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Pacific Ethanol, Inc.

NASDAQ: PEIX

# Fourth Quarter & Year End 2010 Earnings Call

March 29, 2011



Pacific Ethanol, Inc.

## Cautionary Statements

With the exception of historical information, the matters discussed in this presentation including, without limitation: the ability of Pacific Ethanol to continue as the leading West Coast marketer and producer of low-carbon renewable fuels; expectations concerning future growth, market share, margins, operational efficiencies, yields and profitability, as well as new technologies, business opportunities and new products and their effects, and ethanol blend economics; projections concerning the relative use of conventional and advanced biofuels; the ability of Pacific Ethanol to resume production at the idle California plant, which is at the discretion of the third-party plant owner; expected demand growth for low-carbon ethanol; the ability of the California plants to continue to qualify and ultimately receive payments under the California Ethanol Producer Incentive Program (“CEPIP”); the ability of the state of California to fund CEPIP program payments given California’s challenging fiscal environment; and the price of ethanol relative to the price of gasoline are forward-looking statements and considerations that involve a number of risks and uncertainties. The actual future results of Pacific Ethanol could differ from those statements. Pacific Ethanol refers you to the “Risk Factors” section contained in its Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on January 27, 2011.



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## 2010 Summary

**Reestablished production capacity, continued growth in marketing & strengthened the balance sheet while preserving equity value and establishing a strong financial base from which to grow**

### **Improved Financial Performance for the 3 & 12 Mos. Ended Dec. 31, 2010**

Net sales increased 4% for the year & 53% for the quarter  
Total ethanol gallons sold increased 57% for the year & 50% for the fourth quarter

### **Restarted Ethanol Production Facilities**

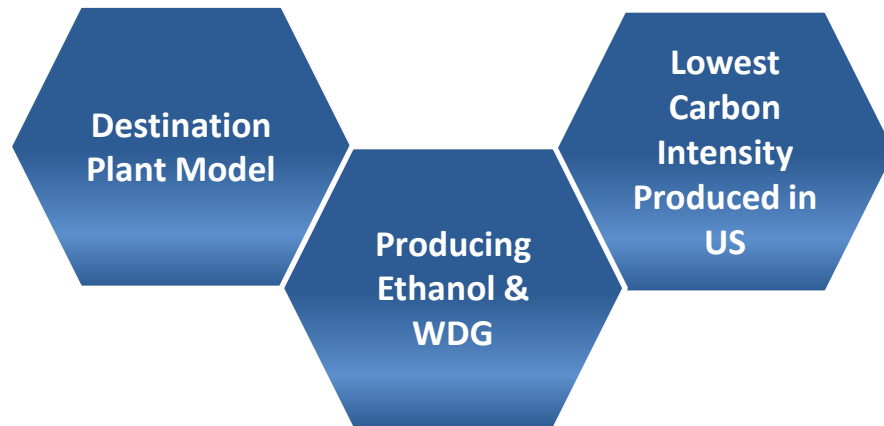
Magic Valley January 2010  
Stockton December 2010



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# Production

**Restarted Stockton Ethanol Production Facility in December 2010**



*Benefitting from the California Low Carbon Fuel Standard & CEIP*

*Goal to resume operations to an annual rate of 200 million gallons at all four Pacific ethanol Plants*





# Marketing

## Kinergy

- 🌱 Growing market share in an expanding market
- 🌱 Favorable ethanol blend economics
- 🌱 Low-carbon fuel standards
- 🌱 Differentiated marketing & distribution

## Pacific Ag Products

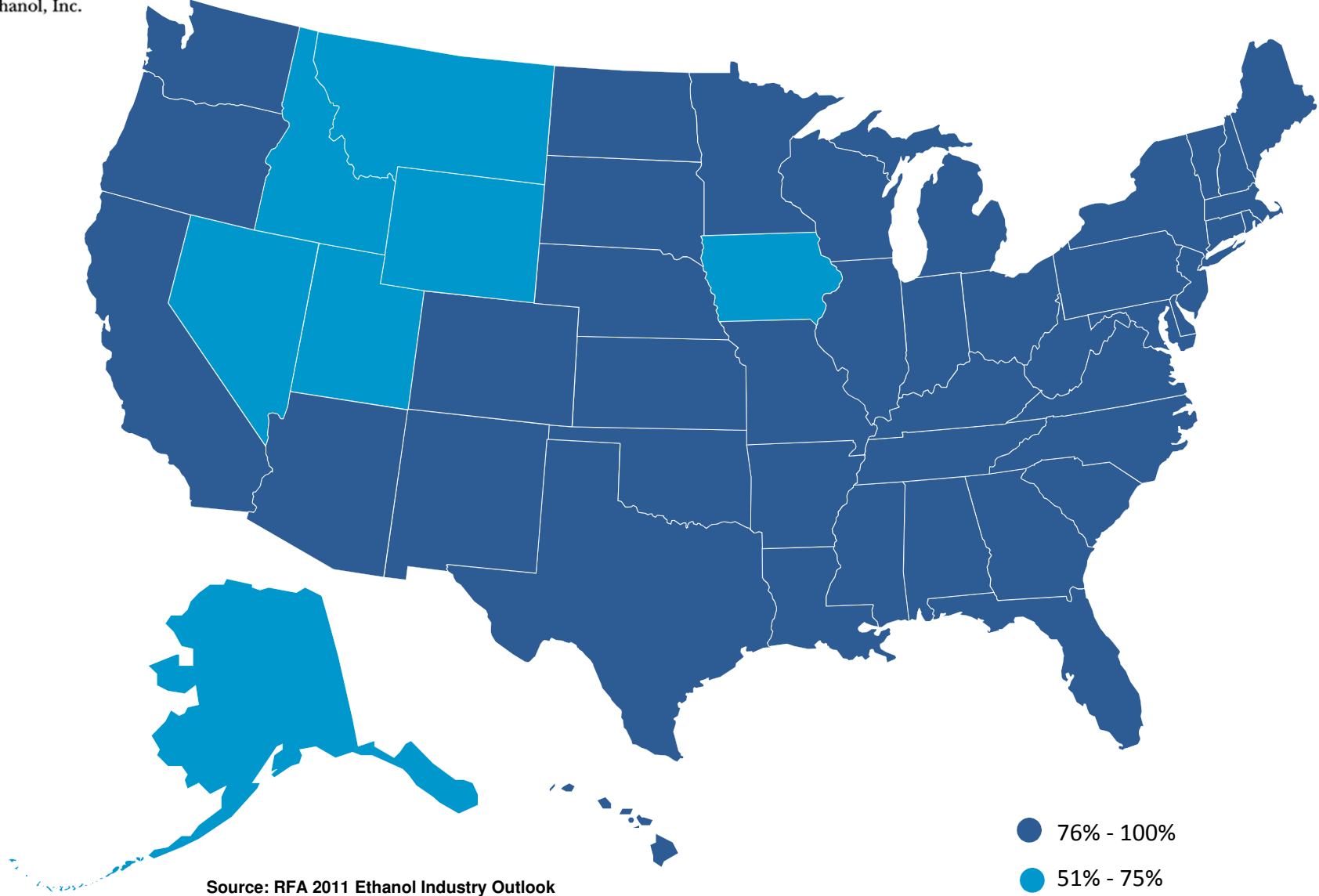
- 🌱 Value of WDG
- 🌱 Additional service & logistics opportunities
- 🌱 Marketing WDG from the recently restarted Stockton plant



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# Market Penetration By State

(10% Ethanol Blends as Share of State Gasoline Sales)



Source: RFA 2011 Ethanol Industry Outlook



# Asset Management

## Operating Focus

- ④ Optimize performance of the individual production plants
- ④ Attain better yields, reduce costs and improve efficiencies
- ④ Diversify incremental revenue sources
- ④ Improve profitability

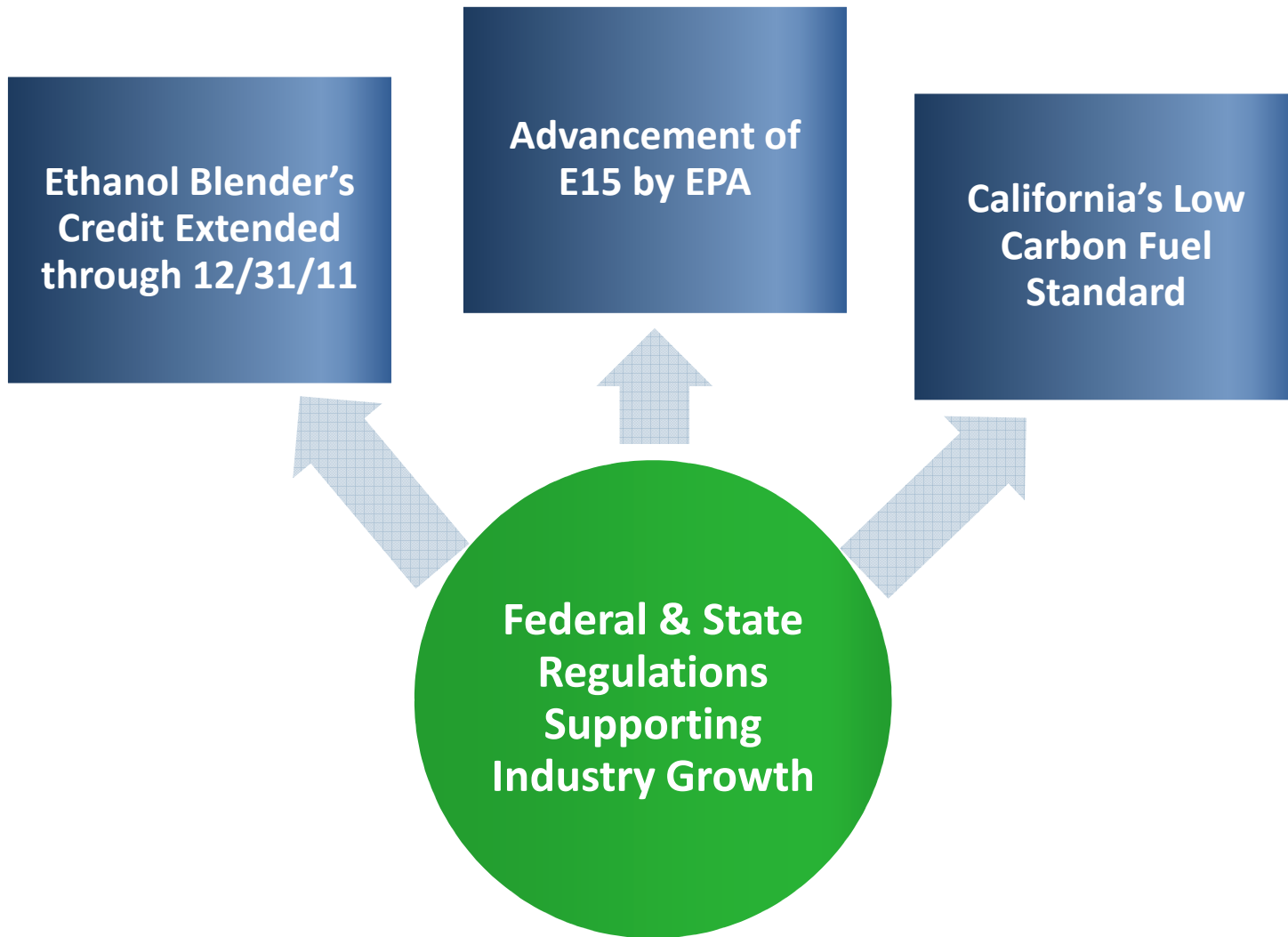
## Growth Opportunities

- ④ Multi-year focus on advanced biofuels; introducing alternative feedstocks to existing plants
- ④ Opportunities to provide management services to third-party ethanol production plants in the Western U.S.



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## Regulatory Overview





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## Ethanol = Low-Carbon Fuel

### California is First in the Nation to Regulate CO2

- Ground breaking regulation requires lower carbon fuels such as ethanol
- Refiners must reduce by 10% the carbon intensity in their fuels by 2020
- Biofuels will play a major role as cost-effective compliance option for refiners
- California regulation recognizes PEI's plants as the lowest carbon ethanol produced in the U.S.



# Financial Reporting

## Notes on Accounting Methodology Changes

### Pacific Ethanol Plants

- Financial statements include the results of the Pacific Ethanol Plants for all periods except for the quarter ended September 30, 2010, when the company had no ownership interest in the plants
- On 10/6/10, the company purchased a 20% ownership interest in the Pacific Ethanol Plants & resumed consolidating their results in Q4'10

### Front Range Energy

- Effective 1/1/10 Front Range results were deconsolidated
  - Quarter and year ended December 31, 2009 include Front Range results
  - Quarter and year ended December 31, 2010 exclude Front Range results
- On 10/6/10 ownership interest in Front Range was sold for \$18.5 million in cash



## Improving Financial Results

|                               | <u>For the 3 mos. ended</u> |              | <u>For the 12 mos. ended</u> |              |
|-------------------------------|-----------------------------|--------------|------------------------------|--------------|
| <i>(thousands, unaudited)</i> | Dec. 31, '10                | Dec. 31, '09 | Dec. 31, '10                 | Dec. 31, '09 |
| Net sales                     | \$ 134,245                  | \$ 87,875    | \$ 328,332                   | \$ 316,560   |
| Gross profit (loss)           | \$ 985                      | \$ 1,391     | \$ (811)                     | \$ (22,047)  |
| SG&A                          | \$ 3,891                    | \$ 4,315     | \$ 12,956                    | \$ 21,458    |
| Operating loss                | \$ (2,906)                  | \$ (253,112) | \$ (13,767)                  | \$ (295,893) |
| Net inc. (loss) avail. to CS* | \$ (12,148)                 | \$ (245,637) | \$ 71,045                    | \$ (311,355) |
| Adjusted EBITDA#              | \$ 2,163                    | \$ 966       | \$ (10,142)                  | \$ (24,085)  |

- During the fourth quarter of 2010, the company issued senior convertible notes and warrants for \$35.0 million. The company accounted for both the convertible notes and warrants at fair value, resulting in a charge of \$11.7 million, representing the initial valuation and subsequent fair value adjustment at December 31, 2010.
  - During 2010, the company recorded a \$119.4 million non-cash gain from bankruptcy exit and a \$12.1 million non-cash loss on the company's investment in Front Range
  - The 2009 results included \$252.4 million in non-cash impairment charges.
- # Adjusted EBITDA reconciliation at the end of the presentation.



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## Strengthening Balance Sheet

| <i>(thousands,<br/>unaudited)</i> | <b>Dec. 31, '10</b> | <b>Dec. 31, '09</b> |
|-----------------------------------|---------------------|---------------------|
| Cash                              | \$ 8,736            | \$ 17,545           |
| Current Assets                    | \$ 57,962           | \$ 48,776           |
| Current Liabilities               | \$ 47,831           | \$ 96,431           |
| Working Capital                   | \$ 10,131           | \$ (47,655)         |



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## Macro Trends Highlighting Ethanol's Value

Political unrest in the Middle East & North Africa has led to increased oil prices since mid-February

*Ethanol consistently trades at a value relative to gasoline*



Supports the refiner's use of an increased blend of ethanol in the nation's fuel supply



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## Agricultural Productivity = Energy Independence

**Pacific Ethanol is at the forefront of efforts to grow and supply more of our energy, fiber and food needs through agriculture**

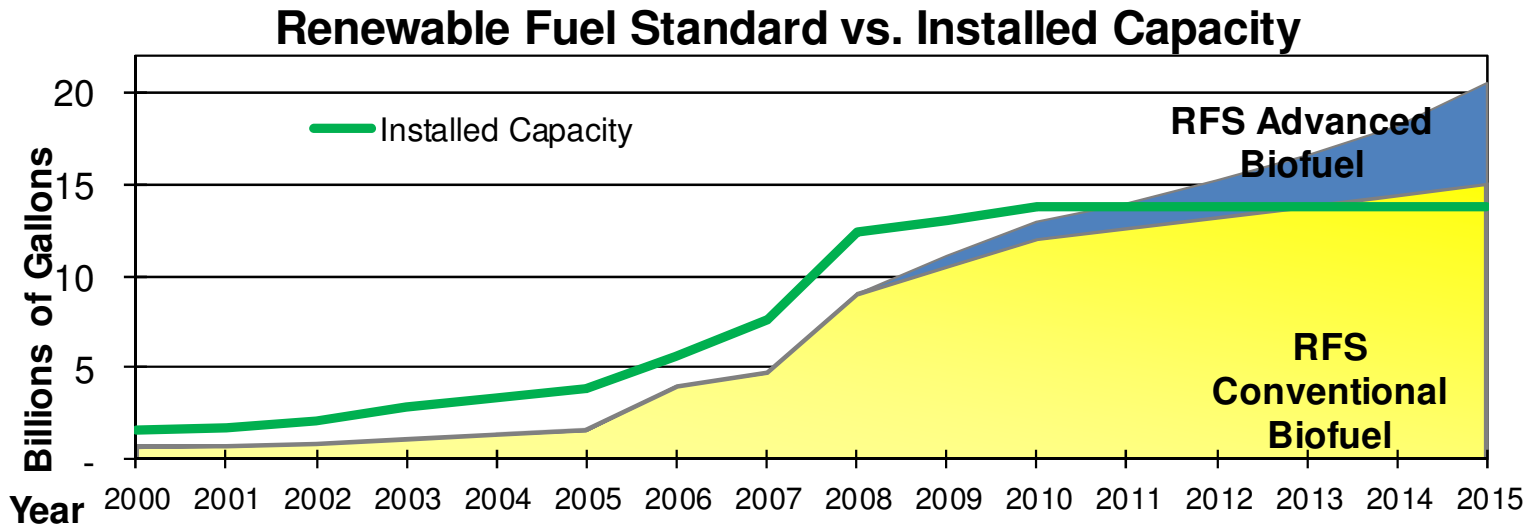
- Agricultural production can and must increase around the world;
- We must grow our own energy sources and continuously evaluate and refine our biofuel policies;
- Our country and our world needs to grow and supply more of our energy, fiber and food needs through agriculture; and
- We need to implement thoughtful and aggressive polices to wean ourselves from our addiction to oil.



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# Renewable Fuel Standard

## Driving Ethanol Demand



Source: PEI projections

- 15 billion gallons per year (BGY) conventional biofuel by 2015; 36 BGY total biofuel by 2022 under current RFS
- Current U.S. gasoline consumption ~ 140 BGY
- 2010 U.S. ethanol demand at 13 BGY
- Higher level blends and investment in existing and new technology required to meet RFS goals



## Executing Strategy to Build Shareholder Value

**Pacific Ethanol's mission is to be the leading West Coast marketer and producer of low-carbon renewable fuels**

- Improve adjusted EBITDA and generate positive cash flows
- Drive growth trajectory in marketing
- Introduce new technologies at the plants to optimize ethanol production plant performance
- Leverage existing assets to increase profitability



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## Reconciling Table: Adjusted EBITDA to Net Income (Loss)

| <i>(in thousands, unaudited)</i>                         | <u>For the 3 mos. ended</u> |                | <u>For the 12 mos. ended</u> |                    |
|--|-----------------------------|----------------|------------------------------|--------------------|
|  | Dec. 31, '10                | Dec. 31, '09   | Dec. 31, '10                 | Dec. 31, '09       |
| Net income (loss) attributed to PEI                      | \$ (11,647)                 | \$ (244,830)   | \$ 73,892                    | \$ (308,153)       |
| Adjustments:   |                             |                |                              |                    |
| Interest expense*  | 1,419                       | 1,880          | 4,881                        | 14,156             |
| Interest income*   | —                           | (5)            | —                            | (77)               |
| Fair value adjustments on convertible notes and warrants | 11,736                      | —              | 11,736                       | —                  |
| Asset impairments  | —                           | 250,188        | —                            | 252,388            |
| Loss on investment in Front Range                        | —                           | —              | 12,146                       | —                  |
| Gain from bankruptcy exit                                | —                           | —              | (119,408)                    | —                  |
| Gain from write-off of liabilities                       | —                           | (14,232)       | —                            | (14,232)           |
| Depreciation and amortization expense*                   | <u>655</u>                  | <u>7,965</u>   | <u>6,611</u>                 | <u>31,833</u>      |
| Total adjustments  | <u>13,810</u>               | <u>245,796</u> | <u>(84,034)</u>              | <u>284,068</u>     |
| Adjusted EBITDA  | <u>\$ 2,163</u>             | <u>\$ 966</u>  | <u>\$ (10,142)</u>           | <u>\$ (24,085)</u> |

\* Adjusted for non-controlling interest in variable interest entities.