2006 Annual Results – 5 March 2007

Slide 1 – Cover
Spoken by: Richard Hext

Good afternoon ladies and gentlemen. Welcome to Pacific Basin's 2006 Annual Results presentation. My name is Richard Hext, and I am the Chief Executive. I am pleased to be joined by my colleagues, Deputy Chief Executive Klaus Nyborg, and our Chief Financial Officer, Andrew Broomhead, both of whom will also be taking part in this presentation.

You have met Andrew and me before but not Klaus. He joined Pacific Basin in September last year after a most successful period as number 2 of Torm, the largest product tanker operator in the world with a market capitalisation of about US$2.5 billion, and, before that, with AP Moller, the largest cargo shipping company in the world by market value. He has already made a very positive impression on Pacific Basin.

Slide 2 – Results Highlights
Spoken by: Richard Hext

Pacific Basin has had a satisfactory year, despite more variable freight market conditions, achieving a net profit of US$110.3 million, down from US$147 million in 2005.

Performance in the second half of the year was significantly up on the first half, producing double the profits.

We managed to deliver an average return on equity of 36% and a total return to shareholders (including dividends and capital gain) of 51%.

In view of this solid performance during the year, we have proposed a final dividend of HK 22.5 cents, bringing the total for the year to HK 42.5 cents, which represents a 71% 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 66% since 2004 thanks to a larger core owned and long term chartered fleet. Further vessel acquisitions in 2006 before the asset market heated up have contributed to a rise of at least 23% in revenue days for 2007. 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 and others. You will see in a few moments a very powerful slide that illustrates very well China's recent growth and its potential.

Slide 4 - Fleet Profile
Spoken by: Richard Hext

Our so-called 'core' fleet numbers 77 handysize and handymax vessels, including:

32 owned handysize and 3 owned handymax vessels (including vessels on order), 34 long term chartered in handysize (include 1 vessel on order) and 4 long term chartered in handymax vessels, plus 4 managed vessels.

On top of this, in order to fulfil our cargo contracts we have a number of vessels on short term charter at any one time, bringing the current total fleet to nearly 100 vessels.

During 2006 we made commitments to acquire 15 second hand and newbuilding vessels, worth around US$354 million and currently have commitments of US$250 million for 12 vessels for the core fleet. Reason is that the value includes a tug and barge of US$4.3m unpaid currently.

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 vessels which Klaus will show you later.

As you can see, our largest cargo commodity – grains make up only 12% of the total. Our second largest is cement at 11%. Then fertilisers at 9% then logs and other forest products 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 6 – China at Early Industrialization Stage
Spoken By: Richard Hext

If you forget everything else about this presentation (except for the dividend) then please try and remember this.

In 1990 China consumed about 50 kilos of steel per capita, a little more than India does today. In 2005, China consumed about 300 kilos of steel per capita.

That is quite a growth rate and must slacken soon, right?

Except that in the period 1950-1975 Japan's steel consumption per capita grew from 50kgs per capita to over 800kgs and Korea did the same thing in the period 1970-1995.

If you analyse the cement and electricity numbers you get a similar message.

Of course it will not all be plain sailing. And no one can predict the twists and turns. But by any reckoning, there is a lot of potential demand for dry bulk ships here.

Please allow me to now hand you over to my colleague Andrew Broomhead, our CFO, who will talk you through the financials.

Slide 7 – Financial Highlights
Spoken By: Andrew Broomhead

For the year of 2006, the Group's TCE earnings were US$344.8 million of which US$248.0 million came from Handysize and US$86.1 million (note) came from the new Handymax business.

After US$23.7 million of gains on disposal of 2 vessels, reported net Profit was US$110.3 million.

Net profit represents a return on average shareholders equity of 36%.

We are proposing to distribute a final dividend of 22.5 HK cents per share giving aggregate dividends of 42.5 HK cents per share for the year.

This represents a payout ratio of 71%.

Slide 8 – Results – Handysize Freight & Charter-hire
Spoken By: Andrew Broomhead

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

In 2006 our handysize revenue days increased 15% to 16,420 days, which reflect second half vessel deliveries of first half commitments.

The increase was offset by a reduction in TCE of 10% to US$15,420 per day, attributable to the softer rates in the 1H06, which averaged US$14,400 per day compared to the stronger daily TCE of US$16,290 in the second half.

Blended daily costs for our owned and chartered Handysize vessels increased by 13%, to US$8,880 per day, reflecting more chartered in vessels

The net effect was a contribution from Handysize vessels of US$107.4 million in 2006.

Slide 9 – Results – Handymax Freight & Charter-hire
Spoken By: Andrew Broomhead

Our Handymax revenue days grew strongly throughout the year to reach 5,050 for 2006 with twice as many in 2H than the 1H due to more vessels being chartered in to the Group.

The average TCE was US$16,330 per day, while blended daily costs amounted to US$17,150 per day.

The Handymax division therefore contributed a loss of US$4.1 million, this includes realised cash losses of US$4.7 million on FFA positions mainly taken in Q1 and locked in during Q2 at a time when freight rates rose stronger than expected.

Note 1: The second half US$1.1m loss can be broken down into US$4.1m FFA realised losses and US$3.0m physical profits.

Slide 10 – Daily Vessel Cost - Handysize
Spoken By: Andrew Broomhead

This slide show the daily costs breakdown of our Handysize fleet, the proportion of chartered in to owned vessel days increased to 25% compared to 19% in 2005.

The blended daily cost can be split between an owned vessel at approximately US$8,480 and a chartered in vessel at approximately US$10,040.

Looking at owned vessel cost.

Opex increased US$240 / 9% mainly due to increasing insurance costs on the higher market value of our vessels.

Depreciation increased US$110 / 5% following delivery of higher cost vessels.

Blended finance costs increased around US$500 / 33%. Firstly due to the full period effect of the sale and lease back in the second half of 2005 of 17 finance lease vessels, with daily finance costs of US$3,410, but

Secondly offset for our other 17 owned vessels by limited redrawn conventional debt giving daily finance costs of only US$600 and so an owned fleet blended daily finance cost of US$2,000.

On the right hand graph are the long term chartered in vessel costs, the main element being operating lease payments which increased to US$9,470 following the chartering of vessels at higher market rates in 2005 and 2006.

Direct overheads for both owned and chartered vessels decreased following the expansion of our fleet without the need to expand staff and offices at the same rate.

Slide 11 – Balance Sheet
Spoken By: Andrew Broomhead

The US$741 million book value of fixed assets includes US$683.5 million for 39 delivered vessels with average age of 6 years , an average carrying value of US$17.5 million each and an average insured value of US$30 million each.

As 31 Dec, the insured value of all vessels with a PB ownership interest was US$1.9bn.

Gross borrowings increased to US$350.5 million of which US$302.0 million relates to the 17 vessels under finance leases, whilst US$48.5 million relates to bank borrowings.

After cash of US$63.2 million, net borrowings were US$287.3 million which as a proportion of fixed assets, reduced to 38% reflecting the prepayment of conventional bank debt from the proceeds of the share placement in November.

The share placement also helped reduce Net borrowings to Shareholders' Equity to 59% from 75%.

At 31 December 2006 the Group had capital commitments of US$251.7 million for 11 Handysize and 1 Handymax vessels.

Slide 12 – Cashflow
Spoken By: Andrew Broomhead

In 2006 we generated operating cashflows of US$148.2 million.

Our investing activities involved the payments of US$286.2 million for 10 vessels acquired and delivered during the period and instalments for another 10 vessels not delivered by December 2006.

In November we raised US$154.3 million through issuing 257 million new shares. This is being used for further expansion.

In order to help finance the acquisitions in 2006, we drew down US$33.6 million of bank borrowings.

After payments for the 2005 final dividend, 2006 interim dividend and other payments this left us with US$63.2 million of cash at the end of December.

Slide 13 – Dividends
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.

For 2006 a final proposed dividend of 22.5 HK cents per share together with the interim dividend of 20 HK cents, represents a payout ratio of 71%.

The distribution of an additional 21% of profits above the minimum payout reflects in part the strong outlook for the dry bulk sector in the coming year.

Slide 14 – The Baltic Exchange Indices
Spoken By: Klaus Nyborg

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.

Volatility has increased.

The handysize index launched officially at the start of 2007 after a trial period since May 2006. On 28 February the Baltic Handysize Spot Index stood at US$20447 per day net.

Slide 15 – Dry Bulk – 1 year Time-charter rate
Spoken By: Klaus Nyborg

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.

Another interesting feature is the narrow trading gap between handymax and panamax rates during 2006.

Slide 16 – PB against the market
Spoken By: Klaus Nyborg

Central to Pacific Basin's model is the careful combination of complementary 'fronthaul' and 'backhaul' routes in order to minimize our vessels' empty – or 'ballast' – time, thereby earning a premium to base contract and market rates. We can do achieve this because of our fleet scale and our tight chartering operation.

During 2006, our IHC Pool achieved an average premium of around US$1800 or 14% to the Clarkson 1-Year Time Charter net rate. Since listing, the average premium has been US$2400 or 17%.

Slide 17 – Strong Growth in Dry-bulk trade
Spoken By: Klaus Nyborg

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. Cement in particular was the surprise demand story of the year, absorbing almost all new deliveries of handymaxes.

Slide 18 – Tonne-miles: Distance Carried is a Crucial Factor
Spoken By: Klaus Nyborg

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 19 – Low Orderbook in Handysize
Spoken By: Klaus Nyborg

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 20 - Ageing World Fleet Points to Scrapping
Spoken By: Klaus Nyborg

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 27 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 21 – Dry Bulk Carrier Sale & Purchase Market
Spoken By: Klaus Nyborg

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

PB invested in 8 second hand handysize vessels, most of them acquired before the S&P market really heated up in Q2.

We sold 2 older vessels as the market began to peak in the latter part of the year, with charterbacks at favourable prices, thereby maintaining low average fleet age and retaining revenue days.

Of course, the good news about high asset prices for owners is that fleet values have soared.

Slide 22 – Earnings Coverage
Spoken By: Richard Hext

We have high earnings visibility for 2007, with 58% of our 20,190 handysize revenue days already covered at around US$17,000 per day and 97% of our 5,040 handymax revenue days covered.

With the current Baltic Handysize spot rate at almost US$20,500 per day net, we can be optimistic about covering the remaining 42% of 2007 at favourable levels. 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, because we made much more use of short term tonnage to cover our growing handymax cargo book, we expect revenue days for 2007 to increase as the year progresses.

We have already made good progress in securing forward cover for our handysize and handymax books in 2008.

Slide 23 – Conclusion and Outlook
Spoken By: Richard Hext

So, it has been another good year for Pacific Basin. We have expanded our fleet and we have continued to achieve a significant premium to market rates.

Based on vessel commitments to date alone, 2007 handysize revenue days are expected to grow 23% in 2007.

We already have 58% of our 2007 handysize days covered at favourable rates and have made a good start on 2008, locking in forward earnings.

We expect to see 'more of the same' in terms of commodities demand from China and other developing economies. There has certainly been no drop in iron ore and coal imports so far this year. This should continue to absorb new deliveries, which we expect to be steady this year, and balanced by an increase in scrapping.

I will quote a well-respected friend of mine as follow: “In the end this is a market not for detailed calculation. That only makes a fool of us all. It is instead, a market for the grand call. If China continues its industrialization at the pace of the last few years and is joined by India and some others, there will be no fundamental malaise until shipyard capacity expands sufficiently to meet, and eventually exceed demand.

In summary, with a healthy market outlook, good earnings visibility and a large fleet of young vessels, we have grounds to look forward to a good 2007 for Pacific Basin.

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