1Q 2023 Trading Update Script

17 April 2023

Speaker: Martin Fruergaard

Slide 1 – Introduction

Welcome ladies and gentlemen and thank you for attending Pacific Basin's First Quarter Trading Update call. My name is Martin Fruergaard, Chief Executive Officer of the Company, and I am joined by our Head of Investor Relations and Corporate Communications, Peter Budd.

I will provide a brief summary of the main factors that influenced our first quarter results and discuss our market outlook before opening up for questions.

Please turn to slide 3.

Slide 3 – Dry Bulk Seasonality Above Pre-Covid Levels

In the first quarter of 2023 rates bottomed as expected with market spot rates for Handysize and Supramax ships averaging US$8,330 and US$9,660 net per day respectively. Dry bulk market freight earnings in the first quarter are typically lower due to reduced activity during the northern hemisphere winter and Chinese New Year periods which are normally the weakest of the year.

Demand has recovered following the Lunar New Year period, supported by China's post-Covid reopening and southern hemisphere grain seasons.

This improvement in sentiment and demand was seen across all dry bulk segments which has supported significantly improving rates despite decelerating global growth, higher interest rates and inflation, the conflict in Ukraine and an unwinding of earlier port congestion.

Please turn to slide 4.

Slide 4 – China Reopening Supporting Dry Bulk Demand

Total **Minor bulk** loadings decreased by 1% in Q1 this year compared to the same period last year. Agribulk and bauxite loadings increased by 7% and 1% respectively, while cement and clinker, aggregates, and steel loadings decreased by 13%, 6%, and 4%, respectively. Weaker economic activity in the US and Europe, coupled with a slow post-Covid economic recovery in China, may affect minor bulk demand for the rest of 2023. However, reopening policies in China and the revival of infrastructure investment and residential construction activity could provide potential for growth.

Grain loadings were 10% lower compared to the same period in 2022 due to the on-going conflict in Ukraine and adverse weather in Brazil causing delays in the harvest and transportation of grains. Brazil expects to set a record grain harvest in 2023, which should lead to higher loadings in the second quarter.

Increased **coal** loadings, resulting from recovery after the Indonesian coal export ban in 2022, was the main driver for higher total dry bulk loadings compared to the same period last year. China lifted its coal imports despite higher domestic production, while European and Indian coal demand slowed due to a build-up of stockpiles as a result of mild winter demand. The conflict in Ukraine continues to have a positive tonne-mile impact as Europe sources coal from more distant locations such as the United States, Colombia, Australia and South Africa.

Iron ore volumes rose 4% year-on-year to March, boosted by improved output in Australia and Brazil, increased demand from infrastructure and property construction in China following its post-Covid reopening, and restrictive emission controls during the 2022 Beijing Winter Olympics. While Chinese steel exports increased in Q1, steel production is predicted to remain flat for the year due to stricter environmental rules to reduce pollution in some of the major Chinese steel production hubs and limited new investment in steelmaking capacity within China.

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Slide 5 – Market Expects Stronger Demand Fundamentals in 2H23

Our **core business** generated average Handysize and Supramax daily TCE earnings of US$13,550 and US$13,630 net per day respectively in the first quarter of 2023, which is a decrease of 43% and 58% from last year's very strong first quarter.

For the second quarter, we have covered 74% and 100% of our committed vessel days for Handysize and Supramax at US$12,710 and US$14,080 net per day respectively.

For the second half of 2023, we currently have cover for 25% and 45% of our core vessel days for Handysize and Supramax at US$10,820 and US$13,490 net per day respectively. We have significant capacity to add cargo fixtures to our remaining 2023 book at rates which we expect to be higher compared to the first quarter which is normally the weakest quarter of the year.

Forward Freight Agreements commonly referred to as FFA's, are for the second-half of 2023 at a premium to current spot freight rates across all dry bulk segments, reflecting market expectations of stronger demand fundamentals. Current FFA rates for Q3 and Q4 are at US$14,520/US$13,910 per day and US$16,230/US$15,220 per day for Handysize and Supramax respectively.

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Slide 6 – We Continue to Outperform

In the first quarter, our **operating activity** generated a positive margin of US$1,090 net per day over 5,030 operating days.

Our Handysize and Supramax daily time-charter equivalent earnings continued to outperform the spot market indices by US$5,220 per day and US$3,970 per day respectively.

The Supramax outperformance benefited from the 33 scrubbers installed across our owned fleet, with scrubbers contributing US$1,320 per day to our outperformance over the period. The current value of Supramax scrubber benefits is approximately US$740 per day.

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Slide 8 – China Recovery Supporting Dry Bulk Demand

China Covid-reopening policies are supporting dry bulk demand. China increased coal imports compared to the same period last year, despite boosting its domestic coal production due to a stronger economy after reopening post-Covid. China has resumed importing coal from Australia, but still relies heavily on Indonesia and Russia for its coal imports while Japan remains Australia's largest coal trading partner.

China Minor bulk demand saw stable growth following the reopening, with the main minor bulks including bauxite, forest products and petcoke.

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Slide 10 – Counter Cyclical Growth While Optimising Our Fleet

During the period, Supramax vessel values softened due to market weakness, allowing us to make counter cyclical purchases. We also focused on selling smaller, older Handysize vessels to optimize our fleet and meet environmental regulations.

We acquired 5 Ultramax vessels, 1 Supramax vessel, and 1 Handysize vessel, while selling 1 Handysize vessel. Four Ultramax vessels have been delivered to us, with the remaining vessels purchased expected to be delivered before July 2023 and delivery of the sold Handysize vessel expected to be complete by April 2023.

From the second-half we anticipate adding 3 Japanese-built 40,000 deadweight tonne Handysize newbuildings to our core fleet through long-term time charters.

Including all currently agreed sales and purchases our fleet will consist of 121 owned Handysize and Supramax ships and, including chartered ships, we expect to have approximately 263 ships, including chartered ships.

We are collaborating with our Japanese shipbuilding partners to develop a design for our first dual-fuel Ultramax ship, which will run on green methanol or fuel oil. This is an important step towards securing zero-emission-capable vessels to renew and grow our fleet.

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Slide 11 – We are well Positioned for the Future

We have a positive outlook on the future of the dry bulk market, and expect to generate more sustainable earnings in the long-term due to underlying demand and supply fundamentals.

We expect some positive support to come from higher tonne-mile demand in coal and grain due to changes in trade flows and global issues of food and energy security.

Iron ore demand is expected to be supported by growth in emerging market economies and China's post-Covid government policies supporting domestic property construction and investment in infrastructure. Minor bulk demand remains robust despite weaker economic activity in the US and Europe, as China's post-Covid economic recovery and global green transition initiatives support demand.

We do not anticipate significant new dry bulk ship ordering due to high cost of newbuildings, uncertainty over new environmental regulations, and a higher interest rate environment. The low orderbook and efforts to reduce carbon intensity could lead to a shortage of ships and long-term structural undersupply in the market.

We are committed to reducing the carbon intensity of our existing ships and pursuing complete decarbonisation, while also prioritising ESG values across our business. We will leverage digitalisation, innovation, and collaboration to tackle decarbonisation and other ESG challenges and differentiate our value proposition to stakeholders.

We are excited about the future of dry bulk shipping, supported by our modern fleet, customer partnerships, and access to cargo opportunities.

Ladies and gentlemen, that concludes our Q1 Trading Update presentation.

I will now hand over the call to our operator for Q&A.

[Following Q&A]

I'd like to thank you again for joining us today and for your continued support of Pacific Basin. If you have any further questions, please contact Peter Budd from our Investor Relations department.

Goodbye.