Our first quarter vessel earnings held up well despite Chinese New Year weakness, which was compounded by reduced demand and disrupted logistics caused by measures taken in China to contain the COVID-19 coronavirus outbreak. Rates bottomed out in late February and strengthened for a four-week period as Chinese activity gradually returned. However, COVID-19 is now causing an increasingly widespread lockdown of economic activity around the world which is negatively affecting dry bulk trades, and rates have weakened since the last week of March. The eventual extent of countries’ lockdown actions and the timeframe required to contain COVID-19 and for trade activity to normalise is unclear.

**STRONG PACIFIC BASIN PERFORMANCE DESPITE MARKET HEADWINDS**

Our **core business** of deploying owned and long-term chartered ships\(^1\) generated average Handysize and Supramax daily time-charter equivalent (“TCE”) earnings of US$8,020 and US$11,310 net per day in the first quarter, representing a 12% reduction and 9% increase respectively compared to our TCEs in the same period in 2019.

Our average net daily Handysize and Supramax TCE earnings outperformed the BHSI\(^2\) and BSI spot market indices by US$2,580 and US$5,080 respectively in the first quarter, and by US$2,660 and US$2,790 in the past 12 months. Our Supramax outperformance was particularly strong due to the significant scrubber benefit that we saw early in the quarter.

Our **operating activity** generated a margin of US$960 net per day over 2,920 operating days in the first quarter and US$970 net per day over 14,170 operating days in the past 12 months on short-term ships that we chartered specifically to carry spot cargoes\(^1\).

As at 3 April, we have so far secured cover for the remaining three quarters of 2020 as follows:

- 32% of our contracted owned and long-term chartered Handysize vessel days at around US$9,000 net per day (equivalent period in 2019: 36% covered at US$9,360 net)
- 58% of our contracted owned and long-term chartered Supramax vessel days at around US$11,180 net per day (equivalent period in 2019: 58% covered at US$10,690 net)

\(^1\) See page 4 for an explanation of how we now present TCEs generated by our **core business** and margins generated by our **operating activity**.

\(^2\) Starting from 2020, we compare our Handysize TCE performance against the new 38,000 dwt Baltic Handysize Index, tonnage-adjusted to the average vessel size of our core Handysize fleet.
During the first quarter, we took delivery of three modern secondhand vessels (one Handysize and two Supramax) which we committed to purchase in 2019. One older, smaller Handysize that we have agreed to sell is scheduled to exit our fleet in April 2020.

These transactions will increase our owned fleet to 117 ships and grow the proportion of our owned versus chartered ships, especially in Supramax. Including chartered ships, we had an average of 205 Handysize and Supramax ships on the water in the first quarter across our total business.

In light of the current unprecedented market uncertainty and out of caution, we are now pausing our strategy of growing our owned fleet with larger, high-quality secondhand acquisitions, unless we find particularly compelling opportunities.

**MARKET RECOVERED AFTER A WEAK START BUT IS NOW FACING GLOBAL COVID-19 HEADWINDS**

Market spot rates for Handysize ships (BHSI 38k tonnage-adjusted) and Supramax ships (BSI 58k) averaged US$5,440 and US$6,230 net per day respectively in the first quarter of 2020, representing a 16% and 17% decline over the same period last year. The typical post-Chinese New Year spot market improvement has recently given way to weaker rates approaching multi-year low levels last seen in 2016.

Our first quarter 2020 vessel earnings held up well despite a weak Chinese New Year period, including the negative effects that COVID-19 containment measures have had, initially on China in the first quarter and thereafter on many other countries.

Although we had a few logistical delays, our ships continued to trade largely as normal in the first quarter, partly due to the delayed impact of COVID-19 containment measures on the freight market, but also because we benefited from the relative resilience of global shipments of agricultural products, construction materials and other minor bulks. As a result, Handysize and Supramax rates were much higher than Capesize rates in the first quarter. Our performance also benefited from our diverse cargo and customer base, and the close customer interaction facilitated by our extensive global office network.

The recently implemented IMO 2020 regulations drove higher fuel prices and slower optimal vessel operating speeds early in the quarter, which reduced shipping supply and therefore also mitigated market weakness.
Looking beyond the first quarter, we expect that the effects of COVID-19 containment measures and today’s weak spot market rates will negatively affect our second quarter earnings. We expect grain and agricultural product trade flows to be the least impacted by the outbreak, as demand for food and animal feed are less affected by economic shocks. However, shipments of construction materials such as steel products, cement, logs and bauxite will be impacted by reductions in GDP, and coal shipments are also expected to suffer from lower energy consumption and competition from cheap oil and gas.

We do however expect to see a rebound in economic activity and dry bulk trade flows in due course, once the global outbreak recedes, containment measures are eased and significant stimulus is implemented.

**SUPPLY GROWTH IS STILL TOO HIGH BUT EXPECTED TO SLOW**

Global dry bulk supply growth continues to be too high, but the recent and ongoing weak freight rates and uncertain outlook are expected slow net fleet growth in the longer term. Newbuilding deliveries scheduled for the first half of 2020 have been somewhat delayed due to the COVID-19 disruption effect on shipyard output in China. Scrapping increased during the quarter but has now been interrupted by COVID-19-driven shutdowns at South Asian scrapyards.

New ship ordering is expected to remain restrained, discouraged by the weaker economic outlook, the continued gap between newbuilding and secondhand prices, and uncertainty over upcoming environmental regulations to meet IMO’s ambitious GHG reduction targets and their impact on future vessel designs. The combined Handysize and Supramax orderbook currently stands at 5.4% which is the lowest since the late 1990s.

Vessel values as recorded by Clarksons Research were steady during the quarter, but values are under pressure in the weaker freight market environment.

**FUEL PRICES AND SPEED**

A price war between key oil exporters has resulted in much reduced bunker fuel prices and a significantly reduced spread between prices for heavy fuel oil and very low sulphur fuel oil. Due to this drop in fuel price, vessel operating speeds are no longer slowing as they did after vessels started switching to more expensive very low sulphur fuel oil in preparation for IMO 2020.

We benefitted from the early large fuel price spread which enabled our 28 owned scrubber-fitted Supramaxes to make a significant contribution to our Supramax earnings, and we have also hedged a portion of this fuel price spread.

Crude oil prices are currently extremely volatile, but longer-dated oil futures are trading at a strong premium against the current low spot price.

**COVID-19 IMPACTS ON DRY BULK SHIPPING AND PACIFIC BASIN**

As already mentioned, measures to contain COVID-19, initially in China and now globally, have resulted in disrupted logistics and weaker dry bulk demand.

Ports remain largely open and operational so far, although lockdowns and 14-day quarantine rules for ships pose an increasing challenge in several ports and countries around the world.

Widespread restrictions on crew changes and travel are also a significant operational challenge. Labour authorities have responded by permitting longer crew service periods at sea. We lobbied for jurisdictions to exempt ships’ crews from disembarkation restrictions for the sake of seafarer health, safety and wellbeing and, thankfully, ports in China and some other countries have recently started to relax such restrictions. We salute and thank our many seafarers across our fleet for their understanding, commitment and patience during these difficult times.

Ashore, we have introduced flexible hours, split-team arrangements and other business continuity initiatives across our offices 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.

There will be further negative impacts on dry bulk freight rates and logistics as more shutdowns happen around the world. Eventually, however, we expect to see stimulus activity driving a rebound and stronger rates once the global outbreak is contained.

Pacific Basin is well positioned to navigate such turbulence adeptly.
STRONG BALANCE SHEET AND LIQUIDITY POSITION

The two revolving credit facilities, new convertible bonds and ships-for-shares deals that we secured last year further strengthened our already healthy balance sheet and liquidity position. Our scrubber installations, dry dockings, optimisation initiatives and other investments and preparations we made also enable us to weather the COVID-19 storm with confidence and set us up for what we believe will be stronger markets in the longer term, once the global outbreak is under control.

Our strong balance sheet and liquidity position, combined with our large and fully in-house managed fleet, make Pacific Basin a safe and reliable partner for our customers in these turbulent times.

By Order of the Board
Mok Kit Ting, Kitty
Company Secretary

Hong Kong, 7 April 2019

As at the date of this announcement, the executive Directors of the Company are David Muir Turnbull, Mats Henrik Berglund and Peter Schulz, and the Independent Non-executive Directors of the Company are Patrick Blackwell Paul, Robert Charles Nicholson, Alasdair George Morrison, Daniel Rochfort Bradshaw, Irene Waage Basili, Stanley Hutter Ryan and Kirsi Kyliikki Tikka.

INCREASED DISCLOSURE IN OUR REPORTING TO BETTER UNDERSTAND OUR PERFORMANCE

Our "core business" is to optimally combine our owned and long-term chartered ships with spot cargoes and multi-shipment contract cargos to achieve the highest daily time-charter equivalent ("TCE") earnings. Our core business also uses short-term chartered ships to carry contract cargoes to maximise the utilisation and TCE of our owned and long-term chartered ships.

We now also disclose the margin per day generated by our "operating activity" which is separate and complementary to our core business. Through our operating activity, we provide a service to our customers even if our core ships are unavailable by opportunistically matching our customers’ spot cargoes with short-term chartered-in ships, making a margin and contributing to our group results regardless of whether the market is weak or strong.

For our core business, daily TCE revenue is the important KPI, as costs per day are substantially fixed and disclosed. For our operating activity, short-term charter costs fluctuate with the freight market and it is therefore the margin per day (the net daily difference between TCE revenue and charter costs) that is the important KPI, not the TCE level itself.