# CHIEF EXECUTIVE'S REVIEW

**Martin Fruergaard**

**Chief Executive Officer**

Our record interim results reflect the strength in minor bulk demand over the period and the significant scale and competitiveness of Pacific Basin's business. I am confident that our excellent customer-focused business model, consistent strategic focus, large owned fleet and healthy balance sheet will allow us to thrive in this exciting market and continue to deliver attractive earnings and return significant cash to our shareholders

## Our Best Interim Results in Our Company's History

In the first half of 2022, we generated our best interim results ever, producing an underlying profit of US$457.5 million, a net profit of US$465.1 million and an EBITDA of US$566.9 million. This yielded an exceptionally strong return on equity of 48%, with basic EPS of HK74.5 cents.

p.31 Group Performance Review

Our results benefited from significantly higher average TCE earnings compared to the same period last year, strong operating activity results, and a competitive cost structure. We continued to significantly outperform the market index rates, especially in our Supramax business, which delivered an exceptional performance over the period.

Looking forward, we have covered the majority of our third quarter days at US$23,690* net per day for Handysize and US$28,970* net per day for Supramax respectively, underpinning continued strong earnings in what is typically the seasonally stronger part of the year.

Our financial position continues to strengthen with available committed liquidity of US$698.6 million and a net cash position of US$68.9 million as at 30 June 2022.

In light of the strong earnings, cash position and our confidence in the longer-term outlook for minor bulk shipping, the Board has declared an interim basic dividend of HK35 cents per share, representing 50% of our net profit for the period, and an additional special dividend of HK17 cents per share, representing 25% of our net profit for the period. The basic dividend and the special dividend together amount to a total dividend of HK52 cents per share.

* Indicative 3Q 2022 TCE only, voyages are still in progress

## Excellent Performance Driven by Strong Revenue Generation and Competitive Cost Base

Our **core business** generated average Handysize and Supramax daily time-charter equivalent ("TCE") earnings of US$26,370 and US$33,840 net per day in the first half, representing an increase of 83% and 85% compared to the same period in 2021, respectively. In the period we outperformed the average Handysize (BHSI 38k dwt tonnage-adjusted) and Supramax (BSI 58k dwt) indices by US$4,370 per day and US$8,210 per day respectively. Our performance continues to benefit from our diverse cargo and customer base and the close customer interaction facilitated by our extensive global office network.

Our **operating activity** contributed US$30.7 million, generating a margin of US$3,330 net per day over 9,200 operating days in the first half. While margins varied over the period, they still remain historically high and our operating activity represents an on-going opportunity to utilise the commercial and operating skills of the Pacific Basin team to generate supplementary earnings for the business.

Our overheads and vessel operating expenses remain well controlled despite more expensive crew travel, quarantine and other pandemic-related manning costs.

p.15 Our Performance

## Further Strengthening Our Balance Sheet

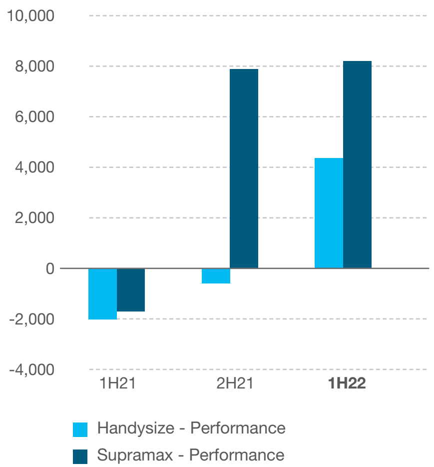
We continue to maintain a conservative balance sheet, which will allow us to invest over the cycle, while still distributing excess cash to shareholders through dividends.

During the period we structured an offer to holders of our US$175.0 million convertible bond to incentivise early conversion. This resulted in a reduction of our outstanding convertible bond to US$70.1 million. This offer has allowed us to further optimise our capital structure by reducing net borrowings and increasing the Company's equity capital, thereby deleveraging our balance sheet while at the same time lowering our finance costs.

p.20 Cash and Borrowings

**PB Performance Relative to Market Index Rates**

US$/day (net)




## Strong Demand with Limited New Supply

The minor bulk freight market in the first half of 2022 was significantly stronger than the same period last year, driven by favourable supply and demand fundamentals. Minor bulk rates continue to be supported despite concerns over global economic growth, on-going conflict in Ukraine, and Covid-related impacts on the Chinese economy.

TCE earnings over the period began substantially higher than prior years and, despite a typical seasonal decline around Chinese New Year, rates have since been supported at historically high levels by growing minor bulk demand and some supply constraints. A softening in rates since May has been due to higher vessel availability as a result of a reduction in Black Sea grain exports and demand weakness in China.

**We continue to see opportunities in this strong, yet volatile rates environment to generate further positive earnings, despite global economic short-term uncertainty**

## Benefitting From Our Fleet Renewal Strategy

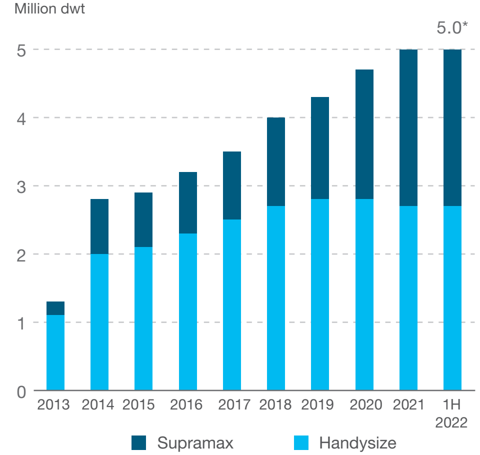
We remain committed to our long-term strategy to grow our owned fleet of Supramax ships by acquiring high-quality, modern, second-hand vessels, and to sell our older and less-efficient Handysize ships and replace them with younger and larger Handysize vessels. During the period we sold five of our older Handysize ships, while taking delivery of one Ultramax vessel purchased in 2021. This strategy is resulting in an even more efficient fleet with greater longevity, while crystallising value from historically high second-hand prices.

We expect our vessel purchasing activity to be less than last year as asset prices have approached historical highs, though we remain opportunistic where we see attractive second-hand acquisition opportunities. We currently own 117 Handysize and Supramax ships and, including chartered ships, we have approximately 240 ships on the water overall.

**In the short term we are focused on selling some of our smaller, older Handysize ships as second-hand prices are strong, thereby crystallising value and further optimising our fleet to meet tightening environmental regulations**

**Significant Growth of Our Owned Fleet and Supramax Proportion**

Million dwt




* including purchased and sold vessels in the first half of 2022

## Our Safety First Culture

During the pandemic, travel restrictions have highlighted the need to focus our efforts on maintaining high levels of crew safety and wellbeing. Our early adoption of the latest industry best practices of online training, 24/7 online medical and wellbeing support, remote and onboard inspections, and updated communication infrastructure allow our vessels and seafarers to stay connected and continue to learn and apply updated procedures.

Despite the difficult operating environment during the pandemic, our safety management system and enhanced training programme continues to support sound crew safety KPIs.

| KPIs | Unit | FY 2021 | 1H 2022 |
|---|---|---|---|
| **Health & Safety** | | | |
| Total recordable case frequency | injuries per million man hours | 0.55 | **0.58** |
| Lost time injury frequency | injuries per million man hours | 0.25 | **0.19** |

## Well Prepared for IMO Carbon Intensity Reduction Rules

From January 2023, IMO's global EEXI (energy efficiency existing ship index) and CII (carbon intensity index) regulations are expected to drive technical and operational measures to improve the carbon efficiency of existing ships. We have thoroughly analysed the implications of these rules on our fleet and prepared our people, ships and systems to ensure our conventionally-fuelled ships are well positioned to comply and continue to trade for the foreseeable future through technical enhancements, operational measures and gradual fleet renewal.

The consequences of these rules will include the progressive slowing of vessel speeds and, over time, accelerated scrapping as older and less-efficient ships become no longer fit for trading.

We are preparing ourselves for shipping's eventual inclusion in the European Union Emissions Trading System (EU ETS) among other EU initiatives to drive decarbonisation in shipping. The European "Fit for 55" package remains subject to negotiations between the European Council, Parliament and Commission, and is now likely to apply to shipping from 2024 onwards.

## Developing Zero-Emission-Ready Ships

We will invest in zero-emission-ready ships when they become commercially viable for minor bulk trades and the requisite global bunkering infrastructure is being built out.

In May, to accelerate this development, we committed to cooperate with Nihon Shipyard Co. and Mitsui & Co. in investigating alternative green fuels and their availability, and to develop zero-emission vessels and potentially invest in related bunkering infrastructure. Through this arrangement, Pacific Basin will continue to be at the forefront of our industry's development, and accelerate the transition to make zero-emission-ready vessels the default choice for new vessels by 2030, enabling us to meet our target of net zero emissions by 2050.

p.22 Sustainability Highlights

## Retirement of Our Chairman and Executive Director

The Board announced in May that our Chairman and Executive Director David Turnbull has decided to retire from the position of Executive Director and Chairman of the Company after nearly 14 years in those positions and two prior years as an Independent Non-executive Director. David's retirement will take effect from the conclusion of the Company's 2023 annual general meeting, and he remains fully committed to his current roles in the meantime.

The Company has appointed an international recruitment firm to undertake a global search for a successor as Chairman. The Board has decided that, in future, the chairman role should be independent and non-executive.

### Our Strategies

- Maintain and grow our cargo focus and scale
- Continue to be both a fully integrated owner (asset heavy) and operator (asset light)
- Be the industry leader on an earnings and cost per day basis
- Maintain empowered local chartering and operations close to customers
- Keep building our brand as a leading, admired and preferred shipping company
- Keep our cash and balance sheet strong
- Protect our leading Handysize position by replacing our older, smaller ships with younger, larger ships
- Continue to grow the proportion of our owned Supramax fleet
- Not order newbuildings until zero-emission bulkers are available and viable
- Continue to build and leverage our sustainability and decarbonisation, digitalisation, and research capabilities

## Market Outlook

The IMF has lowered its global GDP growth forecast to 3.2% for 2022 and 2.9% for 2023, reflecting impacts of higher inflation and interest rates, on-going conflict in Ukraine and Covid-related disruptions to the Chinese economy.

In light of a softening global economy, we expect dry bulk demand in the second half to moderate somewhat from recent highs but remain relatively firm mainly due to seasonal factors in the grain market, elevated coal demand for electricity production and continued investment in global infrastructure.

Any revival of the Chinese economy is expected to be supported by domestic property construction, manufacturing and infrastructure spending as government policies are needed to drive growth in light of continuing Covid restrictions.

Changes in trade flows caused by the conflict in Ukraine have positively impacted tonne-mile demand for some commodities to date, but we continue to monitor the impact that the conflict might have as we come close to the typical Black Sea grain export season.

Supply is still tied up in congestion around the world, and although vessel speeds remain elevated leaving limited scope to increase vessel capacity through higher speed, historically very high bunker costs have begun to lower speeds taking some supply out of the market.

We believe uncertainty over new environmental regulations and the high cost of newbuildings, will continue to discourage any significant new ship ordering. According to Clarksons Research, current orderbook is at a 30-year low of just 7.2% of total fleet and new ordering is down 60% in the first half of 2022 compared to the same period last year. The low orderbook, coupled with IMO regulations to reduce carbon intensity likely resulting in slower speeds and increased scrapping from 2024 onwards, bodes well for the long-term health of the dry bulk market.

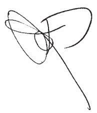
p.10 Market Review

## Well Positioned for the Future

Given the supportive fundamentals of our industry, we are excited by the long-term prospects of dry bulk shipping despite any short-term headwinds. Our large and modern owned fleet of highly versatile Handysize and Supramax ships, combined with our close customer partnerships, enhanced access to cargo opportunities, and high vessel utilisation, enables us to outperform in this strong earnings environment.

Having significantly further strengthened our balance sheet in the first half of 2022, we anticipate that the still healthy dry bulk market, our strong cash generation and limited expected capital expenditure will enable us to continue to reward shareholders by returning capital and take advantage of opportunities to grow our fleet going forward.

As always, I would like to take this opportunity to thank all of our loyal and talented Pacific Basin seafarers and shore-based staff, as it is not without your commitment and professionalism that we can deliver these results and continue to improve our safety performance. I also thank all Pacific Basin stakeholders for your support and your contribution to our on-going success as we strive to be the first choice partner in dry bulk.



**Martin Fruergaard**
Chief Executive Officer
Hong Kong, 28 July 2022