2007 Interim Results – 7 August 2007

Slide 1 – Cover
Spoken by: Richard Hext

Good afternoon ladies and gentlemen, thank you for attending Pacific Basin's 2007 interim results presentation.

I will open with a run through our headline results and the impressive market environment we have seen, after which our CFO, Andrew Broomhead, will then take you through the financials in more detail.

I will then update you on our new business ventures before summing up.

Slide 2 – 1H07 Results Highlights
Spoken by: Richard Hext

Pacific Basin has had an outstanding six months, achieving a net profit of US$162.9 million, up from US$36.4 million from the corresponding period last year.

We managed to deliver an average return on equity of 63% and a total return to shareholders of 84%.

In view of this solid performance during the last six months, the Board has declared an interim dividend of HK 45 cents, which represents a 55% payout ratio.

Slide 3 – Pacific Basin Overview
Spoken by: Richard Hext

Pacific Basin is the world's largest owner and operator of modern handysize tonnage. We are headquartered here in Hong Kong, we trade our ships globally, but with emphasis on the Asia-Pacific region.

The last 3 years have seen a spectacular rise in prospects for dry bulk shipowners, as worldwide demand for raw materials has surged, led by China and other developing Asian economies. We have therefore been well positioned to benefit from this growth.

Reflecting this, Pacific Basin has expanded rapidly since listing. Our revenue days have grown by 102% since 2004 thanks to a larger core owned and long term chartered fleet. Further vessel acquisitions in 1H07 before the asset market heated up have contributed to a rise of at least 22% in revenue days for 2007 & 9% in 2008. This increase is based only on the commitments we have made so far.

We believe that freight rates will continue to be buoyed for the next few years by continued demand from China, India and other emerging economies.

Slide 4 - Fleet Profile
Spoken by: Richard Hext

Our so-called 'core' fleet numbers 83 handysize and handymax vessels, including:

30 owned handysize and 3 owned handymax vessels, 41 long term chartered in handysize and 9 long term chartered in handymax vessels.

On top of this, in order to fulfill our cargo contracts we have a number of vessels on short term charter at any one time, bringing the current total fleet to nearly 113 vessels.

During 1H07, the Group spent US$158 million on 5 handysize acquisitions and instalments on 6 newbuildings. As of 30 June the group had commitments to acquire 12 newbuilding vessels worth US$225 millions for the core fleet.

Slide 5 – Diversified Cargo
Spoken by: Richard Hext

This graph well illustrates the very diverse mix of cargoes carried by Pacific Basin. This goes to the heart of the relatively stable revenues that we enjoy in comparison with larger.

As you can see, our largest cargo commodity – petcoke /coal/ coke - makes up only 14% of the total. Our second largest is grains & fertilizers at 11%. Then cement at 9%. Each of these commodities has their own set of demand and supply drivers but the point for us today is that when the demand for one cargo type is suffering, a handysize ship can, as often as not, instead load another commodity for which demand is up.

This also means that we can minimise our empty time – or ballast days- which is critical to our earnings.

Slide 7 – Baltic Exchange Indices
Spoken By: Richard Hext

The Baltic Dry Index tracks spot rates for capes, panamax, handymax, and now handysize vessels, and is the leading freight market indicator.

2006 had a weak start compared with the highs of 2004 and 2005, however the dry bulk market strengthened from Q2, and has continued to show solid progress well into 2007.

The 1H07 was a record breaking period for the dry bulk market. This period saw the highest ever BDI January-June average of 5309 points, 19% above the previous first half average high set in 2005. On 15 May the BDI reached its highest level ever prior 30June of 6688 points. It has since risen higher still, reaching a record 7000 points on 2 August.

Volatility has also increased notably.

The handysize index launched officially at the start of 2007 after a trial period since May 2006. On 2 August, the Baltic Handysize Spot Index stood at US$32,441 per day net.

Slide 8 - Dry bulk - 1 year time-charter rate
Spoken By: Richard Hext

Current Baltic 1-Year Time Charter rates are close to all time highs, signaling confidence in the forward freight market. A similar story is told by the 3-year time charter market.

This chart illustrates the relatively low volatility of the handysize and handymax sectors compared with larger vessel types.

Slide 9 - Dry bulk – Strong growth in dry bulk trade
Spoken By: Richard Hext

Strong freight markets are driven by unprecedented rate of global commodity demand, especially from China and other developing Asian nations.

Chinese imports of the major bulks, such as coal and iron ore was impressive, but we must not forget minor bulks, whose trade is more difficult to track but certainly played a great role in absorbing ship supply.

Slide 10 – Tonne-mile effect
Spoken By: Richard Hext

To get a truer picture of demand however, we must factor in distances traveled between load and discharge ports. This "tonne-mile" effect changes according to supply capacity, infrastructure constraints at load ports, and seasonal weather fluctuations. The higher the 'mile' effect, the more supply capacity is required.

China's need for raw materials is such that she must look further afield – for instance to South America as well as Australia.

We feel that the tonne-mile effect will continue to have a significant influence on the delicate supply/demand balance, albeit a seasonal one.

Slide 11 – Port congestion squeezing supply
Spoken By: Richard Hext

Port congestion in Australia immobilized up to 10% of the capesize fleet and 7% of the panamax fleet as at the end of July. Ports in Brazil and China have seen similar problems, although less severe. The removal of such a significant amount of tonnage from the active fleet of large ships has had a direct tightening effect on the overall market and hence handymax and handysize rates.

Coal ports have suffered particularly because of China's new import requirement and China's diminished exports which have forced Japan and Korea to look elsewhere.

Slide 12 – Low orderbook in handysize
Spoken By: Richard Hext

Turning now to the supply side,

The handysize sector in which we predominantly operate continues to show the strongest fundamentals of any dry bulk or other cargo shipping sector

Yard orderbook is full, and smaller handysize vessels are less attractive to shipbuilders that larger, higher margin vessels.

Average handysize vessel age is approaching 18 years.

PB's average fleet age is just over 6 years old.

Slide 13 – Ageing world fleet points to scrapping
Spoken By: Richard Hext

We can see from this graph that the total vessel orderbook for the 25-35k sector is balanced by a high proportion of vessels at or approaching the traditional scrapping age of 28 years.

Thanks to the unprecedented market of the last few years, owners have deferred scrapping, but the time is fast approaching for many vessels, especially those over 30 years old, to head for the scrapyards.

Slide 14 – Dry bulk carrier sale & purchase market
Spoken By: Richard Hext

Second hand tonnage does not come cheap these days – in fact it has never been more expensive.

We estimate a 5 year old handysize ship to be worth US$41 million based on 'last done' transactions.

We have been able to lock in the current high valuations whilst retaining our earnings potential by selling a number of our ships with charterbacks during the first half.

Slide 16 – 1H07 Financial Highlights
Spoken By: Andrew Broomhead

For the first six months of 2007, the Group's TCE earnings were US$269 million of which US$199 million came from Handysize and US$66 million came from Handymax.

After US$50 million of gains on the sale and chartered back of 6 vessels and the sale of 1 vessel, reported net Profit was US$162.9 million.

Net profit represents a return on average shareholders equity of 63%.

Slide 17 – Results – Handysize Freight & Charter-hire
Spoken By: Andrew Broomhead

The main drivers of results are revenue days, TCE earnings and direct vessel costs.

During the first half of 2007 our handysize revenue days increased 27% to 9,590 days, reflecting the full year effect of vessels delivered in 2006, increased chartered vessels and first half vessel deliveries of 2006 commitments.

The increase was accompanied by an increase in TCE of 37% to US$19,750 per day, on the back of strengthened freight demand.

Blended daily costs for our owned and chartered Handysize vessels increased by 10%, to US$9,370 per day, reflecting a change to more chartered in vessels.

Slide 18 – Results – Handymax Freight & Charter-hire
Spoken By: Andrew Broomhead

Our Handymax revenue days increased strongly over the comparative period to reach 2,260. With the division now fully operational, more handymax vessels were chartered in.

The average TCE was US$25,180 per day which was boosted by an exceptional performance in the second quarter, which we do not anticipate being carried through to the second half.

Blended daily costs remain principally composed of chartered in vessels and increased to US$20,580 per day.

The net effect was a contribution from handymax vessels of US$10.0 million and hence profitable compared with last year.

Slide 19 – Daily vessel cost - Handysize
Spoken By: Andrew Broomhead

This slide show the daily costs breakdown of our Handysize fleet, apologies for all the information.

It is important to note that the proportion of chartered in to owned vessel days increased to 32% compared to 25% in 2006, due to the sale and charter back of vessels.

The blended daily cost can be split between an owned vessel at approximately US$8,330 and a chartered in vessel at approximately US$11,580.

Looking at owned vessel costs which have decreased overall.
The main decrease was from blended finance costs which dropped around US$290 / 15% due to the cost being spread over a larger number of owned vessel days.

Opex increased US$240 / 8% mainly due to higher crew related cost for 2007

Direct overheads for both owned and chartered vessels decreased with the number of full time shore based staff per vessel dropping to 2.5 compared to 3 in 1H06.

Operating lease payments for our long term chartered in vessel increased to US$11,180 per day following the sale and charter back of previously owned vessels and the chartering in of new vessels that reflect higher market rates

Looking forward our contracted chartered in cost for the full year 07 is US$11,600, rises to US$12,000 in 2008 and decreases thereafter.

Slide 20 – Balance sheet
Spoken By: Andrew Broomhead

Fixed assets with US$763.5 million book value include US$676 million for 37 delivered vessels with average age of 7 years, an average carrying value of US$18.3 million each and an average insured value of US$41 million each at 4 July 2007.

As 30 Jun, the insured value of all 62 vessels with a PB ownership interest was US$2.4bn.

Gross borrowings decreased to US$319.5 million of which US$294.0 million relates to the 17 vessels under finance leases, whilst US$25.5 million relates to bank borrowings.

After cash of US$83.3 million, net borrowings were US$236.2 million which as a proportion of fixed assets, reduced to 30.4% reflecting the prepayment of conventional bank debt.

Net borrowings to Shareholders' Equity also reduced to 39.4%

At 30 June 2007 the Group had capital commitments of US$225.3 million for 11 Handysize and 1 Handymax vessels of which US$50.7 million due in 2H07 and US$121.7 million due in 2008.

Slide 21 – Cashflow
Spoken By: Andrew Broomhead

In 2006 we generated operating cashflows of US$131 million.

Our investing activities involved the payments of US$168 million mainly for 5 vessels acquired and delivered during the period and installments for another 6 vessels not delivered by June 2007.

The Group also sold and leased back 6 of its vessels and sold 1 of its vessels, generating US$176 million cash, used in part to finance the acquisitions during the first half of 2007 and prepay US$23 million of bank borrowings.

During the period, the Group invested US$37.8 million in the shares of other listed shipping companies. These are held as current assets.

After other payments including the 2006 final dividend this left us with US$83.3 million of cash at the end of June.

Slide 22 – Dividend
Spoken By: Andrew Broomhead

We are committed to continue our dividend policy of paying out no less than 50% of attributable profit each year, a policy we have consistently exceeded.

We have declared an interim dividend of 45 HK cents per share, greater than the aggregate dividend payment in 2006. This represents a payout ratio of 55%, and will be paid on 31 August after the ex dividend date of 20 August 2007.

The payout for the balance of the year will depend on the final results for 2007, and the overall financial position of the group at the time dividends are declared.

Slide 24 – Other operation in China
Spoken By: Richard Hext

The Group's efforts in China have stepped up during the last six months, with encouraging results.

We announced our first investment in Chinese port infrastructure in July – a general cargo terminal strategically positioned on the Yangtze River in Nanjing. Our partner for this project was the Nanjing Port Group, with whom we have developed a close relationship. The port will become operational in August this year.

On another front, our longstanding relationship with the shipping arm of China's largest power company has resulted in an agreement to form a joint venture that will acquire and operate tonnage to haul international coal to China.

Both these milestones mark a significant step for Pacific Basin from pure port to port services towards an integrated supply chain model.

Slide 24 – Listed shipping investments
Spoken By: Richard Hext

In a new initiative, we have invested a limited portion of our cash reserve in other publicly listed shipping companies, where our knowledge of shipping informs us of 'hidden value' with respect to asset values.

Our single most significant investment is in Thoresen Thai Agencies, the Thai dry bulk shipping company.

These investments provided good returns in the first half, since the 'fund''s inception in March.

Slide 25 – Earnings coverage
Spoken By: Richard Hext

We have high earnings visibility for 2007, with 83% of our 20,040 handysize revenue days already covered at around US$20,000 per day.

With the current Baltic Handysize spot rate at almost US$32,500 per day net, we can be optimistic about covering the remaining 17% of 2007 at favourable levels and adding to the 28% of 2008 cover which already is at a rate of US$18,710. Next year cover compares to the 23% at US$14,000 announced last year.

Our cover rates include an approx. US$1,000 'uplift' to the contract rate achieved through efficient voyage execution, utilising backhaul legs where possible.

Moving to handymax, we have 95% of our 4,590 handymax revenue days covered at around US$23,700.

Because we made much more use of short term tonnage to cover our growing handymax cargo book, we expect revenue days for 2008 to increase as the year progresses and new short term vessels being chartered in.

Slide 26 – Outlook
Spoken By: Richard Hext

You have seen some encouraging numbers today in terms of the outlook for 2007 and 2008, and for our business in general. We hope, also, that you will be excited by the development of the business into complementary areas. The key driver to the story is, of course, the industrial revolution in the world's most populous country which we, in Hong Kong, rejoined after a brief 156 year interlude, some 10 years and 38 days ago.

Thank you very much for your attention.