Pacific Basin

RBS China-India Access Conference

London, June 2011


# 1Q11 Trading Update

30 May 2011

# Pacific Basin Overview

- One of the world’s leading dry bulk owners & operators of modern handysize and handymax vessels
- Flexible Pacific Basin dry bulk business model
  - Large scale fleet of uniform, interchangeable modern vessels
  - Mix of owned, long-term and short-term chartered ships
  - Diversified customer base of mainly industrial end users
- Presence in
  - Energy & Infrastructure Services
  - RoRo sector
- Over 190 vessels serving major industrial customers
- Hong Kong headquarters, 21 offices worldwide, 375 Group staff, 2,100+ seafarers *


** As at Jan 2011*

# 2011 First Quarter Highlights

**Pacific Basin Dry Bulk**

- Handysize and handymax freight rates have increased 28% and 30% since early February on healthy South American grain exports and minor bulk trades
- Capesize rates dropped in January and remained below handysize and handymax rates over most of the period
- Five year old handysize ship values have decreased 10% YTD to US$22.5m , with downward pressure on values expected to generate opportunities for additional vessel acquisitions
- We have secured forward cargo cover as follows:

| | Year 2011 | Year 2012 |
|---|---|---|
| Handysize | 68% (US$13,570) | 30% |
| Handymax | 93% (US$15,810) | 139% |

**Disposal of Non-Core Assets**

- Disposals of Green Dragon Gas shares in April 2011 generated gross proceeds of US$81.8m and a net gain of US$55.8m

**Overall view of the Group's activities and markets in which we trade remains substantially unchanged since our 2010 Annual Results Announcement; while we expect minor bulk trades to support a stronger second quarter**

# Differentiated from BDI & Traditional Ship Owning

Smaller bulk carrier segment benefits from:

- Handysize orderbook smaller than ship capacity over 25 years old
- Diverse range of commodities carried and trade patterns
- Greater access to ports
- Growing minor bulk trade imbalances

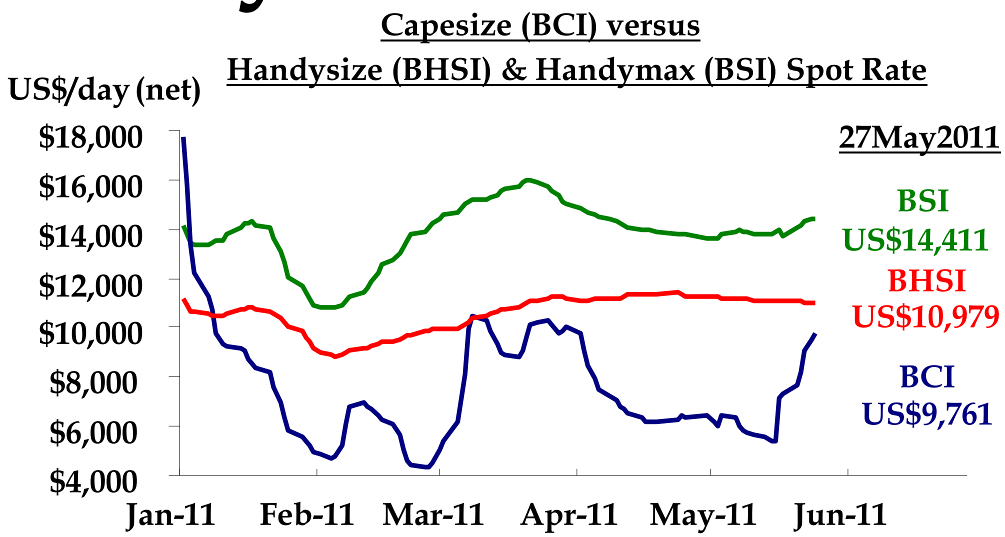

**Fleet**
- Modern, large scale & interchangeable ships
- Ability to change market exposure through charter activity
- Higher utilisation and earnings ability through optimum scheduling
- Low breakeven cost and fuel efficient

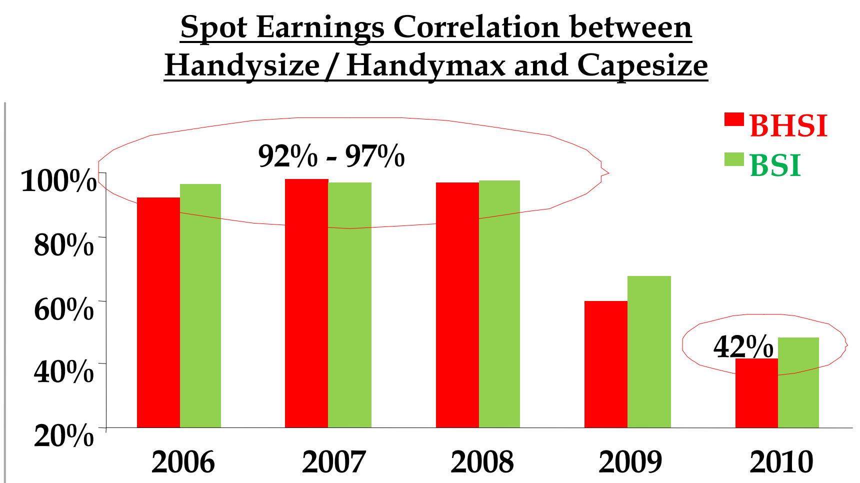
**Unique network of offices**
- Close to our customers and understand their needs
- Local chartering and operations staff support
- Broad access to cargo and contract opportunities
- New office in Stamford

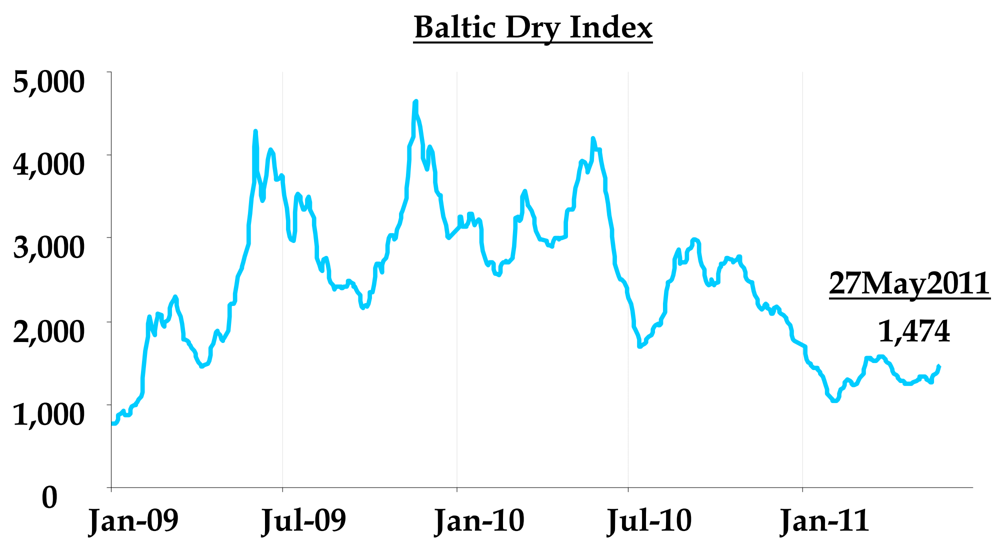
**Customer focus**
- Strong relationship with over 200 customers
- Mainly industrial commodity producers and end-user
- Mixed with spot & long term contracts of affreightment

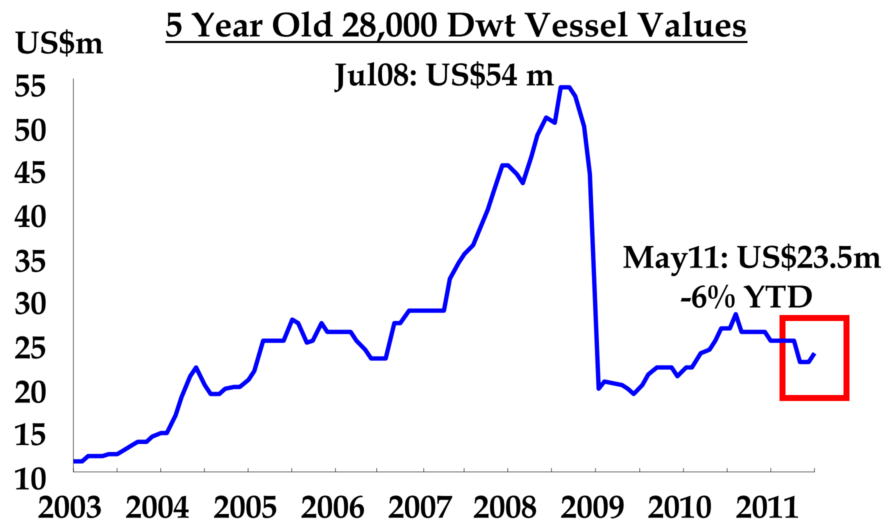
**Corporate profile**
- Trusted & transparent counterparty
- Strong public balance sheet and track record

# Dry Bulk Market Information

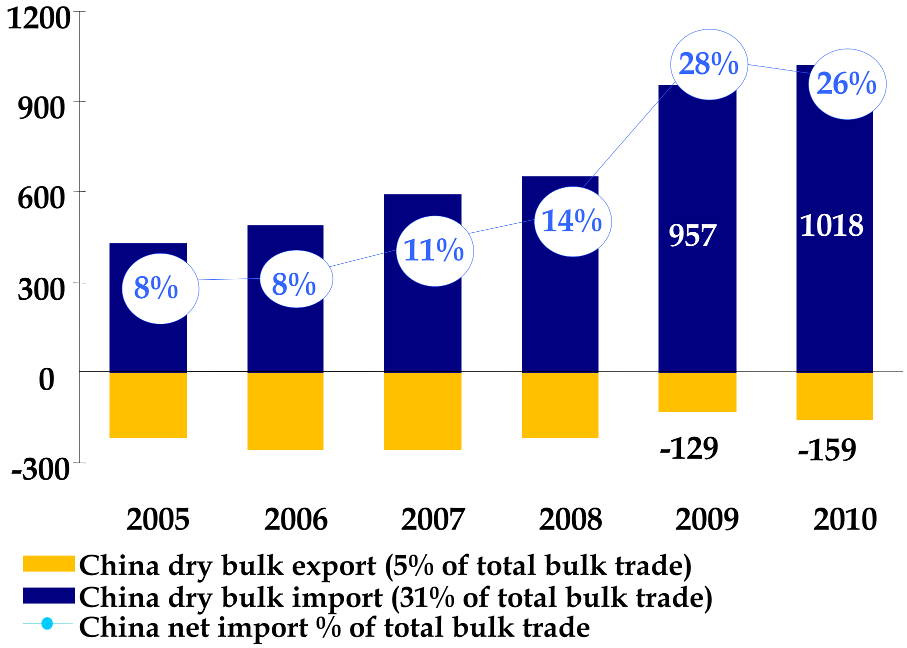


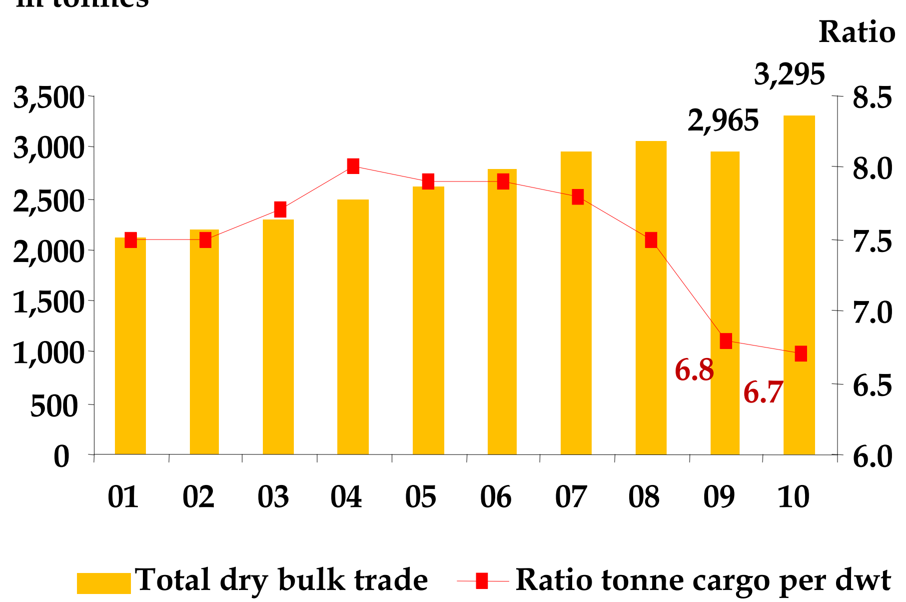



# Chinese Dry Bulk Trade

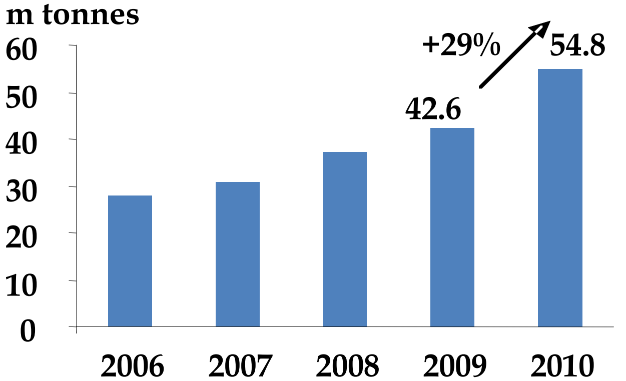



- China dependency increased dramatically since 2008
- East-West trade imbalance has widened causing increasingly inefficient deployment of the global dry bulk fleet
- Variable earnings premium of Atlantic and Pacific compounded by higher fuel costs make repositioning of ships more prohibitive thus leading to market inefficiency

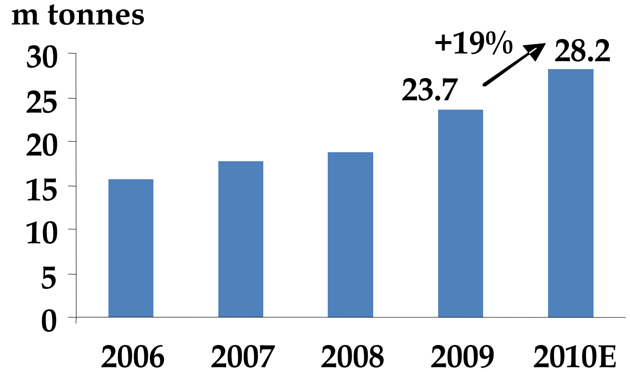
# Strong Minor Bulk & Coal Demand from China

**China Soya Bean Import**



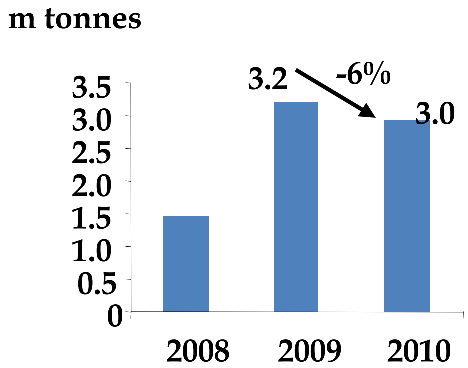

Soya bean comprised 2% of PB volumes in 2010 (+46% YOY)

**China Imports of Forest Products**




Logs & forest products comprised 12% of PB volumes in 2010 (+42% YOY)

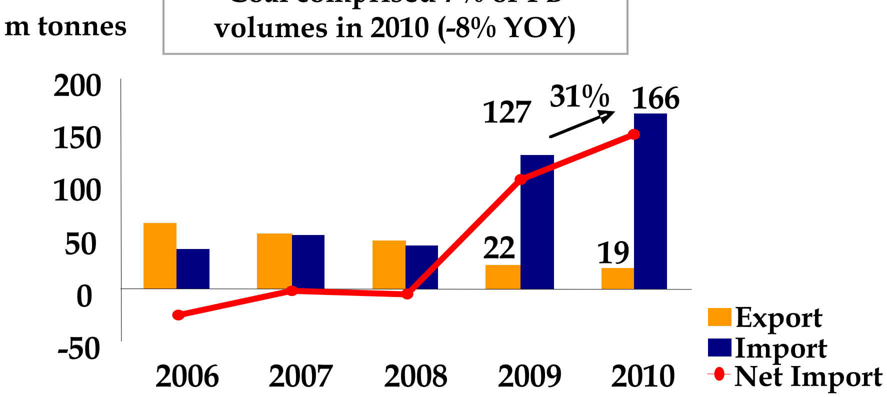
**China Imports of Copper Concentrates**




Copper Concentrates comprised 7% of PB volumes in 2010 (+80% YOY)

**China is a Net Importer of Coal in 2010**

Coal comprised 7% of PB volumes in 2010 (-8% YOY)

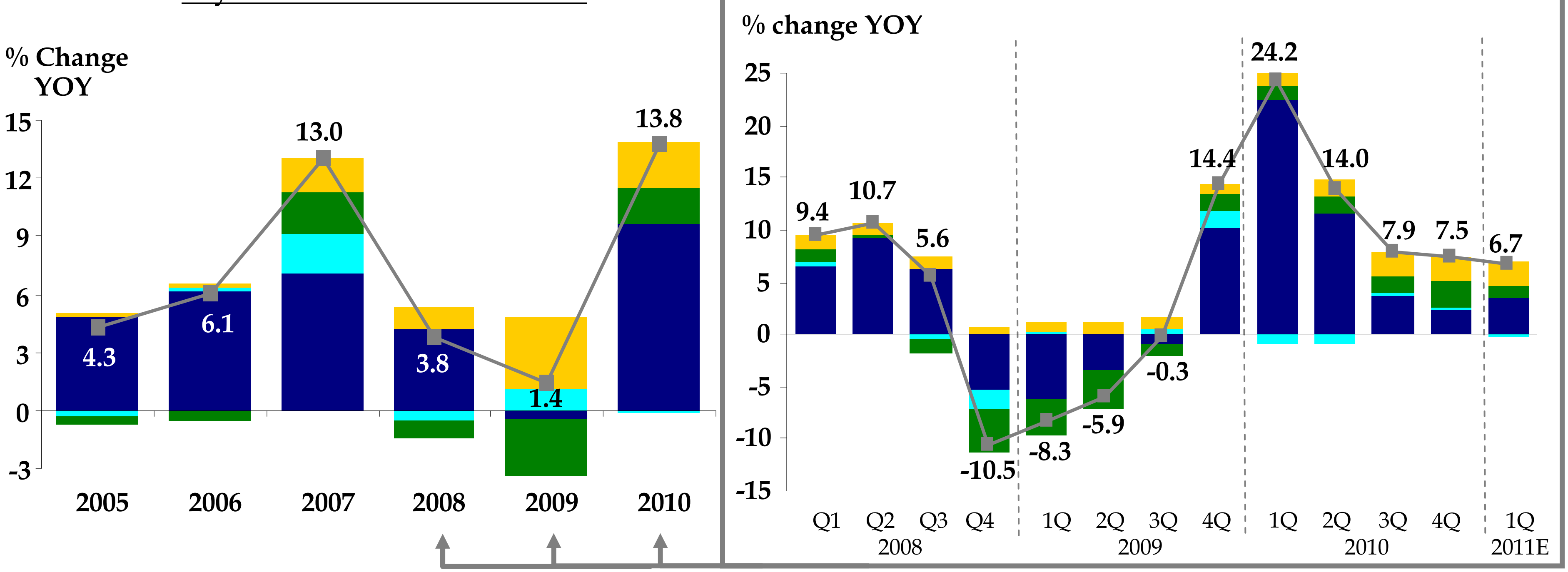


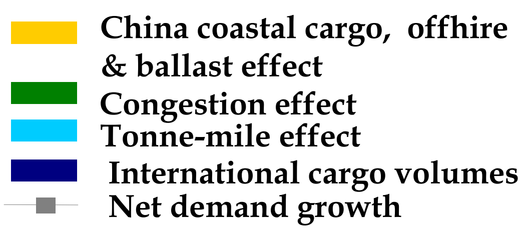

- Significant growth and restocking in minor bulk commodity demand from China and other emerging economies
- 31% growth in coal YOY

*Source: Bloomberg, Clarksons*
*Note: Copper Concentrates data available since 2008*

# Dry Bulk Demand

Dry Bulk Fleet Effective Demand



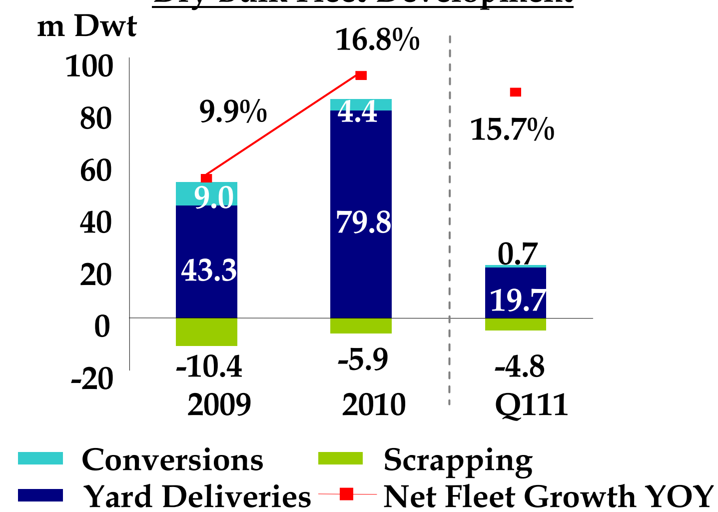




- Growth in Chinese import of raw materials, including coal and minor bulks such as logs & grains
- Increased Chinese domestic coastal transportation in bulk carriers, especially coal
- Widening East-West imbalance attracting more ballast vessels from Asia to distant load ports for return cargoes

# Dry Bulk Fleet Changes

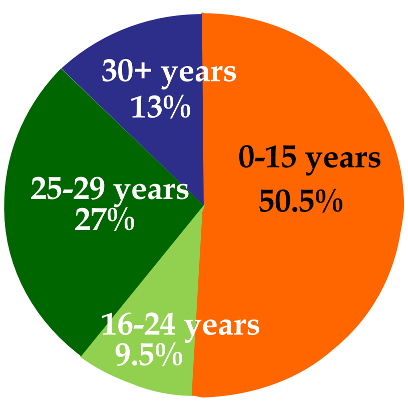
- Dry bulk capacity overall expanded by 3% net driven by the new delivery of 19.7m in 1Q11
- Handysize expanded by 2% net in 1Q11
- Approx. 51% delivery shortfall in first 3 months against scheduled orderbook
- 40% of handysize fleet is over 25 years old
- High scrapping price supports scrapping activities

**Dry Bulk Fleet Development**

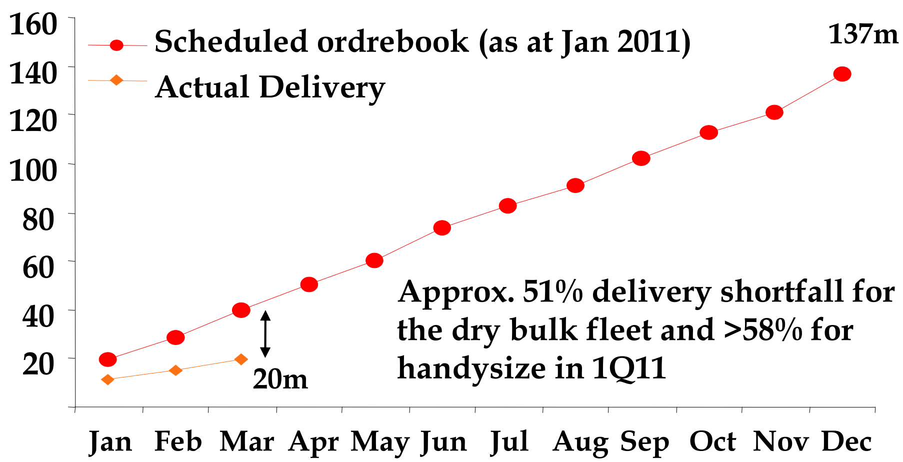



*With the development of newest, biggest Handysize & Supramax vessels, we now show data based on handysize vessels of 25,000-40,000 dwt and handymax vessels of 40,000-65,000 dwt*

**Handysize Age Profile**
**(25,000-39,999 Dwt) ***
**1,995 vessels (63.2m dwt)**



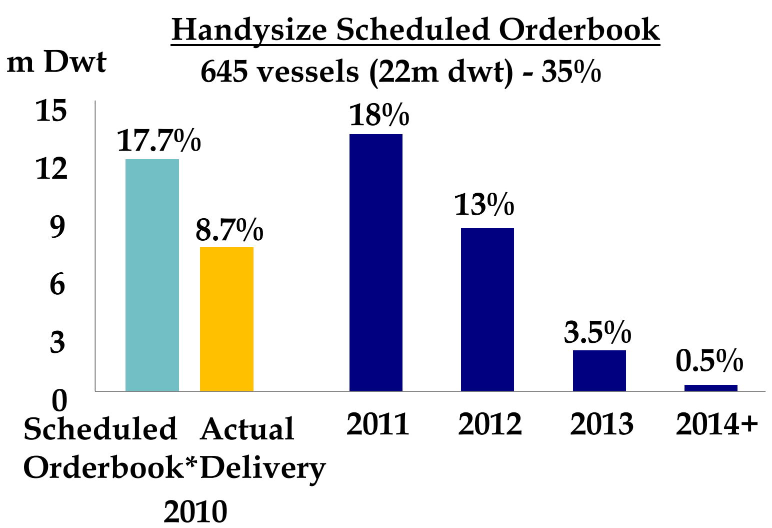

**Dry Bulk Fleet Deliveries 2011**



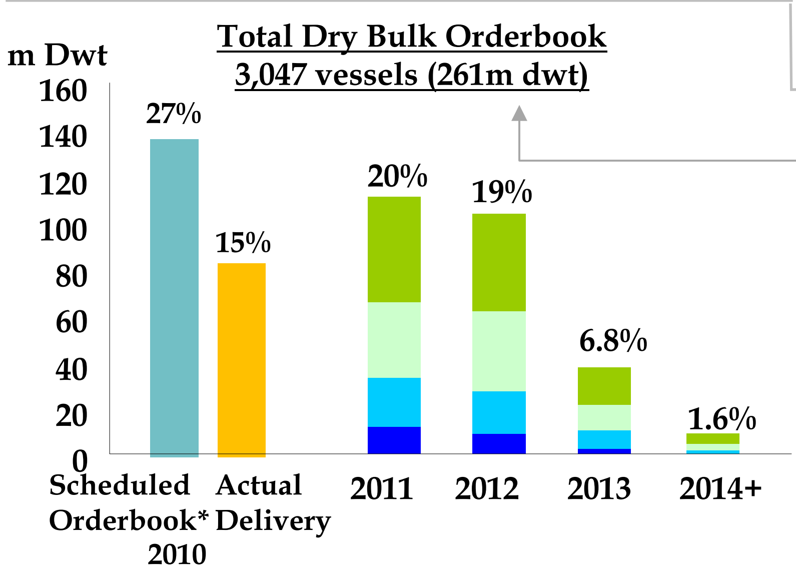

*Source: Clarksons, as at 1 Apr 2011, Morgan Stanley*

Pacific Basin

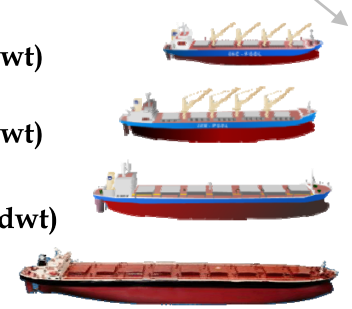
# Dry Bulk Orderbook




- 137 m dwt* of new dry bulk capacity scheduled to deliver this year (2010: 126m)
- We expect 40% of slippage in 2011, net deliveries before scrapping in 2011 will be around 15%
- Minor bulk orderbook, handysize in particular, is less onerous
- Bleak outlook for the major bulk vessels with heavy orderbook




| | Orderbook as % of Existing Fleet | Average Age | Over 25 Years |
|---|---|---|---|
| Total Dry Bulk >10,000 dwt | 47% | | |
| Handysize (25,000-39,999 dwt) | 35% | 16 | 40% |
| Handymax (40,000-64,999 dwt) | 39% | 12 | 18% |
| Panamax (65,000-119,999 dwt) | 62% | 10 | 8% |
| Capesize (120,000 + dwt) | 51% | 10 | 6% |

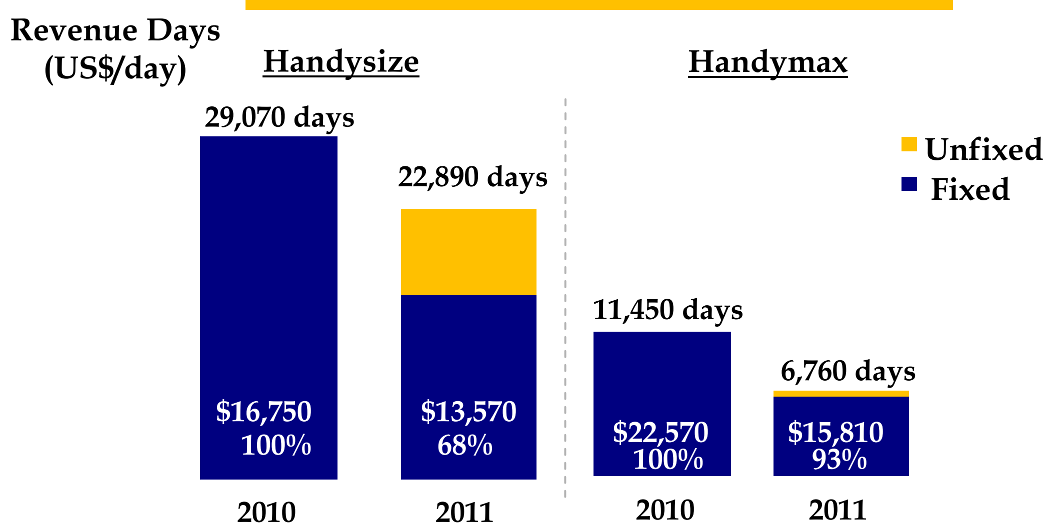


# Pacific Basin Dry Bulk Earnings Coverage

- Solid coverage: no cargo counterparty defaults
- 4% of Handysize revenue days chartered in on an index-linked basis
- 2012 coverage: Handysize – 30%; Handymax – 139%; Combined – 38%

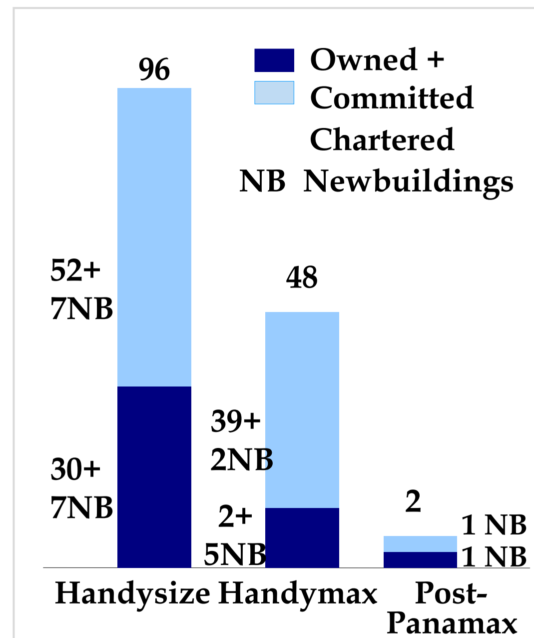
as at 11 Apr 2011

**2011 Total Combined Cover: 76%**




*Note:*
*1)The total combined cover is calculated as percentage cover on total Handysize and Handymax revenue days stated at Handysize equivalent days*
*2)Excludes 2 Handymax vessels on long term charter out*

Pacific Basin Dry Bulk Fleet: 146
as at 15 Apr 2011
Average age: 6.5 years



# Dry Bulk Outlook

**Positive Factors**

- China's continued dependence on imported minor bulks from further afield
- Strong growth in developing countries increased steel & raw materials demand
- Restocking after Brazil & Queensland floods, and harsh northern hemisphere winter
- Slippage continue in 2011 deliveries as yards decelerate production
- Increased scrapping due to high fleet age

**Negative Factors**

- Continued excessive newbuilding deliveries
- Dry bulk demand stifled by shortfall in mining capacity and other supply bottlenecks
- High commodity price favours Chinese switch to domestic iron ore
- Weather problems

## Pacific Basin Conclusion

Handysize dry bulk market in 2011 is expected to be weaker than 2010

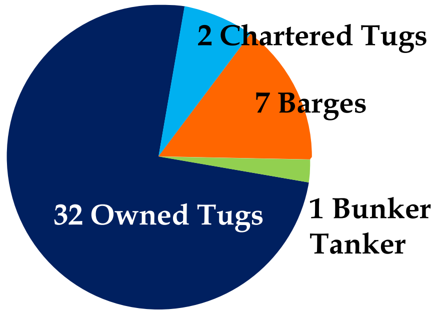
Near term demand recovery overshadowed by continued newbuilding deliveries

However, we remain encouraged by prospects for the longer term

# PB Energy & Infrastructure Services

| | US$m |
|---|---|
| Offshore/project supply & harbour towage services ("Towage") | 1.0 |
| PacMarine Services | 1.0 |
| Fujairah Bulk Shipping ("FBSL") | 2.9 |
| **Segment net profit in 2010** *(2009: US$8.2m)* | **4.9** |

**Towage Fleet: 42 vessels**
**(as at 25 Feb 2011)**




**Offshore Towage and Infrastructure Support Services**

- Continued to perform well despite deferral of Australian projects negatively impacting fleet utilisation
- Secured a contract to transport aggregates for the Queensland Curtis LNG project at Gladstone and other further projects, expected to start in 2011

**Harbour Towage**

- Successfully commenced operation in the Port of Townsville
- Our exclusive towage licenses in 2 bulk ports benefitted from strong commodity exports

**FBSL**

- FBSL did well with Northern Project drawing to a close
- Protracted difficult economic conditions resulted in the decision to scale down the business and make a US$19 million impairment against our investment

# Energy & Infrastructure – Outlook

**Positive Factors**

- Increasing oil and energy prices are leading to more offshore projects and related infrastructure development activities
- Further economic recovery, thus increasing number of tug jobs

**Negative Factors**

- Slow resumption of infrastructure and offshore projects in the Middle East
- Some further delays to new project timelines
- New competition from Southeast Asian operators targeting the Australian sector

## Pacific Basin Conclusion

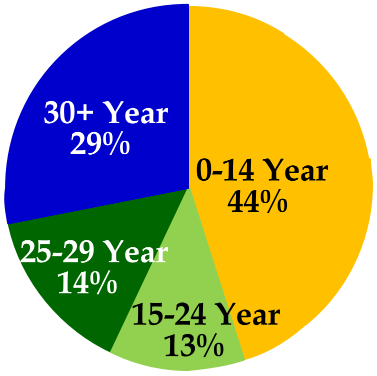
Encouraging signs of improvement in the Australian offshore towage market offset by expected negative contribution from the Middle East giving mixed outlook

# PB RoRo

**Net loss in 2010: -US$1.1m** *(2009: Profit US$0.1m)*

- Slow export-led recovery in European economy remains fragile
- Charter demand for RoRo vessels is still very weak and well below what we had expected a year ago
- Four of our six investments now have employment
- Invested in NGB Express Lines in December 2010 to operate the new Nafta Gulf Bridge RoRo service between Veracruz (Mexico) and Mobile (USA)
- Last two newbuildings deliver in 2011

**World RoRo Fleet**
438 Vessels
(862,453 Lane Metres)




Long-term fundamentals attractive:
- Aging fleet (average age: 25 years)
- Weak market leading to significant scrapping: ~12% in 2010

# RoRo – Outlook

**Positive Factors**

- Global and especially European economic recovery expected to support modest growth in trailer volumes and short-sea RoRo trades
- Scrapping will continue to erode overcapacity
- New RoRo routes emerging

**Negative Factors**

- Significant number of large RoRo newbuilding scheduled to deliver in 2011
- Excess capacity and reluctant to charter new vessels in core European market
- Medium term prospects of some European economies remains uncertain

## Pacific Basin Conclusion

- Timing of a sustainable improvement in the RoRo market predicted too early
- Despite ongoing marginal improvement in freight volumes for the sector, RoRo market expected to remain depressed resulting in a loss-making year for PB
- Positive on the longer term prospects

# 2010 Financial Highlights

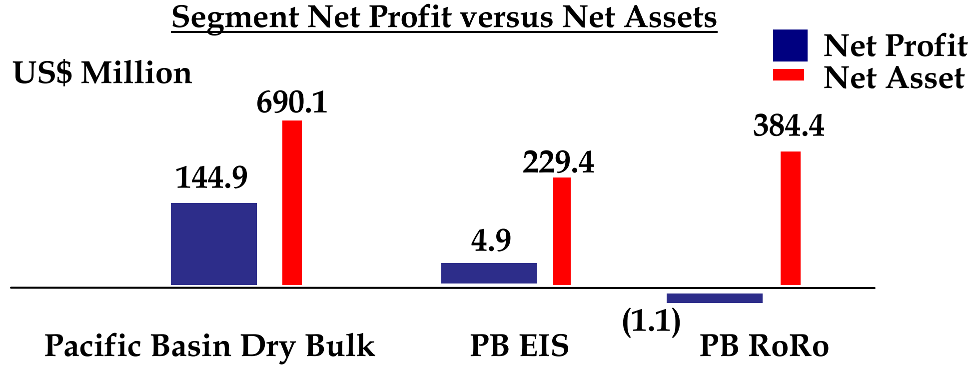
As at 31 December 2010

| | 2010 | 2009 |
|---|---|---|
| Segment net profit | 146.3 | 141.9 |
| Treasury | (18.5) | (13.8) |
| Non direct G&A | (8.0) | (12.3) |
| Underlying profit | 119.8 | 115.8 |
| Unrealised derivative expenses | (12.4) | (4.5) |
| Impairment of Fujairah Bulk Shipping | (19.1) | - |
| Gain from partial sale of shares in Green Dragon Gas | 16.0 | - |
| Future onerous contracts - net provision write-back | - | 25.2 |
| Vessel impairment charges – RoRo | - | (25.0) |
| Net dry bulk vessel disposal losses | - | (1.2) |
| Profit attributable to shareholders | 104.3 | 110.3 |

**Returns on net assets**

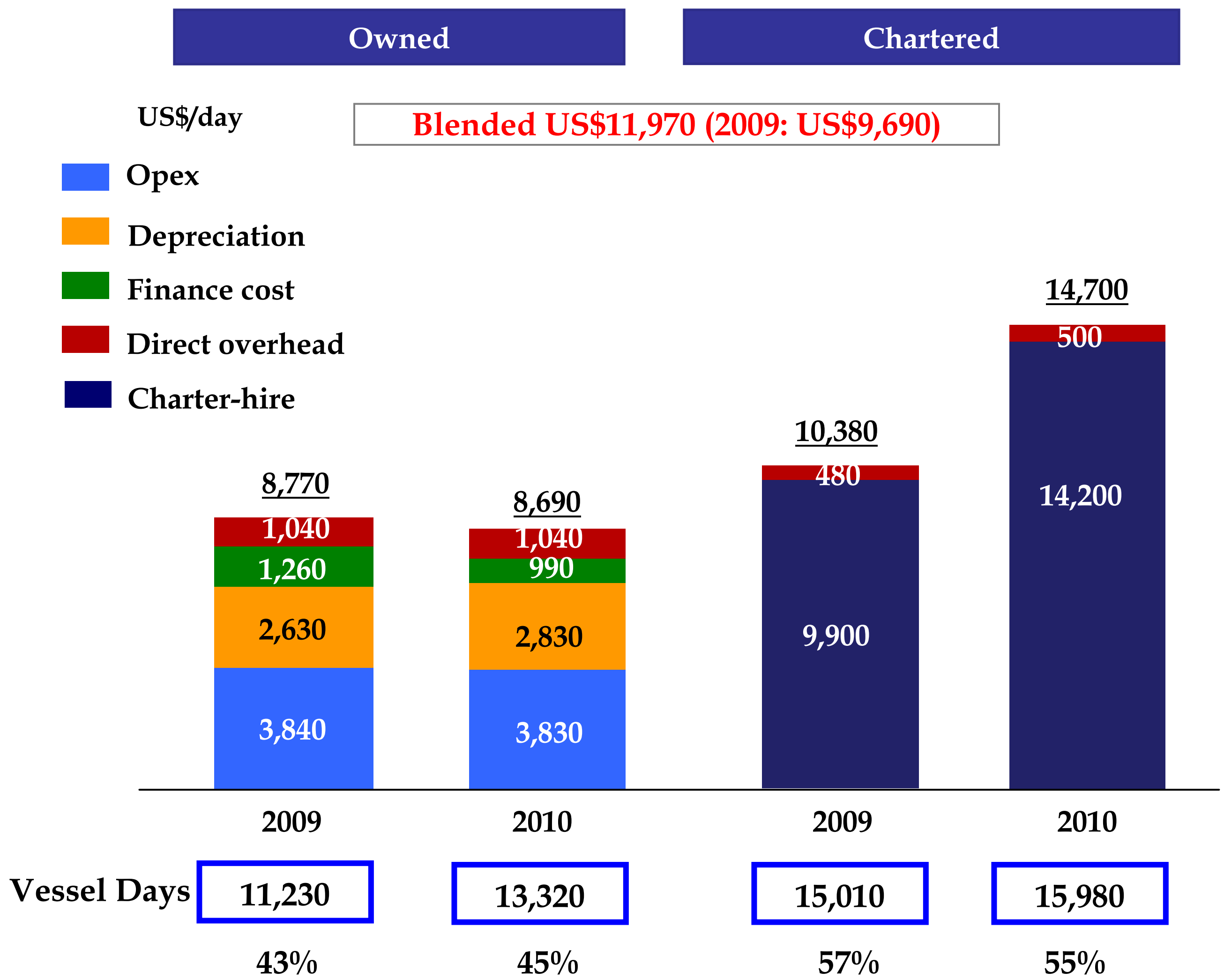
| | 2010 |
|---|---|
| Pacific Basin Dry Bulk | 21% |
| PB EIS | 2% |
| PB RoRo | 0% |

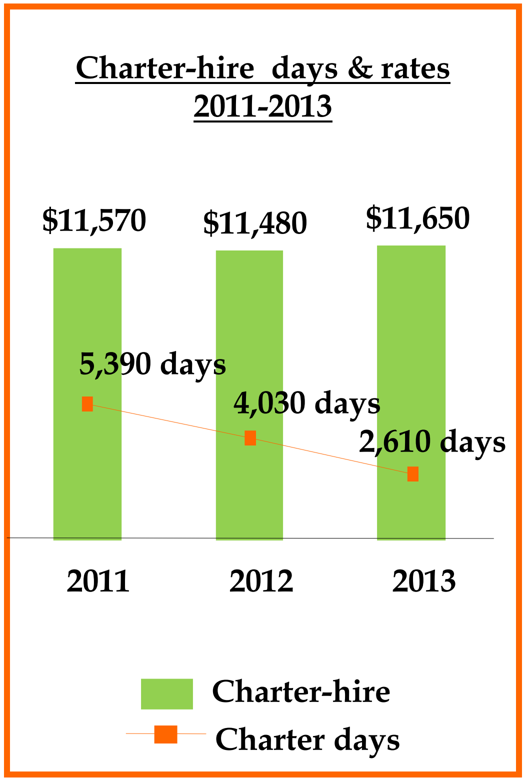
Segment Net Profit versus Net Assets



# Daily Vessel Costs - Handysize

**Year ended 31 Dec 2010**



# Balance Sheet

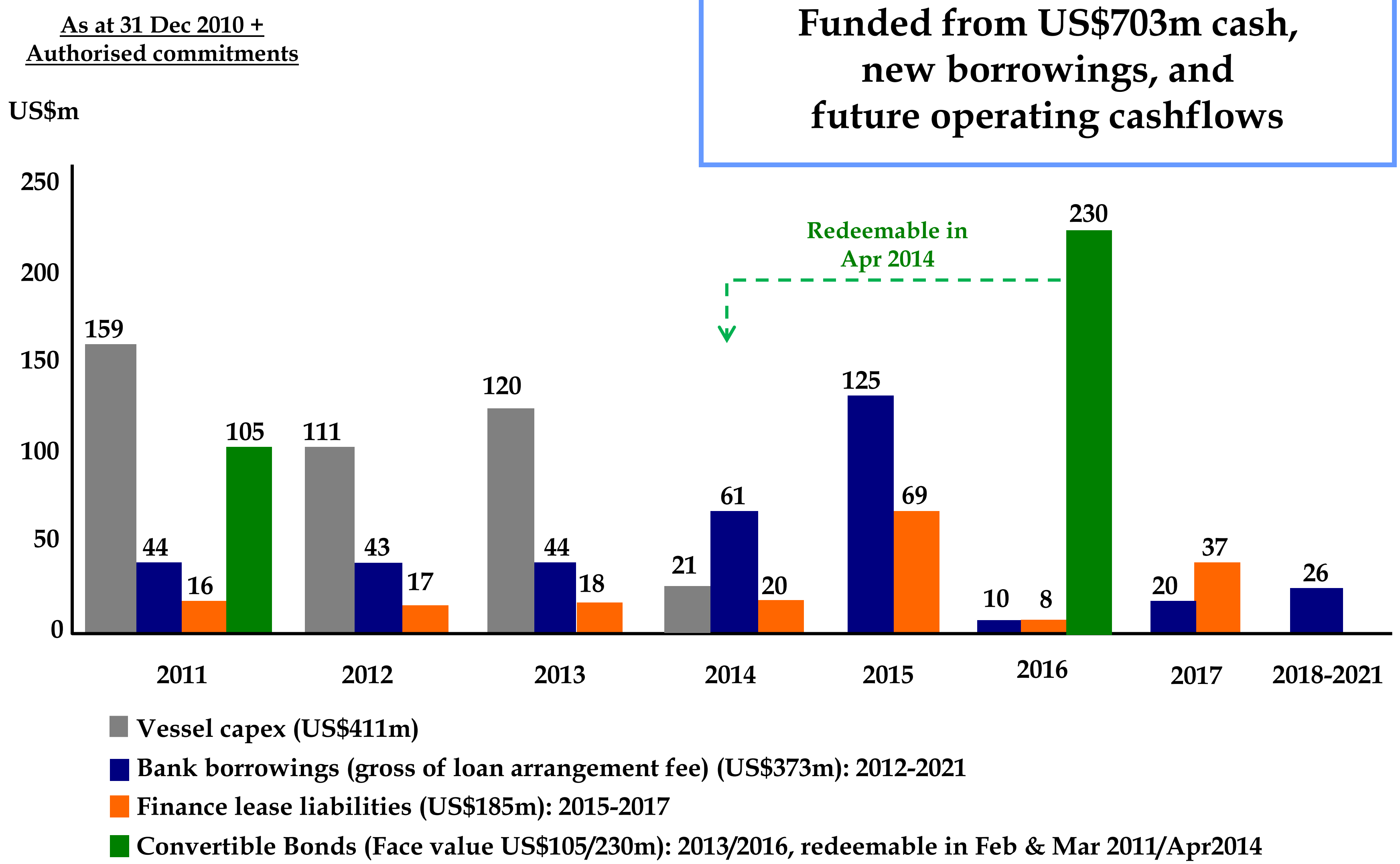
As at 31 Dec 2010

| US$m | PB Dry Bulk | PB EIS | PB RoRo | Treasury | 31 Dec 10 | 31 Dec 09 |
|---|---|---|---|---|---|---|
| Vessels & other fixed assets | 829 | 224 | 429 | - | 1,519 | 998 |
| Total assets | 979 | 291 | 444 | 680 | 2,555 | 2,470 |
| Long term borrowings | 185 | 45 | 55 | 575 | 860 | 877 |
| Total liabilities | 288 | 62 | 59 | 576 | 1,011 | 1,014 |
| Net assets | 691 | 229 | 385 | 104 | 1,544 | 1,456 |
| Net borrowings / (cash) | | | | | 156 | (229) |
| Net borrowings / (cash) to Fixed assets | | | | | 10% | (23)% |
| Net borrowings / (cash) to Shareholder's equity | | | | | 10% | (16)% |

Notes: 31 Dec 2010 total includes other segments and unallocated

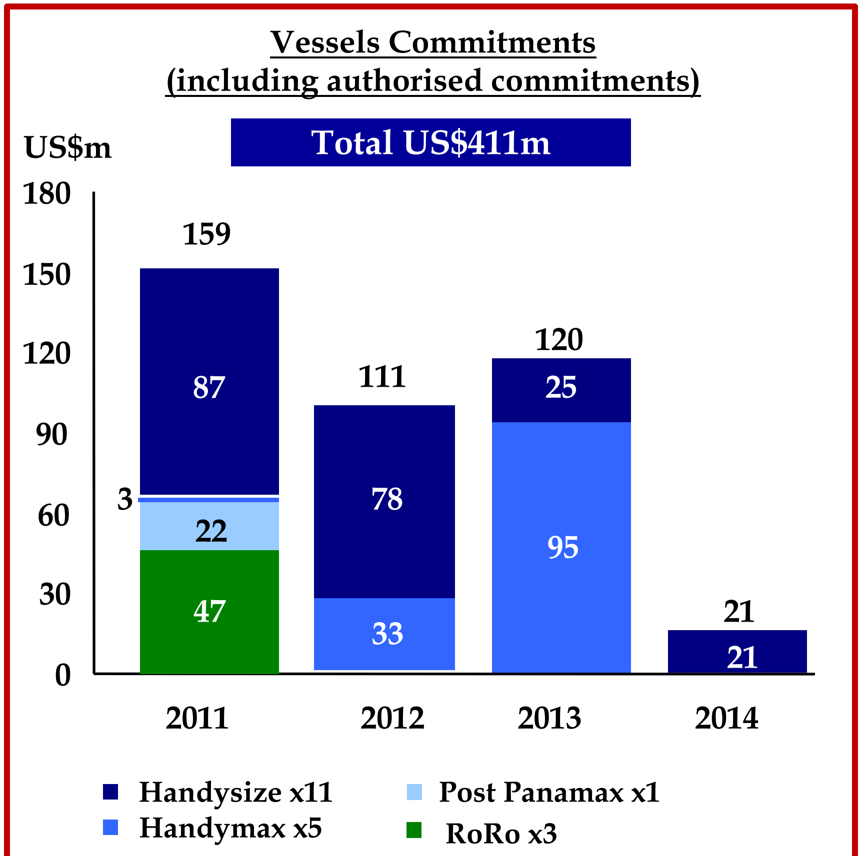
# Borrowings and Capex

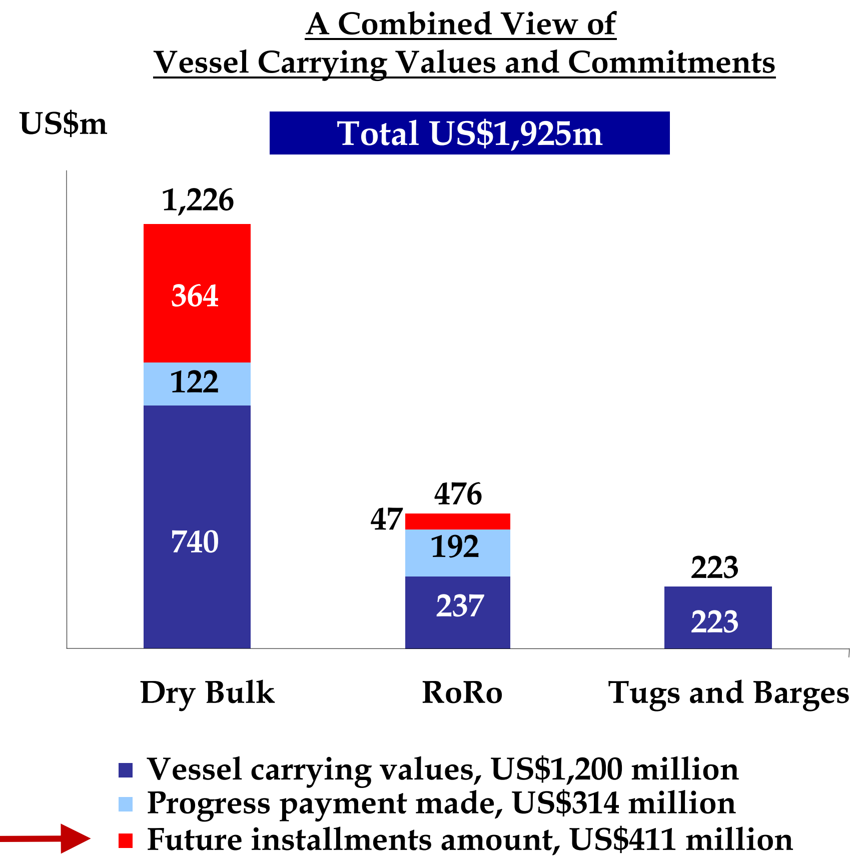
Funded from US$703m cash, new borrowings, and future operating cashflows



# Capex and Combined Value by Vessel Types

As at 31 Dec 2010 +
Authorised commitments




Further commitments expected in Dry Bulk

# Cashflow

| US$m | 2010 | 2009 |
|---|---|---|
| | Year ended 31 Dec 2010 | |
| **Operating cash inflows** | 199 | 145 |
| **Investing cash out / inflows** | (462) | (178) |
| - Vessels & other fixed assets related payments | (541) | (298) |
| - Sales of vessels | - | 105 |
| - Jointly controlled entities related payments and receipts | (10) | 45 |
| - Disposal of part of our holdings in GDG | 26 | - |
| - Change in restricted cash & notes receivables | 42 | (58) |
| - Others, mainly interest received | 21 | 28 |
| **Financing cash (out) / inflows** | (97) | 56 |
| - Proceeds from issuance of convertible bonds | 227 | - |
| - Repurchase of convertible bonds | (211) | (9) |
| - Net repayment / drawdown of borrowings & finance lease | (26) | 24 |
| - Proceeds from placement | - | 97 |
| - Dividends paid | (50) | (20) |
| - Others, mainly interest paid | (37) | (36) |
| **Cash and bank deposits** | 703 | 1,106 |

# Outlook

- We anticipate the dry bulk market will be weaker than 2010
- We expect minor bulk trades to support an improved second quarter, with near term demand recovery overshadowed by continued newbuilding deliveries
- Our dry bulk market view remains unchanged since our 2010 Annual Results Announcement
- Business model and strong balance sheet position us well for further expansion of our dry bulk business as opportunities arise
- Improved outlook for PB Towage but expected negative contributions from Middle East.
- Charter market for RoRo vessels to remain depressed despite on-going improvement in freight volumes
- Our strategic goals remain unchanged:
  - To expand further our core dry bulk fleet at reasonable cost
  - To consider further divestment of certain non-core assets in 2011

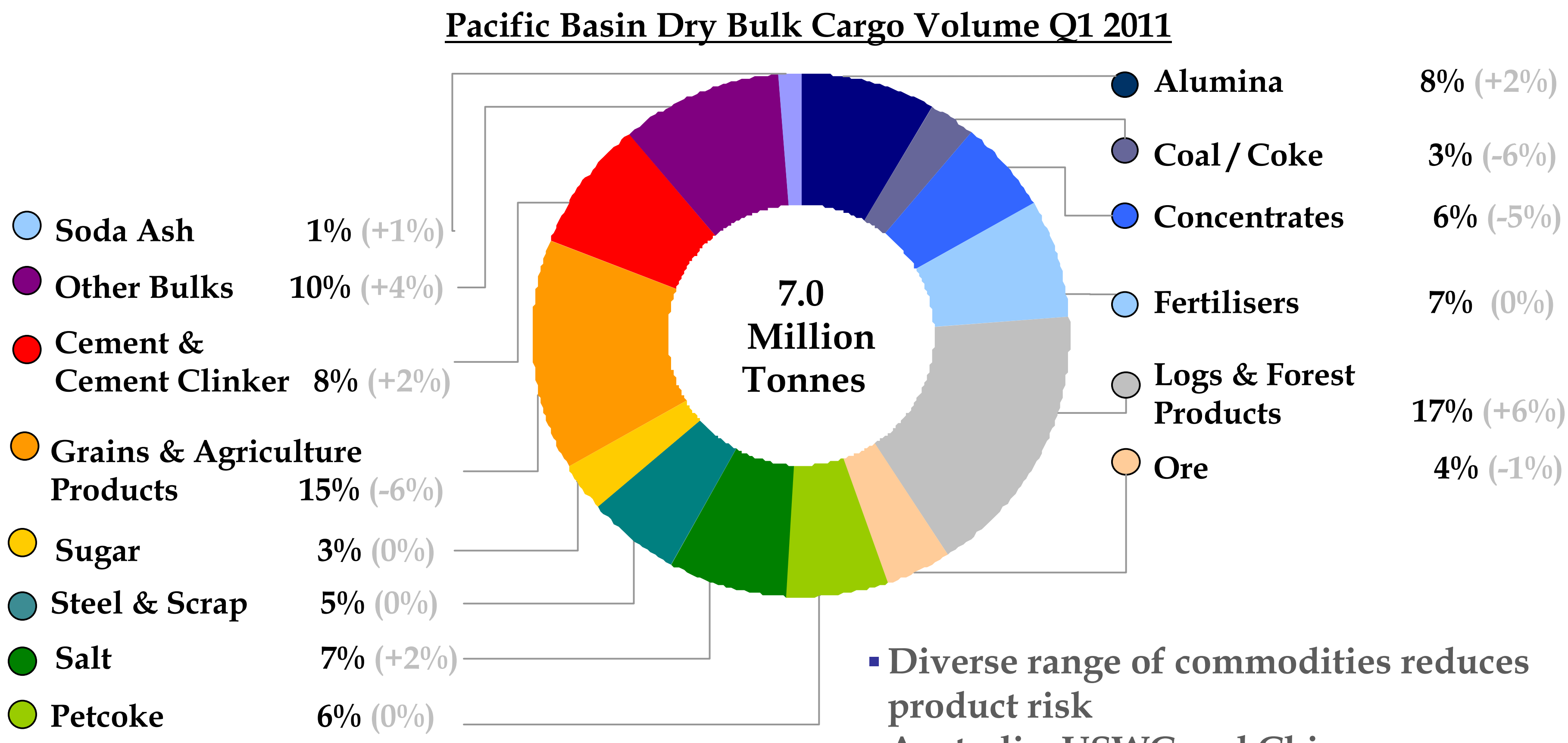
# Disclaimer

*This presentation contains certain forward looking statements with respect to the financial condition, results of operations and business of Pacific Basin and certain plans and objectives of the management of Pacific Basin.*

*Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of Pacific Basin to be materially different from any future results or performance expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding Pacific Basin's present and future business strategies and the political and economic environment in which Pacific Basin will operate in the future.*

Appendix:

# Pacific Basin Dry Bulk - Diversified Cargo

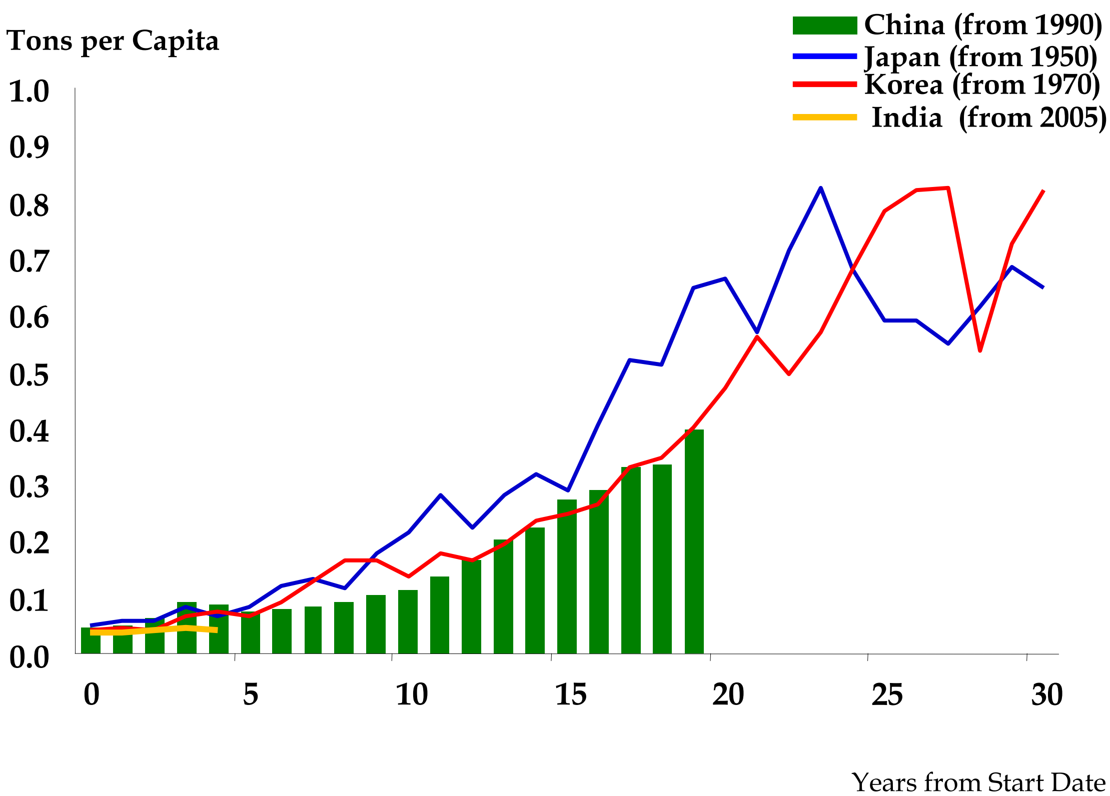



- Diverse range of commodities reduces product risk
- Australia, USWC and China were our largest loading & discharging zones respectively

*( ) % changes against Q1 2010*

# Appendix:
# China at late-Industrialisation Stage

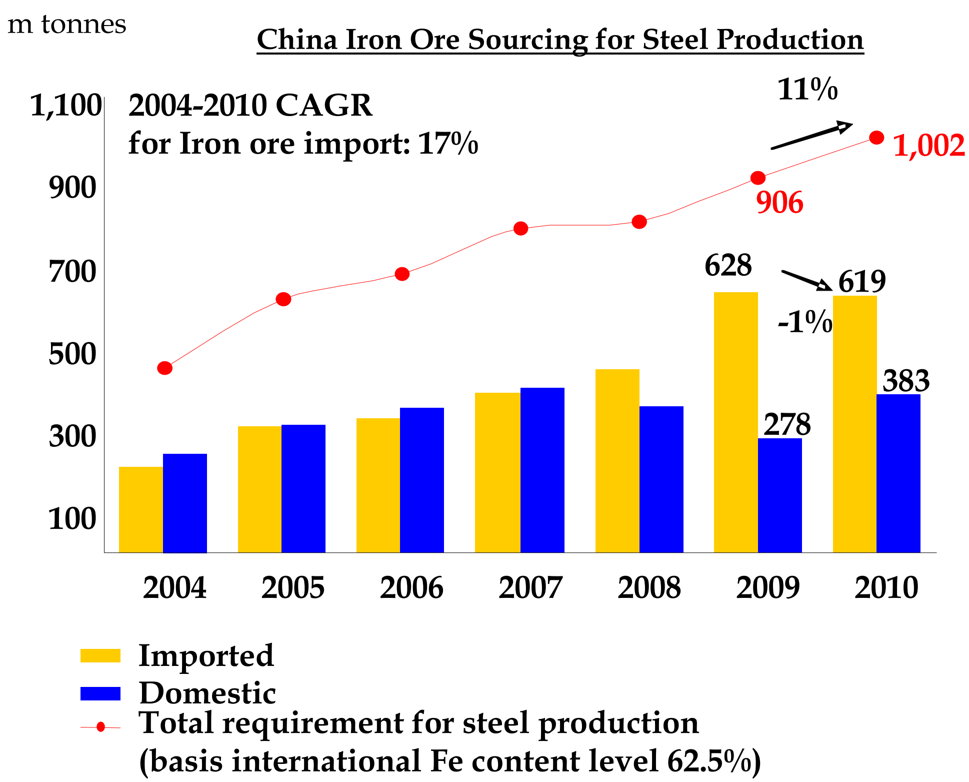
Steel Consumption Per Capita




- China growth matches historical trend in Japan and Korea
- Suggests strong growth in dry bulk segment to remain for medium term
- Similar trend for electricity and cement

*Source: UBS, IISI, Pacific Basin*

# Appendix: Chinese Iron Ore Demand




**Slow down of Chinese iron ore import mainly due to the Chinese energy conservation policy**

*Source: Bloomberg LP*

# Appendix:
# Pacific Basin Dry Bulk – Handysize

<u>As at 31 December 2010</u>

| | | 1H10 | 2H10 | 2010 | 2009 | Change |
|---|---|---|---|---|---|---|
| **Revenue days** | **(days)** | 13,940 | 15,130 | **29,070** | **26,100** | **+11%** |
| **TCE earnings** | **(US$/day)** | 16,840 | 16,670 | **16,750** | **14,500** | **+16%** |
| **Owned + chartered cost** | **(US$/day)** | 11,750 | 12,170 | **11,970** | **9,690** | **+24%** |
| **Segment net profits** | **(US$m)** | 69.7 | 66.4 | **136.1** | **124.1** | **+10%** |
| **Return on net assets** | **(%)** | 26% | 21% | **22%** | **28%** | **-6%** |

- <u>Earnings</u>: 2010 TCE rates reflect demand strength
- <u>Costs</u>: Blended daily costs reflect higher chartered-in costs from the market
- <u>Segment result excludes</u>: US$2.5m unrealised net derivatives expenses

# Appendix:
# Pacific Basin Dry Bulk – Handymax

<u>As at 31 December 2010</u>

| | | 1H10 | 2H10 | 2010 | 2009 | Change |
|---|---|---|---|---|---|---|
| **Revenue days** | **(days)** | 5,570 | 5,880 | **11,450** | **10,640** | **+8%** |
| **TCE earnings** | **(US$/day)** | 23,680 | 21,520 | **22,570** | **19,490** | **+16%** |
| **Owned + chartered cost** | **(US$/day)** | 22,050 | 21,350 | **21,690** | **18,120** | **+20%** |
| **Segment net profits** | **(US$m)** | 8.8 | - | **8.8** | **14.1** | **-38%** |
| **Return on net assets** | **(%)** | 32% | 0% | **12%** | **64%** | **-52%** |

- **<u>Earnings</u>: 2010 TCE rates reflect demand strength**
- **<u>Costs</u>: Blended daily costs reflect higher chartered-in costs from the market**
- **<u>Segment result excludes</u>: US$9.1m unrealised net derivatives expenses**

# Appendix:
# PB Energy & Infrastructure Services
# PB RoRo

As at 31 Dec 2010

| | 2010 | 2009 |
|---|---|---|
| **PB Energy & Infrastructure Services** | | |
| Offshore and project supply and harbour towage services ("Towage") | 1.0 | 1.0 |
| PacMarine Services | 1.0 | 0.9 |
| Fujairah Bulk Shipping ("FBSL") | 2.9 | 6.3 |
| **Segment net profit** | **4.9** | **8.2** |
| **PB RoRo segment net (loss) / profit** | **(1.1)** | **0.1** |

**PB E&I**

- Towage: Consolidation phase
  Operating 37 tugs & barges
- PacMarine: Ship survey and inspection services
- FBSL: Scaling down after reclamation project complete

**PB RoRo**

- First RoRo vessel operated from September 2009
- Second & third RoRo vessel operated from Q4 2010 deploying in US Gulf / Mexico

# Appendix:
# Impact of Financial Instruments

| US$m | Realised | Unrealised | 2010 | 2009 |
| --- | --- | --- | --- | --- |
| **Net Gains / (Losses)** | | | | |
| Forward freight agreements | (3.4) | (3.4) | (6.8) | (25.7) |
| Bunker swap contracts | 6.0 | (8.2) | (2.2) | 45.7 |
| Interest rate swap contracts | (5.5) | (0.8) | (6.3) | 1.2 |
| | (2.9) | (12.4) | (15.3) | 18.8 |

- Cash settlement of contracts completed in the year
- Included in segment results

- Contracts to be settled in future periods
- Accounting reversal of earlier period contracts now completed
- Not part of segment results

# Appendix: Convertible Bonds Due 2016

| | |
|---|---|
| Issue size | US$230 million |
| Maturity Date | 12 April 2016 (6 years) |
| Investor Put Date and Price | 12 April 2014 (4 years) at par |
| Coupon | 1.75% p.a. payable semi-annually in arrears on 12 April and 12 October |
| Redemption Price | 100% |
| Initial Conversion Price | HK$7.98 and HK$7.44 after April 2011 AGM |
| Conversion Condition | Before 11 Jan 2011: No Conversion is allowed<br>12 Jan 2011 – 11 Jan 2014: Share price for 5 consecutive days > 120% conversion price<br>12 Jan 2014 – 5 Apr 2016: Share price > conversion price |
| Intended Use of Proceeds | To purchase the 3.3% Existing Convertible Bonds due 2013 then redeem the remaining part of the Existing Convertible Bonds should bondholders' request on 1 Feb 2011 or maturity in 2013 |
| Conditions | ▪ Shareholders approval at SGM to approve the issue of the New Convertible Bonds and the specific mandate to issue associated shares.<br>▪ If the specific mandate is approved by the shareholders at the SGM, the company would not pursue a new general share issue mandate at the forthcoming AGM on 22 April 2010 |

**Conversion/redemption Timeline**