



New Bunker Adjustment Factor

As of 1st of January 2020, International Maritime Organization (IMO) has set a global limit for sulphur in fuel oil used on board of vessels in accordance with MARPOL convention. According to this new amendment, current standard medium of consumption will change and sulphur content will be decreased from current level of 3.5% to 0.5%. All operated vessels around the globe are obliged to use the new marine fuel in which content is limited to 0.5% of Sulphur or will look into any other technological options for the reduction of emissions such as scrubbers or LNG. Arkas Line as one of the prominent carriers in the container shipping industry has embraced this new amendment due to its predicted positive effect on environment and health.

Assumptions show that Arkas Line operating costs will increase significantly with the higher price level of low-sulphur fuel oil and there has been an emerging necessity to identify the upcoming financial cost effect and its reflection on freight prices accurately and clearly for the sustainability of the business. For having the clear and predictable transition period for all the clients, as of 1st January 2019, Arkas Line will start to publish the new Bunker Adjustment Factor (BAF) based on regional corridors. This new BAF will be calculated based on a simple formula that bunker price per ton will be multiplied by regional trade driver as in the following:

$$\boxed{\text{BAF}} = \boxed{\text{BUNKER PRICE/TON}} \times \boxed{\text{REGIONAL TRADE DRIVER}}$$

Bunker Price/ton: This is an average price of IFO 380 fuel based on the key bunker supplying ports. For Black Sea and Mediterranean trade corridors, this will be the average of Istanbul and Piraeus rates. For North Europe and West Africa corridors, Antwerp price level is used. Monthly average of bunker price levels can be monitored via Arkas Line web page which is also aligned with market bunker indicators of several online sources.

It is expected to burn new Low Sulphur Fuel Oil (LSFO) in the last Quarter of 2019 on our vessels gradually to comply with the regulations as of Jan 1st 2020. Bunker price will be based on the new product price and this transition will be communicated to our customers separately.

Regional Trade Driver: This is a factor calculated by regional service average of bunker consumption, utilization level and trade imbalances on respective corridor.

BAF (Bunker Adjustment Factor) : BAF will be calculated as per above formula and will be charged separately from the ocean freight.

This calculation will be on a quarterly basis and published one month before the incoming quarter, based on the average fuel price of previous 3 months. For instance, Q2 2019 BAF will be calculated from the average of December 2018, January 2019 and February 2019 IFO 380 fuel/ton levels. In the times of high IFO 380 bunker price volatility that fuel price increase more than 25 USD/ton on monthly average, above quarterly implementation will turn monthly to establish the recovery.

New BAF levels with regarding regional corridors will be applied as of 1ST of January 2019 and same will be published on Arkas Line web page as of 27th of November 2018.