2011 Interim Results – 3 August 2011

Speaker: David Turnbull

Slide 1 – Cover

Good afternoon ladies and gentlemen, and thank you very much for attending Pacific Basin's 2011 interim results presentation.

I will start with a brief overview of Pacific Basin's results for the period.

I will then hand over to Klaus Nyborg, our CEO, who will talk you through our business activities.

I note that our CFO Andrew Broomhead is absent today due to family reasons. Jan Rindbo and CL Wang also regrettably cannot attend.

Slide 3 – Group Highlights
Speaker: David Turnbull

Pacific Basin made a disappointing net profit of US$3 million in the first half of 2011.

Our markets were generally lacklustre as manifested in the 41% drop in handysize spot rates year on year, in turn driving a 19% decrease in our company's average handysize daily earnings.

The big disappointment was the need to make a significant $80 million non-cash impairment of our RoRo investment which Klaus will describe for you shortly.

Only partially offsetting that impairment was a net profit of $64 million from the sale of a non-core asset and unrealised mark-to-market non-cash net derivative income.

Our handysize dry bulk operation did well by outperforming the market by 30% in the half year, contributing to a relatively strong Group operating cash flow of US$69 million.

Our balance sheet retains substantial cash and deposits of $631 million, which more than covers our commitments in respect of 15 vessels on order.

The Board has recommended an interim dividend of 5 Hong Kong cents per share, which is the same as we distributed a year ago.

I will now hand over to Klaus Nyborg who will take you through a review of our businesses.

Speaker: Klaus Nyborg

Slide 4 – Pacific Basin Dry Bulk Performance

Thank you David.

Our dry bulk division made a net profit of US$36 million.

We saw a weak dry bulk shipping market during the half of 2011, with average handysize market spot rates during the period down 41% year on year.

In that context, our dry bulk business did well to generate handysize daily rates that were only 19% down on last, and 30% above prevailing market rates.

Our handymax results in the period were less positive due to the relatively expensive cost of some vessels we had on charter since a stronger market, force majeure events and cargo rescheduling caused by the Queensland flooding, and our decision to bear the cost of repositioning a number of vessels into more favourable locations. We anticipate we will be less affected by these factors in the second half of this year.

We have taken delivery of one owned and one chartered post-panamax ships both of what are chartered out for the long term.

We operated an average of 116 dry bulk ships during the period - up from 109 year on year.

In the year to date, we committed to the purchase and long term charter 8 dry bulk ships, and so we now await 23 owned or chartered newbuilding bulk carriers delivering between 2012 to 2014.

Slide 5 - Dry Bulk Market Information

The handysize and handymax market got off to a weak start in 2011, with volumes impacted initially by weather-related commodity export bottlenecks and later by generally softer demand in an uncertain economic climate – all at a time of excessive newbuilding deliveries.

Whilst average handysize market spot rates were down 41% year on year, rates for capesize ships fell 76%. For the first time, small bulk carriers outperformed the much larger ships for a protracted period, once again demonstrating their relative resilience and the much diminished correlation between large and small bulk carrier earnings.

Freight market weakness has translated into lower secondhand ship prices over the half year. Clarksons estimate the value of a benchmark five year old handysize at US$23 million - $2 million less than when we reported our annual results 5 months ago.

Slide 6 – Chinese Dry Bulk Trade

Demand for the shipping of major bulks – iron ore and coal – was dented by China's increased reliance on domestic raw material resources this year, largely due to high commodity prices and the weather-related commodity supply disruptions early in the year.

That affected the market for large bulk carriers in particular.

However, trade in a number of minor bulk and other key commodities increased in the first half of the year to lend some buoyancy to handysize and handymax rates.

In particular, Chinese imports of some ores grew strongly, and Chinese seaborne log imports experienced record growth, particularly from New Zealand and North America, on increased Chinese demand combined with reduced domestic supply and stagnant import volumes from Russia – mainly over land.

The effect of tightening policy in China became apparent in our business towards the end of the period as Chinese demand for raw materials and other commodities softened, albeit relatively slightly, to what remains a high level.

Slide 7 – Dry Bulk Demand

R.S. Platou's analysis of dry bulk transportation demand in the first half of 2011 was not available for this report, but their full year estimate of 9% growth this year compared to 14% in 2010 reflects the relative weakness that characterised the year to date and that is expected in the remainder of the year.

Slide 8 – Dry Bulk Fleet Changes

The global fleet of 25,000-40,000 dwt handysize ships in which we specialise expanded by 4% net in the first half of 2011.

Dry bulk capacity overall saw the delivery of 44 million deadweight tonnes of new capacity – 40% below the scheduled orderbook, but 15% more than the record deliveries in the same period last year.

The heavy influx of newbuildings was moderated by much increased scrapping of 13 million tonnes in the half year of which 10% (1.3 million tonnes) was attributable to the handysize segment.

The handysize segment continues to be advantaged by an old fleet age profile, which is expected to result in the earlier removal of capacity through scrapping.

Slide 9 – Dry Bulk Orderbook

Discouraged by weak market conditions, ship owners ordered over 60% less new dry bulk capacity than in the same period last year and, as at 1 July 2011, the orderbook for handysize vessels stood at 34% as compared with 45% for capesize vessels and 43% for dry bulk overall.

Slide 10 – Pacific Basin Dry Bulk Earnings Coverage

As at 25 July 2011, our cargo book provides combined handysize and handymax cover of 86% for 2011.

We had covered 83% of our 27,080 handysize revenue days in 2011 at $13,520 per day. Maintaining a certain degree of forward cargo coverage whilst adapting to market changes is an important part of our strategy, and we manage this very carefully.

Slide 11 – Dry Bulk Outlook

We expect to see hesitant commodity trading and a weaker dry bulk market in the third quarter, with a seasonal uptick in trade volumes provides potential for improvement in the final quarter.

We therefore anticipate the dry bulk market to remain generally lacklustre in the rest of 2011 resulting in an unsatisfactory and overall weaker freight market this year than in 2010.

We believe new ship deliveries are now peaking, high scrapping levels will continue, and high commodity prices support our view that underlying cargo demand remains generally strong. The consequent reduction in dry bulk capacity growth should result in an improved supply/demand balance next year, although such improvement may be hindered by a potentially weaker global economy.

We expect continued greater resilience in the market for smaller bulk carriers and we anticipate benefitting from the value of our cargo book and the earnings leverage generated by the scale and flexibility of our fleet.

Slide 12 – PB Energy & Infrastructure Services

In 2011, PB Energy & Infrastructure Services made a net loss in the first half of US$1.2 million – a less than satisfactory result due to the operating loss generated by our FBSL joint-venture in the Middle East.

Our Australasia-focused towage business has experienced a turning point having achieved increased rates, activity and market share during the period.

In February, we began servicing the Queensland Curtis Island LNG project in Gladstone. We have also committed more of our vessels to the expanding Gorgon offshore gas project in which our involvement has recently been extended until 2014.

Progress has been made this year in optimising the deployment of our harbour tugs and in increase our market share in ports around Australia despite strong competition.

Our FBSL joint venture successfully completed the Northern Project in the first half of this year and, in view of the severely limited prospects for profitable new projects, the company closed its operations in June and has sold substantially all its assets. This now allows us to focus the resources of our PB Energy & Infrastructure Services division on our main towage businesses in Australasia.

Slide 13 – Energy and Infrastructure – Outlook

We anticipate seeing continued growth in the Australian offshore construction sector in the near to medium term.

We aim to build on our initial investments and efforts in offshore and harbour towage to share in that further growth, leveraging our local expertise and growing reputation in the sector with a focus on the Australasia region.

Slide 14 – PB RoRo

The PB RoRo division generated a loss of US$5.3 million in the first half of the year.

The charter market for RoRo ships continued to be depressed despite the on-going though very gradual increase in freight volumes.

Our four delivered RoRo's are employed albeit at generally disappointing rates reflecting the weak market.

Two are employed in the Nafta Gulf Bridge RoRo service in which Pacific Basin holds a minority shareholding. While Nafta Gulf Bridge was positively received on its launch, cargo volumes have been disappointingly weak despite the fast growth in land-based cargo movements between Mexico and the United States, and take-up by potential customers remains uncertain.

Slide 15 – RoRo - Outlook

We expect the charter market for RoRo ships to remain weak and challenging throughout the rest of 2011 and into 2012 due to the further influx of newbuilding deliveries, overall muted growth in freight volumes and a potentially weaker European economy.

We currently see limited prospects for employment of our last two RoRo ships delivering in August and November this year but continue to work on securing employment as a matter of urgency. The second big challenge in the second half of the year will be in generating the breakthrough in cargo support that Nafta Gulf Bridge urgently needs. An unsatisfactory outcome in these two areas would lead to increased operating losses for PB RoRo this year and in 2012.

These immediate challenges and a poor medium term outlook have led us to reassess the prospects for the RoRo sector. This exercise has resulted in what we now see as a much weaker outlook for the RoRo charter market and our RoRo business, and an impairment charge of US$80 million to our group results.

Slide 16 – 1H11 Financial Highlights

- The Group reported segment net profit of US$28.8m, led by dry bulk
- Underlying profit of US$18.8m deteriorated 71% compare to the same period last year, mainly due to a decrease in daily charter rates of our dry bulk vessels.
- Results were further reduced by:
- An US$80.0m impairment on our RoRo vessels;
- Partially offset by the US$55.8m gain from the sale of our remaining holding of the shares in Green Dragon Gas; and
- Giving a resultant net profit of US$3.0 million.

Slide 17 – Pacific Basin Dry Bulk - Handysize

- Looking at the main drivers of our dry bulk results.
- Our handysize revenue days increased 5% to 14,620, reflecting on average 4 additional vessels, compared to the same period last year.
- TCE decreased 19% to US$13,660 per day, reflecting the weakened demand from a sluggish market, but still about 30% above the benchmark rate.
- Blended operating costs decreased 9% to US$10,640 per day, due to decreased chartered in vessel costs
- The result was a 38% decrease in segment net profit from Handysize to US$42.9m
- and a return on net assets of 13%.

Slide 18 – Daily Vessel Costs - Handysize

- The 11% decrease in handysize blended daily costs to US$10,640
- was primarily due to the average daily operating lease payments decreasing 15% to US$12,030 per day as we chartered short term ships from the market
- Owned vessel costs maintain at just below US$8,700 and the proportion of owned vessels has started to increase, averaging 50% in first half of 2011.

Slide 19 – Balance Sheet

- Most capital is employed in the dry bulk segment with US$926m of vessel book value including US$168m for vessels under finance leases.
- We have US$845m of borrowings, part of which are allocated to the specific business segments.
- Treasury manages the US$631 million Group cash. This is placed with a range of leading banks, mainly in Hong Kong.

- At the end of June we had a net borrowings position of US$214 million following the use of our cash to fund vessel payments during the period.

Slide 20 – Borrowing & Capex

- We have summarised the payment profile of the Group's US$845m period end borrowings and US$348m current capex.
- Our US$348m vessel capex commitments are spread mainly in the next 4 years.
- We expect all these payments to be comfortably met by the Group's existing US$631 million of cash, US$193m undrawn bank facilities, and future operating cashflows.

Slide 21 – Capex and Combined Value by Vessel Types

- If we take the vessel capital commitments of US$348m and add them to the book value of those vessels delivered and under construction, the combined value of the Group's vessels would amount to US$1.9 billion.
- The Dry bulk vessels continue to dominate the Group's assets with 66% of the combined value.
- The roll on roll off vessels' proportion, post impairment, is 23% and the tugs and barges the remaining 11% of combined value.
- We are looking to identify further investment opportunities in dry bulk at appropriate valuations.

Slide 22 – Cash Flow

- During the first half of 2011, the Group generated operating cashflows of US$69m, a decrease of 17% over the same period last year.
- This with our US$703 million opening cash position was used to fund our investing activities relating to
- vessel payments of US$111m, including 3 handysize, 1 post panamax, 2 tugs and 1 RoRo vessels, all delivered during the period.
- We also sold our remaining shareholdings in Green Dragon Gas Limited generating cash of US$81m
- US$105m was used to repurchase and cancel the convertible bonds maturing in 2013.
- Leaving PB with cash of US$631 million at the period end.

Slide 24 – Outlook

We expect the dry bulk market to remain generally lacklustre for the rest of this year, and for 2011 to be weaker overall than 2010.

This unsatisfactory market will to a large extent dictate our full year performance. However, we should benefit meaningfully from the value of our dry bulk cargo book and the earnings leverage generated by the scale and flexibility of our fleet.

Clearly our Group's biggest challenge in the second half of the year will be Nafta Gulf Bridge and the employment of our two remaining RoRo newbuildings and the broader effort to stem our RoRo division's operating losses this year and in 2012.

We anticipate the current adjustment of ship values to generate opportunities to acquire modern ships at a reasonable cost. We therefore remain committed to our strategy of directing new investment predominantly towards our cornerstone dry bulk activity as appropriate opportunities arise.

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