

JR SHIPPING *TODAY*

HIGHLIGHTS FROM THE JR SHIPPING ANNUAL REPORT 2013

ABOUT JR SHIPPING

JR Shipping, based in Harlingen, the Netherlands, was founded in 1993 as a captain/owner company active with multipurpose vessels. In 2000, the company made a first step towards an increase in scale by shifting its course towards the container feeder growth market. In a short period of time, it built up a state-of-the-art fleet which covers all the important segments (from 350 TEU to 1,400 TEU). In 2008, JR Shipping decided to diversify, including returning to the market for multipurpose vessels. In 2010, the shipping group founded SeaZip Offshore Service BV for the niche market of maritime services to offshore wind farms. The shipping group enjoys the confidence of an ever-increasing number of investors.

Each year, the group issues a comprehensive annual report, JR Shipping Anno Nu. It addresses the most significant market and business developments. This JR Shipping Today 2013 provides a summary of JR Shipping Anno Nu 2013. The shipping group's complete annual report, JR Shipping Anno Nu 2013, can be downloaded from www.jrshipping.nl. No rights may be derived from the information contained in it.

In late 2013, JR Shipping Group was responsible for the management of 15 container feeders, 5 multipurpose vessels, 2 offshore service catamarans and 1 tall ship, the clipper Stad Amsterdam.



MANAGEMENT STATEMENT

In 2013, JR Shipping Group employed its vessels for a wide range of customers, consistent with high international efficiency and safety standards. Charter and freight rates were still at an extremely low level. While the first half of the year saw an economic upswing, a period of stagnation set in mid-2013. The year 2013 was the first in the past few years of crisis when the group managed to charter all its vessels almost continually. This is a significant forerunner of market recovery, which we expect to continue in 2014.

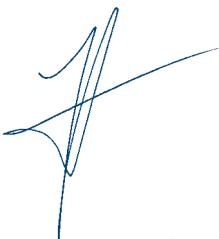
Looking back, we cannot but conclude that the crisis has affected the shipping industry deeply and that relations within the industry have changed permanently. Shipping organisations which have managed to withstand the crisis, including JR Shipping Group, are now entering a critical phase in which they will have to regroup and consolidate. A decisive factor for this is the courage to continue operations, examine new revenue models and make operational structures more sustainable.

In order to be able to initiate more new business, JR Shipping issued corporate bonds in 2013. The capital raised will be used for the purposes of research and project development, investments in high-potential company acquisitions, mergers, acquisitions and initiatives for cooperation, opportunity investments, and the acquisition of contracts for ship management. All these activities serve to support the diversification policy that the company chose to pursue and which rests on four pillars:

- ▶ consolidation of the container-feeder market activities
- ▶ stepping up activities in the market for multipurpose vessels
- ▶ continued growth of ship-management service provision to third parties
- ▶ service provision to the offshore wind energy industry

In addition, the shipping company managed to create a new financing structure for two of its vessels in late 2013 by placing bonds to the value of € 5 million. The success of this bond placement is proof of continued trust in our company, which is key to making the diversification policy a success. The fact that investors, financial partners and business customers believe in our shipping group's entrepreneurial capabilities provides us with the moral support we need to take new initiatives that can make a difference in this new phase. Market recovery remains the foremost criterion for achieving better results.

Harlingen, may 2014



Jan Reier Arends



Sander Schakelaar

JR Shipping Management Board



MARKET AND FLEET DEVELOPMENTS

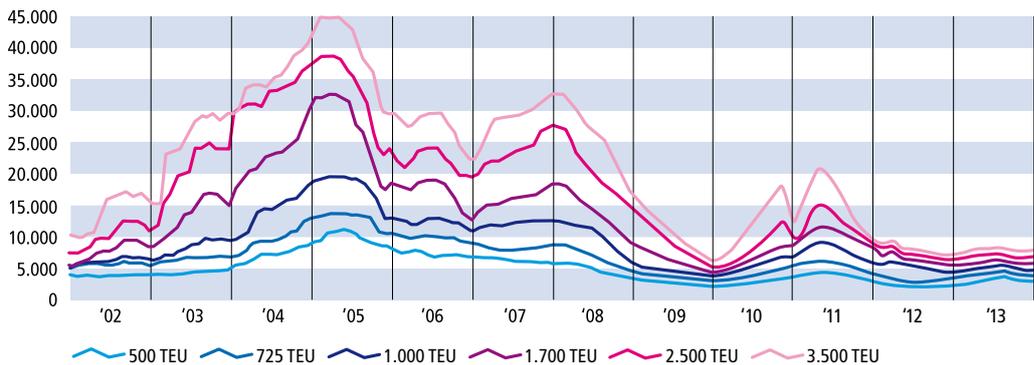
While the global economic recession seems to be in check, growth figures will be moderate for the time being due to the financial sacrifices which had to be made. This does not take away from the fact, however, that there are increasingly serious signals which indicate a new phase of economic growth. At some point, the shipping industry is bound to benefit from this growth.

It did for a while in 2013. In the first quarter, there was a marginal increase in rates in the container-feeder market, but stagnation set in in the course of 2013. Around the turn of the year, container feeder rates even dropped a little. Recovery was quickest in the multipurpose market. In 2013, freight rates increased by 15 to 20 percent. This trend is likely to continue in 2014.

Global container shipping market

Conditions in the intercontinental container shipping market are still alarming, even if market recovery should continue. The balance between supply and demand, heavily upset as it is, faces further deterioration due to the huge increase in scale which has been going on for a long time now. In late 2013, approximately 200 Ultra Large Container Ships (10,000 TEU and more) were in service. By the end of 2016, there will be another 123 vessels of comparable size, which means that the imbalance is a structural problem.

Rate developments for various container vessel sizes in \$/day

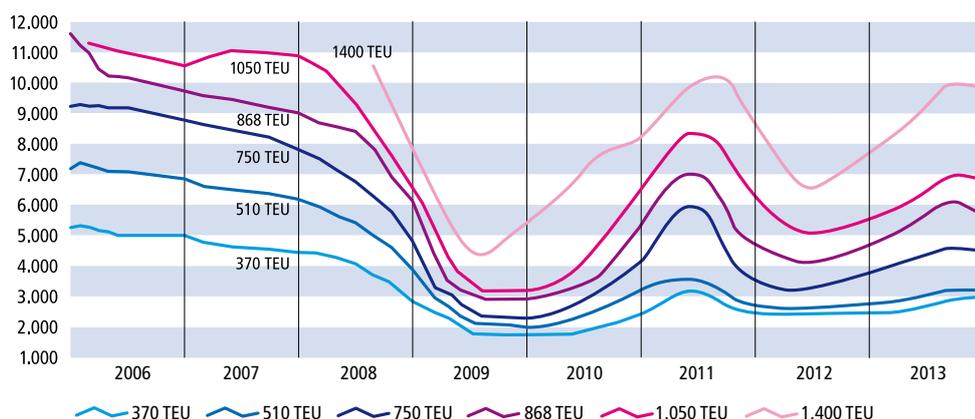


Source: Clarkson Research Studies, January 2014

Container feeder market

Before the crisis broke out, the balance in the container feeder market was slightly upset already as a result of the cyclical nature of all shipping markets. This is one of the reasons why, upon the outbreak of the crisis, rates plummeted in an extremely short space of time. Temporary improvement occurred in 2011 but, due to the 'double dip,' rates became subject to extremely heavy pressure again by the end of that year. In 2012, the situation stabilised and, in early 2013, a first slight recovery occurred. Prospects for recovery of balance in the container feeder market are better than those in the intercontinental container shipping market. Due to the crisis, many vessels were laid up. Hardly any new vessels are being added to the existing fleet. The fact that in 2013, for the first time, the vast majority container feeders were chartered almost continually underlines the trend towards balance in the market. If the market picks up, recovery of rates will be inevitable.

Charter rate developments for container feeders in €/day.

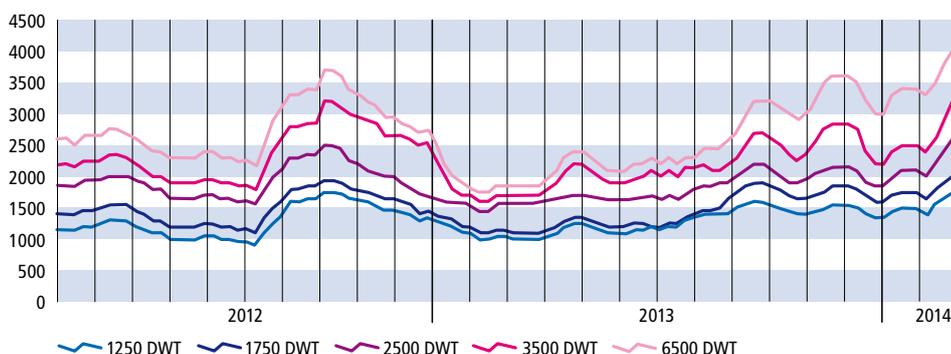


Source: Confeeder Shipping & Chartering, January 2014

Market for multipurpose vessels

Before the crisis broke out, the balance between supply and demand in the multipurpose shipping market was good. That's why, initially, the consequences of the crisis seemed to be less harsh than they were for the other shipping markets but, with the protracted duration of the crisis, freight rates plummeted nevertheless. In late 2011, this declining trend came to an end. For a long time, rates for the multipurpose vessels up to 10,000 tons which JR Shipping focusses on were at 30 to 35 percent below the long-term yearly average. In 2013, rates increased by an average of 10 to 15 percent. The multipurpose vessels operated by JR Shipping performed even better than the market average, which can be mainly attributed to a high degree of fuel efficiency. The shipping company operates multipurpose vessels of its own and carries out ship management services for vessels owned by third parties. The group's New Business Development initiatives focus on providing services to third parties.

Average turnover levels for multipurpose vessels on time-charter basis in €/day.



Bron: Norbroker Short Sea market Report, March 2014

Market for offshore service vessels

Since 2012, JR Shipping Group has been active on the growth market of offshore wind energy. For that purpose, it founded SeaZip Offshore Service, which currently operates two state-of-the-art service catamarans. In light of the alleged urgency of sustainable energy, many large-scale wind farms will be developed on the North Sea in the coming years. They tend to be built at ever-increasing distances from the coast and at great depths. That is why a new generation of service vessels is needed which can be deployed in any circumstances. In 2013, demand for these vessels was somewhat lower than had been forecast because a number of windfarm construction projects were delayed. From 2014 onwards, many projects are expected to roll out at an accelerated pace, which will increase the demand for professional maritime services.

Fleet developments

In 1994, when JR Shipping was founded, it started with the operation of multipurpose vessels. In 2000, it shifted its focus towards the rapidly growing container feeder market. Then, in a short space of time, the shipping company succeeded in building a balanced fleet and achieved a leading position in all relevant segments. The company invested in new vessels and took over existing ones. JR Shipping always managed to attract a great number of investors who wanted to provide the necessary financing. In addition, it built good relations with major shipping banks. The shipping company developed into an all-round organisation which keeps all expert knowledge and experience - ship development and financing, chartering and ship management - in its own hands. By the end of 2013, JR Shipping was operating 15 container feeders.

In 2011, within the context of its diversification policy, the shipping company reverted to the multipurpose market and bought two vessels with a deadweight capacity of 4,750 tons. Since 2012, it has also operated three multipurpose vessels for third parties. By the end of 2013, the shipping group was responsible for the vessel management of 15 container feeders, 5 multipurpose vessels, 2 offshore service vessels and the clipper Stad Amsterdam.

Given the circumstances, the JR Shipping vessels performed better than the benchmark. For the fleet as a whole, the revenues which were generated were extremely disappointing for the fifth year in a row, despite the fact that the effects of cost increases were kept firmly in check and the operational performances of all vessels were good and safe. In terms of efficiency, reliability and customer satisfaction JR Shipping's fleet performance met the highest international standards.





Containerfeeder vessel Empire



Multipurpose vessel Estime



Offshore service vessels SeaZip 1 and SeaZip 2



BUSINESS DEVELOPMENTS

With a knowledgeable and decisive organisation comprising 35 staff and over 200 seamen aboard its vessels, JR Shipping appropriately implements and executes its mission: *Excellence in Short Sea Shipping*. The expert team which carries out the technical and operational ship management is at the centre of this.

From the summer of 2013, the shipping company is led again by its managing directors/owners Mr. J.R. Arends and Mr. S.D. Schakelaar. Mr. J. van Niejenhuis, who joined the shipping group's management board as its third member in 2012, chose to pursue a different career path. The shipping group comprises the following operating companies:

- ▶ **JR Ship Management**
Technical/nautical and commercial/financial fleet management
- ▶ **JR Ship Crew**
Crew-related matters
- ▶ **Confeeder Shipping & Chartering**
Chartering
- ▶ **JR Ship Investments**
Structuring and placement of investment funds
- ▶ **JR Ship Brokers & Consultants**
Support in the areas of ship development / sale and purchase
- ▶ **JR Ship Cruise**
JR Shipping fleet-related travel agency
- ▶ **SeaZip Offshore Service**
Service vessels for offshore wind farms

Financial management

Since 2009, JR Shipping's business operations have focussed primarily on crisis management. In the areas of technical ship management and crew-related matters, austerity programmes were successfully implemented on many fronts, without compromising quality and safety. In financial management, many efforts were made to support the fleet and help pave the way to recovery of invested capital. A series of constructive consultations were held with banks. By maintaining maximum transparency in any circumstances and placing clear constraints on feasibility and suitability criteria, the group retained the confidence of financing institutions and investors.

Upon the outbreak of the crisis, appropriate restructuring measures were taken immediately. First, a joint support fund was set up and, in close consultation with banks and investors, supporting measures for each individual vessel were taken at a later stage. Within the scope of opportunities available, banks cooperated as much they could by providing interim financing and concluding stand-still agreements. In late 2011, when it was clear that the dreaded double-dip scenario had become reality, it had to be concluded that the privileged position of keeping all vessels operating had come to an end. The shipping company showed realism in drawing up a list of objective criteria regarding which vessels could be saved, with the arguable chance of capital recovery as the main guideline. Seven vessels had to be judged beyond redemption.

In 2012, additional measures were taken for the remaining vessels. Special cooperation with HSH Nordbank led to a restructuring and refinancing scheme for eleven vessels including a new shipping fund, JR Fleet Fund CV, which offers many opportunities. Productive measures for other vessels could be taken in consultation with other banks. At the end of 2012, the shipping group concluded that it could look beyond the crisis from a 'recovery position'. It also raised the significance of New Business Development. For its implementation, JR Shipping Bonds were issued in mid-2013, which yielded more than € 1.7 million. This was proof of the fact that investors still believe in the opportunities of the shipping industry and in JR Shipping's policies. In late



2013, the shipping company received another special mandate from its investors. The German Commerzbank AG had decided to withdraw from the ship financing market permanently, which gave JR Shipping the opportunity to pay off mortgage loans on two vessels, MV Evidence and MV Evolution, at high hair cuts. By the end of January 2014, it could be determined that the target capital of € 5 million had been achieved. In the end, the issue of the bonds was even oversubscribed considerably.

Technical/nautical ship management

Against this background, the shipping company has continued to focus on a combination of cost efficiency measures and quality improvement in technical/nautical ship management. Technical buyers, technical inspectors and logistic professionals worked closely together with the market participants involved to keep the effects of rising operating costs under control. At all times, they aimed at optimising existing supplier relations. The forever rising costs of fuel and lubricating oil, in particular, demanded a great deal of attention. Systemisation of procurement led to good results in this area. Savings relating to crew expenses were achieved by making some shifts of emphasis in the ratio between Dutch and non-Dutch officers. The group's human resources policies continue to focus on deploying as many seamen trained in the Netherlands as possible so as to maximise their sense of commitment to the organisation and optimise their quality awareness. The shipping group is working closely together with international maritime training institutes and, in 2013, started facilitating training positions, including in the JR Masterclass programme.

In 2013, our QHSE Department arguably managed to bring about safety improvements aboard our vessels. Systemisation of procedures and surveillance has led to a gradual decrease in work-related accidents. With the aim of maintaining the current high level of safety and synchronising it to changing operating conditions at sea and new international legislation, the shipping group created a special working group in 2013. It will examine the possibilities of ingraining the high safety awareness among seamen in the organisation and further optimisation of the vessels' performance.

Another relevant challenge which requires attention and research is the European legislation concerning SO₂ emissions from the shipping industry. The crisis has caused delays in the implementation of rules and regulations, but it is beyond any doubt that SO₂ standards in a great number of European coastal areas will become more stringent. While smaller vessels with little installed power have the alternative of using cleaner gas oil, this alternative will in most cases require unduly large investments for larger ships. Appropriate solutions need to be developed for this problem, which requires open consultations within the sector. In 2012 and 2013, it emerged that fuel-efficient vessels are going to be the new standard. Compared to the benchmark, MV Esprit and MV Estime, the new multipurpose vessels which JR Shipping put into service in 2011, performed above-average partly due to their economical fuel consumption. In addition to the tightened rules and regulations relating to SO₂ emissions, the tightening of the Ballast Water Convention draws ever closer. The shipping sector will have to act upon this in an innovative manner.

Ship management for third parties

JR Ship Management has the expert knowledge to address these and other challenges in an effective way and is going to actively seek sector-wide consultations. A fully ISPS (International Ship & Port Facility Security) and ISM (International Safety Management) certified organisation, JR Ship Management meets the highest international standards. This goes for both its own container feeders and multipurpose vessels and for the offshore service vessels for which the shipping group trained crew members of its own in 2013, and increasingly for vessels owned by third parties. In 2013, JR Shipping took care of the third party ship management of three multipurpose vessels. Besides that, the shipping company was responsible for the technical/nautical management of the clipper Stad Amsterdam. Within JR Shipping Group's diversification policy, ship management for third parties is one of the priority areas.



OUTLOOK – REGROUPING AND CONSOLIDATING

Economic prospects are good. The recovery is still fragile, but the crisis seems a thing of the past. The consequences of the crisis, though, will reverberate through the shipping industry for a long time to come. The damage which has been done is almost beyond one's imagination. Now, the sector is entering a reorientation and consolidation stage.

This goes for JR Shipping Group, too. Besides operating and managing its own fleet, the shipping company will focus on New Business Development in the time to come. Its diversification policy will take precedence.

Container feeder market

Since 2000, JR Shipping has played a leading role in the container feeder market. Using its own charter specialist, Confeeder Shipping & Chartering, the shipping company had always managed to secure eminent operating results until the crisis broke out. While market conditions have been extremely difficult since 2008, the shipping company has succeeded in keeping the larger part of its fleet operating. The year 2014 will also be a challenging one in which substantial market recovery is hugely urgent. Since the balance between supply and demand is now better than it was before the outbreak of the crisis, recovery conditions are relatively good. With its cost-conscious operational policy and professional ship management, the shipping group will continue to focus on the provision of excellent services in this market.

Multipurpose shipping services

In 1993, JR Shipping Group started its operations as a captain-owner company with a small fleet of compact multipurpose vessels. In 2008, before the outbreak of the crisis, the shipping company decided to diversify its operations and identified a return to the market for multipurpose vessels as a priority area. In 2011, it put into service two multipurpose vessels of its own which performed well given the crisis conditions. In 2013, the freight rates in the market segment in which JR Shipping is active increased by 10 to 15 percent against 2012. This trend is expected to continue in 2014.

Ship management services for third parties

JR Shipping's organisation ashore is fully certified in respect of all-round ship management and is equipped with experienced specialist teams who know all the tricks to perform very well and at a constant quality level in all aspects related to financial, commercial and technical/nautical ship management. State-of-the-art information and communication systems, both ashore and aboard the ships, ensure the efficiency, safety and 24/24 monitoring of all operations. Work practices on board the vessels are among the safest in the world. In the context of its diversification policy, opportunities for marketing the shipping group's expertise in all-round ship management outside its own fleet were also taken into account. There appeared to be a proven need for this expertise. The crisis in the shipping industry even enhanced this need further: colleague companies are looking for scale enlargement opportunities and outsourcing of specific operations. Due to the emergence of new ownership structures, companies will increasingly have to enlist external expertise in order to continue to deploy their vessels responsibly and safely, subject to the strict international maritime standards. In 2013, JR Shipping Group already carried out managerial duties for a total of 6 vessels and on behalf of several ship-owners. This activity is expected to grow in the coming years.

Provision of services to offshore wind farms

In 2010, JR Shipping Group decided to establish SeaZip Offshore Service BV. This step was prompted by the results of a market analysis identifying trends in the offshore wind-energy industry. In view of Europe's strong ambitions regarding reduction of CO₂ emissions, the development and operation of alternative sources of renewable energy is urgently needed. Northern Europe focusses on wind energy. Three trends are visible in the development of wind farms: site selection shifts from land to sea, the scale of wind farms in the making is becoming larger and larger, and technology makes it possible to construct wind farms at ever-increasing distances from the coast. For the next few years, construction of a great number of wind farms is in the pipeline.



This will bring with it a growing demand for a new generation of offshore service vessels: swift vessels which guarantee (environmentally) safe operations performed in any circumstances and preferably in 24/7 services. By introducing two state-of-the-art service catamarans, Sea Zip 1 and 2, which were constructed in cooperation with Damen Shipyards and modelled after the revolutionary Twin Axe Bow concept, JR Shipping created a new standard in 2013. These catamarans are suited for transporting people and light freight and were well-received by the industry. The vessels could be put to use immediately in 2013 in delivery activities for a large-scale wind farm developed by the German BARD Group. Their performance was excellent. JR Ship Management is responsible for their technical/maritime ship management. Regular crew members received special training for work on the service catamarans. In light of the anticipated large number of wind farms in the North Sea, JR Shipping expects a significant increase in this kind of specialised maritime services which can be put to use in research and development, construction, operational activities and maintenance. In the spring of 2014, both SeaZip 1 and SeaZip 2 managed to secure charters up to and including the spring of 2015. During this period, they will be deployed in the German Bight.

Concluding Remarks

It is clear that the past years of crisis have caused a landslide in the shipping industry. Even in 2014, this market will see ships go into bankruptcy and market participants disappear. The period of recovery will come too late for many ship-owners. Organisations which have managed to bridge the crisis so far, including JR Shipping Group, are now entering a stage of reorientation. It will be critical for them to think out of the box and develop new revenue models. In 2013, the shipping group reinforced its financial foundation by issuing corporate bonds in the context of new business development. The management board linked them to clear spending targets:

- ▶ market research and project development
- ▶ investments in high-potential corporate takeovers, mergers and alliances
- ▶ opportunity investments
- ▶ acquisition of contracts for ship management

The swift placement of JR Shipping bonds in 2013 and the € 5 million placement of ship-related bonds later that year demonstrated that investors continue to have confidence in the shipping industry and stand in support of the policy choices made by the shipping group. The solutions which were found throughout the crisis in consultation with financial institutions, suppliers and industrial customers were also based on trust, in spite of the sometimes seemingly contradictory interests. JR Shipping Group considers transparency and trust core values for new successes in a new phase and lives up to this trust by being innovative entrepreneurs and showing flexibility and professionalism.



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