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29 July 2013

To : The President of the Stock Exchange of Thailand

Subject : The 2nd Quarter of 2013 Management Discussion and Analysis (MD&A)

THE RESULTS, in Thai Baht as well as US Dollars, reviewed by Ernst & Young, show you the latest financial position of the Company. The net profit for Q2 2013 was USD 5.34 million. The earnings per day per ship during Q2 came in at USD 7,507. In this quarter, daily operating costs were USD 4,555 and this figure is expected to average around USD 4,400 per day per ship for this year and in line with our forecast. The EBITDA (excluding the Gains on Novations) for the quarter came in at USD 6.57 million. The earnings in Thai Baht stood at Baht 0.15 per share for this quarter.

THE HARD FACTS	**Q2, 2012**	**Q2, 2013**
Highest Earnings per day per ship in USD	17,242	14,384
Average Earnings per day per ship in USD	9,130	7,507
Operating cost per day per ship in USD	4,575	4,555
EBITDA in million USD (excluding Novation Gains)	9.57	6.57
Net Profit/(Loss) in million USD (before Tax)	0.47	5.37
Net Profit/(Loss) in million USD	0.41	5.34
Earnings Per Share in Thai Baht	0.01	0.15

AWARDS AND ACCOLADES: We were the winners of the Maritime Security & Safety Award at the Seatrade Asia Awards 2013 ceremony held at the JW Marriott Hotel, Hong Kong on the 21st of June 2013. This is a rousing testament to the Security and Safety culture that we have nurtured at PSL over the years and proof positive, if that were ever needed, that the investment made in our state of the art training centre with its very modern simulator and computer based programs has paid rich dividends. At the same ceremony, PSL was a finalist in ‘The Wet/Dry Bulk Operator Award’ category. Copies of these certificates are available on our web page.

PROSPECTS: Dry bulk ships scrapped in the first half of this year consist of 32 Capesizes, 38 Panamaxes, 29 Supramaxes, 58 Handymaxes and 90 Handysizes, equivalent to 13.09 MDWT as opposed to 17.85 MDWT during the same period last year. Scrapping has definitely slowed down in 2013 as compared to 2012. According to data from Clarksons, increased volume of second hand sale and purchase transactions of bulkers has been observed from 2011 to 2012. This trend continues to increase into 2013; in 2012 we saw on an average 29 transactions per month and in the first four months of this year that has increased to 36. This compares with 18/month in 2002 and an all-time-high of 58/month in 2008. Generally the higher the transaction levels, the higher the freight market.

Chinese Iron Ore imports for the first six months was 384.52 MMT, suggesting an annual figure of 769+ MMT for 2013 or a growth rate of 3.22% over the 745 MMT imported in 2012. The main factor that will have a significant bearing on quantum of imports is international iron ore prices as compared to domestic production costs in China. **Chinese Coal imports** have sizzled. If we were to annualize the total Coal imports into China for 2013 based on the first 6 months we would get a figure of 317.08 MMT, which is about 9.72% *more* than the phenomenal 289 MMT for 2012 consolidating China's position as the No.1 coal importer in the world! **Chinese Steel production** has been expanding. The annualized total for 2013 based on the production figures for the first 6 months would be 779.8 MMT or 8.83% higher than the 716.5 MMT for last year! **Chinese Corn imports** that tripled year over year in 2012 to 5.21 MMT will surge to another record this year of about 7 MMT with the major supplier, USA, set to benefit with their record expected harvest. This should give a well needed fillip to the dry bulk sector in the October/December period this year when the grain exports take place from USA. All this massive growth in dry bulk demand in China has taken place against the backdrop of a slowing Chinese economy with GDP growth rate of 7.7% in Q1 dropping to 7.5% in Q2 with the Government maintaining an annual GDP growth forecast of 7.5% for 2013.

In a recent report **Howe Robinson** stated 'there has been much speculation about the underlying causes of the market (BDI) revival. One of the fundamental drivers is the Jan-May 2013 net Cape fleet growth which has run at just 2.6% relative to end '12. This sharply moderated growth has been accompanied by growing port congestion in China and the continuation of long loadport delays for VLOCs in Brazil. The supply side has been further tightened by a super slow steaming increase and the dislocation caused to the 37 strong Cape fleet of STX Panocean. On top of the supply squeeze has come the strong seasonal revival in iron ore shipment which is being further supplemented by the roll out of new (iron ore mining) capacity. The recovery in Cape rates comes as no surprise. The harder judgment is to calculate just how much further it has to run.'

In a mid-June report, **DNB Markets** stated '2013 is the first time in six years where demand is higher than supply. 2014 will see supply growth levels lowest in more than 10 years. Our demand story is based on global export capacity of iron ore and coal to increase by more than 80% by 2016, which would lead to downward pressure on commodity prices and out price domestic Chinese production and force China to rely on imports to a larger extent. An iron ore price between 100-120 knocks out a lot of Chinese production and the spot iron ore price is 113, down from 150 start of year and 130 in 2012 and 170 in 2011. Australian iron ore exports are up 18% YTD and Brazil down 3% YTD and when those volumes come back in the market, we are likely to see rates moving higher. Chinese steel production is up 10% YOY based on the first five months of this year.'

Two recent **McKinsey reports** on China suggest significant impact on the Dry Bulk markets. The first report authored by Michael Pettis, a finance professor at Peking University's Guanghua School of Management, highlighted that: 'The price of hard commodities will drop sharply; Industries that profit from building infrastructure or manufacturing capacity will suffer; Companies that produce consumer goods will be marginally affected; Countries, especially developing ones, that rely heavily for growth on manufacturing will benefit.' The other report, authored by Yasheng Huang, a professor at the Massachusetts Institute of Technology's Sloan School of Management, highlighted that: 'The economic-policy adjustment in China has one objective: shifting from a production-oriented economy to one centered around household consumption that currently accounts for only 38 percent of China's GDP, barely half that of the United States (70%), and significantly less than the prevailing rate (approaching 60 percent in recent years) of other large economies, such as Brazil, France, Germany, and India. Beijing plans to raise the dividend payouts of state-owned enterprises and to use a portion of the distribution to strengthen social-security funds. Additionally, the Ministry of Finance proposed a carbon tax, which signifies the government is serious about addressing environmental concerns and removing or reducing the implicit subsidies embodied in low energy prices. These moves reflect the country's new leadership's view of the role of state-owned companies as part of the effort to move toward a consumption-based, people-centered model of economic growth.'

Indian coal imports were 16.6 MMT in May, up 36% y-y, according to data from RS Platou. The report continues 'India's import level of coal is now similar to Japan's monthly imports and the growth should continue with IEA expecting that Indian coal imports will double from 2012 to 350 MMT by 2020. India has a quality problem with its domestic coal and there have been big cost increases of extracting new coal. In addition, India has numerous investment projects to expand steel and power plants which are driving coal demand. India is currently 6% of the total dry bulk trade but could grow to 10% by 2020. India is, therefore, getting more important for the dry bulk market.' The Indian Government's decision to allow power generation companies to pass on additional costs they incur from using imported coal to customers can only increase India's appetite for imported coal to the benefit of the Dry Bulk market.

US coal exports reached an all-time high in March 2013 at 12.4 MMT giving an annualized total of 148 MMT for 2013 compared to the 114 MMT exported in 2012. Coal exported from the US to Asia has the longest ton mile impact and is the unintended consequence of the finding and production of cheap Shale Gas in the United States.

Supply analysis: In FH'13 the fleet grew by 3.32% from 692.74 MDWT to 715.73 MDWT with a further 8.50% (58.88 MDWT) scheduled for delivery in the balance of 2013 and another 5.99% (41.48 MDWT) scheduled for delivery in 2014. If we were to apply a slippage factor of 30% to these scheduled delivery numbers and further assume that scrapping reaches just 30 MDWT (13.09 MDWT has already been accounted in FH'13 leaving a balance of 16.91 MDWT for SH'13) we would be left with a fleet of 740.04 MDWT or a net growth of 6.83% (47.30 MDWT) in 2013. Based on these assumptions (30 MDWT scrapped and 30% slippage) we would have another 1.54% net growth (11.40 MDWT) in 2014 to reach a fleet size of 751.44 MDWT. To absorb the accumulated increase in supply from 2009 onwards will be the real challenge which should hopefully be overcome by the end of 2014.

LONG TERM VERSUS SHORT TERM CHARTERS: The long term charters already booked as of 30th June for 2013 and the next 4 years to 2017 are shown in the table below.

Year	2013	2014	2015	2016	2017
Total Available Days	15,533	17,726	18,250	18,300	18,250
Fixed T/C Days	3,906	2,027	2,555	2,562	2,555
%age Fixed T/C Days	25%	11%	14%	14%	14%
Av. T/C Rate/Day in USD	9,834	13,377	13,713	13,713	13,713
Contract value in USD	$38m	$27m	$35m	$35m	$35m

It is our intention to continue to charter out our ships on long term period contracts, whenever practical and possible, to reduce the impact of the volatile nature of the spot market.

Market Segmentation: During Q2, the Baltic Handy Size Index (BHSI) averaged 540 points derived from the average Time Charter (TC) rate of USD 7,987. Compared to that, our Handies earned USD 7,073, lower than the BHSI TC rate by 11.44%. During Q2, the Baltic Supramax Index (BSI) averaged 891 points derived from the average TC rate of USD 9,319. Compared to that, our Supramaxes earned USD 9,291 marginally lower than the BSI TC rate by 0.30%.

The Fleet Rejuvenation Plan is being realized. As of the end of this quarter, we had 39 ships in the water with one brand new Supra expected to deliver by the end of July; another 4 Cement Ships under construction for delivery during 2014; and another 6 bulk ship building contracts with ABG. Besides these ships/contracts we also have USD 33.92 million in cash in our balance sheet, approximately USD 185 million of undrawn credit lines with which to buy second hand ships/re-sales and further possible release of funds from ABG as detailed below.

ABG Shipyard was late for certain Vessels beyond the cancellation dates of the ship building Contracts, which were then novated by us to New Buyers. We have received 3X34K DWT ships to date from them. We have completed the Novation of 9 ship building Contracts between 2011 and Q1 2013 with a one-time gain of about USD 34.21 million (USD 10.52 million booked in 2011, USD 9.77 million in 2012 and USD 13.92 in Q1 2013.) We have completed another Novation in Q2, 2013 resulting in a onetime gain of USD 8.63 million. That still leaves 8 more ship building contracts (including 2 Cement Carriers) with ABG that need to be sorted out. Though we are not pleased with this outcome of having to novate these ship building contracts, it is the best possible outcome under the existing circumstances. Besides, we are able to replace these ABG ship building Contracts with similar, but much cheaper, second-hand vessel purchases from the market.

Dividends have been paid continuously on a quarterly basis from 2007. Cash flows and profitability permitting, we hope to maintain the same tempo in the years to come. We have already paid out a dividend for Q1, 2013 in line with, and in support of, this trend.

The Marine Money June/July 2013 'worldwide ranking' issue had PSL as the 39th best shipping company in the whole world based on results for 2012. 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. Marine Money also listed the top 10 performers over the last 8 years and PSL was ranked 6th in the world over that period of time!

The next SET Opportunity Day where PSL will be presenting will be held at the SET building at 0900 hours on the 13th August 2013. This event is normally very well attended with between 70 and 100 participants from the analysts, fund management and investor communities. We hope that many of you will attend this event where the Company will get a chance to 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 has slowed down from the hectic pace established in 2012. In FH 2013, 90 ships were removed whilst a total of 112 ships were added resulting in the fleet increasing from 2,752 ships at the beginning of the year to 2,774 by the end of Q2 in the world fleet in our (10 to 30K) sector. If the freight market, as represented by the BDI, falls back towards/below the 1,000 point mark, we expect scrapping rates to accelerate once again with 7 to 10% of the existing ships being scrapped per annum in our sector. That will be the best possible news to bring supply and demand back into some semblance of order.

Yours Sincerely,

PRECIOUS SHIPPING PUBLIC COMPANY LIMITED

KHALID HASHIM
MANAGING DIRECTOR