Ref.: 2014-016

25 April 2014

To : The President of the Stock Exchange of Thailand

Subject : The 1st Quarter of 2014 Management Discussion and Analysis (MD&A)

THE RESULTS reviewed by Ernst & Young, show you the latest financial position of the Company. The net profit excluding one-off gains on novation/cancellation of shipbuilding contracts for Q1, 2014 was USD 4.11 million which compares with a net (loss) excluding the aforesaid one-off gains of USD (4.59) million in Q1 2013. The average earnings, per day per ship during Q1 2014, were USD 9,268 and compared with the USD 7,030 in Q1 2013, it showed an increase of about 32%. The average operating expenses, per day per ship, were USD 4,636 in Q1 2014 which is marginally above our prediction of USD 4,500. When compared to USD 4,318 in Q1 2013 (including depreciation/amortisation of the Drydocking/Special Survey expenses in both periods) it shows an increase of about 7% in operating costs. The earnings per share (eps) in Thai Baht for Q1 2014 amounted to Baht 0.13 per share versus Baht 0.27 per share (including Baht 0.40 per share from one-off gains on novation/cancellation of shipbuilding contracts) or a negative EPS (loss) excluding the gains on novation/cancellation of shipbuilding contracts of Baht (0.13) per share in Q1 2013.

THE HARD FACTS	**Q1, 2013**	**Q1, 2014**
Highest Earnings per day per ship in USD	15,317	19,702
Average Earnings per day per ship in USD (Handy Size)	6,588	9,024
Average Earnings per day per ship in USD (Supramax)	9,023	10,086
Operating cost per day per ship in USD	4,318	4,636
EBITDA in million USD	5.83	13.65
Net Profit/(Loss) in million USD (excluding one-off gains on novation/cancellation of shipbuilding contracts)	(4.59)	4.11
Net Profit/(Loss) in million USD	9.33	4.27
Earnings(Loss) Per Share in Thai Baht (excluding one-off gains on novation/cancellation of shipbuilding contracts)	(0.13)	0.13
Earnings(Loss) Per Share in Thai Baht	0.27	0.13

AWARDS AND ACCOLADES: PSL was a finalist for the “Ship Manager” category as well as the “Ship Owner/Operator” category at the Seatrade Asia Awards 2014 held in Singapore in April 2014.

PROSPECTS over the next 12 months can be better understood if one were to examine the macro environment. We have given you a selection of such information from various publicly available sources.

Firm house price hikes, an improving employment environment and increased bank lending indicate the **US economy** is now firmly on the mend and should record solid gains this year. Macroeconomic forecasts for the US range from 2.6% (IMF) to 3.2% (Deutsche Bank).

The Bank of England hinted that interest rates may need to start rising sometime in 2015. The GDP growth forecast was raised sharply higher and the new forecast is for the economy to expand by 3.4% in 2014.

Deutsche Bank sees an **8.6% economic growth for China**, on the basis that a firmer recovery in Europe coupled with a GDP surge in the US will drive the nation’s exports to these regions whilst other institutions forecast range of 7.2% (Morgan Stanley) to 7.6% (BofA/ML) growth.

China’s coal imports in Q1 2014 reached 84 MMT, according to data from their customs authority, for an annualized total of 336 MMT a new world record!

China’s Steel production in Q1 2014 reached 201 MMT or an annualized total of 804 MMT!

China's imports of iron ore surged to a record 222 MMT in Q1 2014, according to data from China's customs authority. Annualized, the total would result in 888 MMT of iron ore being imported into China!

The clamp down on **pollution in China** is positive for the dry bulk market as domestic iron ore production is highly polluting, supporting imports of high quality fines. The steel mills reportedly also being asked to shut down are the smaller, highly polluting open hearth mills inland China which typically use domestic iron ore. (RS Platou)

China will close 1,725 small-scale coal mines with a total capacity of 117.48 million tons in 2014 as part of its program to phase out low-quality coal production. Local governments have been under orders to gradually shut all coal mines with annual production capacity of less than 90,000 tons, as well as those mines that are operating illegally and do not comply with state safety requirements. (COSCO China News Letter)

China is importing low-sulphur coal specifically to reduce its pollution levels. It mines over 3 billion tons of coal per year but much of it is very low quality, high in sulphur and long on smog. Despite China's enormous domestic resources of raw materials it needs to import better quality grades of coal and iron ore from overseas, boosting seaborne demand while cutting homegrown pollution. We tend to focus on urbanisation in China and the broader emerging markets world as a leading source of shipping demand. But, as China chooses quality over quantity of economic growth, so it will also prioritize the quality over the domestic availability of many commodities. Imports will be a necessity, not a luxury, and they will play a significant role in future shipping demand. (Hartland)

China's imports of 1.4 tons per person are still way below Europe's 4 tons per capita. These trends are quite encouraging for bulker owners. Steel is bound to stabilize at some stage, but recent developments suggests that for an economy like China, slower GDP growth can still suck in more and more dry bulk cargo. Of course that's not a novel development, it happened to Europe, but it's encouraging to see the range of imports widening as the economy matures. (Clarksons)

Thankfully our world is not so much linked to the global economy and its weak growth trajectory as it is attached at the hip to **China's economic fortunes**. China has provided, and will continue to provide, the lion share of global seaborne demand. Premier Li Keqiang promised us 7.5% growth in 2014 and so far he is failing to deliver. Failure will be fatal to the survival prospects of both the leadership and the party, so we can now look forward to fresh stimulus that will feed directly into shipping demand. The Fed can taper, the BoE give forward misguidance, the ECB continue to fumble and the BoJ largely fails to achieve its objectives, but what really matters is what the PBoC does to guarantee that its leaders hit their growth targets. After a regular meeting of the State Council Li Keqiang pledged to speed up the construction of railways and social housing. The aim is to build 6,600km of new track this year – 1,000km more than it built last year – in an effort to create the 10m jobs it considers necessary to maintain economic and social stability. China Development Bank, a state policy bank, is tasked with setting up new departments to finance the construction of government-subsidized housing; this includes renovating or building 4.7m homes for people living in slums and shantytowns. The government is also considering extending tax breaks to small and medium sized companies, spurring investment in the more nimble and creative private sector. These measures will support elevated imports of iron ore and coal and help to reduce excess capacity in domestic steel and cement industries as greater demands are made of them. Could this be just what we need in order to realize our own forecasts of better bulk carrier earnings in 2H14, at last justifying the price gains of the past 18 months? At the beginning of 2013 a 180,000-dwt quality-built capesize resale was worth $42m. Now it would fetch $63m, a 50% gain. Over the same period a 61,000-dwt ultramax resale has gained 25%, up from $26.5m then to $33m today. In 2013 capesize spot freight rates averaged $16,000 daily while in this year to date they have averaged $18,000 daily, a 12.5% gain. Supramax average trip rates are at $10,500 per day in 2014, only 9% ahead of what they made in 2013. Earnings now need to catch up with the rise in asset values and the Chinese leadership may be about to provide the means to achieve this end. (Hartland)

With demand for agricultural commodities ballooning, production is barely keeping pace, particularly in China. Although food security is a core objective of the Chinese government and there are projects in place to increase domestic production, there are also major challenges to be met; China is home to 21% of the world's population but only 8.5% of the world's arable land. And due to the size of China's population, rapid urbanisation and environmental degradation 20% of China's arable land has been degraded. It is believed that China lost approximately 9 million hectares of the country's farm land between 1997 and 2008. Water supply is also a major issue. While China's total water supply ranks fourth in the world, on a per capita basis it is only about one quarter of the world average. Agriculture consumes 60% of total water usage in China and the overuse of nitrogen based fertilizers, combined with pollutants from heavy industries have already severely restricted China's clean water supplies. There is no doubt that China will have to look outside for food supply security and its dependence on imports will grow. (Hartland)

We reiterate our **optimistic view on the dry bulk** space based on: 1) the end of double-digit fleet growth; and 2) still-strong demand for dry bulk commodity transportation services after years of record-high investments in global mining capacity, which will supply relatively low-cost ore and coal from Australia and Brazil, outstripping domestic production in China – and potentially India. We have argued for lower iron ore prices in our previous research, simply because we believe supply will outpace demand in this market. Over the past months we have seen iron ore prices come down and some interpret this as weaker Chinese demand, which to some extent is justified by their weaker steel production, but we remain confident that total effect from lower iron ore prices will be positive towards the dry bulk market as seaborne volumes will outcompete domestic production in China. We now estimate fleet growth just above 5% for 2014 and 2015, the lowest levels since 2003. Coupled with strong demand growth of 10–12% p.a., we firmly believe the fundamental balance will improve in 2014 and 2015, which should result in higher rates and asset prices. (RS Platou)

The trend in the BDI for 2014 will be up and will continue in the upward direction in 2015 and, likely, first 2 to 4 quarters of 2016. Within this upward trend we will experience extreme volatility, just as we are seeing right now, with lots of ups and downs. This volatility of the BDI is similar to equity markets, commodity markets as well as currency markets volatility, with no reason to explain why the short term trend is up or down for any stock or commodity or currency. Today, an individual news event has the power to move any of these markets up or down quite sharply and the volatility is much higher than what the fundamentals would dictate. Of course all this talk about China slowing down doesn't help the BDI despite the actual fact, as shown above, that China is still supporting the dry bulk market admirably despite its Q1 GDP growth rate slowing down to 7.4%!

Supply Side developments in the bulker fleet are making interesting reading. We started 2014 with 735.19 MDWT and have increased to 747.44 MDWT by the end of Q1 for a 1.67% net fleet growth. A further 7.3% (54.57 MDWT) is scheduled for delivery in the balance of 2014 and another 7.6% (56.50 MDWT) scheduled for delivery in 2015. If we were to apply a slippage factor of 35% (2013 was 39%) to these scheduled deliveries and further assume that scrapping reaches 20 MDWT per annum (2013 was 21.5 MDWT) we would be left with a net fleet growth of 4.2% (766.01 MDWT) in 2014 and another 4.7% (801.84 MDWT) in 2015. The interesting part is that at the start of this year the net fleet growth, under the same dual assumptions, for 2014 was 3.9% (763.83 MDWT) and for 2015 was 4.7% (799.79 MDWT), so it appears that net fleet growth is increasing, but marginally.

LONG TERM VERSUS SHORT TERM CHARTERS: As can be seen, our current and forward four year (2014 to 2017) rolling book as at the end of Q1 2014 is at the 19% level with a visible revenue stream of USD 166.12 million. When freight rates move in an upward direction, we effectively lock in earnings by putting away the spot ships for longer term charters at healthy rates.

Year	2014	2015	2016	2017
Total Available Days	15,550	17,377	20,137	20,440
Fixed T/C Days	5,267	2,697	2,562	2,555
%age Fixed T/C Days	34%	16%	13%	13%
Av. T/C Rate/Day in USD	11,296	13,523	13,713	13,713
Contract value in USD	59.49m	36.46m	35.13m	35.04m

As the BDI currently is at fairly low levels we will have to wait out the current period before reemploying this strategy in the near future when the BDI starts to move in an upward direction.

Market Segmentation: During Q1, the Baltic Handy Size Index (BHSI) averaged 689 points derived from the average Time Charter (TC) rate of USD 9,965. Compared to that, our Handies earned USD 9,024 and were below the BHSI TC rate by 9.4%. During Q1, the Baltic Supramax Index (BSI) averaged 1,112 points derived from the average Time Charter (TC) rate of USD 11,631. Compared to that, our Supramaxes earned USD 10,086 and so were below the BSI TC rate by 13.3%. Our target has been to outperform both the indexes.

The Fleet Rejuvenation Plan has progressed well with 40 ships in the water. Another 5 brand new ships are due during 2014 (3X21K Cement ships, 2X64K Ultras); 17 more brand new ships in 2015 (4X38K + 13X64K); and 7 more brand new ships in 2016 (2X38K + 5X64K). We also plan to dispose of the older ships in our fleet once the asset values have gone up sufficiently enough. This is the opportunity that we had been patiently waiting for, and which, if implemented successfully, would ensure the long term profitability of the Company.

Dividends have been paid out on a quarterly basis since the start of 2007. Cash flows and profitability permitting, we hope to maintain the same tempo in the years to come in line with the earnings that we generate.

The next SET Opportunity Day will be held at the SET building at 1010 hours on the 6th May 2014 where we will be presenting our Q1 results. This event is normally very well attended with participants from the analysts, fund management and investor communities. We hope that many of you will attend this event where we will thoroughly discuss the current results. For those of you who cannot attend physically, the SET webcasts the Opportunity Day presentation live, giving you a chance to be present via the web.

SHIP SCRAPPING is continuing this year as strongly as it did in 2012. In Q1 2014, 41 ships in our sector (10 – 30,000 DWT) were removed whilst a total of 19 ships were added, resulting in the fleet shrinking from 2,770 ships at the beginning of the year to 2,748 by the end of Q1 or a net decrease of about 0.8% in the world fleet in our sector in this quarter. If the freight markets continue at their current levels, we expect the world fleet in our sector to continue to shrink by 3 to 5% per annum. This is the best piece of news for ship-owners faced with low rates due to the excessive over ordering of ships in the recent past.

Yours Sincerely,

PRECIOUS SHIPPING PUBLIC COMPANY LIMITED

KHALID HASHIM
MANAGING DIRECTOR