2012 Annual Results
28 February 2013

Script for Results Presentation

Speaker: Mats Berglund

Slide 1 – Cover

Good afternoon ladies and gentlemen, and thank you for attending Pacific Basin's 2012 Annual Results presentation.

I will start with a brief overview of our results, and will then discuss our business activities with the help of Jan Rindbo who is our Chief Operating Officer and head of Dry Bulk, and Andrew Broomhead, our CFO.

You will be invited to ask questions at the end.

Slide 2 – Group Highlights

Pacific Basin made a net <u>loss</u> of $158 million in 2012.

The largest explanation for this loss was a $199 million mid-year write-off and a 12 million operating loss for our RoRo business. We have since agreed the forward sale of our RoRo fleet, and we now consider PB RoRo a discontinued operation.

While 2012 started with very weak dry cargo rates – as is the case again in early 2013 – our second half 2012 performance was fairly strong.

Excluding impairments, we generated an underlying <u>profit</u> of $48 million for the full year and an operating cash flow of $149 million.

This positive underlying result and healthy cash flow represent a respectable performance in what was the weakest dry bulk market since 1987.

Our dry bulk business significantly outperformed the weak market and generated a net profit for the year which is a rare thing among dry bulk shipping companies these days and powerful proof of how strong our business model is.

We also benefitted from the continued growth of our towage business which delivered a strong contribution and solid return.

We increased our total cash and deposits to $753 million, which more than covers our $236 million commitments in respect of 16 vessels currently contracted to deliver into our fleet in primarily 2013, and leaves substantial remaining buying power on our balance sheet.

As vessel prices are back to pre-boom levels, we have returned to the acquisitions market and, since September 2012, we have purchased 8 dry bulk vessels, including 7 secondhand ships and 1 newbuilding resale.

In view of the Group's positive operating cash flow and, despite the loss-making result for 2012, the Board has recommended a final dividend of HK 5 cents per share.

I will now hand over to Jan who will take you through our dry bulk business.

Speaker: Jan Rindbo

Slide 3 – Pacific Basin Dry Bulk – 2012 Performance

Thank you Mats.

Our dry bulk division made a net profit of US$39 million and an operating cash flow of $114 million.

Our second half performance recovered from a weak first half due to stronger TCE earnings following a better market in Q2 and Q3, and due to a reduction in the cost of our chartered-in fleet.

Our Handysize business made a contribution of $62 million, and our reliance on relatively expensive medium-term chartered ships in the depressed market resulted in a modest but positive Handymax contribution of $6.7 million.

Our Handysize and Handymax daily earnings reduced 23% and 22% year on year leading to a squeeze in our operating margin.

However, they still outperformed their corresponding markets by 44% and 31% respectively, which again demonstrates the value of our industrial and customer-focused business model and the cargo book this brings.

The protracted dry bulk market weakness further impacted ship values over 2012 as we had anticipated. After a one year pause, we returned to the ship acquisitions market in September, at which time vessel prices had softened about 30% since the beginning of the year.

Since September, we have committed to purchase 8 vessels with an average price of $15.2 million and an average age of about 6.5 years. They include six secondhand Handysize vessels, one Handysize newbuilding resale, and one secondhand Handymax vessel.

We currently have 16 owned and 5 chartered ships contracted to join our dry bulk fleet in 2013 to 2015.

Slide 4 – Pacific Basin Dry Bulk Earnings Cover

We operated an average of 155 dry bulk ships in 2012 – up from 130 in 2011.

Growth was primarily driven by operating more short-term chartered and index-linked chartered ships, and profitably combining tonnage and cargo opportunities in the marketplace to add value to operating our core fleet.

As at 25 February 2013, we had covered 55% of our 29,760 Handysize revenue days in 2013 at $9,340 per day. This is over $2,000 less than our cover rate of a year ago, due to the completion of cargo contracts secured at higher rates in a stronger market.

We had also covered 80% of our 8,740 Handymax revenue days in 2013 at $10,620 per day.

As always, we manage very carefully our forward cargo cover – particularly in volatile market conditions and as we expand our fleet.

Slide 5 - Dry Bulk Market Information

After an initial sharp decline in freight rates in early 2012, the dry bulk market remained weak throughout the year. Healthy demand was undermined by the over-supply of mainly larger ships generated by excessive newbuilding deliveries of recent years.

In what was the weakest dry bulk market in 26 years, Handysize and Handymax spot rates averaged a little under $7,300 and $9,000 per day net respectively – both down roughly 30% year-on-year.

The much larger, more expensive and less versatile Capesize and Panamax ships generated substantially the same average earnings as Handysize ships (and less than Handymaxes) once again demonstrating the lower volatility and better fundamentals in the market for our smaller vessels.

Freight market weakness has translated into lower secondhand and newbuilding ship prices. Benchmark five year old Handysize ship values are currently estimated by Clarksons to be US$17 million – down from $19.5 million a year ago.

2013 has got off to a seasonally weak start with market spot rates below average rates for the second half of 2012. We expect to see a similar pattern in the market this year as in 2012, and for the market to remain weak overall.

Slide 6 – Dry Bulk Demand

Platou estimate dry bulk transportation demand in 2012 to have increased by over 7% year on year.

That's down from 10% in 2011, but is still indicative of relatively healthy international commodity trade despite global economic uncertainty and low GDP growth.

China continued to dominate dry bulk demand developments, most notably importing 9% more iron ore and 58% more coal than in 2011.

More relevant for our smaller ships, China imported 7% more of a basket of 7 important minor bulks. Those commodities make up over one third of the cargo volumes we carry on our ships.

Unfortunately, that healthy level of demand in 2012 was overshadowed by continued over-supply.

Slide 7 – Dry Bulk Fleet Development

The global fleet of 25–40,000 tonne Handysize ships in which we specialise expanded by 3% net in 2012.

By contrast, the overall dry bulk fleet expanded by 10%. This was driven by the delivery of 98 million tonnes of new capacity which was only partly offset by the scrapping of a record 34 million tonnes of existing capacity.

The Handysize segment continues to benefit from a significantly lower rate of deliveries, a high volume of scrapping and, overall, a more favourable fleet age profile as 22% of the global Handysize fleet is over 25 years old.

A rapid influx of new ship deliveries gave way to markedly reduced deliveries in the fourth quarter, representing the first sign of slowing since the start of 2010. We are confident that the peak year for new ship deliveries is now passed.

Slide 8 – Dry Bulk Orderbook

The very weak market and severe funding shortage led to a 55% drop in new ship ordering activity in 2012. Combined with the heavy influx of new ships, this has resulted in a significant reduction in dry bulk capacity on order.

The Handysize orderbook has reduced from 23% a year ago to 17% as at 1st February, which looks favourable considering 22% of the Handysize fleet is over 25 years old.

The orderbook for dry bulk vessels overall has fallen more dramatically from over 30% a year ago to 19%.

Newbuilding prices remain under pressure, and according to Clarksons have reduced 7% over the past 12 months to $21 million for a handysize ship as shipyards compete and struggle to secure new contracts.

Slide 9 – Dry Bulk Outlook

We expect the dry bulk market weakness of 2012 to continue through 2013. Demand grew by 7% in 2012 and we anticipate similarly healthy demand growth in 2013, but it will take some time for the market to absorb the over-supply of mainly larger ships generated by the large volume of newbuilding deliveries of recent years.

Healthier fundamentals should limit further downside in the Handysize market. Relatively restrained ordering of newbuildings has resulted in a better balance in this market segment, which is expected to see newbuilding deliveries substantially offset by scrapping in 2013.

Conditions overall are likely to remain challenging, thereby generating further vessel and fleet acquisition opportunities for shipowners with available cash.

Our two key strategic objectives for Pacific Basin Dry Bulk in 2013 are:

1. To continue to purchase Handysize and Handymax ships at attractive prices, thereby growing further our fleet of high-quality, owned ships; and

2. to expand our dry bulk customer and cargo portfolio in tandem with our core fleet expansion.

We remain optimistic about the longer term. We expect high levels of ship scrapping and limited new ship ordering to moderate dry bulk ship supply expansion, while demand remains relatively robust as emerging economies continue to industrialise and grow.

I now hand you back to Mats who will report on PB Towage and PB RoRo.

Speaker: Mats Berglund

Slide 10 – PB Towage – 2012 Performance

Our Towage division generated a net profit of US$37.7 million and an operating cash flow of US$52.1 million, reflecting our increasingly competitive position in the active offshore support and harbour towage markets in Australasia.

The offshore energy infrastructure sector was again the main growth driver for PB Towage in 2012. We increased our involvement in the West Australian and Queensland offshore gas sectors, driving a 13% increase in the average number of towage vessels we operated during the year.

And our harbour towage business also showed improved results on an 11% increase in tug jobs due to market growth and our expanded market share.

Utilisation of our tug fleet increased to 97%, barge utilisation increased to 76% and the return on our Towage net assets was a strong 17%.

Slide 11 – PB Towage – Outlook

We believe PB Towage has the capacity to expand, and we consider ourselves well positioned competitively to participate in continued growth in offshore energy projects and bulk port towage activity in Australia and internationally.

These opportunities for growth represent the main focus of our towage operations in 2013. As a result of our most recent initiative, we expect to commence harbour towage operations in the port of Newcastle in the middle of this year.

Slide 12 – PB RoRo

Our PB RoRo business, now considered a discontinued operation, generated a segment net loss of US$12.1 million, a positive operating cash flow of US$3.1 million, and an impairment and exchange loss of US$198.6 million.

This poor result reflects the protracted severe weakness in the RoRo sector and its impact on the prospects for our RoRo business.

In September, following the significant mid-year impairment of our RoRo investment and our decision to exit the sector, we secured the forward sale of all six of our RoRo ships to the Grimaldi Group who are taking the ships on bareboat charter in the intervening period.

Five of those ships have now delivered to Grimaldi on bareboat charters, and the sixth is due to enter in March 2014 after expiry of the vessel's current employment in the Mediterranean. The buyers have an obligation to purchase at least one vessel every six months starting June 2013 and ending December 2015.

As a result, our exposure to the RoRo spot charter market has been eliminated and our RoRo business is discontinued.

I will now pass you to Andrew, our CFO, who will present the financial section.

Speaker: Andrew Broomhead

Slide 13: 2011 Annual Financial Highlights

The Group reported segment net profits on its Dry Bulk and Towage operations of US$74.5m, a reduction of 17% compared to last year in the face of a weaker market for dry bulk vessels, offset in part by a strong contribution of US$38 million from PB Towage.

Underlying profit was US$47.8m, impacted by the increased loss from the discontinued RoRo operations.

The RoRo vessel impairment and exchange loss of US$198.6m brought down the Group's overall result to a net loss of US$158.5m.

Let's now turn to Dry Bulk.

Slide 14: Pacific Basin Dry Bulk

Looking at the main drivers of our dry bulk results.

Our handysize revenue days increased 25% to 41,000, reflecting on average 23 additional vessels, compared to the previous year, due to short term chartered-in ships from the market to service our growing customer base.

TCE earnings decreased 23% to US$10,460 per day, which outperformed the benchmark rate for the year by 44%.

The result was a 46% decrease in Handysize contribution to US$62.0m.

Handymax and Post Panamax turned in a small but important positive contribution due to Handymax chartered in costs reducing more than their TCE earnings compared to 2011

Our dry bulk segment's overall net profit was a lower but continued profit ofUS$39.3m giving a return on its net assets of 5%.

(Note: TCE earnings include realised cash expense of US$0.4 million on FFA positions and cash income of US$5.0 million on bunker hedge positions but not mark to market income of FFA of US$0.3 million and expense of bunker hedge of US$2.4 million)

(Note: Handysize sport rate in 2012 = US$7,250, down 28% yoy)

Slide 15: Daily Vessel Costs – Handysize

Handysize blended operating costs decreased 10% to US$8,910 per day,

This was due to a 21% decrease in chartered in vessel payments down to US$9,340 per day.

Owned vessel costs at US$8,200 per day increased 6% mainly due to increased crew wages, higher crew travel costs to the Atlantic basin and higher maintenance costs. The opex increases arose in the first half of 2012 and costs were stable in the second half of 2012.

The proportion of chartered vessels increased from 54% to 62% mainly because of our expanded use of short term chartered in ships.

(Note: Direct overheads for HS & HM vessels were US$630 per day (2011: US$690 per day))

Slide 16: Balance Sheet

Dry bulk and Towage represent 84% and 16% of our vessel book value.

Our 44 delivered Handysize vessels had an average age of 8.4 years and an average book value of US$16.6m.

The column Discontinued RoRo includes the asset value of 4 RoRo vessels. As of their bareboat charter commencement date, they will be categorised as trade receivables under the Treasury column where the value of the other 2 RoRo vessels is shown.

And at the end of December we had cash and deposits of US$753m, a net borrowings position of US$178m, giving net gearing of 14%.

(Note: Fixed assets, the remaining 1% or US$5m represented China properties and furniture and fixtures.)

(Note: 6 RoRo vessels' asset value = US$187.8m (128.1m + 59.7m))

(Note: US$1,057m for the dry bulk segment represented 49 delivered dry bulk vessels and 15 undelivered vessels.)

(Note: Old CB – convertible if the closing price of the Company shares is at or above 120% of the conversion price for five consecutive trading days. Original conversion price was HK$7.98 and conversion price at 31.12.2012 was HK$7.26)

(Note: New CB – convertible at anytime after 2 Dec 12. Original conversion price and at 31.12.12 was HK$4.96)

(Note: US$753m group cash, $680m (incl. $60m in DSF restricted cash) in Treasury, $50m (RBS restricted cash) in HS, $23m (local cash) in Towage)

Slide 17: Borrowing and Capex

This slide shows our annual borrowing and capex payment obligations.

The 7 handysize and 1 handymax vessel purchased in the last 6 months have increased our capex commitments, which mainly arise in 2013

The combined US$931m of borrowing maturities are managed so as to remain comfortably spread over the coming 6 plus years and will be met from existing cash resources, future operating cashflows and new borrowing facilities.

Slide 18: Cash Flow

The Group generated operating cashflows of US$149m for the year.

Coupled with existing cash and US$163m from increased borrowings, this funded:

Vessel payments of US$195m, including 2 handysize, 2 handymax and 1 RoRo vessels, all delivered during the year, and instalments for another 11 dry bulk vessels...

…leaving PB with cash of US$753m at the year end.

And now I would like to hand back to Mats.

Speaker: Mats Berglund

Slide 19 – Our Position, Outlook & Strategy

2012 was an important year in Pacific Basin's evolution towards becoming a more focused company. During the year, we secured our future exit from the RoRo sector, we disposed of our minority interest in a cargo terminal in Nanjing, cancelled our undrawn commitment to a clean-tech fund, and we sold our marine surveying company PacMarine Services. Going forward, we will continue to seek divestment opportunities for our few remaining non core activities.

I am very happy with this strategy of distilling our activities down to what we do best. It now allows us to direct substantially all our attention and resources towards our core dry bulk and towage businesses.

Our dry bulk business model and strategy are very focused – that is to say customer focused, cargo focused and segment focused. The Handysize segment continues to demonstrate resilience in these challenging times and our business continues to outperform our market indices, benefiting from the value of an effective business model and the right people and tools to realise economies of scale.

All things considered, Pacific Basin's core focus on the Handysize and Handymax dry bulk business is absolutely where we need to be, and is therefore central to our investment plan.

Dry bulk market conditions overall are likely to remain challenging in 2013, which should generate further vessel acquisition opportunities. As we have started to do since September last year, we are strategically focused on:

1. buying more Handysize and Handymax ships at attractive prices; and

2. expanding our dry bulk customer and cargo portfolio in tandem with our core fleet expansion.

PB Towage has established itself as a safe and quality-conscious operator with a strong customer base in both the offshore project and harbour towage sectors. We consider PB Towage to be well positioned to compete for opportunities in these sectors as the market develops further in Australia and internationally. Our recent decision to enter the port of Newcastle demonstrates our belief in this business and in the PB Towage team.

In closing, we are working very hard to position the company to emerge from the weak dry bulk market larger and more competitive, always delivering a world-class service to our customers while building shareholder value over the long term.

Mats invites questions from the floor

End.