Pacific Basin Shipping Limited

Press Release

Pacific Basin Announces 2011 Interim Results

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Tough market conditions for dry bulk and RoRo shipping led to disappointing results
Pacific Basin Dry Bulk performed well compared to market

Possibility of some seasonal improvement in the final quarter
Dry bulk market in 2011 expected to be unsatisfactory and weaker overall than 2010

Mr. Klaus Nyborg, CEO of Pacific Basin, said: "This has been a tough half-year for the dry bulk and RoRo sectors but, under the circumstances, we are reasonably satisfied with the results of most of our activities. However, the slow recovery in the RoRo charter market has been particularly disappointing, leading to an unflattering reassessment of the prospects for RoRos and our RoRo business. Painful as this is, we are encouraged by the prospects for a stronger dry bulk market and still anticipate much better times for RoRos further down the line."

Hong Kong, 3 August 2011 – Pacific Basin Shipping Limited ("Pacific Basin" or the "Company"; SEHK: 2343), one of the world's leading dry bulk shipping companies, today announced the unaudited results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2011.

Highlights

	Six months ended 30 June	
US$ million	**2011**	2010
Revenue	**610.2**	616.5
Underlying Profit	**18.8**	65.6
Profit Attributable to Shareholders	**3.0**	51.9
Basic Earnings per share (HK cents)	**1**	21
Dividend per share (HK cents)	**5**	5

Group

- **Group profit was US$3 million** (2010: US$52 million) in a lacklustre market environment in the first half of 2011
- **Results were impacted** by i) an US$80 million impairment of our RoRo investment, ii) a US$56 million profit on the sale of a non-core asset, and iii) US$8 million unrealised mark-to-market non-cash net derivative income
- **Underlying profit was US$19 million** (2010: US$66 million)
- **Operating cash flow remained strong at US$69 million** (2010: US$83 million)
- **Balance sheet retains substantial cash and deposits of US$631 million** with net borrowings of US$214 million

- **Fully funded vessel capital commitments** of US$285 million in dry bulk vessels and US$34 million in RoRo vessels
- **Basic earnings per share were HK$0.01** (2010: HK$0.21)
- **Interim dividend of HK 5 cents per share** (2010: HK 5 cents)

Fleet

- **Contract cover in place for 83% of our contracted 27,080 handysize revenue days in 2011 at US$13,520 per day net** (47% of 22,950 days at US$13,340 as at 17 February 2011)
- **Purchased 4 and long term chartered another 4 dry bulk vessels** year to date
- **Fleet now numbers 212 vessels** (including newbuildings) comprising 163 dry bulk ships, 42 tugs and barges, 1 bunker tanker and 6 RoRos

Outlook

- **We expect dry bulk to remain lacklustre in the rest of the year**, with near term weakness giving way to a seasonal uptick in activity in the fourth quarter, resulting in an unsatisfactory and overall weaker freight market this year than in 2010
- **Our dry bulk core fleet remains cost competitive** and, from end 2012 onwards, will benefit from 23 newbuildings on order
- **Positive outlook for energy and infrastructure services** due to continued improvement in the Australian offshore and harbour towage markets and the closure of FBSL in June 2011
- **Charter market for RoRo ships is expected to remain weak and challenging for longer** resulting in increased losses through 2012 for PB RoRo
- **We anticipate an improved dry bulk supply/demand balance next year due mainly to reduced capacity growth**, although such improvement may be hindered by a potentially weaker global economy
- **Continuing pressure on ship values in the meantime are expected to generate further opportunities** to acquire modern dry bulk ships at reasonable cost
- **Our strategic goals remain unchanged** as we seek to expand further our dry bulk fleet

Commentary

In this lacklustre market environment, Pacific Basin's unaudited net profit for the six months ended 30 June 2011 was US$3 million (2010: US$52 million) with an underlying profit of US$19 million (2010: US$66 million).

Our results for the period were impacted by:

1. a 41% year on year drop in average handysize market spot rates in the period driving a 19% decrease in our average handysize daily earnings to US$13,660 per day (2010: US$16,840) and operating cash flow to US$69 million (2010: US$83 million);
2. a significant US$80 million non-cash impairment of our RoRo investment; and
3. a partially offsetting net profit of US$56 million on the sale of a non-core asset and US$8 million unrealised mark-to-market non-cash net derivative income mainly due to increased bunker prices.

The Board has declared an interim dividend of HK 5 cents per share and, for the full year, remains committed to our existing dividend policy of paying out a minimum of 50% of profits excluding vessel disposal gains.

Pacific Basin Dry Bulk

The market for bulk carriers got off to a weak start in 2011 with demand and supply respectively impacted by weather-related commodity export bottlenecks and excessive newbuilding deliveries. Despite some recovery in the second quarter on strong Chinese imports, the market has remained largely flat and uninspiring over the first half of the year. Even so, our dry bulk business has performed comparatively well due partly to the relative strength of our cargo book coming into the year and record high Chinese demand for a number of minor bulks and other key commodities.

At US$13,660 per day net, our handysize daily earnings in the first half of the year compared favourably to the spot market (US$10,530), and were positively impacted by:

- the relative strength of our cargo book coming into the period
- the scale and quality of our further expanding fleet, averaging 116 ships on the water during the period
- the strength and quality of our customers and our relationships with them
- our concerted pursuit of a range of cost saving and efficiency initiatives
- healthy minor bulk demand supporting more buoyant handysize spot earnings relative to other dry bulk segments

Our handymax results were less positive due to some relatively expensive cost of some vessels (which completed their charters to us during the period), heavy flooding in one of our key markets in Australia leading to force majeure events and cargo rescheduling, and our decision to bear the cost of repositioning a number of our vessels into more favourable locations. We anticipate we will be less affected by these factors in the second half of this year, and should see improved handymax margins in the future as we grow our core fleet of handymax ships delivering from 2013 onwards and as we adopt the same successful business model as we already have in handysize.

We have covered 86% of our combined dry bulk ship revenue days in 2011, and we currently expect the majority of our uncovered 2011 revenue days will generate revenue from the spot market while we continue to build our forward cargo book for 2012 and beyond. Our handysize and handymax coverage and average daily rates as at 25 July 2011 are summarised as follows:

	Year 2011		Year 2012	
	Handysize	Handymax	Handysize	Handymax
Revenue Days	27,080	9,840	22,880	1,530
TCE rates (US$)	13,520	15,480	14,010	14,580
Cover	83%	93%	30%	97%
Combined cover	86%		36%	

PB Energy & Infrastructure Services

Our Australasia-focus towage business has experienced a turning point having achieved increased rates, activity and market share during the period. However, our energy and infrastructure services division as a whole generated disappointing results due to losses of FBSL, our Middle East infrastructure business which, after successfully completing the Northern Project and in view of severely limited prospects for profitable new projects, was operationally closed in June 2011.

PB RoRo

The European-centric RoRo freight market has shown limited improvement in the year to date due to insufficient demand at a time of continued heavy influx of newbuilding deliveries. Four of our large freight RoRos have delivered and are for now employed on time charters albeit at generally disappointing rates reflecting the weak market. Two are employed in the Nafta Gulf Bridge RoRo service (in the US Gulf) in which Pacific Basin holds a minority shareholding. While the Nafta Gulf Bridge service 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.

We currently see limited prospects for employment of our last two RoRo ships delivering later this year and for a breakthrough in cargo support that our Nafta Gulf Bridge joint venture urgently needs. These immediate challenges mean we now expect PB RoRo to be loss-making this year and next, leading us to reassess the prospects for the RoRo sector resulting in what we now see as a much weaker outlook for the RoRo charter market and consequently our RoRo business. This conclusion has resulted in the above-mentioned impairment charge of US$80 million to our Group results.

Disposal of Non-Core Assets

Our readiness to dispose of certain mainly non-core assets resulted in the profitable sale of our entire remaining holding in Green Dragon Gas Limited in April generating gross proceeds of US$81 million and a net gain of US$56 million. Aggregated with shares we sold in December 2010, our disposals of Green Dragon Gas shares have generated a combined net gain of US$72 million. We are considering opportunities for further divestment of non-core businesses.

Fleet Development

As at 31 July 2011, the Group’s fleet numbered 212 vessels (including newbuildings) comprising 163 dry bulk ships, 42 tugs and barges, one bunker tanker and six RoRos. We still await 23 bulk carriers delivering between 2012 and 2014, and two RoRos delivering later this year.

Outlook

We expect the dry bulk market to remain generally lacklustre in the rest of this year, and for 2011 to be weaker overall than 2010. Our view reflects the continued influx of newbuilding deliveries and the impact on demand of a hesitant global recovery and mildly reduced though still healthy economic growth in China. Generally better supply and demand dynamics in our minor bulk segments are unlikely to measurably boost handysize rates, and 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 for us to further expand our fleet 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, making use of the substantial buying power remaining on our balance sheet.

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<u>About Pacific Basin</u>

Pacific Basin Shipping Limited (www.pacificbasin.com) is one of the world's leading owners and operators of modern handysize and handymax dry bulk vessels and a global provider of diversified shipping services. The Company is listed and headquartered in Hong Kong, and operates in three main maritime segments under the banners of Pacific Basin Dry Bulk, PB Energy & Infrastructure Services, and PB RoRo. Our fleet (including newbuildings on order) comprises over 200 vessels directly servicing blue chip industrial customers. With approximately 2,000 seafarers and 380 shore-based staff in 22 offices in key locations around the world, Pacific Basin provides a comprehensive quality service to a wide range of customers.

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Unaudited Condensed Consolidated Income Statement

	Six months ended 30 June	
	2011	2010
	US$'000	*US$'000*
Revenue	**610,159**	616,486
Direct costs	**(558,433)**	(536,811)
Gross profit	**51,726**	79,675
General and administrative expenses	**(4,204)**	(10,544)
Other income and gains	**63,254**	20,856
Other expenses	**(85,443)**	(28,022)
Finance costs, net	**(15,256)**	(14,494)
Share of profits less losses of jointly controlled entities	**(3,404)**	6,417
Share of profits less losses of associates	**(4,150)**	73
Profit before taxation	**2,523**	53,961
Taxation	**428**	(2,068)
Profit attributable to shareholders	**2,951**	51,893
Dividends	**12,433**	12,422
Earnings per share for profit attributable to shareholders		
Basic	**US 0.15 cents**	US 2.69 cents
Diluted	**US 0.15 cents**	US 2.69 cents

Unaudited Condensed Consolidated Balance Sheet

	30 June 2011	31 December 2010
	US$'000	*US$'000*
Non-current assets		
Property, plant and equipment	**1,548,476**	1,518,632
Investment properties	**2,689**	2,664
Land use rights	**3,834**	3,815
Goodwill	**25,256**	25,256
Interests in jointly controlled entities	**43,439**	56,125
Investments in associates	**3,598**	4,098
Available-for-sale financial assets	**18,779**	74,476
Derivative assets	**2,852**	1,672
Trade and other receivables	**6,011**	6,792
Restricted bank deposits	**6,418**	10,280
	1,661,352	1,703,810
Current assets		
Inventories	**65,264**	39,911
Derivative assets	**12,848**	7,066
Structured notes	**45,544**	-
Trade and other receivables	**115,131**	111,444
Restricted bank deposits	**5,636**	3,421
Cash and deposits	**618,455**	689,736
	862,878	851,578
Current liabilities		
Derivative liabilities	**2,994**	3,972
Trade and other payables	**148,229**	127,248
Current portion of long term borrowings	**69,290**	165,696
Taxation payable	**2,280**	3,059
Provision for onerous contracts	**-**	2,031
	222,793	302,006
Net current assets	**640,085**	549,572
Total assets less current liabilities	**2,301,437**	2,253,382
Non-current liabilities		
Derivative liabilities	**16,090**	14,721
Long term borrowings	**775,645**	693,770
	791,735	708,491
Net assets	**1,509,702**	1,544,891
Equity		
Capital and reserves attributable to shareholders		
Share capital	**193,644**	193,164
Retained profits	**691,848**	720,809
Other reserves	**624,210**	630,918
Total equity	**1,509,702**	1,544,891