Chief Executive's Review

"Our overall competitiveness enabled us to navigate what we believe to have been the worst of the Covid-19 turbulence and positions us well for improved conditions in the second half of 2020"

Mats Berglund

Chief Executive Officer

Financial Results

In a half-year period dominated by the global Covid-19 coronavirus pandemic and related economic disruption, we made an underlying loss of US$26.6 million (2019: US$0.6 million loss), while achieving a positive EBITDA of US$79.2 million (2019: US$101.1 million).

We made a net loss of US$222.4 million (2019: US$8.2 million profit), mostly attributable to a US$198.2 million non-cash impairment of our Handysize core fleet. Basic EPS was negative HK37 cents.

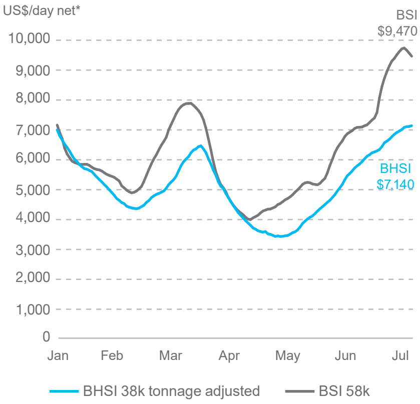
Our underlying results were negatively impacted by markedly weaker dry bulk market freight rates due to global efforts to contain the pandemic while the dry bulk fleet continued to grow.

The impairment relates primarily to our smallest and oldest Handysize vessels and was made after a review of the carrying values of our owned vessels and right-of-use assets following a significant reduction in market freight rates and the uncertain market outlook, and as smaller, older Handysize vessels are no longer fully interchangeable with younger, larger Handysize vessels. The impairment does not impact our operating cash flows, EBITDA or available liquidity, and will result in lower depreciation costs, higher EPS and higher return on equity going forward, all things being equal. In line with previous guidance, we are continuing to gradually sell our oldest and smallest Handysize vessels and replace them with newer, larger vessels.

Containment Measures Impacted Dry Bulk Trade but Recovery is Underway

Seasonal Chinese New Year weakness early in the year was compounded by disrupted logistics caused by measures to contain the Covid outbreak in China. Following a brief recovery in March as Chinese activity gradually returned, the market weakened again from late March until early May as the coronavirus spread and severely impacted activity around other parts of the world. With Chinese activity significantly recovered and more countries partly reopening their economies, freight earnings have improved since May.

Significant Rate Increase Since May



* excludes 5% commission

Source: Baltic Exchange, data as at 27 July 2020

Competitive on Every Level

Despite the weak freight market, our **core business** of deploying owned and long-term chartered ships generated average Handysize and Supramax daily time-charter equivalent ("TCE") earnings of US$7,190 and US$9,980 net per day, which were down 22% and 8% year on year.

Our average TCE earnings outperformed the BHSI (tonnage adjusted) and BSI spot market indices by US$2,270 and US$4,250 respectively in the first half, and by US$2,290 and US$2,550 in the past 12 months.

Our **operating activity** generated a margin of US$1,790 net per day over 6,940 operating days in the first half.

Our ship operating expenses ("Opex") of US$3,940 per day, general and administrative ("G&A") overheads of US$770 per day and financing costs of US$770 per day remain well controlled and very competitive compared to our peers.

The premium we generate over index earnings comes from harnessing our experienced commercial and technical teams, global office network, strong cargo support and large fleet of high-quality interchangeable ships in ways that optimise ship and cargo combinations for maximum utilisation. As a result, our ships are laden with cargo over 90% of the time. Our cost competitiveness comes primarily from scale benefits and other efficiencies we generate through good systems and strict cost control.

Fleet Growth Strategy

In the first half of 2020, we took delivery of three modern secondhand vessels (one Handysize and two Supramax) and we completed the sale of one older, small Handysize. These transactions have expanded our owned fleet to 117 ships. Including chartered ships, we had an average of 215 Handysize and Supramax ships on the water during the first half of 2020.

Consistent with our strategy, we reduced our long-term chartered fleet by five vessels, relying more on our growing fleet of owned ships and short-term chartered ships typically on one-year charters or less.

Out of caution during the uncertain market conditions, we paused our spending on growing our owned fleet with larger, high-quality secondhand acquisitions, but we will consider resuming our ship acquisitions as the market recovers and as we find particularly compelling opportunities.

Strong Balance Sheet and Liquidity

In June 2020 we closed a new US$30.1 million bilateral 7-year reducing revolving credit facility secured against three unmortgaged vessels at an interest cost of LIBOR plus 1.60%.

POSSIBLE MARKET DRIVERS IN THE MEDIUM TERM

OPPORTUNITIES

- Post-pandemic recovery in Chinese industrial production and extensive stimulus in other key economies, driving a rebound in economic activity and catch-up demand for dry bulk commodities
- Slower operating speed of ships consuming more expensive low-sulphur fuel
- Limited new ship ordering and deliveries due to uncertainty over environmental regulations and future vessel designs, leading to tighter supply
- Increased scrapping of poor quality and poorly designed tonnage facing onerous environmental regulations and expensive maintenance and upgrade costs

THREATS

- Expanding or renewed Covid-19 containment measures further impacting global economic activity and the trade in dry bulk commodities
- Too many newbuilding deliveries in 2020, combined with continued minimal scrapping
- Periods of low fuel prices supporting faster ship operating speeds which increases supply
- Tariffs and protectionism driving local production at the expense of global trade

As at 30 June 2020, we had cash and deposits of US$316.0 million and net borrowings of US$704.8 million, which is 41% of the net book value of our owned vessels at mid-year.

We have finalised an additional US$33.5 million in committed borrowings secured against two additional unmortgaged vessels which is expected to be available to draw upon in the third quarter, thereby further enhancing our committed liquidity position to US$349.5 million.

The Pandemic Presents a Major Crew Change Challenge

Despite significant Covid related disruption, port and cargo handling activity has continued largely as normal, albeit with strict measures in place to prevent the spread of infection.

However, lockdown and travel restrictions around the world have made it very difficult to change crews since the pandemic began. We have been vocal in our efforts to raise the alarm and push governments for solutions, but progress is slow and we are only now beginning to see some easing of restrictions in some countries. We have successfully changed and repatriated several of our crews in recent weeks, and both seagoing and shore-based staff and management are doing their utmost to provide our seafarers with support and encouragement so that they remain motivated, feel appreciated, look after each other, and do their professional best while global lockdown conditions keep them at sea.

Across our offices ashore, we introduced flexible hours, split-team arrangements and other business continuity initiatives so that, whether our staff work from home or the office, our business remains fully operational and our customers can depend on us to provide our usual world-class service.

Compliance with New Environmental Regulations

All of our vessels comply with the IMO 2020 global 0.5% sulphur limit that took effect on 1 January, either by using low-sulphur fuel or, in the case of 28 of our owned Supramax vessels, by operating exhaust gas scrubbers. So far, we have achieved a net saving of US$23.1 million on our scrubbers, representing 38% of our original investment. US$7.4 million of the saving was achieved by closing out bunker price spread hedges.

66 of our owned ships are now fitted with ballast water treatment systems (BWTS), and we have arranged to retrofit our remaining owned vessels with BWTS by the end of 2022 to comply with the Ballast Water Management Convention ahead of schedule.

We are constantly working on initiatives to incrementally reduce our fleet's carbon intensity, and we have joined the recently formed Getting to Zero Coalition which is committed to exploring how to get commercially viable deep-sea zero-emission vessels into operation by 2030 – shipping's moon-shot ambition.

As usual, we will expand on these developments in our full-year sustainability reporting.

Market Outlook

In June, the IMF significantly downgraded its global GDP growth forecast to -4.9% in 2020 (and +5.4% in 2021), reflecting the worse than anticipated impact of the Covid pandemic on activity in the first half of 2020 and the more gradual projected recovery than previously forecast.

Earlier questions about geopolitical and trade tensions are overshadowed by the more severe impact of efforts to contain the pandemic. The containment timeline is unclear, hence there is a greater than usual uncertainty around GDP and dry bulk trade forecasts.

We believe many of the dry bulk demand forecasts for 2020, including Clarksons' estimated 7.3% drop in minor bulk demand, are too bearish in view of the increasing levels of trade and enquiries we have observed in recent months, with a few exceptions. Chinese activity has significantly recovered, grain volumes are stronger compared to last year and indicative iron ore loadings appear to be at all-time highs. Coal and construction materials such as steel, cement and logs have been notable exceptions due to the negative effect of lockdown measures on energy consumption and building projects.

However, many countries have begun to ease pandemic-related national lockdowns since May and are now applying more targeted measures to contain the spread and enable more economic activity, and we are seeing more dry bulk activity globally. We expect a seasonally stronger albeit volatile second half and generally improved market conditions, assisted by stimulus measures and potential supply-side improvements, including fewer newbuilding deliveries.

Well Positioned for the Future

Our healthy balance sheet and strong liquidity position, combined with our substantially larger owned fleet, our ability to outperform the market indices and our competitive cost structure, position us well for what we believe will be improved freight market conditions in the second half.

I would like to take this opportunity to express all Pacific Basin staff and board members' sincere appreciation, pride and solidarity with our extraordinarily loyal and capable seafarers who we commend for their determination and professionalism with which they continue their hard work during the ongoing global pandemic. They are our Pacific Basin Heroes at Sea.

Hong Kong, 30 July 2020