



JR SHIPPING *TODAY*

HIGHLIGHTS FROM THE JR SHIPPING ANNUAL REPORT

2014

ABOUT JR SHIPPING

JR Shipping, based in Harlingen, the Netherlands, was founded in 1993 as a captain/owner company active in the multipurpose vessel market. In 2000, the company shifted its course towards the container feeder growth market and, in a short space of time, built up a state-of-the-art fleet which covers all the appropriate segments (from 350 TEU to 1,400 TEU). In 2008, it decided to diversify. The most significant pillars of this diversification policy are:

- ▶ Consolidation of JR Shipping's position in the container feeder market
- ▶ Expansion in the market for multipurpose vessels
- ▶ Stepping up ship management and fund management services for third parties
- ▶ Further development of service and accommodation vessels and innovative service concepts to support the offshore wind farm industry

Each year, the group issues an annual report, JR Shipping Anno Nu. It describes and clarifies the most significant market and business developments. This JR Shipping Today 2014 provides a summary of JR Shipping Anno Nu 2014.

At the end of 2014, JR Shipping Group was responsible for 15 container feeder vessels, 5 multipurpose vessels, 2 offshore wind service vessels, and 1 Tall Ship in operation, the clipper *Stad Amsterdam*. The shipping group's complete Annual Report can be downloaded from www.jrshipping.nl.



MANAGEMENT STATEMENT

In 2014, our shipping group succeeded in putting its vessels to use for a range of customers. Charter and freight rates were still at a low level. After a short recovery in 2013, the 2014 market saw a slump and even a 'triple-dip' recession. At the end of 2014, there was still no arguable evidence of recovery in the shipping segments served by JR Shipping, despite the many signals which indicate that the global economy has found its way upwards.

Thanks to inventive and agile entrepreneurship, though, the shipping group kept its vessels operating and successfully created support among banks and investors for additional, supportive measures. At the same time, it focussed on new opportunities and revenue models, which led to some remarkable successes in 2014.

One pillar of our diversification policy is further expansion of our position in the market for service vessels which support wind farms at sea. In 2012, the shipping group brought into service two SeaZip offshore service vessels, which have been chartered out to leading market participants under long-term contracts. In 2014, a solid financial foundation was laid for the operation of another two SeaZip offshore service vessels which shortly after the christening ceremony, in March 2015, were chartered out to support the installation of wind farms at sea. The offshore wind industry is gaining momentum and, consequently, there are good prospects for the shipping group to reinforce the foundations of its organisation.

Also our ambition to initiate new business within specific shipping segments by providing specialised ship management services for third parties brings about new opportunities. For a long time, there have been contacts with a number of business relations, including banks, to study possible scenarios. At the end of 2014, these efforts led to a breakthrough. A German bank requested that we take over the commercial, operational and financial management of the CVs of six container feeders from a fellow Dutch shipping company. The transition stage has now come to an end. A restructuring and refinancing stage will follow.

The successful chartering out of the SeaZip offshore service vessels and the prestigious management take-over request for 6 container feeders have marked a new business stage for the shipping group. Diversity is increasing, the group's foundation has been broadened and reinforced, market conditions have changed permanently and require maximum manoeuvrability, but the main thrust remains unchanged: providing excellent services to the markets which we focus on.

Harlingen, may 2015



Jan Reier Arends



Sander Schakelaar

JR Shipping Management Board



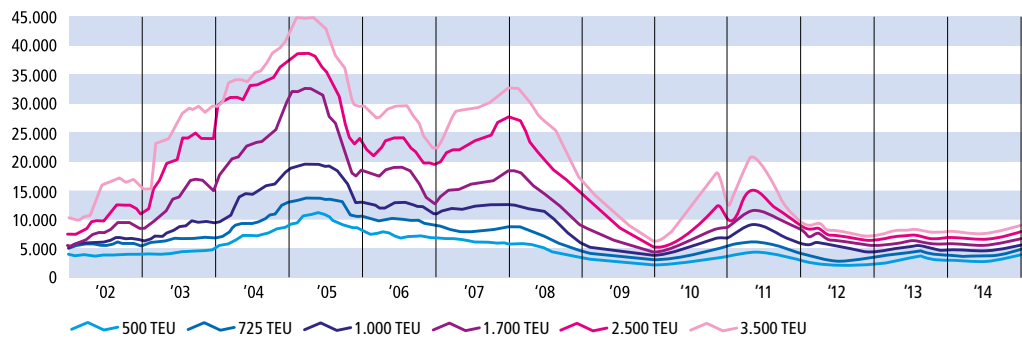
MARKET AND FLEET DEVELOPMENTS

The upswing which occurred in most shipping markets in 2013 was short-lived. 2014 started in a minor key and market conditions remained substandard throughout the year. Some vessels were even forced to go 'off hire' again. There was one positive exception, though. Only the market for offshore wind service vessels in which, consistent with its diversification policy, the shipping group has operated since late 2012, lives up to expectations. In the market for wind farms at sea there is structural growth in the demand for service vessels.

Container feeder market

The container feeder market is still waiting for lasting recovery. There are signs of unambiguous growth ambitions in the intercontinental container shipping market; ship owners specialising in container feeders, though, are still struggling to keep afloat.

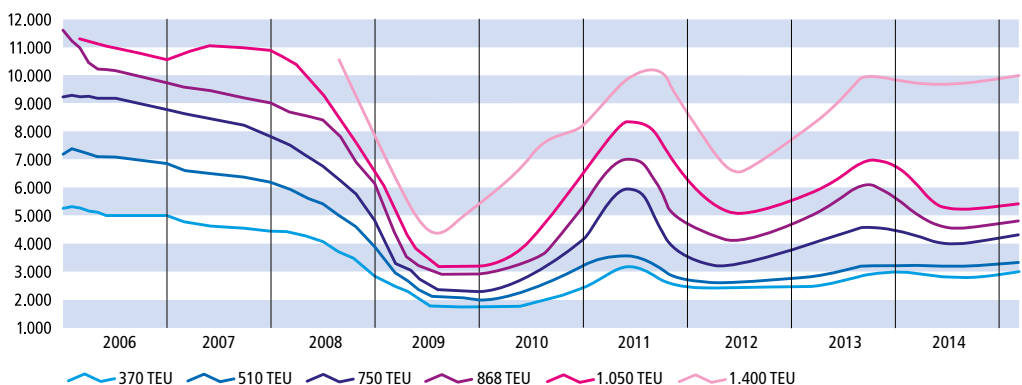
Rate developments for various container vessel sizes in \$/day



Source: Clarkson Research Studies, January 2015

In 2014, JR Shipping Group was responsible for 15 container feeder vessels, varying in size from 340 to 1,440 TEU. In terms of operational management and service provision, operations passed off consistent with the group's high quality, safety and efficiency standards. By contrast, charter revenues were disappointing for the seventh year running. For the most important part of the container feeder fleet, though, the shipping company has successfully dealt with imminent working capital deficits by entering into timely consultation with banking partners and investors about additional facilities. In early 2015, it was necessary to sell the two smaller vessels from the fleet (the 340 TEU vessels *Expansa* and *Externo*), which sail in a business category with less prospects for recovery than average, with the consent of the bank and the investors. JR Shipping will continue to be responsible for their ship management.

Charter rate developments for container feeders in €/day



Source: Confeeder Shipping & Chartering, February 2015



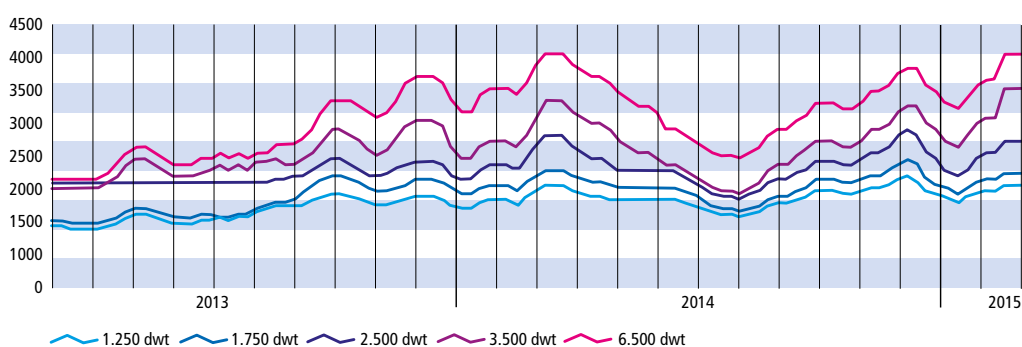
It is clear that the past years of crisis have had a dramatic impact on the container feeder market. No matter how ironic it may be, the disappearance of a great deal of capacity from the market due to harsh restructuring will, in the long term, create a better balance which will lead to higher rates as soon as lasting market recovery materialises. Market rationalisation is still in full progress. These conditions create further business prospects for JR Shipping Group, which as a full service shipping company managed to hold its own under the worst imaginable circumstances. At the end of 2014, it became clear that the shipping group had a good chance of obtaining operational and financial responsibility for another 6 container feeders, known in the market as the 'River' vessels. This means that the container feeder fleet in 2015 will comprise 21 vessels.

Multipurpose shipping services

While the 5 multipurpose vessels for which JR Shipping is responsible also performed well operationally, freight rates in 2014 fell approximately 30 percent short of realistic rate levels in average market conditions. Falling fuel prices at the end of 2014 compensated to some extent for the disappointing revenues. The effects will be felt even more strongly in 2015. Imminent working capital deficits could be dealt with by making new agreements with the financing banking partners. Before the crisis broke out, the balance in the market was relatively healthy and hardly any tonnage has been built since. Besides, it is expected that capacity will continue to decrease in the wake of the crisis due to vessels going bankrupt or moving to other trading areas.

Since 2011, JR Shipping has operated two multipurpose vessels of its own, MV Esprit and MV Estime, with a deadweight capacity of 4,925 tons each. Because of the flexibility in deadweight capacity and the high level of fuel efficiency of these vessels, built by the Chowgule yard in India and commissioned by JR Shipping, revenues were still above market average. Besides operating its own vessels, the shipping group has the management of 3 multipurpose vessels for third parties. The expansion JR Shipping aspires to within this market segment as soon as market conditions allow will follow two tracks: investment in its own fleet and partnerships with market participants such as shipping banks, fellow companies and founder/owner companies. In 2014, action was taken on various fronts to achieve this. For a long time now, the shipping group has been engaged in talks with banks about potential scenarios for vessels that are, basically, not beyond redemption, but cannot continue to sail unless appropriate restructuring and refinancing measures are taken.

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



Source: *Norbroker Short Sea market Report, March 2015*

Market for offshore service vessels

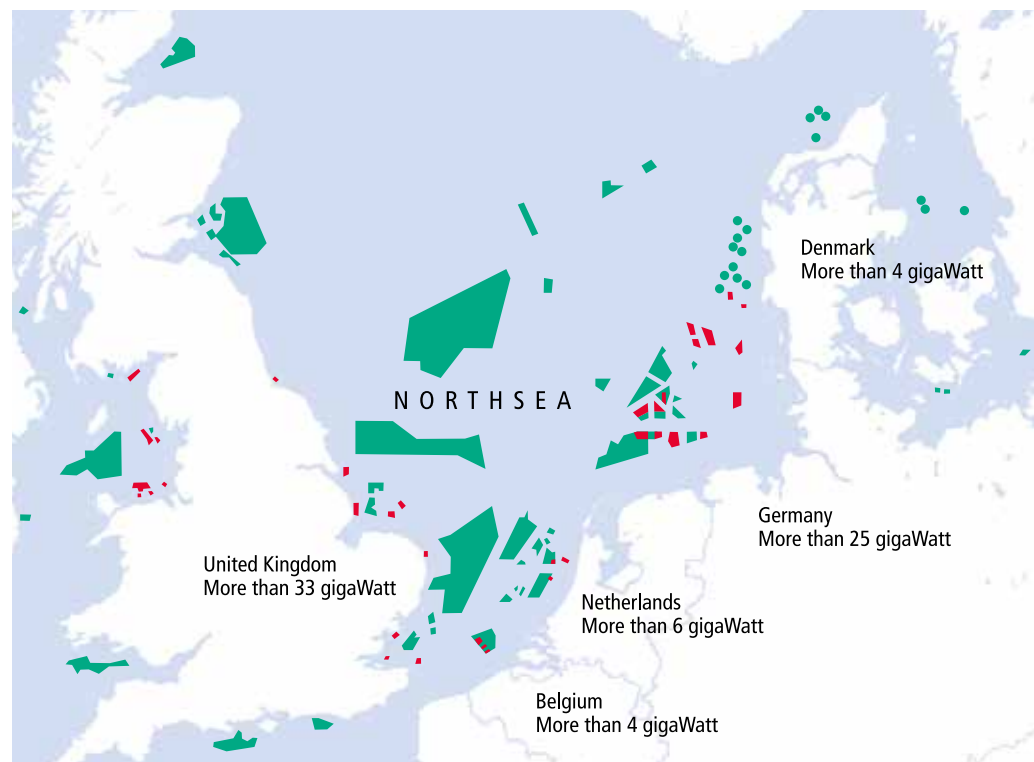
Since 2012, JR Shipping Group has been active in the market of service vessels required to build and maintain wind farms at sea. In 2010, SeaZip Offshore Service BV was set up to create a clearly identifiable position in this growth market. Two years later, the shipping group brought its first offshore service vessels into service: SeaZip 1 and 2. These are swift, manoeuvrable Damen Fast Crew Supplier 2610 vessels, modelled after the proven *Twin Axe Bow* concept which the offshore shipping industry considers the new standard for efficient and safe provision of services on the open sea. Our investors also expressed their confidence in this shipping segment. In early 2015, all SeaZip 3 and 4 participations were subscribed for, which means that all in all, over €4 million was issued. These vessels were chartered out at favourable terms too, after being christened in March 2015.



The four SeaZip service vessels represent a new generation of offshore service vessels that provide the efficiency required during the dynamic period of rapid expansion which the offshore wind industry has seen since late 2012. If required, they can be deployed 24/7, even in challenging conditions on the open sea. Consequently, the shipping group anticipates the undeniable trend towards building new wind farms at ever-increasing distances from the coast.

There is a need for seaworthy service vessels and this need will be structural, both in the short and the long term. Wind farms at the North Sea are created in stages and service vessels will continue to be involved in Operations & Maintenance after delivery of the farms. As a result, the offshore energy industry will bring with it sustainable business for a varied range of companies. The speed with which international consortiums at the North Sea are creating the energy supplies of the future is impressive. In 2014, several large-scale wind farms were finalised. At the same time, preparations were made and licenses were applied for and/or issued in respect of new farms. The offshore wind industry has now reached a point of no return.

Offshore wind energy areas. Planned: green. Realized: red



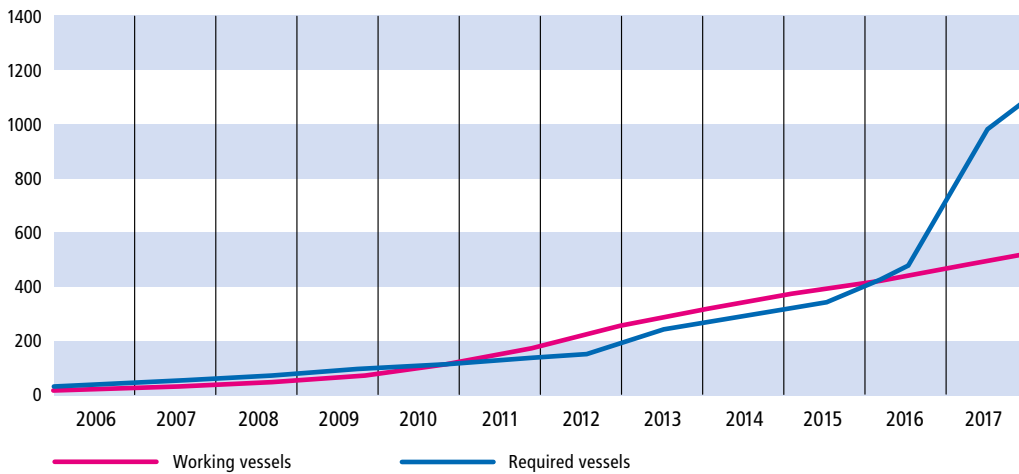
Source: *Offshore Wind, Clean Energy from the sea – Chris Westra, december 2014*

As of end of 2012, there were more than 5,000 wind turbines in the North Sea, accounting for a total capacity of over 3000 MW. The European Union's ambition is to at least octuple this generated capacity between now and 2020. Presumably, wind energy generated at sea will meet no less than 14 percent of total European energy needs in 2030. In early 2014, activities relating to the development and construction of wind farms at sea increased rapidly and at a higher speed than in previous years. This has led to the demand for the availability and deployment of, in particular, larger offshore service vessels which operate 24-hour services.

Not only will many more wind farms be developed at sea in the coming years; there will also be an increase in scale and a trend to opt for sites at ever-increasing distances from the coastline. Modern technologies are making this possible. There have already been experiments with 'floating' wind turbines and it is expected that the so-called 'Deepwater Offshore Wind Farms', which are making great progress in the USA, will also provide new opportunities in Europe. This fosters the demand for larger, fully seaworthy offshore service vessels built under class.



Service vessel demand development and forecasts until 2017



Source: Alicat Workboats & South Boats, October 2014

With SeaZip 1 and 2 the shipping group has benefited from the distinct increase in activities at sea in 2014. Both vessels were well received by the market when brought into service in 2012. In 2013, both vessels sailed at competitive rates for the German BARD Group. In 2014, SeaZip 1 was chartered by the German power company RWE for an extended period of time. RWE is responsible for developing wind farm Nordsee Ost. SeaZip 2 was operated by the Swedish power company Vattenfall until August 2014 and was immediately hired by RWE when the contract with Vattenfall expired. Both vessels provided 12-hour services without any problems throughout the year and were regularly put to extra use. They even ran shifts during the winter months, which is exceptional in the offshore wind industry and indicates the degree of urgency.

The shipping group has successfully brought the prospects of this relatively new shipping market to the attention of investors. In late 2013 and early 2014, participations in SeaZip 3 and 4, which are also Fast Crew Suppliers of the 2610 Twin Axe Bow vessel type, could be issued to both private and corporate investors. Both vessels were delivered to the shipping group in March 2015 and, after being christened, immediately chartered out to leading market participants. The good chartering practices and the interest among investors constitute a sound basis for investments in further fleet expansions at some point for the purpose of generating offshore wind energy.

Fleet developments

As of end of 2014, JR Shipping Group's own fleet comprised 15 container feeders, 2 multipurpose vessels and 2 offshore service vessels. Besides that, the shipping group was responsible for managing another 3 multipurpose vessels on behalf of third parties and for the operational management of the clipper Stad Amsterdam. The offshore service fleet, which was expanded by two vessels in early 2015, is expected to be further expanded in the period ahead. In terms of stepping up operations and efforts in regard of new business, the shipping group focuses on providing expert ship management services to third parties. At the end of 2014, it became clear that these efforts would lead to a substantial expansion of the group's container feeder fleet in 2015.

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.

The shipping company, coordinated and managed by its Managing Directors/Owners Messrs J.R. Arends (also founder) and S.D. Schakelaar, comprises the following operating companies:

- ▶ **JR Ship Management**
Technical/nautical and commercial/financial fleet management
- ▶ **JR Ship Crew**
Crew-related matters
- ▶ **Confeder 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 focussed primarily on crisis management. In the areas of technical-nautical 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 road to recovery of invested capital. A series of constructive consultations were held with banks. By maintaining maximum transparency in all circumstances and placing clear constraints on feasibility and suitability criteria, the Management retained the confidence of financing bodies and investors. This was evidenced by, among other things, the successful issue of participations in the offshore service vessels SeaZip 3 and 4 in late 2014 and early 2015, which was carried out by JR Ship Investments, the operating company which specialises in issuances and fund management for both the shipping group and third parties.

In the past years of crisis, JR Shipping have distinguished themselves by proactively seeking dialogue with banks and investors and taking unconventional measures at an early stage. The first blows were averted by setting up an 'emergency fund'; later, solutions were developed customized to the needs of the individual shipping funds. When the crisis continued, the shipping group set realistic goals by differentiating between 'commercially viable' vessels and vessels that were 'beyond redemption', based on objective analyses of the prospects for recovery of invested equity. In 2012, when the double dip materialised and a number of vessels which were 'beyond redemption' went into bankruptcy, the shipping group succeeded in dealing properly with the relevant formalities in respect of all the parties.

Additional transitional measures were taken for the 'commercially viable' vessels, measures which did not go unnoticed in the shipping industry. The most talked-about measure was the setting-up of a new shipping fund for 11 existing container feeders with the aim of creating a new financing and operational structure. For that purpose, the shipping group worked closely with one of its German banking partners, HSH Nordbank AG, and was able to generate the greatest possible support among investors. Due to assembling these 11 vessels with the consent of all limited partners in one single, efficiently manageable business unit – JR Fleet Fund



CV – and the resulting diversification of operating risks, the bank was able to assent to a new, more practicable financing structure, taking into account a more transparent structure and a more manageable risk profile. This successful restructuring process was completed in 2012 and, in 2014, triggered a German bank to enter into talks with JR Shipping Group about a restructuring and refinancing programme for the ‘River’ vessels mentioned earlier. This programme will be developed in 2015.

Technical/nautical ship management

Taking into consideration the persistently low charter and freight rates for its container feeders and multi-purpose vessels in 2014, the group continued to focus on both cost efficiency and quality improvement. In previous years, drastic and appropriate measures were taken in procurement and logistics which still contribute to the continuity of business operations and services and do not compromise safety or process quality. Success in both focus areas highly depends on a proper interaction between the organisation ashore and staff on board the ships. For that reason, JR Shipping pays maximum attention to the selection, training and education, and commitment of its seamen. For cost reasons, the ratio between Dutch and non-Dutch crew members in recent years has changed to the benefit of the latter. By working closely with a regular international crewing partner and paying attention to building its ‘own’ pool of non-Dutch crew members, the shipping company successfully retains seamen and guarantees quality on board the vessels. Automated analysis and monitoring systems, created by the QHSE Department in 2013 and further developed in 2014, are contributing factors.

Ship management for third parties

An all-round shipping company, JR Shipping has the capabilities and expert knowledge in the field of all-round ship management (financial, operational and technical management) to offer a solid foundation for providing specialist services to parties closely related to the shipping industry. The shipping group identified this as a priority area in its diversification policy, which it revealed in 2008. Currently, JR Shipping performs ship management activities for four vessels owned by others.

Due to the crisis, the need for insourcing of first class ship management services is obvious. Shipowners are increasingly struggling to keep their organisation afloat or to manage their operating processes in compliance with quality and safety requirements. As a result, vessels are still under the continuous threat of unnecessary loss of invested capital or of ‘breaking adrift’. Not only does this seriously affect investors and banks, it also puts the future of certain shipping segments under pressure. Though shipowners who successfully survive the crisis may be able to increase their rates in the short term, there is a risk of stagnation in the long term. For a long time, JR Shipping has been engaged in talks with various parties and has carried out several studies into workable solutions, paying a great deal of attention to the clustering of vessels. Since market recovery is still not forthcoming and very complicated ownership and financing structures often arise, these ‘exploration routes’ require a great deal of staying power as well as the intention to build lasting relationships based on trust.

In late 2014, a significant breakthrough occurred which marked a new phase for JR Shipping Group in its role as an all-round shipping company. This breakthrough came about when a bank requested the shipping company to carry out an analysis in respect of a potential takeover and restructuring process for six 1,118 TEU container feeders, using the successful set-up of JR Fleet Fund CV in 2012 as ‘best practice’ model. Six vessels known in the international market as the ‘River’ vessels, initially managed by fellow shipping company Universal Marine, were involved.

This process gained momentum in early 2015. In close consultation and in a short space of time, the bank, the shipping group and the active partner then came to an agreement about a responsible takeover of the vessels and the corresponding shipping CVs. Investors were informed immediately. By the time this JR Shipping Today comes out, the actual transition will have occurred and the shipping group will be preparing the second, critical stage, which is the creation and implementation of a restructuring and refinancing programme for the six shipping CVs, modelled after JR Fleet Fund CV. JR Shipping Group is convinced it can make this prestigious project a success.



OUTLOOK

With the assignment regarding the takeover of the six 'River' vessels, the shipping group will be able to significantly reinforce the foundations of its organisation and make them more sustainable. This assignment arrives at a crucial moment. While the shipping group has managed to survive the seven preceding lean years by being inventive and resilient entrepreneurs, its reserves have been depleted. The fleet expansion due to the takeover of six existing vessels provides the organisation with additional 'mass' and compensates for the vessels which the fleet has not been able to retain.

Fortified by the favourable developments during the last months of 2014 and the successful operating practice applied by the SeaZip offshore service vessels, the shipping group is preparing for the coming years. For the time being, rate developments in the markets for container feeders and multipurpose vessels do not indicate a recovery, but it stands to reason that recovery is coming and the tide will turn in 2015. JR Shipping adheres to its diversification policy which rests on four pillars:

- ▶ Consolidation in the container feeder market
- ▶ Controlled growth in the market for multi-purpose vessels
- ▶ Operating service vessels to support wind farms at sea
- ▶ Ship management and fund management for third parties

Gradually, the balance in the container feeder market is showing signs of an improved balance which cannot but lead to an increase in rates. At the beginning of 2015, this had not materialised much yet. Demand for available vessels did increase to a certain extent, though, and a trend towards securing long-term commitments was detectable. In light of the continued low rates, this is often not in the interest of shipowners and that is why they will have to navigate cautiously between what is 'practicable' and 'not practicable'.

The market for multi-purpose vessels shows an almost comparable picture. Despite the fact that this market saw a better balance between supply and demand before the crisis broke out, freight rate levels have remained disappointingly low for a much longer period than expected. In 2013, rates somewhat recovered; in 2014, the freight market continued to be weak. Later that year the market stabilised. The first months of 2015 were marked by low rates, but the low fuel costs allowed for some 'profit'.

The market for offshore service vessels, in which JR Shipping operates four vessels as of 2015, is flourishing. The number of operations regarding building and maintaining wind farms at sea is significantly increasing, which induces the demand for, in particular, larger seaworthy vessels for the transport of crew and equipment. The shipping group is serving the growth market for offshore wind energy through SeaZip Offshore Service BV, which was founded with the purpose of gaining identifiable market competitiveness. The prospects for the innovative industry which applies itself to generating sustainable energy at sea look exceptionally good. The SeaZip service vessels perform correspondingly well. As a result, expansion of the fleet may be expected. In this context, the interest shown by investors in participations in the service vessels SeaZip 3 and 4, issued by JR Ship Investments at the end of 2014 and in the beginning of 2015, was a good sign.

The past years of crisis have seen several points in time when reduction in staff numbers seemed inevitable. Throughout these years, the shipping group's Management Board have done their utmost to prevent redundancies happening, knowing that all its experts and supporting staff would be indispensable for improving the quality and continuity of the company's core processes. With the aim of reinforcing the foundations of the organisation, the shipping company focussed on new markets and revenue models. Its decision to undertake activities in the market for service vessels to support wind farms at sea has hit the bull's eye. What's happening in this market creates confidence in the future. Besides, in late 2014, the Management Board found out that patience rewards those who wait. The ambition to generate new business by providing specialist shipping services to



third parties, together with all the market efforts ensuing from this ambition, led to a noteworthy project at the end of 2014: the management takeover of six container feeders with the purposes of developing a practicable restructuring process and, later, operating the vessels for the bank and the investors involved. This prestigious assignment and the current successful operating practice of the SeaZip offshore service vessels mark the start of a new business stage in the over 20 years old existence of the shipping group, a stage in which all-round ship management to the highest standards and market diversification will set the tone.



Container feeder Emotion



Multipurpose vessel Esprit



*Offshore service vessels
SeaZip 3 and SeaZip 4*



*Ship management for third
parties
(container feeder Mekong River)*





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