Pacific Basin


# 2011 INTERIM RESULTS

3 August 2011

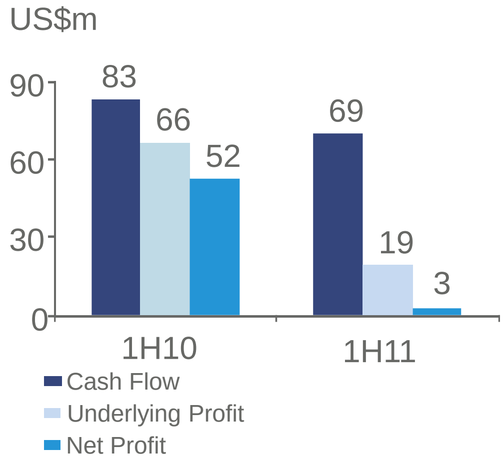
## Pacific Basin Overview

- 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
- >200 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

* As at July 2011

## 2011 Interim Results - Group Highlights

**Revenue and Net Profit**




- **Net Profit:** **US$3m** (1H10: US$52m)
- **Underlying Profit:** **US$19m** (1H10: US$66m)
- **Basic EPS:** **HK$0.01** (1H10: HK$0.21)
- **Annualised ROE:** **0%** (1H10: 7%)
- **Operating cash flow:** **US$69m** (1H10: US$83m)
- **1H11 Dividend per share (HK$): HK$0.05** (1H10: HK$0.05)

- Results were impacted by:
  - US$80m impairment on RoRo investment;
  - US$56m profit on the sale of a non-core asset;
  - US$8m unrealised M2M non-cash net derivative income
- Balance sheet retains substantial cash and deposits US$631m
- Fully funded vessel capital commitments

### 2H2011 view, we expect:

- Dry bulk market to remain lacklustre in rest of this year, seasonal activity uptick in 4Q11
- Unsatisfactory and overall weaker freight market than 2010
- RoRo market to remain weak and challenging for longer

# Pacific Basin Dry Bulk 1H11 Performance

- Handysize/ handymax market got off to a weak start in 2011
  - Demand impacted by weather-related commodity export bottlenecks
  - Excessive newbuilding deliveries
- Dry bulk net profit: US$36m (1H10: US$79m)
  - Handysize: US$43m (1H10: US$70m)
  - Handymax: -US$8m (1H10: US$9m)
  - 14.5m tonnes of cargoes carried (1H10: 15.6m tonnes)
- Purchased 4 and long term chartered 4 dry bulk vessels YTD

***Handysize***

- Outperformed the weak market
- Our 1H11 handysize daily rate US$13,660 was 30% above average spot rate US$10,530

***Handymax***

- Results in 1H11 were less positive due to:
  - Relatively expensive cost of some long term chartered vessels, which have now expired
  - Repositioning some of our ships after heavy flooding in Australia
- We expect improvement in margins when our newbuildings deliver from 2013

***Post-Panamax***

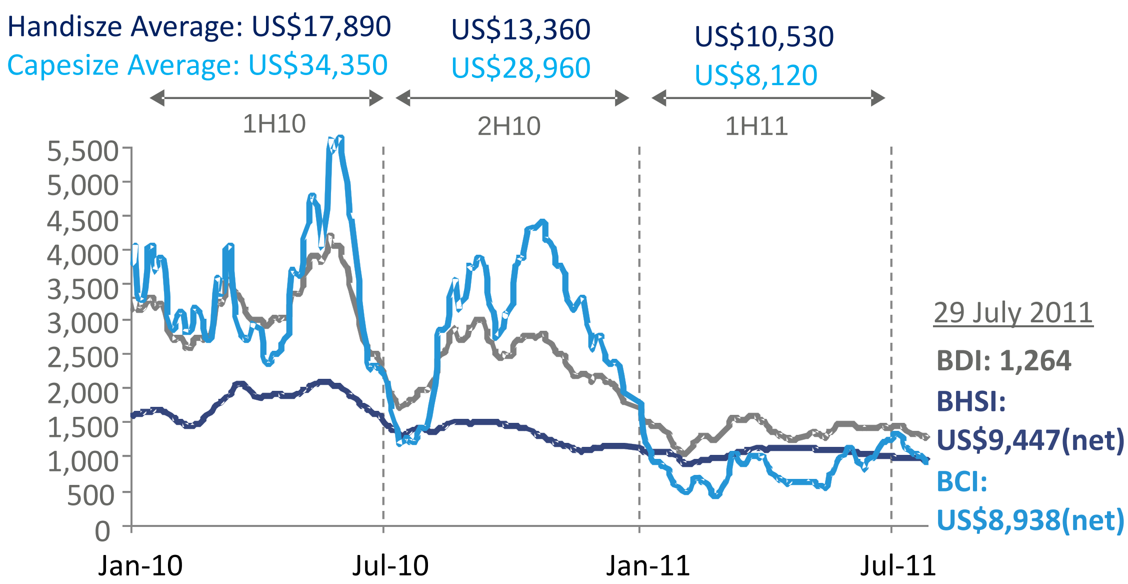
- 1 owned and 1 chartered: both delivered and commenced 15 & 10 year charters

**Strategy:**

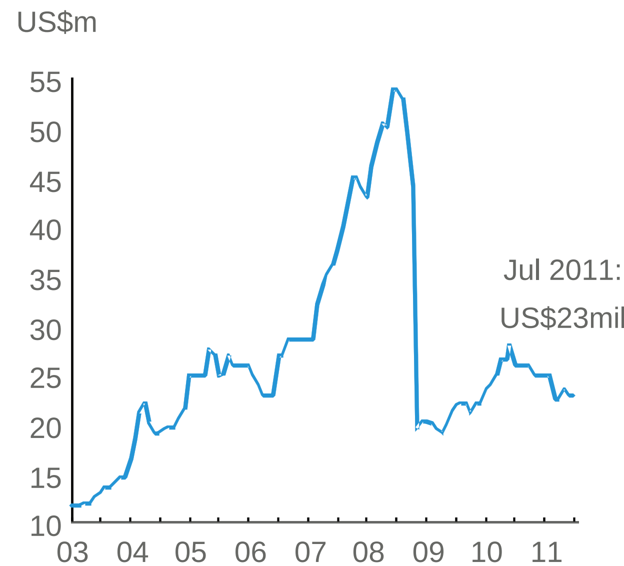
- Maintain a cost-competitive fleet
- Expand our handysize and handymax fleet at a reasonable cost

# Dry Bulk Market Information

**Baltic Dry Index (BDI) vs
BHSI (Handysize) and BCI (Capesize)**



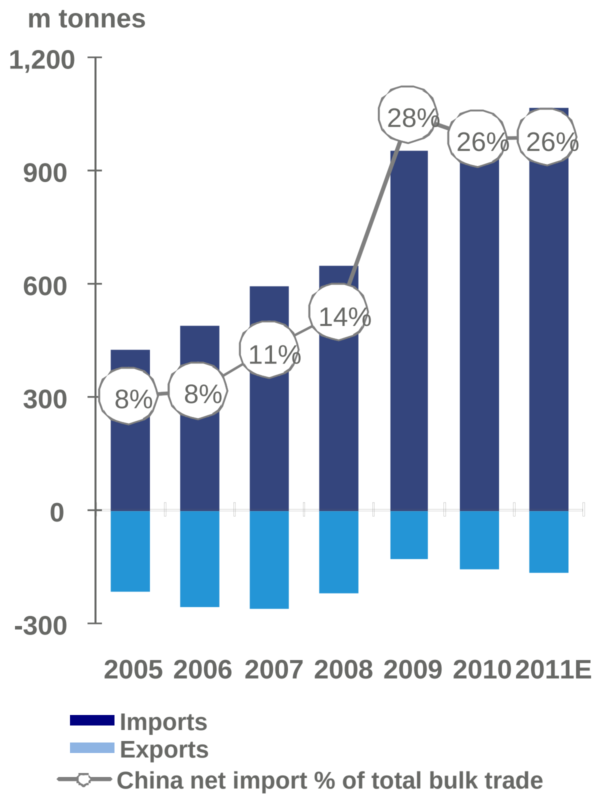

**Secondhand Handysize Vessel Values
(5 year Old 28,000 Dwt)**



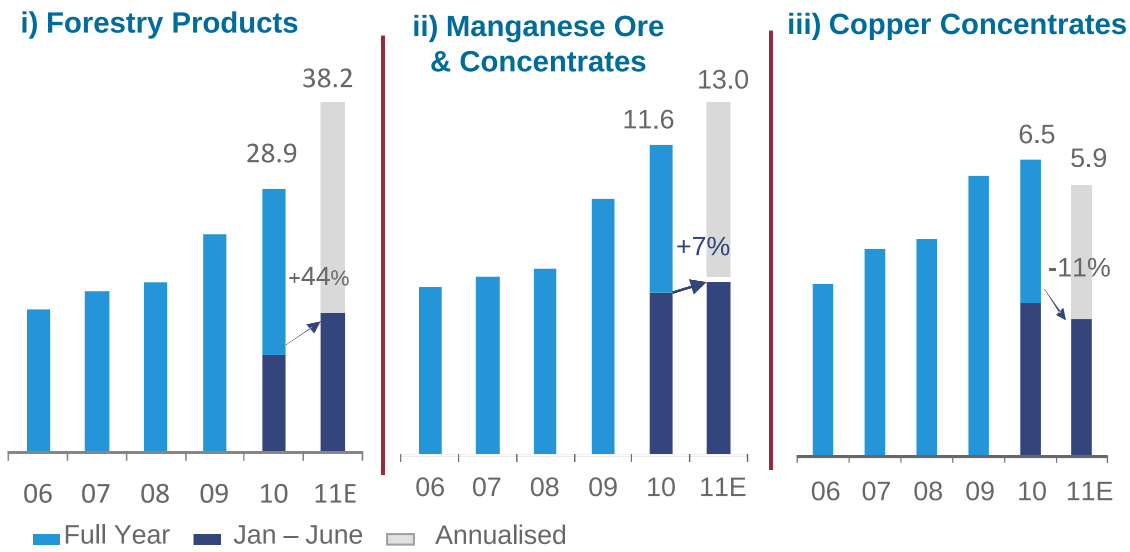

- Smaller ship types outperformed larger bulk carriers for a protracted period

# Chinese Dry Bulk Trade - Minor Bulk

## Chinese Dry Bulk Trade Volume



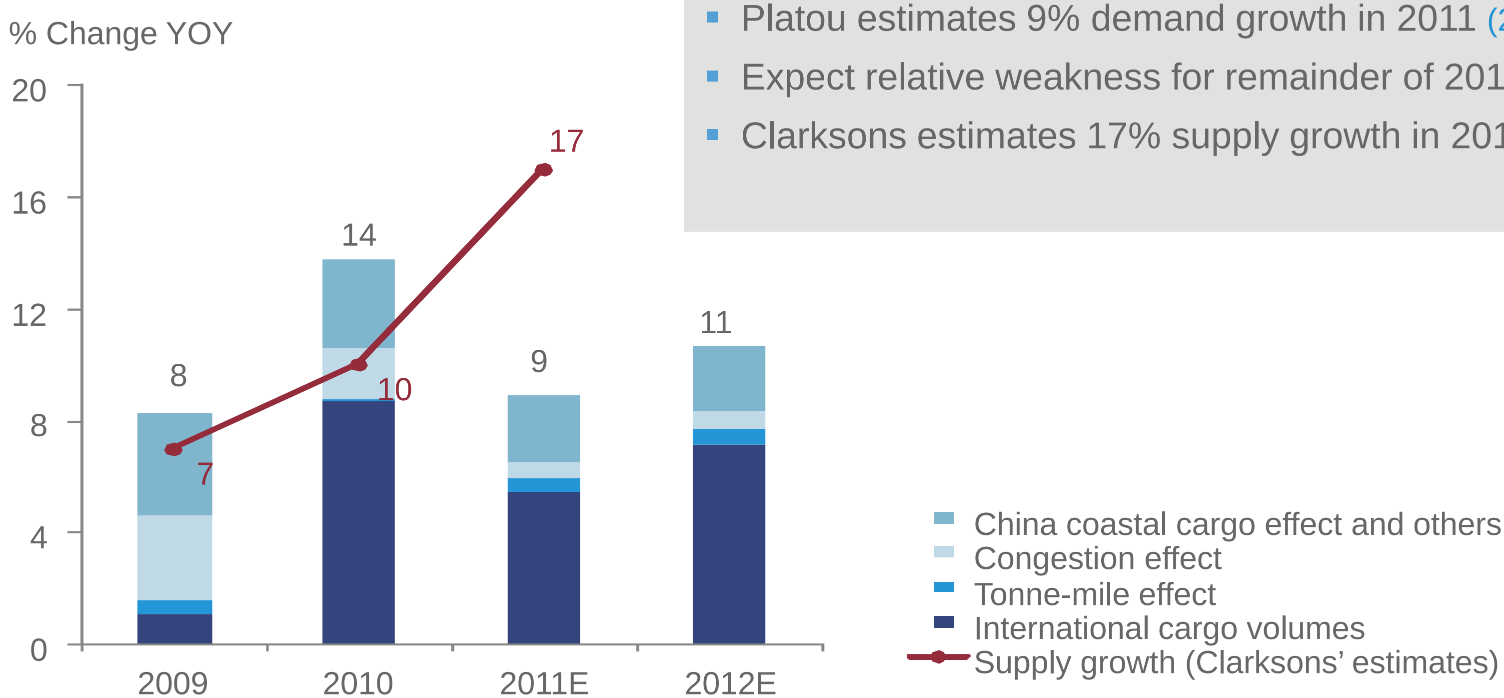

## China Imports (m tonnes):




- Minor bulk and other key commodities increased in 1H11 lending some buoyancy to handysize / handymax rates
  - Import of some ores such as bauxite and nickel grew as much as 70% YOY
  - Increased logs demand from New Zealand and North America
- China tightening policy leading to softer demand for raw materials and other commodities

Source: Bloomberg, Clarksons
Note: Clarksons estimates China will import 38.2m tonnes in 2011
2011 full year annualised figure is based on actual Jan to June / May(logs) figures

# Dry Bulk Demand and Supply




- Platou estimates 9% demand growth in 2011 (2010: 14%)
- Expect relative weakness for remainder of 2011
- Clarksons estimates 17% supply growth in 2011

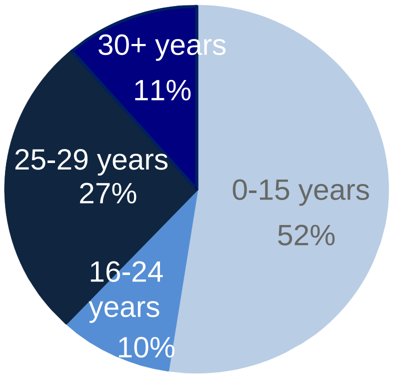
Source: RS Platou Markets, Clarksons

# Dry Bulk Fleet Changes

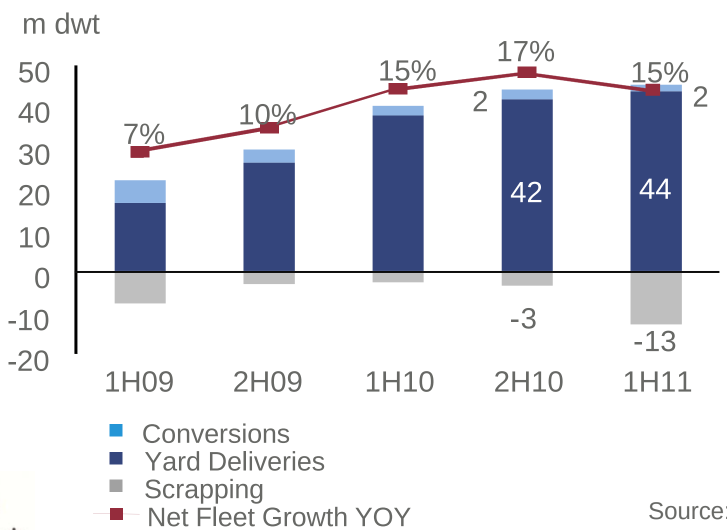
- Dry bulk capacity expanded 15% YOY net driven by 1H11 new capacity delivery of 44m dwt
- Handysize expanded 4% net since 2011
- Approx. 40% delivery shortfall in 1H11 against scheduled orderbook
- 38% of handysize fleet is over 25 years old
- High scrap price supports healthy scrapping

**Handysize Age Profile** (25,000-39,999 dwt)

2,030 vessels (64.5m dwt)




**Dry Bulk Fleet Development**



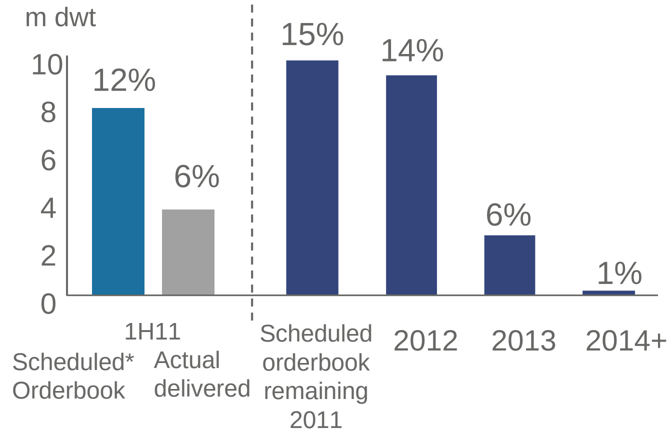

**Dry Bulk Fleet Deliveries 2011**


Source: Clarksons, as at 1 July 2011, Morgan Stanley

# Dry Bulk Orderbook

## Handysize Scheduled Orderbook

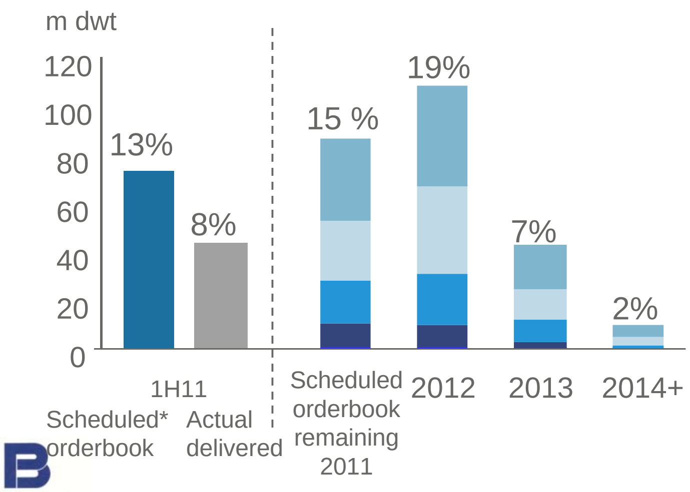
634 vessels (21.7m dwt) - 34%

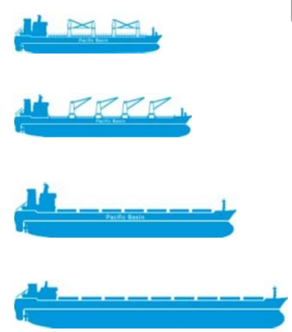



- In 1H11:
  - 73m dwt* new dry bulk capacity scheduled to deliver
  - 40% delivery shortfall
  - Ship owners ordered >60% less newbuilding capacity in 1H11 YOY due to weak market conditions
- We expect 40% slippage in FY 2011, resulting in 15% of global capacity to deliver in 2011
- Less onerous handysize orderbook

## Total Dry Bulk Orderbook

2,954 vessels (247m dwt)



| Total Dry Bulk >10,000 dwt | Orderbook as % of Existing Fleet | Average Age | Over 25 Years |
|---|---|---|---|
| | 43% | | |
| Handysize (25,000-39,999 dwt) | 34% | 16 | 38% |
| Handymax (40,000-64,999 dwt) | 39% | 10 | 17% |
| Panamax (65,000-119,999 dwt) | 59% | 10 | 6% |
| Capesize (120,000+ dwt) | 45% | 9 | 4% |

Source: Clarksons, as at 1 July 2011
*Scheduled orderbook as at 1 Jan 2010 & 1 Jan 2011

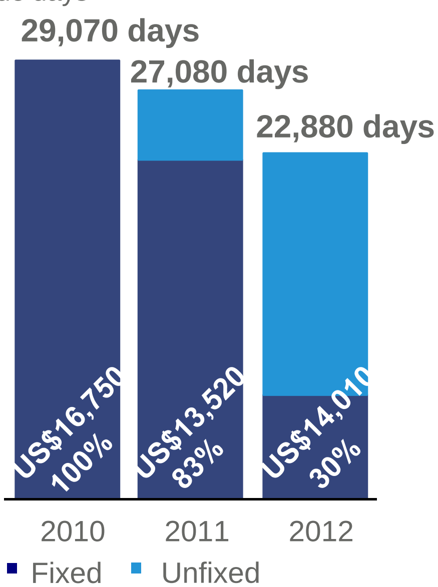
# Pacific Basin Dry Bulk Earnings Coverage

at 25 July 2011

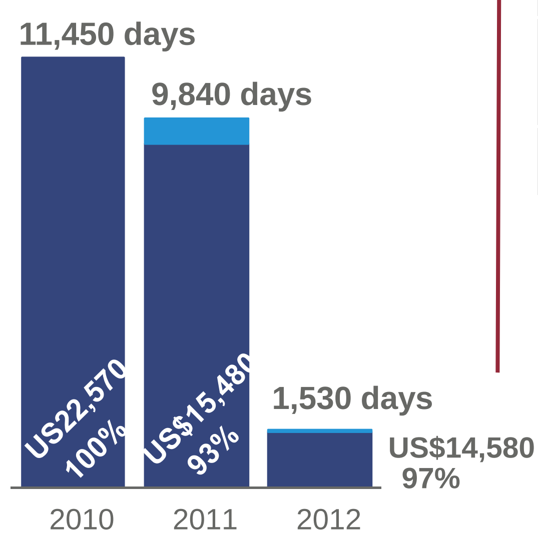
**Combined coverage:**
**2011: 86%**
**2012: 36%**

**Handysize**

Revenue days




**Handymax**




## Pacific Basin Dry Bulk Fleet: 163

at 31 July 2011

| | Owned | | Chartered | | Total |
|---|---|---|---|---|---|
| | on the water | NB | on the water | NB | |
| Handysize | 30 | 7 | 66 | 8 | **111** |
| Handymax | 2 | 6 | 40 | 2 | **50** |
| Post-Panamax | 1 | - | 1 | - | **2** |
| **Total** | **33** | **13** | **107** | **10** | **163** |

- Core fleet: Owned, finance leased, long term operating (>3 years)
  Average Age: 6.8 years old
- Non-core fleet: 17 medium term (1-3years)
  60 short term <1 years

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Note: NB – newbuilding

# 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 newbuiding 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:**

- Seasonal uptick in trade volumes provides potential for improvement in 4Q11
- Expect the dry bulk market to remain generally lacklustre in the rest of 2011 resulting in unsatisfactory, overall weaker freight market this year than in 2010

# PB Energy & Infrastructure Services

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

**1H11 Performance**

- Impacted by FBSL operating loss in Middle East
- Decision to close FBSL in June

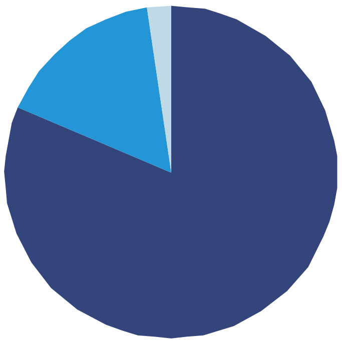
**Offshore and infrastructure support**

- 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
- FBSL closed its operations in June, sold substantially all assets

**Harbour Towage**

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

**Towage Fleet: 43 vessels (as at 15 July 2011)**



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

# PB Energy & Infrastructure Outlook

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- 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

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- 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

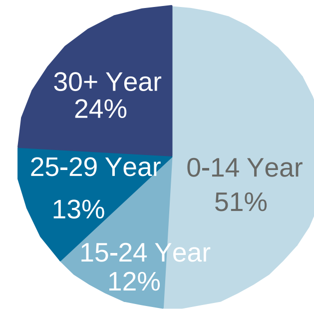
**PB Conclusion:**

- Expect to see continued growth in Australian offshore construction sector in near to medium term

# PB RoRo

- **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**

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




**1H11 Performance:**

- Daily rate: US$21,240; Daily cost: US$22,080
- 4 out of 6 vessels have delivered, now employed on time charters despite challenging market
- Nafta Gulf Bridge service affected by weak customer demand
- Limited prospects for employment of our last 2 RoRos delivering in Aug and Nov 2011
- Continue to work on securing employment as matter of urgency

| Market demand | Market supply |
|---|---|
| ▪ Limited improvement in freight market and insufficient demand for new capacity<br>▪ Increased trade in the core European economy partly offset by continued weakness in some peripheral European countries | ▪ 3% new deliveries in 1H11<br>▪ Scrapping continued but at a lower rate (~3%) in 1H11<br>▪ 12% orderbook remaining ,with deliveries mainly 2011-2012 |

# 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 weak and challenging throughout rest of 2011 and into 2012
- 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:

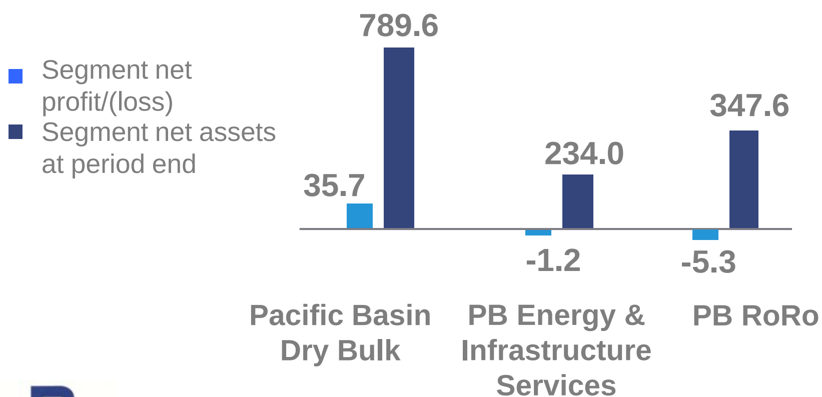
| As at 25 July 2011 | FY2011 | FY2012 |
|---|---|---|
| Revenue days | 1,570 | 2,200 |
| Daily charter rates | US$20,580 | US$28,980 |
| % days covered | 77% | 16% |

Note: Charter rates earned in Euros is translated to US$ at an indicative rate of €1.00 to US$1.43

# 1H11 Financial Highlights

| | 1H11 | 1H10 |
|---|---|---|
| **Segment net profit** | **28.8** | 81.1 |
| ▪ Treasury | **(5.8)** | (11.8) |
| ▪ Non direct G&A | **(4.2)** | (3.7) |
| **Underlying profit** | **18.8** | 65.6 |
| ▪ Unrealised derivative income / (expenses) | **8.4** | (13.7) |
| ▪ Gain from sale of shares in Green Dragon Gas | **55.8** | - |
| ▪ Vessel impairment charges – RoRo | **(80.0)** | - |
| **Profit attributable to shareholders** | **3.0** | 51.9 |

**Segment Net profit and Net Assets**




**Return on net assets**

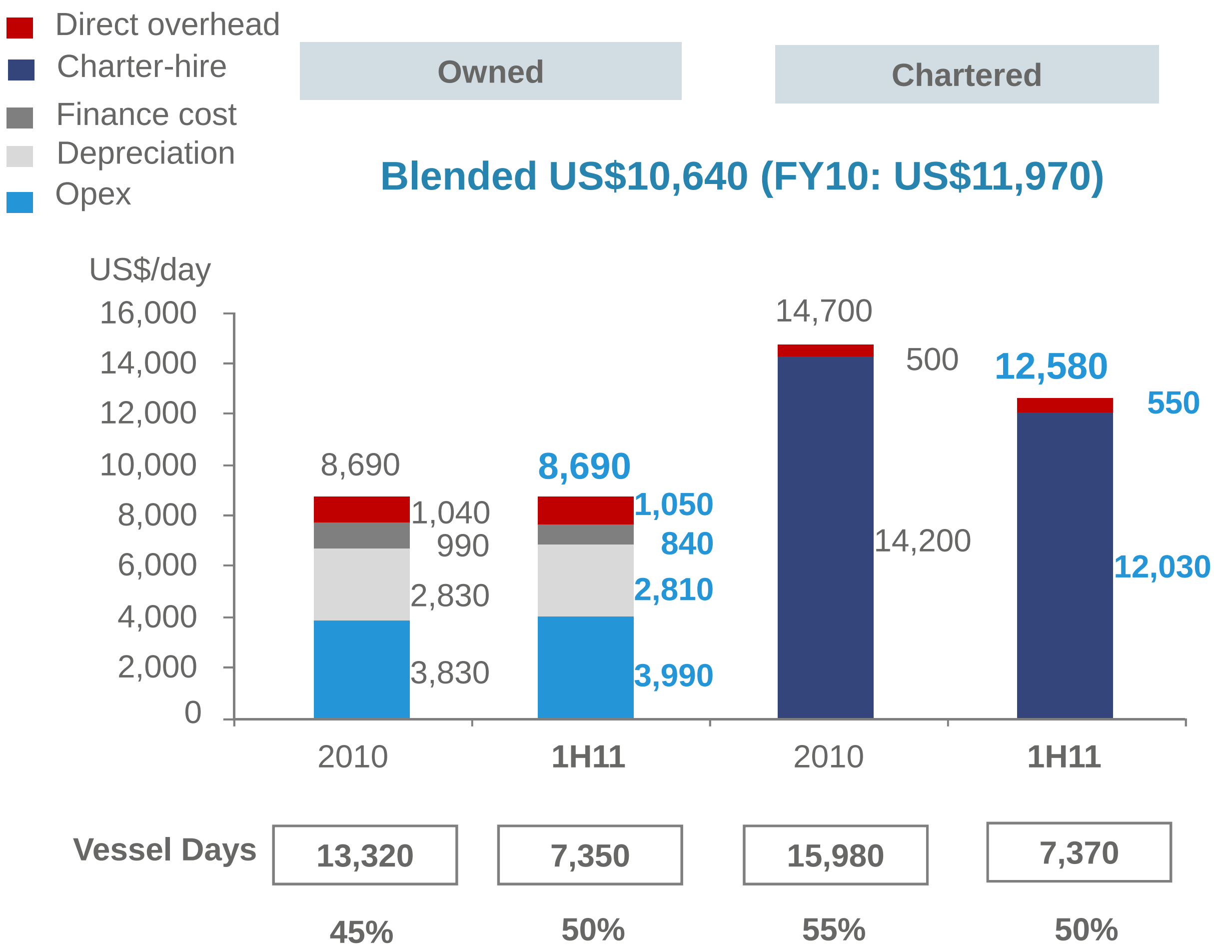
| | |
|---|---|
| Pacific Basin Dry Bulk | 10% |
| PB Energy & Infrastructure Services | -1% |
| PB RoRo | -3% |

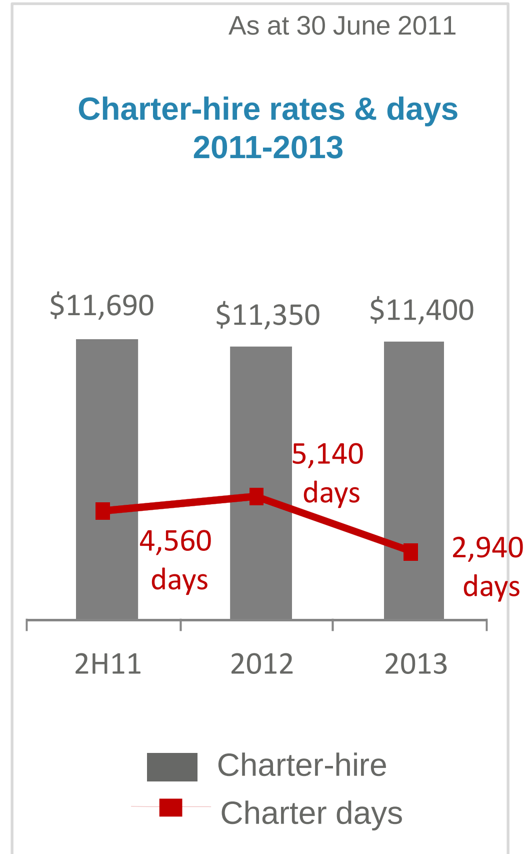
# Pacific Basin Dry Bulk - Handysize

| | | 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

# Daily Vessel Costs - Handysize



## Balance Sheet

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

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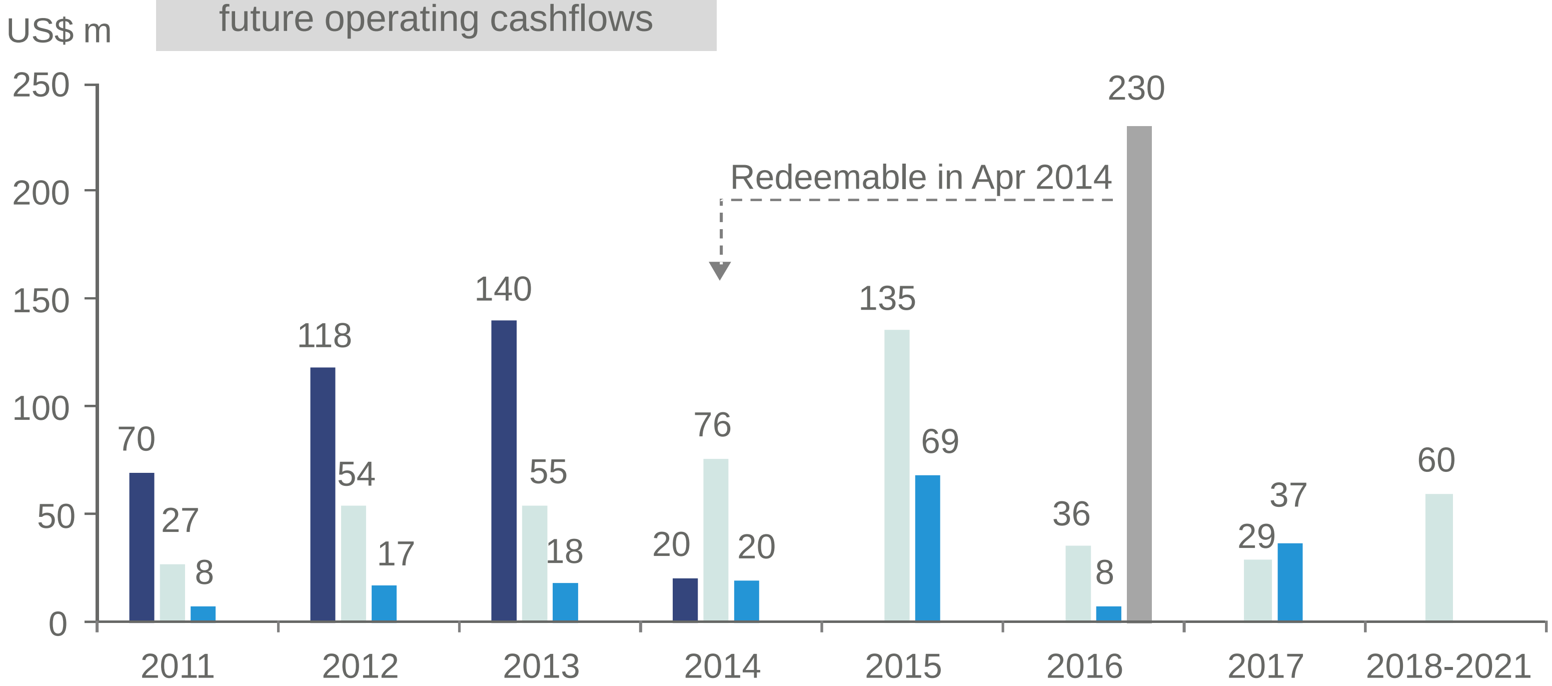
Notes: 30 June 2011 total includes other segments and unallocated

# Borrowing and Capex

As at 30 June 2011

Funded from US$631m cash, new borrowings, and future operating cashflows



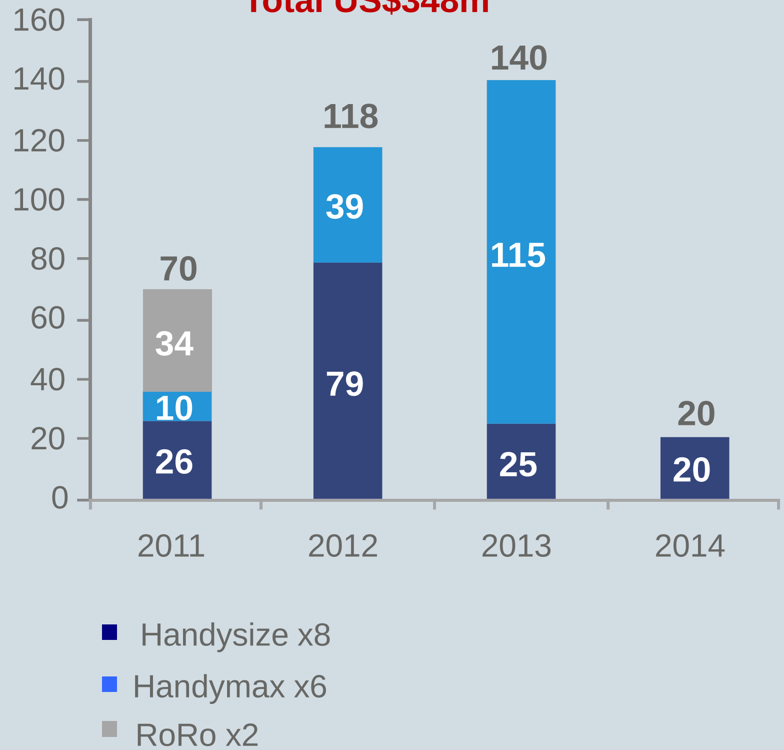

- Vessel capital commitments (US$348m)
- Bank borrowings (gross of loan arrangement fee) (US$472m): 2012-2021
- Finance lease liabilities (US$177m): 2015-2017
- Convertible Bonds (Face value US$230m): 2016, redeemable in Apr 2014

# Capex and Combined Value by Vessel Types

As at 30 June 2011

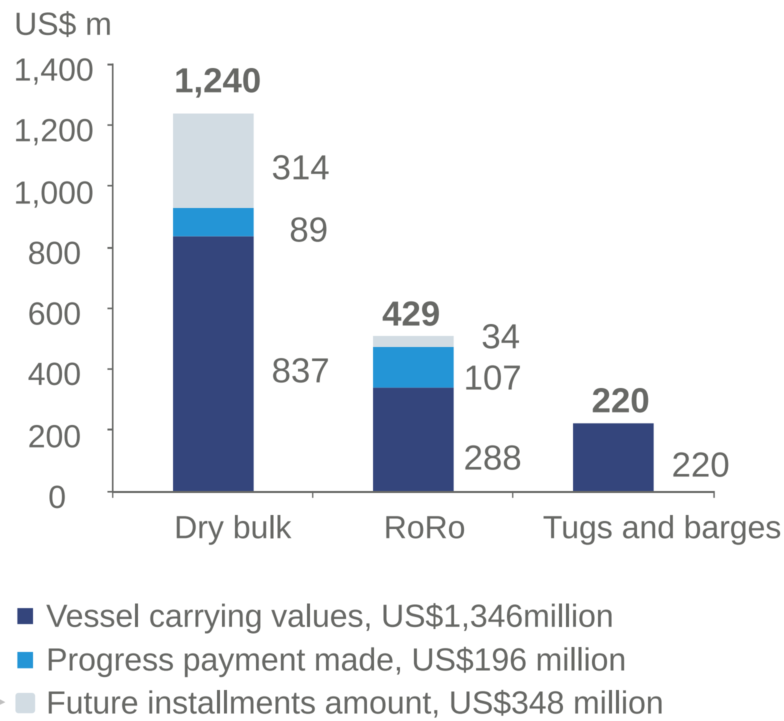
**Vessels Commitments (including authorised commitments)**

**Total US$348m**




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

**Total US$1,890m**




Further commitments expected in Dry Bulk

## Cash Flow

| US$m | 1H11 | 1H10 |
|---|---|---|
| **Operating cash inflows** | **69** | 83 |
| **Investing cash outflows** | **(33)** | (142) |
| ▪ Vessels & other fixed assets related payments | **(111)** | (187) |
| ▪ Jointly controlled entities related receipts and payment | **9** | (13) |
| ▪ Disposal of our remaining holdings in GDG | **81** | - |
| ▪ Change in restricted cash, structured notes & notes receivables | **(19)** | 45 |
| ▪ Others, mainly interest received | **7** | 13 |
| **Financing cash outflows** | **(85)** | (31) |
| ▪ Proceeds from issuance of convertible bonds | **-** | 227 |
| ▪ Repurchase of convertible bonds | **(105)** | (194) |
| ▪ Net drawdown/ (repayment) of borrowings & finance lease | **81** | (5) |
| ▪ Dividends paid | **(41)** | (37) |
| ▪ Others, mainly interest paid | **(20)** | (22) |
| **Cash and bank deposits** | **631** | 970 |

# Outlook

- We expect:
  - Dry bulk to remain lacklustre for rest of 2011
  - 2011 freight market overall weaker than in 2010
  - Generally better supply/demand dynamics in minor bulk segments, but unlikely to measurably boost handysize rates
  - Improved dry bulk supply/demand balance next year due mainly to reduced capacity growth
  - Charter market for RoRo ships to remain weak, biggest challenge for the Group in 2H11
  - 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

# Disclaimer

*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

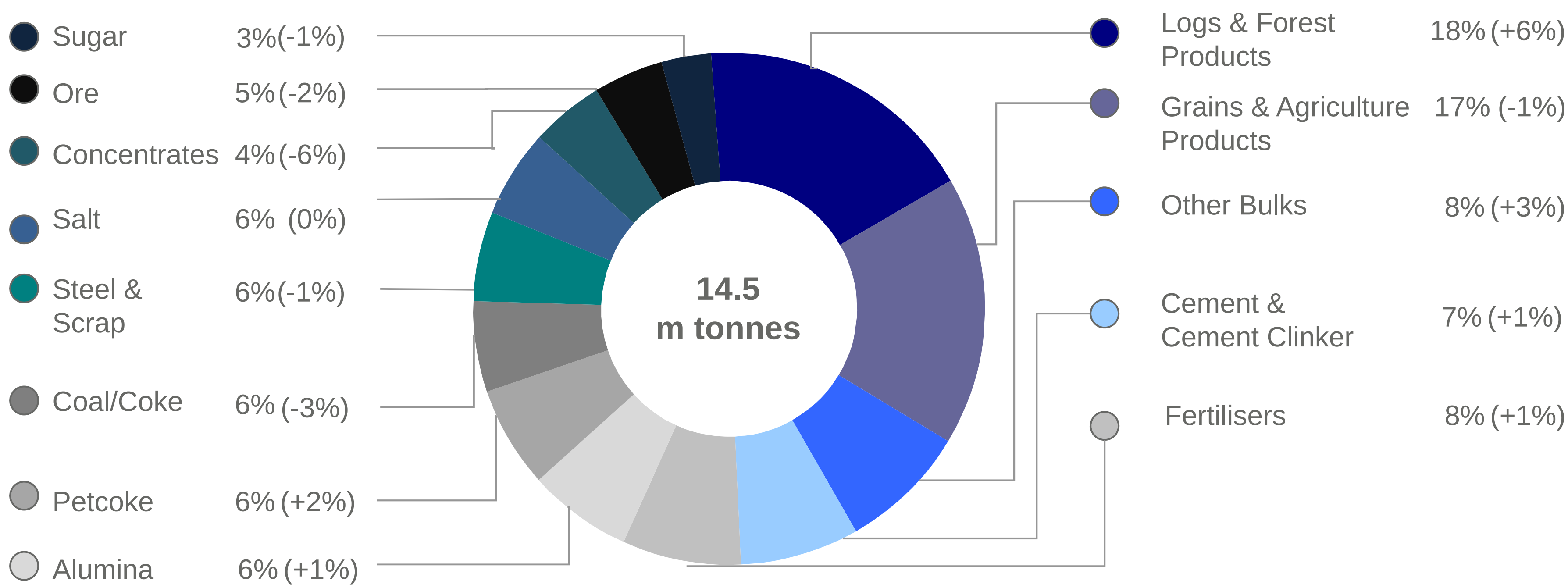
**Unique network of offices**
- Close to our customers and understand their needs
- Local chartering and operations staff support
- Broad access to cargo and contract opportunities
- New office in Stamford

**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

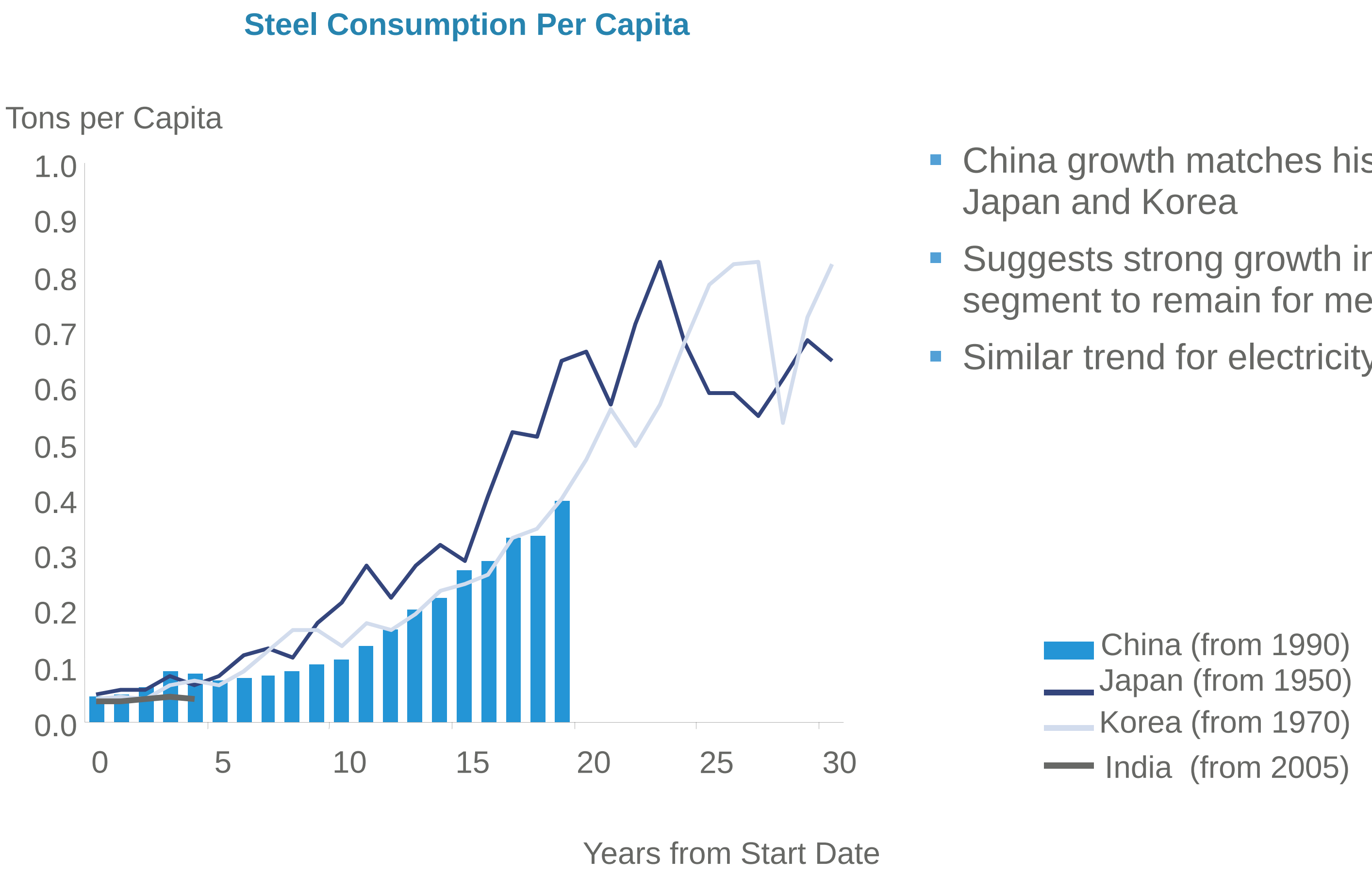
**Pacific Basin Dry Bulk Cargo Volume 1H 2011**




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

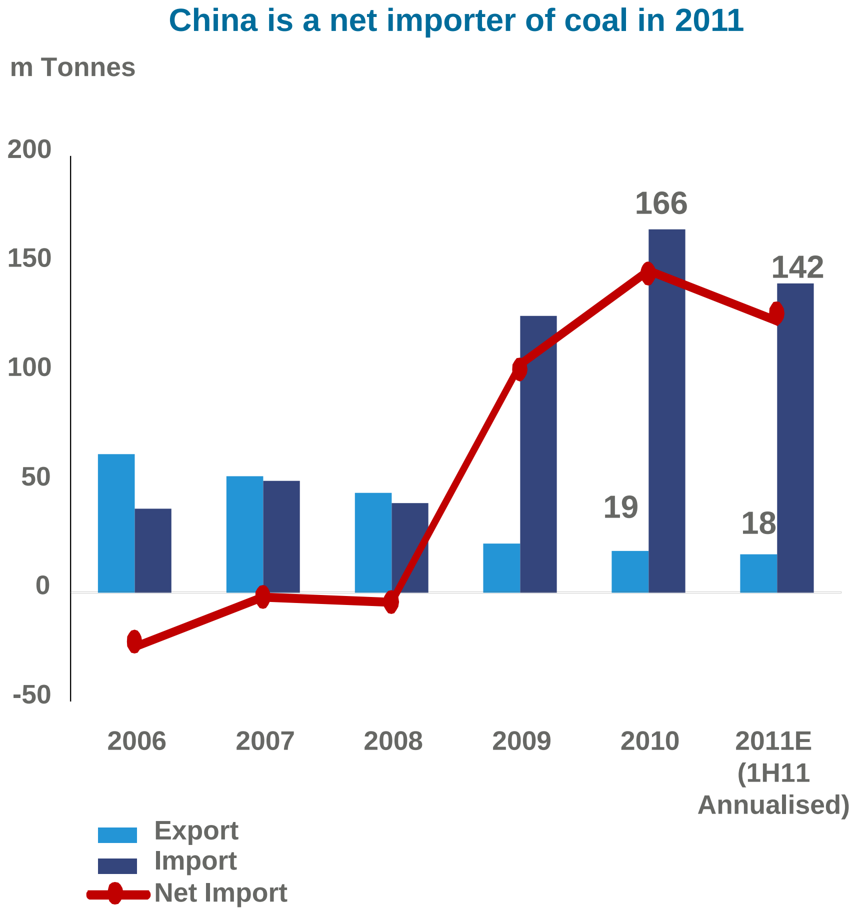
( ) % changes in proportion since 1H10

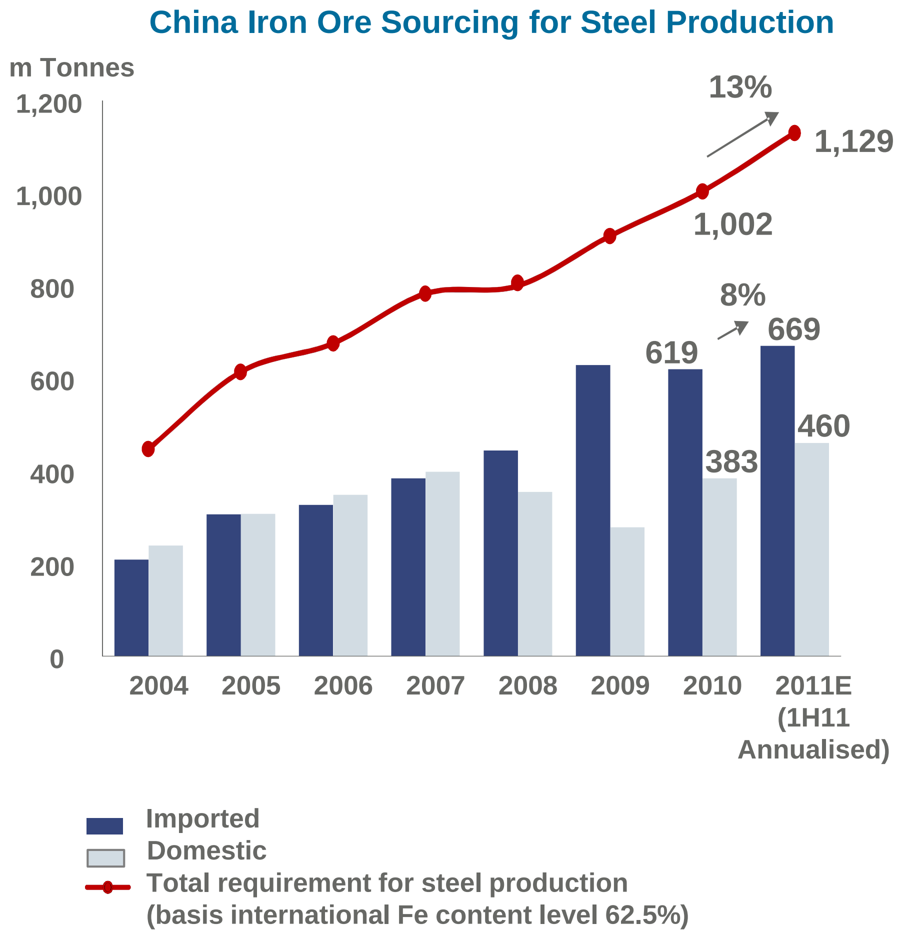
# Appendix: China at late-Industrialisation Stage




- 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

# Appendix: China Iron Ore & Coal Demand




Source: Bloomberg

# 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: Impact of Financial Instruments

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

- 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$7.79 (Current conversion price: HK$ 7.44 with effect from 16 April 2010) |
| Conversion Condition | Before 11 Jan 2011: No Conversion is allowed<br>12 Jan 2011 – 11 Jan 2014: Share price for 5 consecutive days > 120% conversion price<br>12 Jan 2014 – 5 Apr 2016: Share price > conversion price |
| 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 | ▪ Shareholders approval at SGM to approve the issue of the New Convertible Bonds and the specific mandate to issue associated shares.<br>▪ 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 |

Conversion/redemption Timeline