferred on our Managing Director the title of **Best Investor Relations Officer** in Thailand for the second year in a row. We also have our CFO and two other senior staff assisting in this area. In addition to the various Road Shows during the year we also attended the 4 quarterly SET Opportunity Days during 2009. We hope to continue actively with this important part of our Investor Relations Program in 2010 and beyond.

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 6,408.88 million [2008: Baht 8,649.78 million] and the Company earned a Net Profit of Baht 3,047.06 million [2008: Baht 4,938.59 million]. The Shareholders' Equity of the Company has increased to Baht 17,136.36 million [2008: Baht 16,177.45 million] and the Total Assets of the Company have also increased in spite of the sale of 20 ships during the year to Baht 22,140.13 million [2008: Baht 17,960.53 million] mainly due to the advance instalments of Baht 3,088.76 million paid till the year end towards our Newbuildings (Orders for new Ships) and due to the net profit earned during the year with a substantial part thereof being retained.

During the year, the Company earned Baht 3,048.97 million as Net Profit before Exchange Gain of Baht 43.63 million [2008: Exchange Gain of Baht 61.13 million] and Income Tax of Baht 45.54 million [2008: Baht 21.37 million]. In terms of the Earnings, the Company's ships achieved an average time-charter equivalent earnings of USD 13,459 per day per ship as compared to USD 16,489 per day per ship for year 2008. The total revenues excluding gains on sales of vessels and equipment in absolute terms were lower than that of the previous year, mainly due to a decrease in ship operating days due to the sale and delivery of 20 older ships from our fleet and lower average earnings per day per ship in year 2009 as compared to year 2008. Absolute ship operating expenses, also decreased by about 11%, due to the lower ship operating days during the year. The technical downtime was an average of 10.18 days per Ship, which is very good considering the average age of the fleet of about 18 years in 2009. As a result of the good profitability and robust cash flows, the Company has enjoyed high level of liquidity during 2009 and has paid dividends of Baht 2,078.74 million during the year 2009.

We also undertook an "in-house" exercise to determine Total Return to Shareholders, which was calculated for the 16 years that we have been operating as a listed entity. Based on the closing share price as on Wednesday the 16th September 2009 of Baht 18.30 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 16 years, you would have 13.12 times your initial investment. This return does not assume any re-investment of the dividends into shares or any interest on the dividends received.

Our Fleet:

As you may be aware, the fleet strength at the end of 2009 was 25 vessels with an aggregate capacity of 631,070 DWT, an average 25,243 DWT per ship, and an average age of about 17 years. **The Fleet Rejuvenation Plan** in terms of the New Ships being built at the ABG shipyard in India have already been highlighted in our Annual Report for 2007. In a highly capital intensive business with very high leverage and characterized by unpredictable and wildly swinging cycles, the timing of the purchase of your assets is possibly the single most important decision that has to be made.

In accordance with our stated plan, we have already sold 21 of our oldest 25 ships during 2009 and we hope to have sold the balance 4 ships by the end of Q1 2010 once their current contracts have expired, completing the first phase of our rejuvenation plan. With the purchase of the Rojarek

Naree (29,870 DWT, built in 2005 in Japan) we have embarked on the next phase of our rejuvenation plan to replace the 25 sold ships with younger, larger, better geared and more economical ships from the second hand market. This will be the last piece to fall into place of the puzzle and should stand the Company in good stead for years to come. We have to complete the renewal by buying 24 more ships from the second hand market. For most organizations, this would pose quite a challenge. In our case, things are a bit different. If you would recall, between September 2003 and September 2004 we went from 28 ships to 52 ships by purchasing 24 ships from the second hand market in the space of just 12 months. That was done at a time when the freight market had just started its really long bull run, so we managed that renewal/purchase program in a rising market. This time around, we wish to, once again, purchase 24 second hand ships when the freight market is going to be range bound between BDI levels of 1,000 and 3,500 points. The expected market environment between now and the end of 2010 would be a much easier environment for us to execute our purchase/renewal program than a rising market. As far as availability of ships is concerned, it is a non-issue. We are literally inundated with very young ships available for sale on a daily basis. If we were to simply go out and accept the asking price of the sellers, we could be done with our renewal of 24 ships from the second hand market in less than 3 to 6 months time. It is just that we expect prices may soften from their current level that is holding back such a decision as both the shipbuilding and ship financing businesses are in disarray. On the one hand, money is scarce and on the other, no one wants the new building they had ordered. In this environment, we can do very good deals via second-hand ships from weakened sellers or via troubled new building orders to complete our replacement program.

Once this replacement has been done in a successful manner we feel that the economic viability and security of the Company would have been assured for the next few decades as we would have replaced the majority of our older fleet at historically low price levels. To that end, the Company will continue to be on the lookout for the right opportunities for additional fleet renewal as we would like to achieve an annual fleet strength of between 50 and 70 ships within the next few years.

Highlights of 2009:

The year was ushered in with the **Global banking crisis** in full swing. Lehman Brothers collapse was followed by the banking system suffering what was tantamount to a coronary attack. Banks refused to lend to each other and consequently their loans to companies froze. By February, the financial crisis had become a severe global recession, with a collapse in trade finance and a precarious environment reminiscent of the 1930s Great Depression. Central banks poured liquidity into the banking system and Governments accepted fiscal deficits of an unimaginable magnitude to pump prime their respective economies. Decline in global trade reached its nadir in February and March. Dry bulk shipping felt the direct impact of this financial melt-down in what has been the most brutal year for shipping in recent memory. However, the **hunger for commodities from China** due to the massive fiscal stimulus package of USD 586 Billion has, almost single-handedly, helped keep the dry bulk market afloat throughout most of the year and led to a rebound in rates. In **Ship Finance,** 2009 could be categorized as the year of procrastination. As a result, the huge problem of semi-financed, yet over-ordered, new buildings will be passed on to 2010 for some tough decision making. Ship owners, bankers, and shipyards have hovered in a state of inaction, resisting the downward re-pricing of existing new buildings to reflect current market conditions. Bankers have been in a particular quandary, not wishing to enforce loan-to-value covenants in the worry that they will cripple the weakest of ship owners. The hope, of course, is that waiting will be a sound strategy, and that re-pricing will begin once the market commences an upward trajectory. The waiting has had the effect of stalling any discovery of a market bottom in terms of ship-pricing. This 'delay and pray' attitude has been ably supported by the unexpected strength in the BDI with the 'delaying' of hard decisions looking very wise with hind-sight.

China's Iron Ore imports according to preliminary Customs data, was a massive 628 MMT and an impressive new record for 2009 almost 41.5% higher than the corresponding figure of 444 MMT for 2008. The expectation is that iron ore imports into China in 2010 should reach 675+ MMT. Provisional **Chinese steel production** for 2009 reached a staggering figure of about 566 MMT about 14% higher than the already phenomenal figure of 500 MMT in 2008. For 2010, this figure is expected to reach 640 MMT. **Coal** represents about 80% of **China's energy** requirements. Historically, China was self-sufficient in coal, but that is no longer the case with an import of about 120 MMT for 2009. And this amount could grow to 150+ MMT in 2010 with that amount being exceeded in future years.

The Baltic Dry Index (BDI) ended the year at 3,005 points, about 390% higher than from where it had started the year at 773 points, after having peaked twice at 4,291 points on the 3rd June 2009 and at 4,661 points on the 19th November 2009. The main reasons for the strength of the index can be attributed to the huge increase in Iron Ore demand from China (~42% above 2008) resulting in inordinate amount of congestion (by the end of 2009, global port congestion had reached record levels with nearly 8% of the entire dry bulk fleet at anchorage) especially in the Capesize sector. Coupled with the almost 100 MMT of Coal that China imported and the ton-mile impact of this change, from being an exporter to becoming a very large importer, was another factor supporting the index. Finally, the clogged financial systems resulting in trade imbalances being exacerbated leading to under-utilization of ships was the unexpected item that helped support the index. It would be remiss not to mention the slower than expected delivery of new ships from yards which gave a big helping hand in supporting the index.

The BDI average for the year was 2,617 points, for a 41% decline compared to the average of 6,390 recorded in 2008. To bring all this into some sort of time 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 – 2009) was 2,109; and during the Bull Run (2004 – 2009) was 4,514 points. With rate volatility increasing, long term contracts were only as good as the signature of the counterparty. Many large charterers were loath to honour these long term contracts and were using all means, legal and some not so legal or ethical, to wriggle out of their commitments. The expected large scale of bankruptcies was kept at bay thanks to the BDI's unexpected strength through the year. We suspect that 2010 and, maybe, 2011 will not be so kind with many entities being forced to the wall as time progresses. Describing the shipping markets as 'expecting the unexpected' may not be prescient but **'expecting the expected'** over the next two years may turn out to be a much more accurate description of the future.

To a large extent, our strategy of booking long term charters for our ships, at reasonably high rates, has therefore been vindicated yet again**. The earnings per day per ship** during 2009 for our fleet continued to reflect our strategy of avoiding the dramatic changes that would have been the case had our earnings mimicked the BDI. For 2009, we averaged earnings of USD 13,459 per day per ship which was just marginally lower with our forecast of USD 14,000 per day per ship. This figure compared favourably with our past results prior to 2008 of USD 13,147 per day in 2007 and of USD 11,387 per day in 2006

THE INDUSTRY OUTLOOK:

Ship scrapping that started off the year with a bang ended with a whimper with a total of 227 ships being scrapped and 134 ships being delivered into the world fleet, resulting in a negative growth of 93 ships or -2.9% with the world fleet shrinking from 3,219 ships to 3,126 ships in our sector (10 – 30,000 DWT) during 2009. The reason for scrapping rates to have significantly slowed down in the second half of the year has been the continued strength of the freight market. But it is impossible to escape the conclusion that, for the most part, the ever greater age of more and more ships and the levels to which the freight markets have sunk to will lead to an upswing in scrapping rates in the near future.

Strong supply of new ships expected for 2010:

The Cape sector (90,000+ DWT): 415 ships or 40.2% of the existing fleet are scheduled for delivery in 2010, another 299 ships or 28.9% to follow in 2011 another 143 ships or 13.8% to follow in 2012 with 40 ships or 3.9% to follow in 2013. In this sector, 239 ships or 23.1% will be over 22 years of age by 2013 and likely to be scrapped during 2010 to 2013 should freight rates remain at current levels.

The Panamax sector (50 – 90,000 DWT): 230 ships or 14.8% of the existing fleet are to be delivered during 2010, another 194 ships or 12.5% contracted for delivery in 2011, another 96 ships or 6.2% contracted for delivery in 2012 with 28 ships or 1.8% for delivery in 2013. The saving grace in the Panamax sector is that 367 ships or 23.6% of the fleet will be over 24 years of age by

2013 and would likely be scrapped during 2010 to 2013 should freight rates remain at the current abysmal levels, thereby balancing out the fresh supply and restoring freight rates in the near future.

The Supramax sector (40 – 60,000 DWT): 464 ships or 24.9% of the existing fleet are scheduled for delivery in 2010, another 274 ships or 14.7% are scheduled for delivery in 2011, another 88 ships or 4.7% are scheduled for delivery in 2012 with 9 ships or 0.5% to follow in 2013. In this sector, 378 ships or 20.3% will be over 25 years of age by 2013 and likely to be scrapped during 2010 to 2013, if freight rates remain at their current historically low levels.

The Handymax sector (30 – 40,000 DWT): 322 ships or 33.4% of the existing fleet are scheduled for delivery in 2010, another 238 ships or 24.7% in 2011, another 109 ships or 11.3% in 2012, with another 8 ships or 0.8% to follow in 2013. In this sector, 534 ships or 55.3% will be over 25 years of age by 2013 and likely to be scrapped during 2010 to 2013 if freight rates remain at current levels for any length of time.

The Small Handy sector (10 – 30,000 DWT): 285 ships or 9.1% of the existing fleet are scheduled for delivery in 2010, another 118 ships or 3.8% are scheduled for delivery in 2011 another 27 ships or 0.9% in 2012, with another 2 ships or 0.1% to follow in 2013. In our sector, 1,555 ships or 49.7% will be over 27 years of age by 2013 and likely to be scrapped during 2010 to 2013 if freight rates remain at the current depressed levels. With this extremely large overhang of very old ships, the supply demand dynamics appear to be the strongest in the small handy size sector, the sector in which we operate more or less exclusively, of the Dry Bulk Tramp Freight market.

When reading the above supply side numbers please keep in mind that the **Slippage in Delivery** for 2008 averaged 28.4% and in 2009 this has widened to 47%. It remains to be seen what this figure will look like for 2010 but we would not be surprised to see it easily cross 50%.

Our Competitive Position based on our existing 24 ships plus the 18 ships on order and the USD 500 million of funds available to buy about 25 second-hand replacement ships in lieu of the older ships that we have sold/have been selling, makes us one of the biggest players in this sector of the market with one of the largest new building orders in hand. With the ownership structure in this sector being extremely fragmented, we are recognized as an established brand name with every client wanting to do business with us first before they take their custom to any of the other smaller players within the sector.

Additionally, our plan to rejuvenate and replace the 25 oldest ships from our existing fleet, 21 of which have been sold with the balance 4 targeted for sale within Q1 2010, with younger, larger, better geared and more economical vessels from the second hand market at, what could likely be, historically low levels would enhance our competitive position compared to our peers who have probably purchased second hand ships during the past 4 to 5 years at historically high prices.

THE ISSUES FACING OUR INDUSTRY:

With the Freight Markets hitting all time highs and plunging to a two decade low in 2008 with 2009 emerging as a year characterized by freight market confusion, most prudent companies that have very little debt on their balance sheets and with a lot of cash in their pockets would likely **consolidate** the industry. This could happen through the judicious purchase of second-hand tonnage at historically low prices or via mergers and acquisitions. By whatever means consolidation takes place, it is to be welcomed, as it can only make life a bit better for the participants in this industry.

Operating Costs continued to rise during 2009 but the unprecedented plunge in the global shipping market in 2008 has had a (welcome) dampening effect on some of the cost components in 2009, which we expect will continue for some more time into 2010. Notably, **Drydock, Special Survey, repairs, maintenance, stores and spares** costs during 2009 have eased off somewhat for the entire industry, with the most visible effect being on the dry-docking & repair expenses. The repair yards had fewer ships coming for repairs and so the ship-owners faced minimum, if any, delays in waiting. Also, the basic cost of steel came down and that resulted in a lower repair bill. We expect this situation to continue at least for the first half of 2010.

Lubricating Oil prices remained steady in 2009 and the suppliers withstood pressures to reduce prices in the face of the difficulties brought on by the economic slump world-wide. Suppliers have already started talking of price increases in 2010.

With the overall drop in the number of ships trading, and more shipyards reporting cancellation of orders for building new ships, the demand for officers and crews has reduced. However, this did not result in any appreciable reduction in crew costs since the costs remained at 2008 levels for most owners, but a few owners, mainly whose ships are manned by third-party crewing agents, may have taken advantage of the slump in demand to beat down crew-costs. We believe any savings on this count is likely to be short-lived and, more importantly, may well be counter-productive since the adage ‘you get what you pay for’ applies very well to this component of our industry, and indiscriminate cutting down on crew costs cannot but reflect on the quality of manpower.

Vessel values remained low during 2009 which helped to control a part of the **insurance** premium. We expect values to remain at these levels, with minor variations, during 2010 as well.

Commercial pressures on owners/operators to try and keep all operational delays to a bare minimum, has only increased due to the depressed freight market conditions; this, coupled with the increasing work-load on Pilots & tug-boats, has increased the likelihood of casualties, mostly collisions and groundings. While the loss/damage caused by these casualties is covered by insurance, it results in an increase in the premium payout for our Company even when our vessels have not had an accident. This is because of the mutuality principle of **Protection & Indemnity ("P&I") Insurance** which is unique to the shipping industry, by which all the major P&I insurers share the costs of marine accidents through well-defined principles.

Finally, all the insurers have been impacted by the recent financial crisis and can be expected to raise premium rates to take care of the drop in their investment income. On this basis, we expect the insurance costs to harden, notwithstanding the emphasis we place on safety of our vessel operations, both, on the vessel/crew side, as well as the environment. For 2009, our average operating costs per day per ship have gone up by about 5% over the previous year; whilst we do not have figures for the industry norm, we expect that they will be still higher than ours based on past experience.

IMO conventions are constantly updated to match demands for enhanced steps to protect the environment. Marine Environment Protection Committee of IMO recently approved major changes to MARPOL (Annex VI) regulations to reduce harmful air emissions from ships. Special sea areas for controlled discharges from ships have been increased. Rule requirements for carriage of certain bulk cargoes have become stricter than before. More countries are insisting on stringent **ballast water management practices** on board ships. As a result of initiatives from the **International Labor Organization,** living conditions of crewmembers on board are receiving increased importance. Due to these developments, inspections and surveys by **Class Societies and Port State Control** became more stringent and resulted in increased costs to ship owners and increased pressure on the regulators – the Flag State authorities and the Classification Societies - who, much like ship owners themselves, faced a huge shortage of trained personnel.

"Going Green" is the latest slogan which responsible companies the world-over have taken to in recent times, and the shipping industry is no exception. In fact, our industry gets an even closer inspection due to the sensational media coverage of oil-spill accidents such as the Exxon Valdez. In addition to the voluntary measures adopted by the Company to reduce its Carbon footprint, as explained in our CSR Statement, there are specific IMO Conventions and regulations mandated by individual countries, to control the emission of Sulphur dioxide, Nitrogen oxides, Halons and CFCs which contribute to Green House Gases. These regulations can be 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.

Maritime Training Center & Maritime Resource Management: In an attempt to reduce the number of maritime accidents caused by the problems of crew shortage and crew quality, the Company has set up a full-fledged Maritime Training Center at its Head Office in Bangkok and the facility has been fully operational since March 2008. This includes a state-of-the-art **Bridge Navigation Simulator** for training of maritime personnel. **Maritime Resource Management (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. Apart from the MRM courses, we have also set up classrooms, **Video-Based Training (VBT) and Computer based training (CBT)** for our 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), Video-Based Training (VBT) and Computer-Based Training (CBT) programs for safety and efficient ship operations of deck and engine departments. 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 Bridge Navigation Simulator recreates the actual bridge on a ship as it enters a 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 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'.

In 2009, we introduced technical training courses for Engineer officers **("Engine Room Management and Competency Enhancement" - "EMC"** for Senior Engineers, and "Engineer on Watch" - "EOW" for Junior Engineers). We also installed certain basic (but important) equipment such as a turbocharger and a purifier at the Training Centre for practical training to accompany class-room theoretical courses. These will nicely 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.

Piracy is the latest scourge facing the shipping industry, and there seems to be no signs of this abating even though the UN and several leading countries have deployed their naval warships to patrol the area. Pirates have expanded their operations into the Southern Red Sea and also into the Indian Ocean as far away as Seychelles, using larger mother ships for logistical support.

Although the shipping industry has been afflicted by piracy for centuries, it has assumed a new dimension in the Gulf of Aden (GOA) and the Somali coast with ships being hijacked at frequent intervals. The swashbuckling pirate of the past is tame compared with today's heavily armed criminals scouring the Gulf of Aden and off the east coast of Somalia for vulnerable vessels to hijack. It is important to note that Piracy is a commercial venture. Pirates are not really interested in the cargo. They just want the ransom money and use the crew as bargaining power. Of course, if the cargo is valuable they get a little more leverage to extract an even bigger booty.

Pirates typically approach laden ships moving at no more than 14 knots using three or four fast fishing boats capable of moving at 30 knots. They use 'mother-ships' - usually captured smaller vessels - as a floating base from where to launch their operations. They carry rifles and RPGs and fire them to force the ship to stop. Laden ships with a low freeboard, such as tankers and bulk carriers are easy targets. The vessels are then boarded and the crew forced to take the vessel to a port under the control of Somali pirates where a ransom is demanded from the ship owner. Usually it takes about 2 months to negotiate the release of the captured vessel.

The establishment of the revised International Recognised Transit Corridor in the GOA has been a great achievement in the management and provision of protection to commercial shipping transiting these dangerous waters. This revision is intended to reduce the risk of collision between vessels utilizing the corridor, provide a measure of traffic separation, and allow maritime forces to conduct deterrent operations in the GOA with a greater degree of flexibility.

Many nations have committed their warships to the GOA area to protect International shipping and have also established Command/Coordination Centers around the region. All vessels are encouraged to join convoys which are announced well in advance and which are escorted by naval warships.

In the year 2009, 135 ships were attacked and 33 hijacked. One ship was attacked as far away as 1000NM east south east of Mogadishu, the capital of Somalia.

PSL has about 1 or 2 vessels transiting the GOA every month. While there have been a few sightings of suspected pirates, we have been fortunate that only one of our vessels, which has since been sold, had a close encounter with pirates but managed to escape.

We have approached the Royal Thai Government for assistance and we understand the Royal Thai Navy is discussing the issue with various ministries. Meanwhile, we engage specialized security teams on board our transiting vessels to provide training and additional vigilance, and generally boost the confidence of the Master and crew. Apart from above, all our vessels are advised to follow the updated Best Management Practices and Ship Protection Measures to Deter Piracy in the GOA and off the coast of Somalia.

There are also fears in the maritime sector over the rising status of Nigeria among the regions with high rate of pirate attacks. Latest report from the International Maritime Bureau (IMB) Piracy Reporting Centre showed that Nigeria is now next to Somalia in the list of countries whose waters have been invaded by pirates.

Finance: "If you want to know the value of money, go and try to borrow some." – We had made a reference to this quote by the wise Benjamin Franklin which continues to remain as relevant today as it was last year. With the modest recovery in markets from the second quarter of the year 2009, we did not progress to a worse situation as we feared at the beginning of the year, not that it has become substantially better, on the finance front at least. Borrowers who had expanded their fleets at the top of the market continue to be under stress. The only thing that has saved these borrowers from being pushed into bankruptcy or forced sale of their assets is that the banks find themselves in equally stressed circumstances. The fear of a loss in their books is holding them (the Lenders) from enforcing the security in a more forceful manner. Consequently, we saw a spate of Covenant Waivers being readily granted by the Banks to borrowers who are in default having breached their loan-to-value and other financial covenants. We believe these covenant waivers come with strings attached of additional restrictions and costs by way of fees and additional margins. On our part, we do not face any such situations and have drawn USD 224.79 million from our facility which we had tied up for our new-building orders. We have also drawn THB 734.27 Million (which was swapped to USD 22.15 million) from our second-hand vessel acquisition facility to fund the purchase of the Rojarek Naree which was delivered in December 2009. We had remarked last year that we prefer to look at the silver lining in the dark clouds of the liquidity squeeze which would place us at a relative advantage over other leveraged and weaker borrowers, and it has indeed turned out to be more than just a "lining" for us as we successfully extended the availability periods of both our second-hand vessel acquisition facilities amidst all the turmoil from year 2008 right through the first quarter of 2009. Since then, we have drawn on the first facility as mentioned above, and have cancelled the other facility near the end of the year to save on commitment charges since it became apparent that we will not have the opportunity to draw any amounts against this facility. We are very pleased to report that we have now signed up another new long term loan facility of USD 250 million in the beginning of this year (2010) with a long availability period extending up to 30th June 2011, and we hope to draw this full facility within the end of the availability period to fund the acquisition of the second-hand vessels we plan to buy to replace our recent sales. We are also in discussions with our Lenders of the first second-hand vessel acquisition facility (USD 250 million equivalent) to extend the availability period of the balance of this facility by another year and if extended, as is our expectation, we hope that we should also be able to draw this down to complete the replacement of all our planned 25 old vessel sales during years 2009-10-11.

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 nearly complete. We had completed the sale of the major assets in this company and we are now in the process of closing the balance sales in the near future.
- **International Seaports (Haldia) Pvt Ltd:** This is our only investment in Ports now which is in the Haldia port (about 22.4% of the total capital) and is operational under our past port projects investments. This JV continues to operate very well and we have to-date received total dividends of USD 1.11 million, which work out to about 50% of our original Investment made in years 2002-2003. Our intention to increase our holding to a more strategic 33.55% by signing an agreement to buy a further 11.15% in the Port Company in December 2008, has not yet been successfully closed because of some delays faced by the Port Company in obtaining regulatory approvals, but, we hope to close this matter in the near future.

IN CONCLUSION:

Demand

With the changed business climate of demand for shipping having virtually fallen off a cliff the environment for the next 2 years is going to be extremely challenging. Our strategy of having booked longer term contracts in the past is worth its weight in gold today. The demand destruction, that has taken place in large part due to the shaky position of the financial infrastructure of the world, has been reversed to a large extent by the massive and globally coordinated Government bailouts as well as stimulus packages liberally employed during 2009. Most importantly, banks need to re-open to the world their collective windows on trade finance which they had shut at the peak of the financial crisis in the middle of 2008, and which have still some way to go before they could be termed as ‘normal’. The danger marker is, of course, the reaction of the world GDP when the life-support-drug to the economy of massive coordinated Governmental stimulus starts to wear off. The fear, which is still largely in the background, is that the world GDP may stumble into a double-dip recession which would have an adverse impact on demand growth. These will be the key trigger points to watch out for and that will indicate if better times are just around the corner.

Supply

Due to the extremely favourable freight markets of the last 5 years, most ship-owners have kept their older ships operating well beyond their useful economic life. Under normal freight market conditions, approximately 20 to 25% of the existing world fleet should have been scrapped. Under the present market conditions, this figure could rise substantially and would only be constrained by the available scrapping capacity in the world. Those ships that are too young to be consigned to the scrap heap will be laid up.

With respect to the approximately 57.3% of brand new Dry Bulk ships scheduled to be delivered over the next 4 years to end of 2013, the financial crisis has, if we are to believe the various press reports on this subject, already eliminated approximately half that number. The balance half would be subject to delays that would not be considered normal by any standards. An indication of what we could expect is evident from the slippage figures of 28.4% in 2008 increasing to 47% for 2009 and expected to cross the 50% mark quite easily in 2010.

The supply side looks about ready to come into balance with the demand side of the equation in a couple of years time just about when the banks should have got their act together and we could see another bull run in the freight markets post 2011. We think that 2010 and 2011 will therefore remain extremely challenging years where even the most astute and conservative ship-owners' best laid plans will be sorely tested.

Financing

Fund raising will be one of, if not, the biggest challenge that ship-owners will have to face during 2010 and 2011. In the past 5 years, shipping banks have assisted ship-owners to purchase something like USD 160 to 175 Billion worth of secondhand ships. Due to the rapid fall off in values, these ships have lost around 50 to 60% of their values from the peak reached in the first quarter of 2008. Most, if not all, such loans would have breached their loan to value covenants. This would allow the banks to call such loans into default and accelerate the prepayment of all outstanding loans. If such ships have got long term charters attached with good quality counterparties, then the banks may hesitate to call these loans into default though they would try and garner all the cashflow from such contracts to normalise the loan to value covenants as soon as possible. If such ships are also exposed to the spot markets, the banks would be in serious trouble with cashflows being unable to cover interest and/or principal repayment and the loan to value covenants having been breached.

Financial procrastination which characterised 2009 with a "see no defaults, do no foreclosures, hear of no defaults" attitude may be something that will change dramatically in 2010 and 2011. This is when the banks would call such loans into default, seize and auction the ships at the best possible price to recoup some part of the loans that they had made to the ship-owner during the purchase. This would stress out the balance sheet of the banks and, most likely, make the ship-owner go bust. If such a ship-owner has new ship buildings on order, which is more likely than not, and has got funding commitment from his banks, all such financial support would evaporate leaving the contract to build the new ships invalid and the financial stress would pass on to the shoulders of the shipyards and their banks. The shipping industry at present is just seeing the emergence of its own version of sub-prime toxic waste that threatens to engulf ship-owners, their banks, the shipyards and their banks.

This financial stress in the maritime world is what has given rise to the myriad of press statements emanating from ship-owners and shipping analysts around the world that the mountain of new ships on order for delivery between now and the end of 2013 could be just a mirage as more than half of them have already been cancelled. This might be the silver lining to the dark clouds threatening to engulf our entire Industry.

Yours sincerely,

For : **Precious Shipping Public Company Limited**

(Khushroo Kali Wadia)
Executive Director