



Pacific Basin



Morgan Stanley 10<sup>th</sup> Anniversary Asia Pacific Summit  
Singapore - Nov 2011

27 Oct 2011

# Pacific Basin Overview

- A world leading dry bulk owner/operator of handysize & handymax vessels
- Highly flexible Pacific Basin Dry Bulk business model
  - Large fleet of uniform, interchangeable, modern vessels
  - Mix of owned, long-term and short-term chartered ships
  - Diversified customer base of mainly industrial end users
  - Global trading pattern supported by extensive network of regional officers
- Also owning/operating of off-shore and harbour tugs and RoRo freight ferries
- >220 vessels serving major industrial customers around the world
- Hong Kong headquarters, 22 offices worldwide, 380 Group staff, 2,000 seafarers\*
- Our vision: we aspire to be a shipping industry leader and the partner of choice for customers, staff, shareholders, and other stakeholders



# 2011 Third Quarter Highlights

## ***PB Dry Bulk***

- Handysize and Handymax freight rates have increased 12% and 22% respectively since 30 June marking an earlier, stronger than anticipated improvement
- BDI increased 52% since mid-year driven by a 147% increase in Capesize rates mainly attributable to:
  - A return to activity following the traditionally quieter summer
  - Healthy commodity demand in Asia – Chinese demand for minor bulks in particular
- We anticipate sustained dry bulk , high scrapping levels and reduced newbuilding deliveries will support a continued relatively healthy supply/demand balance for minor bulk segments in 2012 overall, though this balance could weaken if global economic growth slows further
- We have secured forward cargo cover as follows:

|           | <u>Year 2011</u> | <u>Year 2012</u> |
|-----------|------------------|------------------|
| Handysize | 91% (US\$13,450) | 32%(US\$13,540)  |
| Handymax  | 102%(US\$15,320) | 70%(US\$14,110)  |

## ***PB Energy & Infrastructure Services***

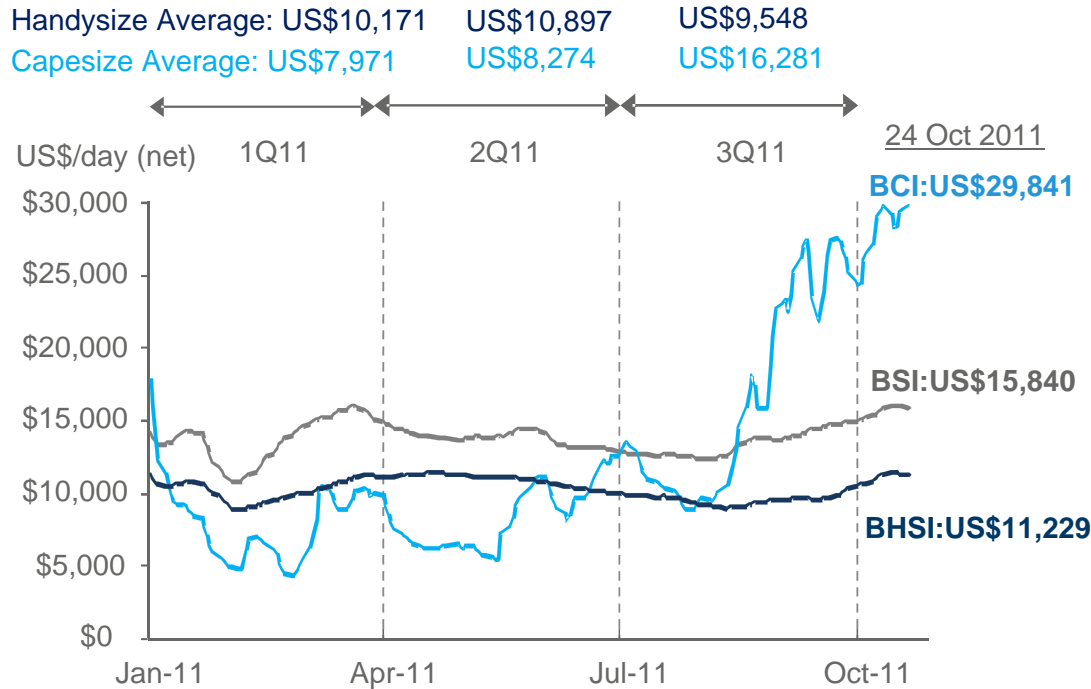
- Significant improvement is expected to continue with growth in new Australian offshore oil and gas projects

## ***PB RoRo***

- Nafta Gulf Bridge service has been suspended due to unsatisfactory demand, but our 2 ships previously employed in that trade have been redeployed
- Expect the charter market for RoRo vessels to remain depressed into 2012

# Dry Bulk Market Information

**Handysize (BHSI) and Handymax (BSI) versus Capesize (BCI) Spot Rates**

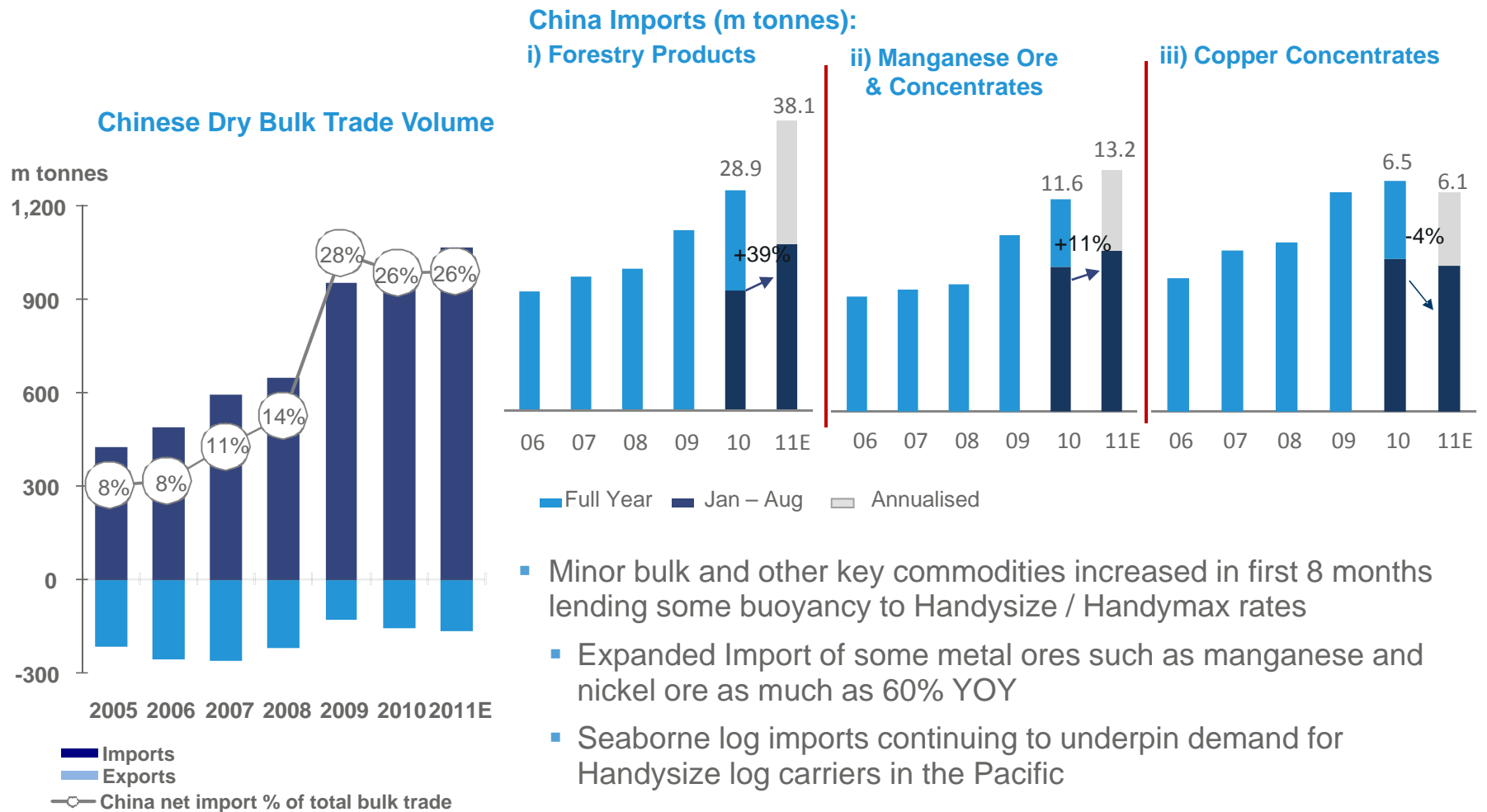


**Secondhand Handysize Vessel Values (5 year Old 28,000 Dwt)**



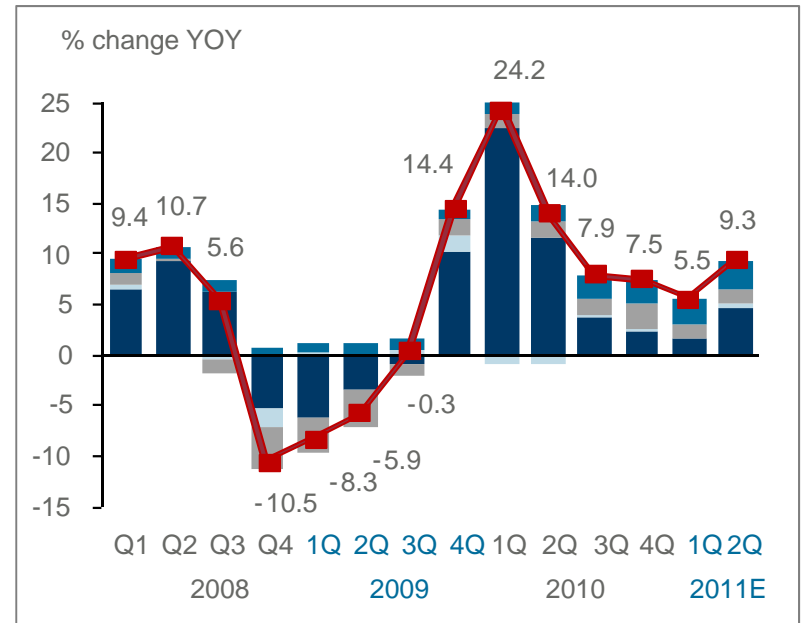
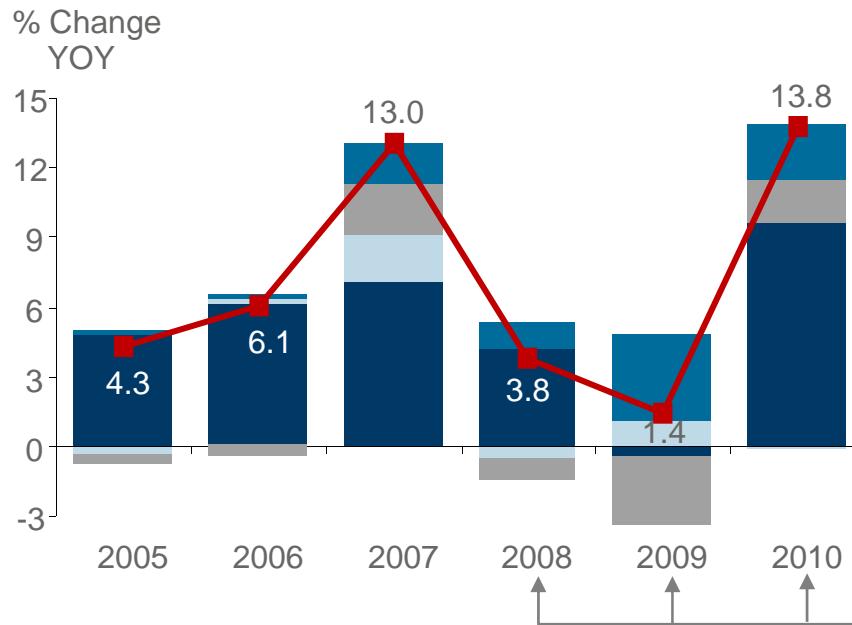
- We believe banking industry pressures may significantly dampen many ship owners' ability to fund second hand ship acquisitions

# Chinese Dry Bulk Trade - Minor Bulk



# Dry Bulk Demand

## Dry Bulk Fleet Effective Demand



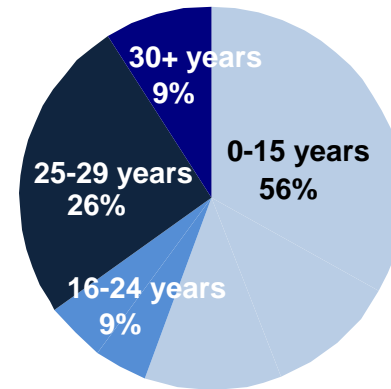
- China coastal cargo, offhire & ballast effect
- Congestion effect
- Tonne-mile effect
- International cargo volumes
- Net demand growth

- 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

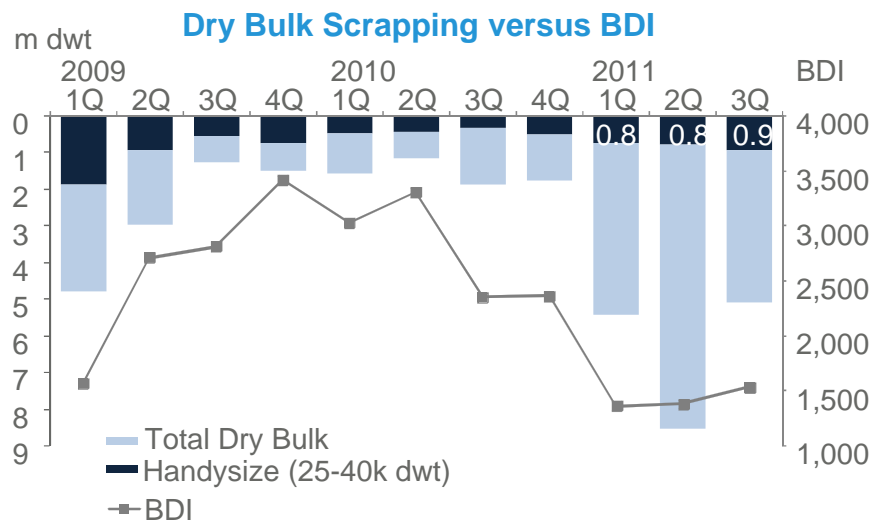
# Dry Bulk Fleet Changes

- Dry bulk capacity expanded 14% YOY net
- Handysize expanded only 1% net in the third quarter
- 35% of handysize fleet is over 25 years old
- High scrap price supports healthy scrapping

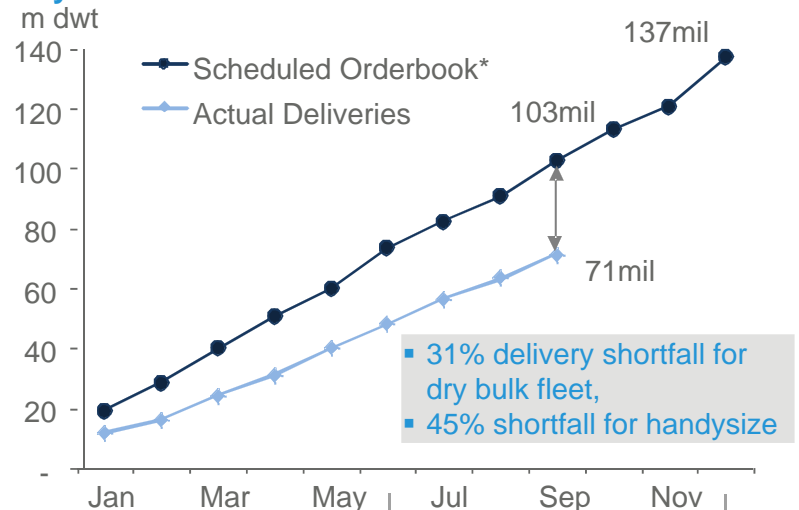
**Handysize Age Profile (25,000-39,999 dwt)**  
2,035 vessels (64.8m dwt)



| m dwt   | Dry Bulk | Handysize |
|---------|----------|-----------|
| 2009    | 10.5     | 4.1       |
| 2010    | 6.4      | 1.8       |
| 2011YTD | 19.0     | 2.5       |



**Dry Bulk Fleet Deliveries 2011**

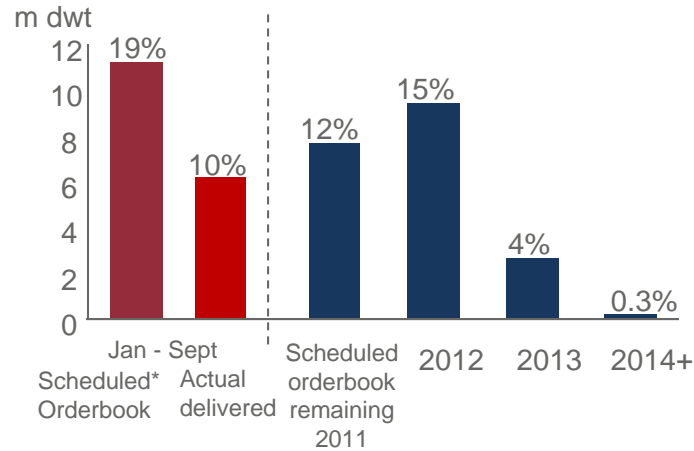


▪ 31% delivery shortfall for dry bulk fleet,  
▪ 45% shortfall for handysize

# Dry Bulk Orderbook

## Handysize Scheduled Orderbook

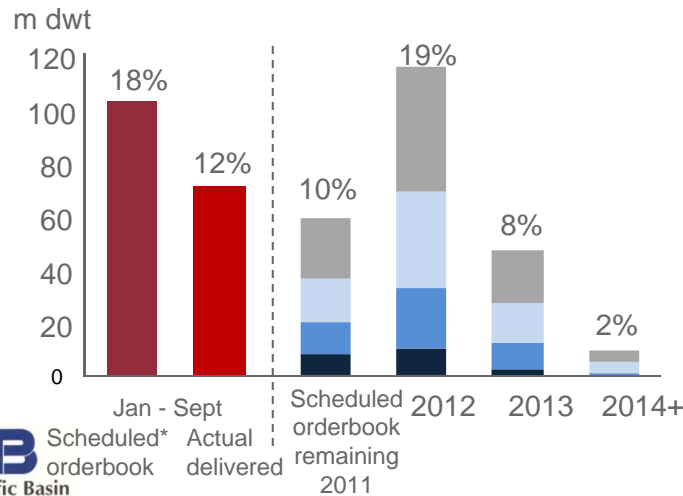
583vessels (20m dwt)



- 137m dwt\* new dry bulk capacity scheduled to deliver in FY 2011
- Ship owners ordered 66% less newbuilding capacity YOY due to weak market conditions
- We expect approx. 30% slippage in FY 2011
- Less onerous handysize orderbook

## Total Dry Bulk Orderbook

2,772vessels (232m dwt)



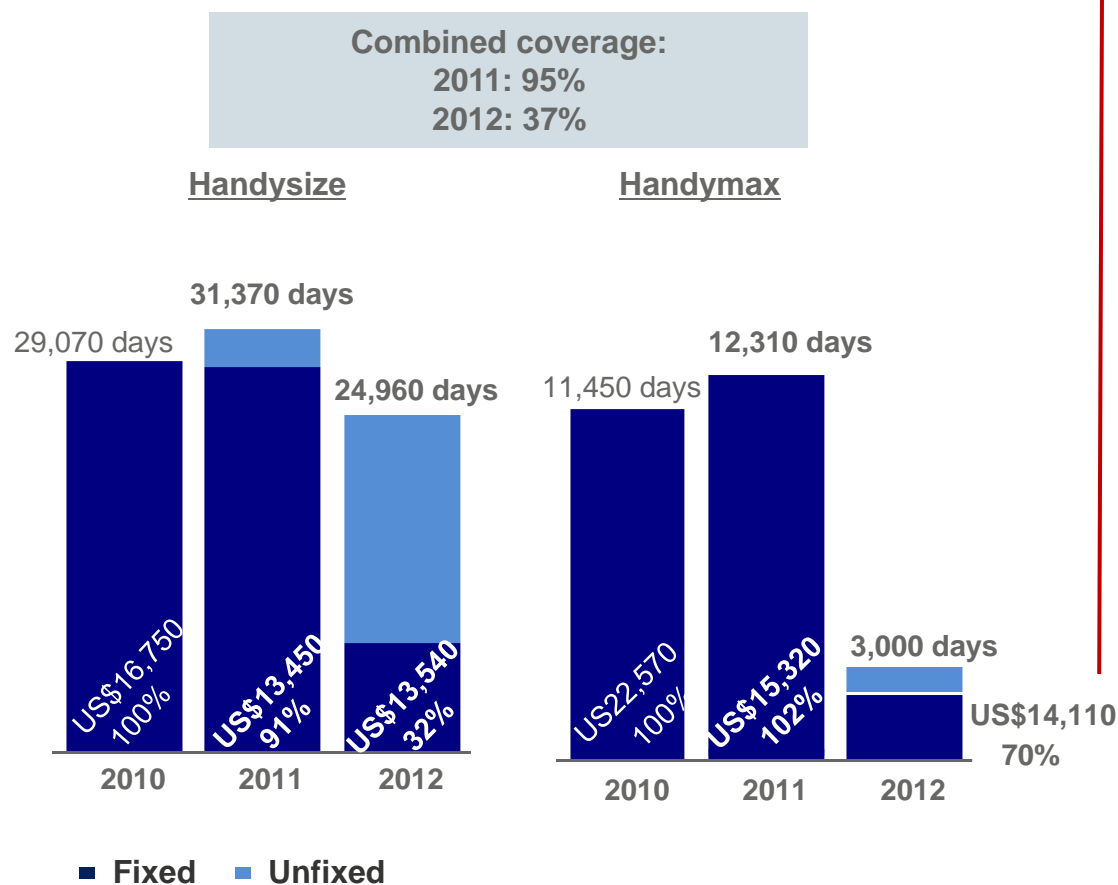
### Total Dry Bulk >10,000 dwt

| Category                      | Orderbook as % of Existing Fleet | Average Age | Over 25 Years |
|-------------------------------|----------------------------------|-------------|---------------|
| Handysize (25,000-39,999 dwt) | 39%                              | 15          | 36%           |
| Handymax (40,000-64,999 dwt)  | 31%                              | 11          | 15%           |
| Panamax (65,000-119,999 dwt)  | 34%                              | 10          | 6%            |
| Capesize (120,000+ dwt)       | 50%                              | 9           | 4%            |



# Pacific Basin Dry Bulk Earnings Coverage

As at 24 Oct 2011



## Pacific Basin Dry Bulk Fleet: 172

at 24 October 2011

|              | Owned        |           | Chartered    |           | Total      |
|--------------|--------------|-----------|--------------|-----------|------------|
|              | on the water | NB        | on the water | NB        |            |
| Handysize    | 30           | 7         | 73           | 9         | 119        |
| Handymax     | 3            | 6         | 39           | 3         | 51         |
| Post-Panamax | 1            | -         | 1            | -         | 2          |
| <b>Total</b> | <b>34</b>    | <b>13</b> | <b>113</b>   | <b>12</b> | <b>172</b> |

Average Age of our core fleet: 6.5 years old

# Pacific Basin Dry Bulk - Outlook



- China's continued dependence on imported minor bulks
- Slow steaming because of high fuel prices and weak market
- Scrapping increase
- Revival of Japan industrial production



- Continued excessive newbuilding deliveries
- Faltering global economic recovery and stimulus withdrawal
- Less imports due to China tightening policy
- High commodity price favour more Chinese domestic production
- Mining capacity shortfall and commodity supply bottlenecks

## **PB Conclusion:**

- **Softening Chinese demand expected to be balanced by US grain exports in the fourth quarter**

# PB Energy & Infrastructure Services

## 3Q11 Performance

- The market for both offshore and harbour towage services continued its significant improvement in the 3Q
- Further improved rates and trading conditions for PB Towage's Australasia-focused business

## Offshore and infrastructure support

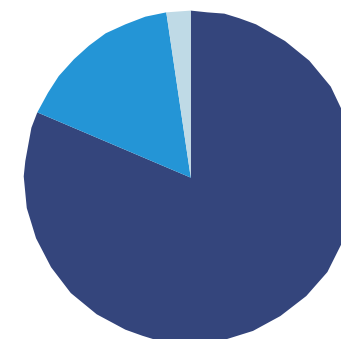
- Continued to position PB Towage as a leading sub-contractor to Australasian offshore construction markets
- Queensland Curtis Island LNG project began in February
- Gorgon Project contract extended till 2014

## Harbour Towage

- Increased our market share in Australian ports
- Improved performance partially offset by flood-affected Townsville activity

| US\$m  | 1H11         | 1H10       |
|--|--------------|------------|
| Offshore/project supply & harbour towage services ("Towage") | 3.5          | (1.2)      |
| PacMarine Services   | 0.5          | 0.7        |
| <u>Fujairah Bulk Shipping ("FBSL")</u>                       | <u>(5.2)</u> | <u>4.5</u> |
| Segment net profit in 1H11:                                  | <b>(1.2)</b> | <b>4.0</b> |
| Annualised return on net assets:                             | <b>-1%</b>   | <b>4%</b>  |

Towage Fleet: 43 vessels  
(as at 24 October 2011)



- 35 Tugs (33 Owned+2 Chartered)
- 7 Barges (6 Owned + 1 Chartered)
- 1 owned Bunker Tanker

# PB Energy & Infrastructure Outlook



- High oil prices buoying demand for new, cleaner, safer fuel sources
- Australia striving to become a major LNG exporter
- Continued commodity supply recovery in Queensland



- Faltering global economic recovery
- Australian commodity exports and port activity affected by tightening policy in China
- High commodity prices
- Increasing market competition & political instability in Middle East

## PB Conclusion:

- **Significant improvement is expected to continue with growth in new Australian offshore oil and gas projects**

# PB RoRo

## 3Q11 Performance:

- 4 out of 5 delivered vessels are employed, our final newbuilding is scheduled to deliver in Nov 2011
- Nafta Gulf Bridge service has been suspended due to unsatisfactory demand, but our 2 ships previously employed in that trade have been redeployed in the US Gulf at low rates
- Engaging in developing employment for our final 2 newbuildings

### Market demand

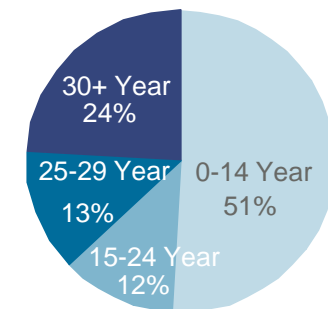
- Limited improvement in freight market and insufficient demand for new capacity
- Increased trade in the core European economy partly offset by continued weakness in some peripheral European countries

### Market supply

- 3% new deliveries in 1H11
- Scrapping continued but at a lower rate (~3%) in 1H11
- 12% orderbook remaining, with deliveries mainly 2011-2012

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

- Segment net profit in 1H11: -US\$5.3m (1H10: profit US\$0.5m)
- Annualised return on net assets: -3%
- US\$80 million impairment of RoRo investment due to reassessment of prospects for the sector, resulting in much weaker outlook for market and our RoRo business
- 1H Daily cost: US\$22,080



# PB RoRo Outlook



- Slow growth in European exports and intra-European trade overall
- Gradual, slow growth in trailer volumes
- Scrapping
- High fuel prices making modern vessels more attractive



- Significant new RoRo deliveries scheduled in rest of year
- Most European RoRo operators still have excess capacity and are not chartering new vessels
- Increased austerity in Europe
- Hesitant global economic recovery
- Weak support for RoRo services in US Gulf

## PB Conclusion:

- **Expect RoRo charter market to remain depressed into 2012 due to muted growth in freight volumes overall and a potentially weaker European economy threatened by recession**
- **We expect PB RoRo to be loss-making in 2011 and 2012, based on daily cost US\$22,080 in 1H11**
- **PB RoRo earnings coverage:**

| As at 24 Oct 2011   | FY2011     | FY2012     |
|---------------------|------------|------------|
| Revenue days        | 1,570      | 2,200      |
| Daily charter rates | US\$20,290 | US\$27,510 |
| % days covered      | 80%        | 16%        |

# Outlook

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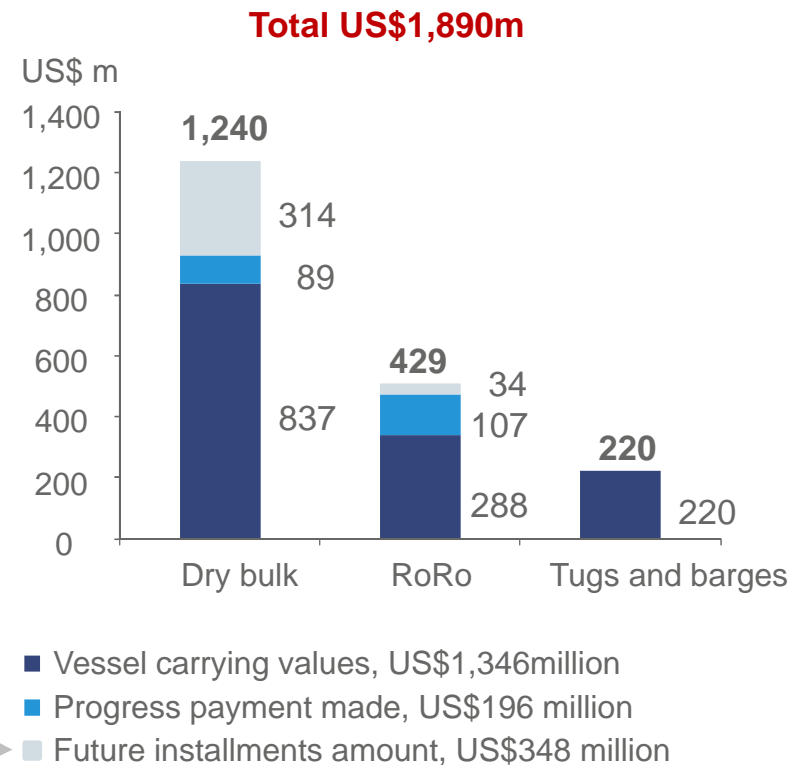
- We expect:
  - A sustained dry bulk demand, high scrapping levels and reduced newbuilding deliveries will support a continued relatively healthy supply/demand balance for minor bulk segments in 2012 overall
  - This balance could weaken if global economic growth slows further
  - We see evidence of softening Chinese demand for some commodities which we expect to be balanced by the seasonal resumption of 4Q US Gulf grain exports
  - Charter market for RoRo ships to remain depressed into 2012
  - Banking industry pressures may significantly dampen many ship owners' ability to fund second hand ship acquisitions and force them to find additional cash resources to meet capital and banking obligations
  - Pressure on ship values to generate further opportunities to acquire modern dry bulk ships at reasonable cost
- Our strategy remain unchanged: we seek to expand further our dry bulk fleet

# Capex and Combined Value by Vessel Types

As at 30 June 2011



### A Combined View of Vessel Carrying Values and Commitments

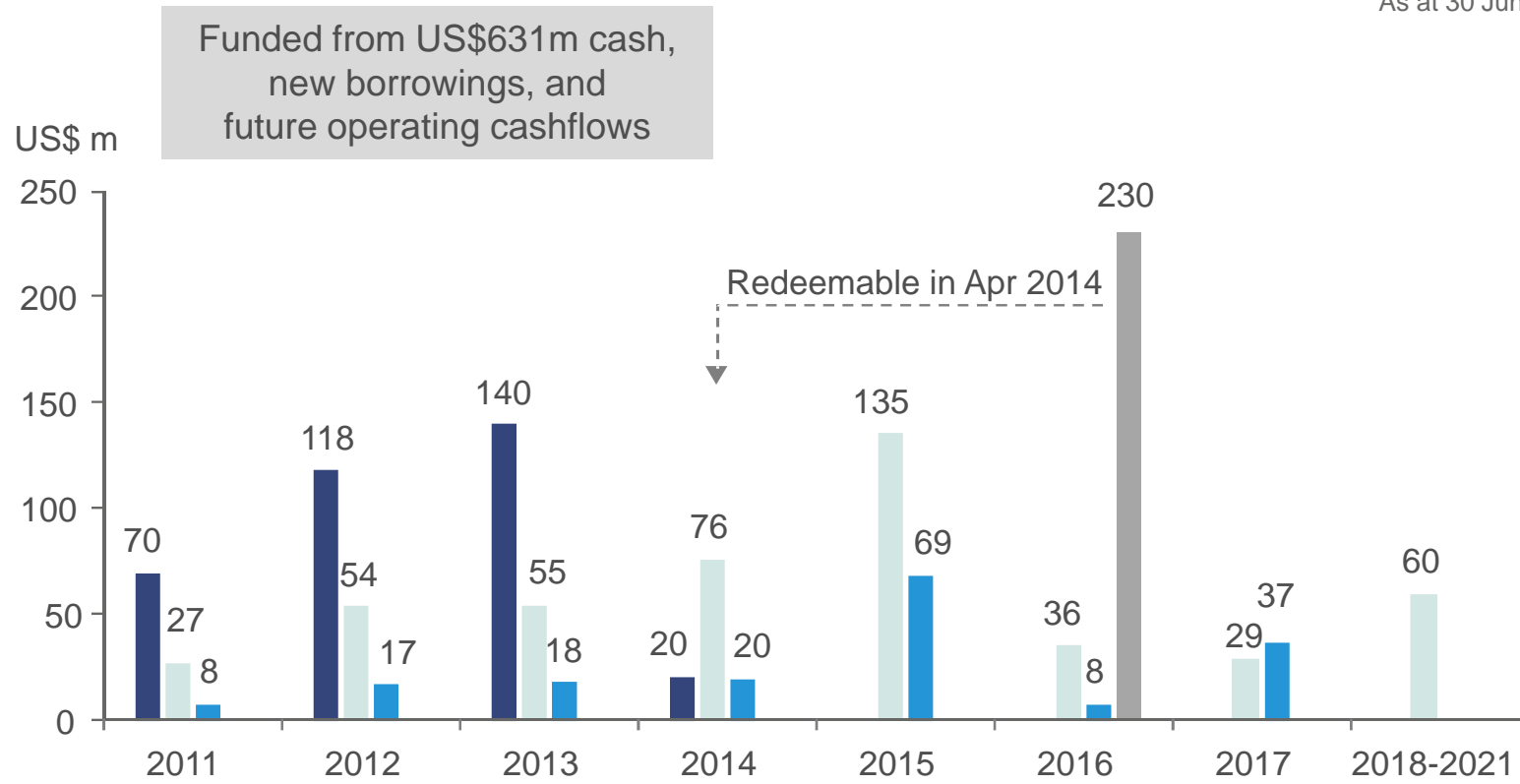


Further commitments expected in Dry Bulk



# Borrowing and Capex

As at 30 June 2011



- Vessel capital commitments (US\$348m)
- Bank borrowings (gross of loan arrangement fee) (US\$472m): 2012-2021
- Finance lease liabilities (US\$177m): 2015-2017
- Convertible Bonds (Face value US\$230m): 2016, redeemable in Apr 2014

# Cash Flow

US\$m

## Operating cash inflows

1H11

69

1H10

83

## Investing cash outflows

(33)

(142)

- Vessels & other fixed assets related payments
- Jointly controlled entities related receipts and payment
- Disposal of our remaining holdings in GDG
- Change in restricted cash, structured notes & notes receivables
- Others, mainly interest received

(111)

(187)

9

(13)

81

-

(19)

45

7

13

## Financing cash outflows

(85)

(31)

- Proceeds from issuance of convertible bonds
- Repurchase of convertible bonds
- Net drawdown/ (repayment) of borrowings & finance lease
- Dividends paid
- Others, mainly interest paid

-

227

(105)

(194)

81

(5)

(41)

(37)

(20)

(22)

## Cash and bank deposits

631

970

## Disclaimer

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*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.*

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## Appendix: 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

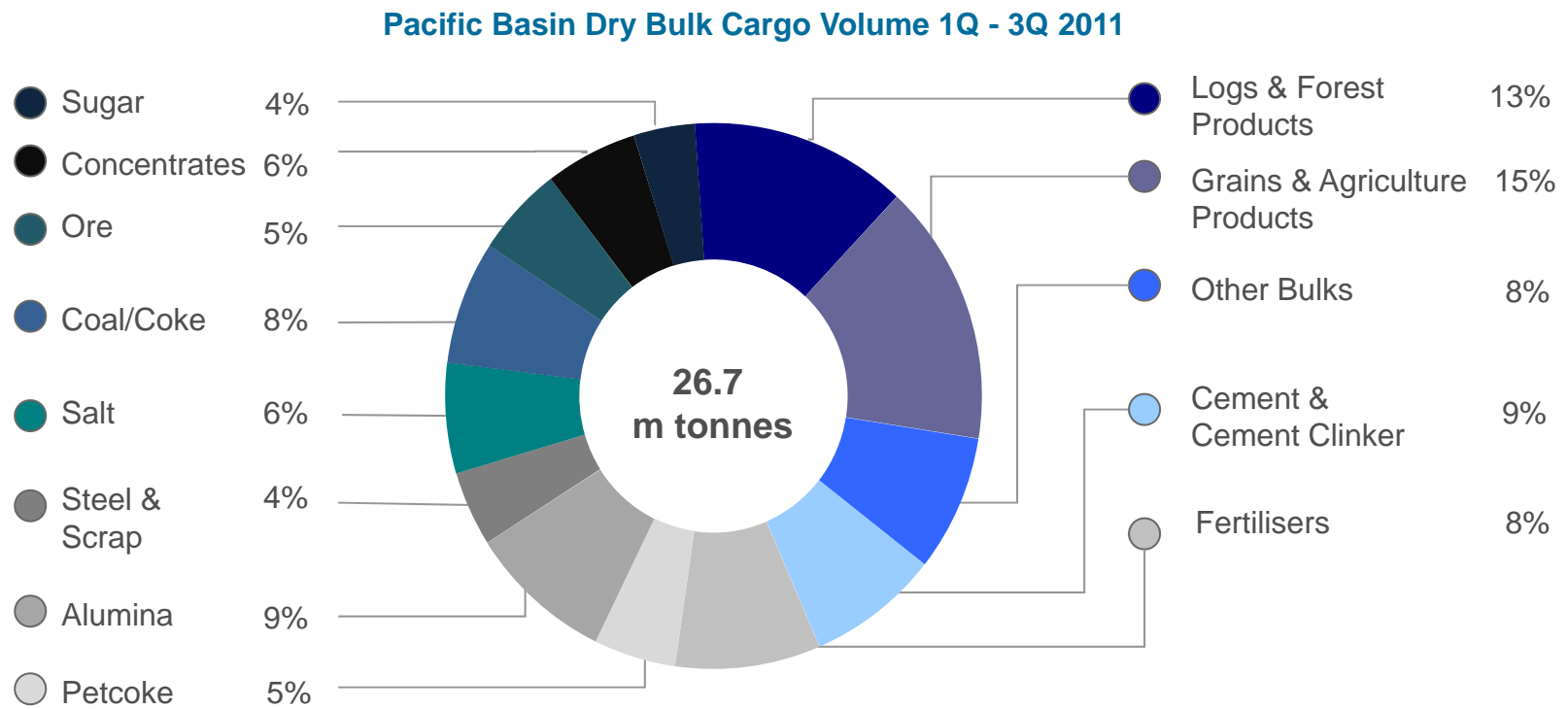
- Strong relationship with over 300 customers
- Mainly industrial commodity producers and end-user
- Mixed with spot & long term contracts of affreightment

### Corporate profile

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



## Appendix: Pacific Basin Dry Bulk – Diversified Cargo

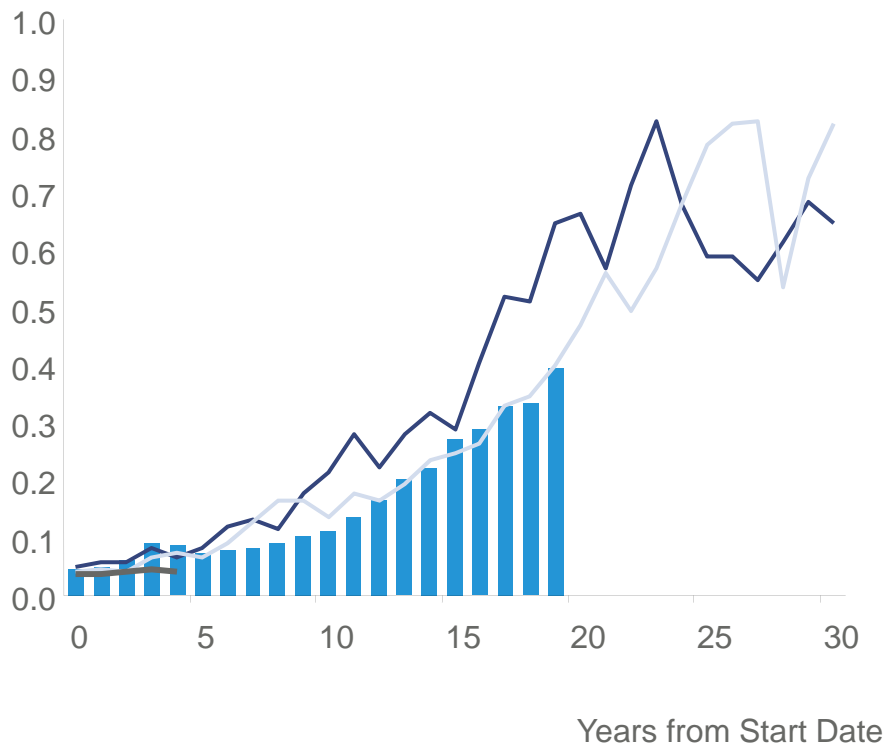


- Diverse range of commodities reduces product risk
- Australia and China were our largest loading and discharging zones respectively

## Appendix: China at late-Industrialisation Stage

### Steel Consumption Per Capita

Tons per Capita

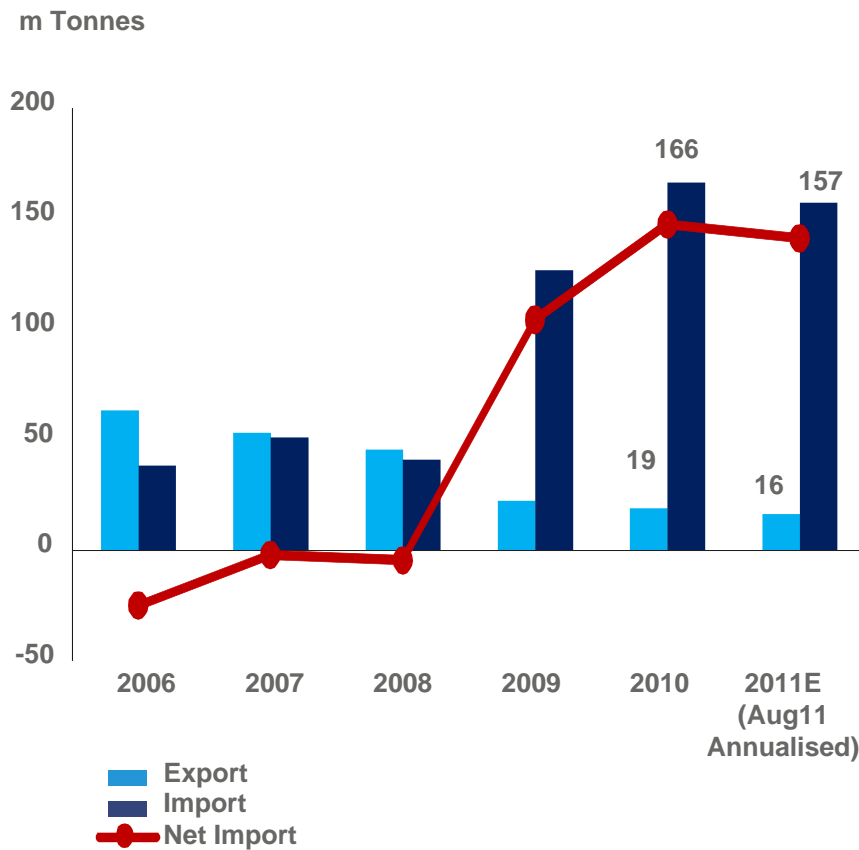


- China growth matches historical trend in Japan and Korea
- Suggests strong growth in dry bulk segment to remain for medium term
- Similar trend for electricity and cement

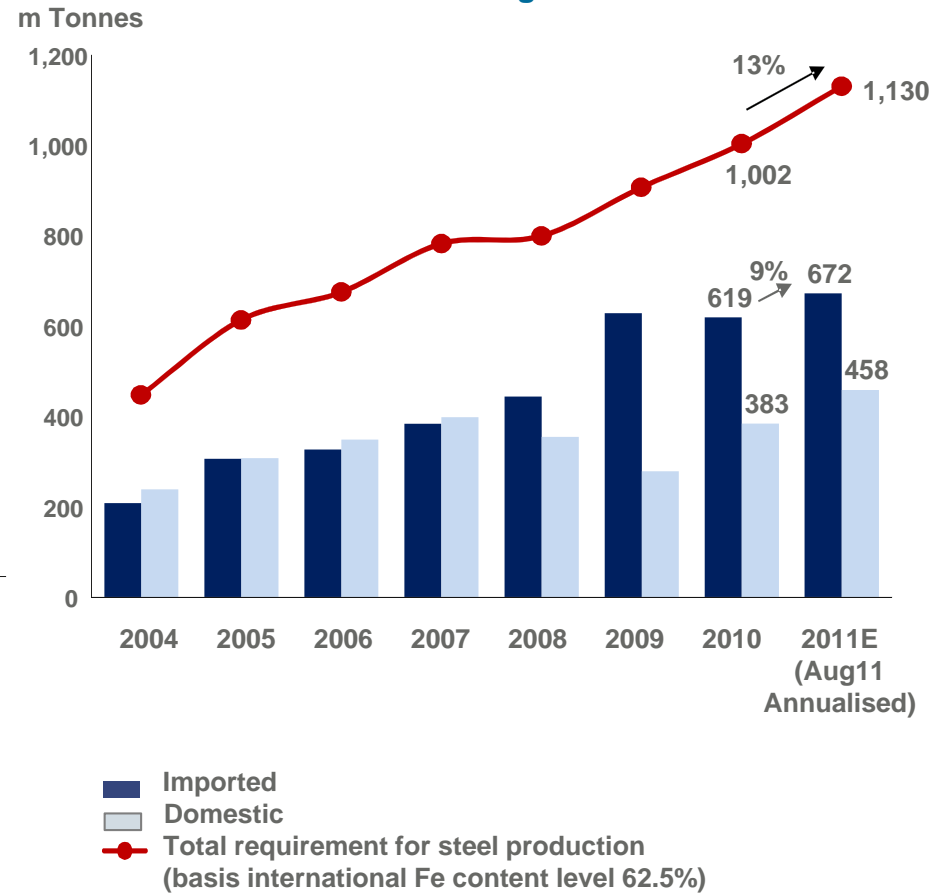
■ China (from 1990)  
■ Japan (from 1950)  
■ Korea (from 1970)  
■ India (from 2005)

# Appendix: China Iron Ore & Coal Demand

China is a net importer of coal in 2011



China Iron Ore Sourcing for Steel Production



## Appendix: 2011 Interim Financial Highlights

### Segment net profit

- Treasury
- Non direct G&A

### Underlying profit

- Unrealised derivative income / (expenses)
- Gain from sale of shares in Green Dragon Gas
- Vessel impairment charges – RoRo

### Profit attributable to shareholders

1H11

28.8

(5.8)

(4.2)

18.8

8.4

55.8

(80.0)

3.0

1H10

81.1

(11.8)

(3.7)

65.6

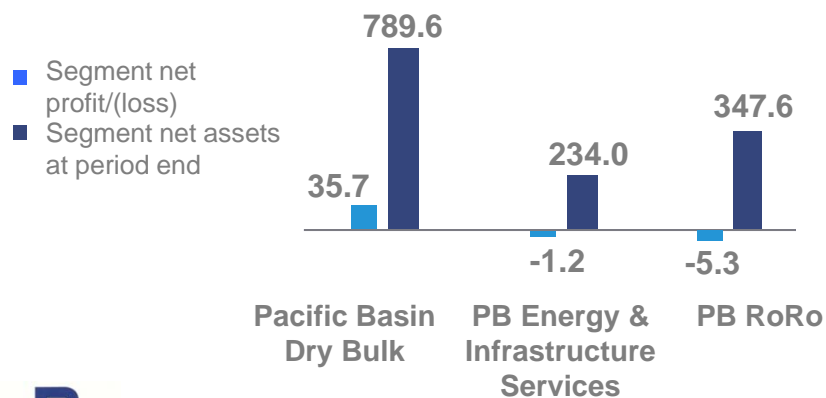
(13.7)

-

-

51.9

### Segment Net profit and Net Assets



### Return on net assets (Annualised)

|                                     |     |
|-------------------------------------|-----|
| Pacific Basin Dry Bulk              | 10% |
| PB Energy & Infrastructure Services | -1% |
| PB RoRo                             | -3% |



## Appendix: Pacific Basin Dry Bulk - Handysize

|                        |            | 1H11   | 1H10   | Change |
|------------------------|------------|--------|--------|--------|
| Revenue days           | (days)     | 14,620 | 13,940 | +5%    |
| TCE earnings           | (US\$/day) | 13,660 | 16,840 | -19%   |
| Owned + chartered cost | (US\$/day) | 10,640 | 11,750 | -9%    |
| Segment net profit     | (US\$m)    | 42.9   | 69.7   | -38%   |
| Return on net assets   | (%)        | 13%    | 26%    | -13%   |

- Earnings: 1H11 TCE rates reflect weakened demand
- Costs: Blended daily costs reflect lower chartered-in costs from the market
- Segment result excludes: US\$6.3m unrealised net derivatives income

## Appendix: Pacific Basin Dry Bulk - Handymax

|                            |            | 1H11   | 1H10   | Change |
|----------------------------|------------|--------|--------|--------|
| Revenue days               | (days)     | 6,390  | 5,570  | +15%   |
| TCE earnings               | (US\$/day) | 15,130 | 23,680 | -36%   |
| Owned + chartered cost     | (US\$/day) | 16,190 | 22,050 | -27%   |
| Segment net (loss)/profits | (US\$m)    | (7.5)  | 8.8    | -185%  |
| Return on net assets       | (%)        | -19%   | 32%    | -51%   |

- Earnings: 1H11 TCE rates reflect weakened demand
- Costs: Blended daily costs reflect lower chartered-in costs from the market
- Segment result excludes: US\$2.5m unrealised net derivatives income



## Appendix: Balance Sheet

| US\$m                                  | PB<br>Dry Bulk | PB<br>EIS  | PB<br>RoRo | Treasury   | 30 Jun 11    | 31 Dec 10    |
|--|----------------|------------|------------|------------|--------------|--------------|
| Vessels & other fixed assets           | 926            | 221        | 395        | -          | <b>1,549</b> | 1,519        |
| <b>Total assets</b>                    | <b>1,096</b>   | <b>287</b> | <b>408</b> | <b>654</b> | <b>2,524</b> | <b>2,555</b> |
| Long term borrowings                   | 177            | 38         | 56         | 574        | <b>845</b>   | 860          |
| <b>Total liabilities</b>               | <b>306</b>     | <b>53</b>  | <b>60</b>  | <b>576</b> | <b>1,014</b> | <b>1,011</b> |
| Net assets                             | 790            | 234        | 348        | 78         | <b>1,510</b> | 1,544        |
| Net borrowings                         |                |            |            |            | <b>214</b>   | 156          |
| Net borrowings to Fixed assets         |                |            |            |            | <b>14%</b>   | 10%          |
| Net borrowings to Shareholder's equity |                |            |            |            | <b>14%</b>   | 10%          |

## Appendix: Impact of Financial Instruments

| US\$m                        | Realised   | Unrealised | 1H11         | 1H10          |
|------------------------------|------------|------------|--------------|---------------|
| <b>Net Gains / (Losses)</b>  |            |            |              |               |
| Forward freight agreements   | (0.7)      | 0.9        | <b>0.2</b>   | (5.8)         |
| Bunker swap contracts        | 6.7        | 7.9        | <b>14.6</b>  | (8.4)         |
| Interest rate swap contracts | (2.8)      | (0.4)      | <b>(3.2)</b> | (4.2)         |
|                              | <b>3.2</b> | <b>8.4</b> | <b>11.6</b>  | <b>(18.4)</b> |

- Cash settlement of contracts completed in the period
- 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\$7.79 (Current conversion price: HK\$ 7.35 with effect from 16 August 2011)  |
| Conversion Condition        | <p>Before 11 Jan 2011: No Conversion is allowed</p> <p>12 Jan 2011 – 11 Jan 2014: Share price for 5 consecutive days &gt; 120% conversion price</p> <p>12 Jan 2014 – 5 Apr 2016: Share price &gt; conversion price</p>  |
| 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                  | <ul style="list-style-type: none"> <li>Shareholders approval at SGM to approve the issue of the New Convertible Bonds and the specific mandate to issue associated shares.</li> <li>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</li> </ul> |

### Conversion/redemption Timeline

