

# JR SHIPPING *TODAY* 2015

HIGHLIGHTS FROM THE JR SHIPPING ANNUAL REPORT

## IN THIS OVERVIEW

- ▶ JR Shipping strengthened by positive group results in 2015
- ▶ Recovery of container feeder market creates prospects
- ▶ JR Shipping stands out by providing ship management services to third parties
- ▶ Ties with investors stronger than ever
- ▶ SeaZip offshore service fleet in full operation



## MESSAGE FROM THE BOARD

The year 2015 marked a critical change for the better for JR Shipping Group. It had been a long time since positive group results could be shown at the close of a financial year. They ensued from significant improvements in the container feeder market, a successful ship management exercise executed for third parties and notable achievements made by the SeaZip service vessels in the offshore wind energy market. The 2015 group achievements have created a stable position which, in the coming years, will enable JR Shipping to be equipped as best as possible to provide excellent services through:

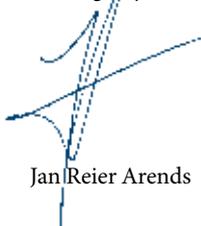
- ▶ deployment of a versatile fleet comprising 13 state-of-the-art container feeders
- ▶ deployment of 2 competitive multipurpose vessels
- ▶ flexible deployment of 6 offshore service vessels
- ▶ providing ship management services for third parties

In 2015, in performing this last-mentioned core activity, JR Shipping showed dynamism and added value. At the request of a leading German shipping bank, the shipping group in 2015 became responsible for the financial and operational management of six container feeder vessels, which could be transferred to a new owner in late 2015. Both the bank and the shipping group can look back on an excellent mutual relationship which has led to a win-win situation for all parties.

In the coming years, the shipping company is expected to be involved in similar projects. The crisis has taken its toll; the shipping industry is now in a transition stage. Many vessels have changed ownership. New owners, in particular banks, do not have the expert knowledge and certifications which are required to operate vessels safely. There is a great need for cooperation and shared solutions, whether or not in conjunction with new financing models. JR Shipping provides the know-how and financial resilience which are necessary to bring complex processes to a satisfactory conclusion together with the new owner.

After the financial group results over 2015 proved to be positive, the shipping company lost no time in taking action to improve this financial resilience as best as possible. In late 2015, a bond loan issued in 2011 could even be repaid early. In early 2016, a new bond loan was issued which generated additional working capital to the amount of € 2,490,000 in record time. Apparently, investors trust the course of our shipping company and believe in the opportunities which the shipping industry offers, just like we do, no matter how challenging the current transition stage.

Harlingen, June 2016



Jan Reier Arends



Sander Schakelaar

JR Shipping Management Board



## MARKET TRENDS AND FLEET PERFORMANCE

JR Shipping operates in the markets for container feeders, multipurpose vessels and service vessels to support wind farms at sea. Besides that, the shipping group focuses on providing integrated ship management services to third parties and on restructuring projects.



### Container feeder market

In 2015, the container feeder market improved. This recovery was lasting and continued at an accelerated pace in early 2016. Both small and large vessels managed to achieve higher rates. By taking a succession of effective restructuring measures during the years 2009 to 2012, JR Shipping has managed to steer the major part of its fleet safely through the crisis. The year 2015 closed with a container feeder fleet comprising thirteen vessels, varying in size from 750 to 1,440 TEU. Due to appropriate restructuring programmes, all the vessels are well placed to continue to answer the increasing demand in the container feeder market. JR Shipping anticipates increasingly good prospects for its container feeder fleet.



### Multipurpose market

In 2015, the market for multipurpose vessels picked up slightly. It is too early, though, to call this a lasting recovery. Plotted against the market average, JR Shipping's multipurpose vessels performed quite reasonably, which can be partly attributed to their competitive level of fuel efficiency. As the vessels are traded in the spot market, the shipping company benefited from the exceptionally low fuel costs. In 2015, JR Shipping operated two multipurpose vessels of its own and three multipurpose vessels owned by third parties. While freight rates levels were still too low, operations went off as required in all cases.



### Offshore service vessel market

The growth market of offshore service vessels has its own dynamics, which are hardly affected by the years of crisis. Since 2014, the market has gained momentum. While demand for in particular the larger, versatile service vessels has increased, demand can be erratic, though. This appeared to be the case in 2015. The year got off to a strong start, with a high level of activities, but levelled off in its third quarter. The customary winter break set in earlier than usual, since a number of large-scale wind turbine parks had been delivered simultaneously.

The shipping group operated four SeaZip offshore service vessels in 2015. Two of these were put into service as from the end of March 2015. As far as their year-end result for 2015 was concerned, these latter two service vessels, SeaZip 3 and 4, suffered from the 'broken financial year' caused by the early winter break. On average, though, the four vessels did fairly well. By successfully issuing participations in two new offshore service vessels yet to be built, the shipping company in 2015 laid a firm foundation for fleet expansion in 2016. The new offshore service vessels were delivered in early April 2016. In order to enable investors in all its vessels to have a proportional share in the vessels' profitability, the shipping company put its currently available SeaZip offshore service vessels in a 'result pool'.

As from 2016, the shipping group has six state-of-the-art, SeaZip offshore service vessels available. They can be deployed 'on demand', so to speak, which is a significant feature in light of the special dynamics of the market. The vessels were constructed by Damen Shipyards and form part of the successful Damen Fast Crew Supplier 2610 series, which is reputed for its 'Twin Axe Bow' principle. This Twin Axe Bow concept provides an unparalleled combination of speed and smooth handling characteristics on the open sea and is considered in the offshore wind energy market as the new standard for efficient and safe transportation of staff and small freight. SeaZip service vessels are geared to transporting 12 passengers comfortably, their freight capacity is 15 tons (maximum deck cargo) and they are fitted with a deck crane. If required, the vessels can be deployed 24/7 and are typically geared to conducting strenuous operations on the open sea. Consequently, the shipping group is anticipating the trend to build wind turbine parks at greater distances from the coast, at greater depths. The shipping group specifically trains its own seamen to operate the SeaZip offshore service vessels. JR Ship Management, the shipping group's fully certified ship management organisation, is responsible for its technical and operational ship management and ensures that the SeaZip offshore service fleet's deployment is customised, flexible and safe.

# SHIP MANAGEMENT FOR THIRD PARTIES AND SPECIAL PROJECTS

The transition stage which the shipping industry is currently in brings about radical shifts in position. Parties which were robust enough to survive the crisis, are reflecting on the future; on new revenue models and alliances. Those banks which provided considerable shipping loans during the years preceding the crisis are major players in this game of chess. It is they who are burdened by the legacy of the crisis, namely responsibility for vessels which have favourable prospects once the market improves. For the purpose of retaining these vessels in the market and, thus avoiding greater losses, banks will increasingly enter into alliances with ship management organisations which are capable of providing added value.

## Management and transfer of six container feeders

In 2015, as an all-round shipping company, JR Shipping carried out a prestigious contract for a leading German shipping bank in this context. The contract involved the comprehensive management of six container feeders known as the 'River vessels.' In early 2015, at the request of the bank, JR Shipping took over both the commercial and operational ship management of the vessels as well as the fund management of the related six CV-companies. The bank made the choice for JR Shipping because of the latter's successful restructuring programmes carried out previously, financial know-how, proven excellence in ship management and wide-ranging experience in the management of complex shipping funds, in which transparent communication with investors plays a vital role.

This financial know-how, placement power and communication with investors were crucial for a radical restructuring process that had been carried out in the interest of JR Shipping's own fleet. In 2012, this restructuring process was concluded by setting up JR Fleet Fund CV, under which eleven container feeders were consolidated as a single business unit with new credit facilities granted by the financing bank. In the case of the contract relating to the six River vessels, the German bank and the shipping group had a similar restructuring process in mind. In a short space of time, JR Shipping carried out the necessary technical inspections and took various emergency measures in order to secure day-to-day business for these vessels, after which it conducted a feasibility study and drew up a realistic draft restructuring plan. Throughout the process, intensive consultations were held with the bank and with the investors who were involved in the vessels through their private capital.

Mid 2015, a new momentum presented itself to the client. A serious buyer wished to take over a large number of container feeders from the bank, including the six River vessels concerned. This interested party indicated that it wanted to involve the six River vessels in a larger transaction. Consequently, the bank was presented with an opportunity to close a complex portfolio sooner than expected. In spite of the fact that the bank believed in the recommended restructuring process and that JR Shipping had the skills and expertise to undertake a successful follow-up as managing shipping company, the bank for reasons of its own decided to involve the River vessels in the transaction. Subsequently, JR Shipping held constructive consultations for the purpose of preparing and technically enabling the transfer of the vessels, adequately taking into account the interests of the bank on the one hand and the investors on the other hand.

## JR Ship Management

JR Ship Management managed to keep its all-round organisation ashore at the level required to continue playing a significant role in developing new financing models and carrying out ship management. As an all-round shipping company, the company's strategy has always been to operate based on various core disciplines represented in the organisation ashore. For both its own fleet and the vessels operated for third parties,



JR Ship Management takes charge of:

- ▶ commercial management
- ▶ nautical and technical management
- ▶ technical procurement
- ▶ financial management
- ▶ quality management

JR Ship Management comprises a compact, multi-disciplinary team of dedicated experts who know all the tricks and are committed to excellent ship management. During the years of crisis, under very difficult circumstances, JR Ship Management's experts proved capable of ensuring the quality of the fleet and the services provided as well as achieving cost savings in key areas without compromising on quality and safety standards. Measures prompted by cross-border legislation, including the switchover to environmentally less harmful fuel in the so-called ECA zones, were executed smoothly. JR Ship Management's technical inspectors and buyers more than adequately proved their value during their temporary management of the River vessels. Among seamen, JR Shipping's reputation as a good employer has remained unaffected. A special operating company, JR Ship Crew, is linked with JR Ship Management for the purpose of binding both Dutch and non-Dutch seamen to the shipping company by being an excellent employer.

## JR Ship Investments

Various, often conflicting interests play a part in complex ship management and transition projects which were created because of the appalling financial position of many sea vessels with demonstrable prospects for the future. Banks prioritise damage control and continuity of operations; investors who participate in vessels using private capital aim for a certain degree of compensation for losses which can hardly be avoided. With a view to the future of the shipping industry, it is of the utmost importance to retain or reinstate confidence among these investors, despite the losses that are currently being made. This requires transparent information and open communication.

In 2015, in its role of bond issuance expert and fund manager, JR Ship Investments already provided arguable added value during the River vessel project. In the face of its disappointing outcome for the investors, contacts remained respectful, information sessions proceeded positively and damage to the reputations of the bank and the sector was kept to a minimum. Many partners have revealed that they do not rule out investments in shipping projects in the future.

As the fund manager, JR Ship Investments of course also maintains contacts with investors who have interests in JR Shipping's own fleet. The shipping group has retained over three thousand more or less regular investors - limited partners; through thick and thin. The confidence shown by these investors was crucial when measures were taken to see the JR Shipping fleet through the crisis and when JR Fleet Fund CV was created, which makes a new, practicable financial structure for eleven state-of-the-art container feeders possible. The recovery of the container feeder market which started in 2015 and has continued at an accelerated pace in 2016, is proof of the significance and worth of this restructuring process. Partly because of the constructive attitude shown by investors, the JR Shipping container feeder fleet remained largely intact as the most significant pillar supporting the shipping company.

Investors in shipping projects, including JR Shipping's limited partners, had to accept heavy losses. Because of transparent information and communication and commitment to the course steered by the shipping company, investor confidence remained unaffected. This was convincingly shown in 2015. Spread over the year, there were four issuances, namely the issuances of participations in four new SeaZip offshore service vessels which are deployed for providing transport services in the interest of wind farms at sea. As recently as early 2016, investing partners of the shipping group cast an unparalleled vote of confidence. In record time, €2,490,000 in JR Shipping Bonds were placed. Such confidence is critical for future projects which require dynamism and resilience built on a solid financial foundation.



JR Shipping Group's organisation ashore comprises:

▶ **JR Ship Management**

All-round ship management (commercial, financial, nautical/technical)

▶ **JR Ship Crew**

Recruitment and selection of seamen and 'employership'

▶ **Confeeder Shipping & Chartering**

Specialised chartering services for container feeders

▶ **JR Ship Investments**

Issuances and fund management

▶ **JR Ship Brokers & Consultants**

Broker and consultancy services for both the shipping company and third parties

▶ **JR Ship Cruise**

Exclusive passenger voyages for limited partners

▶ **SeaZip Offshore Service**

Hiring out of crewed service and accommodation vessels for the purpose of building and maintaining wind turbine parks at sea

▶ **SeaZip Crew**

Recruitment, selection and training of seamen for the offshore wind industry and 'employership'



# OUTLOOK

The crisis of recent years has been weighing heavily on the international shipping industry. The challenges which are ahead of us are enormous. In a number of markets, including the intercontinental container shipping and bulk carrier markets, trends are still extremely alarming. Radical transitions are bound to take place in these markets in 2016. By contrast, quite different markets are showing signs of a lasting recovery, including the container feeder market. In 2015, tangible improvements set in; in 2016, recovery continued strongly. Due to its successful restructuring programmes during the years 2009 to 2012, JR Shipping managed to steer its most important container feeders through the crisis. Effective from 2016, the shipping company has a fleet of 13 container feeders up and running. These state-of-the-art vessels vary in size from 750 to 1,440 TEU. In the coming years, the container fleet will be one of the most important pillars of the shipping company. Besides that, JR Shipping focuses on the market for multi-purpose vessels (also for third parties), the growth market for offshore service vessels, and the project market.

As from 2016, JR Shipping has six SeaZip service vessels available for the offshore wind industry. In 2015, the putting on the market of participations for four of these vessels was a success. The two swift and successful issuances are proof of the confidence among investors in the potential of the industry which applies itself to the building and maintenance of wind turbine parks at sea. With its present fleet of SeaZip service vessels, managed by JR Ship Management, the shipping group is well equipped for a flexible and customised support of the international offshore wind industry using high-end vessels for transport of staff and small freight. The focus is on excellent services hand in hand with maximum safety and customer value and, when justified by market developments, on fleet expansion.

JR Shipping closed 2015 with good group results. This was partly due to the successful work done on a large and comprehensive management project commissioned by a leading German bank organisation. For one year, JR Shipping was responsible for the complete management of six container feeder, CV-funds and its assets. In respect of 2016 and the following years, the shipping group expects that it will be commissioned further similar projects prompted by the transition stage which the shipping industry is currently in. The one time, the focus will be on creating new financial and ownership structures, the other time, technical and nautical management will be the subject of focus. Frequently, they will go hand in hand. JR Shipping in 2015 showed that it has the expert knowledge which is required to bring complex, multidisciplinary projects to a favourable conclusion. The shipping company also anticipates new alliances and participation projects in 2016.

To be prepared for this as best as possible, JR Shipping issued new corporate bonds to the market in early 2016. A previous bond loan which had been issued in 2011 could be repaid early because of the favourable 2015 group results. The new bond issue went off beyond expectations. The shipping company managed to raise additional investment capital of €2,490,000 in less than two weeks. This gave the shipping company the additional dynamism and resilience required to take into account new opportunities, revenue models, projects and alliances which are associated with the transition stage the shipping industry is currently in.

The shipping company is aware that 2016 will see crucial transitions and that a number of shipping markets are still feeling the pressure caused by the heavily upset balance between supply and demand. The present overcapacity, in particular in the market for intercontinental container vessels, poses a real risk to shipping entrepreneurs and banks. On the other hand, there are other markets which are getting back on their feet and are creating new prospects. Besides that, the demand for new forms of service provision manifests itself clearly. JR Shipping will occupy its own position, starting from a sound basis which was formed as a result of resilient entrepreneurship during the years of crisis and dynamism in the current years of recovery and transition. JR Shipping is combative and ready for battle – partly because of the results achieved in 2015 and the successful issuance of JR Shipping Bonds in 2016.



# ABOUT JR SHIPPING

JR Shipping, based in Harlingen, was founded in 1993 as a captain/owner company active in multipurpose shipping services. After successfully operating a small fleet of multi-purpose vessels, the shipping company decided to devote itself from 2000 onwards to the then rapidly growing container feeder market. The enterprise grew swiftly, retained a large group of investors and, between 2000 and 2008, built up a fleet of vessels varying in size from 340 TEU to 1,400 TEU. In 2010, the shipping company settled for a diversification strategy. Its pillars are:

- ▶ consolidation in the container feeder market
- ▶ controlled growth in the market for multi-purpose vessels
- ▶ operation of service vessels to support offshore wind farms
- ▶ ship management and special projects for third parties

Despite the huge blow dwelt to the worldwide container feeder fleet by the crisis, JR Shipping has proved its ability to keep the larger part of its fleet operating thanks to appropriate transitional measures and restructuring programmes and to keep its shipping company up-to-date. Below you will find an overview of remarkable benchmarks achieved in the past years of crisis.

## JR SHIPPING GROUP - MILESTONES FROM 2009 TO 2016

Year	New Business Development	JR Solutions
2009	<b>JR Ship Investments BV</b> successfully places 2 x € 2,0 million equity for the financing of 4.900 tons multipurpose vessels MV Esprit and MV Estimate. The (temporarily available) 'accelerated depreciation scheme' was applied.	<p>First inter creditors deal with standstill arrangements until end of 2010 for the JR Shipping Fleet.</p> <p>JR Vloot Support CV:</p> <ul style="list-style-type: none"> <li>▶ € 8,2 million fresh working capital for the JR Shipping Fleet.</li> <li>▶ To support the fleet during 2009 and 2010.</li> </ul> <p>Additional tailor made working capital measures.</p>
2010	JR Shipping Group founds <b>SeaZip Offshore Service</b> , a new ship owning and management company specialised in service vessels for the offshore wind industry.	<p>Second inter creditors deal with standstill extensions until end of 2010 for the JR Shipping Fleet.</p> <p>Further tailor made working capital measures. During 2009 and 2010 over € 20 million new working capital was put on the table by JR Shipping and its CV-investors to support the fleet.</p>
2011	<b>JR Ship Investments BV</b> successfully places 2 x € 2,0 million equity for the financing of 4.500 tons selfdischarging multi-purpose vessels MV Hagland Captain and MV Hagland Chief. The (temporarily available) 'accelerated depreciation scheme' was applied. Equity financing in Holland was done for Norwegian owner Hagland. The ship management was granted to JR Shipping.	JR Obligaties BV (Obligaties = 'Bonds') successfully issues € 2,5 million of bond capital. Interest coupon: 8%, expiry July 2016 and secured by the group holding. Purpose: to strengthen the group's flexibility.
	MV Esprit and MV Estimate added to the fleet.	



Year	New Business Development	JR Solutions
2012	<p><b>SeaZip Offshore Service</b> takes delivery of its first two service vessels: MV SeaZip 1 and MV SeaZip 2.</p>	<p>Restructuring of 11 vessels financed by HSH Nordbank. Eleven single ship entities (CV's) have been consolidated in 'JR Fleet Fund CV' involving € 145 million of refinancing.</p>
2013	<p><b>JR Obligaties BV</b> successfully issues € 1,7 million of bond capital. Interest coupon: 7%, expiry in 2020 and secured by the group holding.</p> <p>MV Hagland Captain and MV Hagland Chief added to the fleet.</p>	
2014		<p><b>JR Ship Investments BV</b> successfully places 2 x € 2,5 million bonds secured by first priority mortgage placed to pay off (with some 50% haircut) Commerzbank's financing of MV Evolution and MV Evidence.</p> <p><b>JR Shipping Group</b> teams up with HSH Nordbank in a 'Nautilus' restructuring attempt involving a portfolio of 10 feeder vessels.</p>
2015	<p><b>JR Ship Investments BV</b> successfully places 2 x € 2,0 million equity for the financing of two offshore wind service vessels (MV SeaZip 3 and MV SeaZip 4). Both CV-projects apply Dutch tonnage tax.</p> <p><b>SeaZip Offshore Service</b> takes delivery of MV SeaZip 3 and MV SeaZip 4 in March.</p> <p><b>JR Ship Investments BV</b> successfully places 2 x € 2,0 million equity for the financing of two offshore wind service vessels (MV SeaZip 5 and MV SeaZip 6). Both CV-projects apply Dutch tonnage tax.</p> <p>On a consolidated basis, the companies within the <b>JR Shipping Group</b> generated a healthy operational result of € 2,7 million in 2015.</p> <p><b>JR Obligaties BV</b> repays € 2,5 million of bond capital to the investors. The bonds, placed in 2011, were originally scheduled to expire July 2016 but could be repaid half a year in advance, due to the improved financial position of the JR Shipping Group. The advances being: an improved balance sheet and less interest coupon costs in 2016.</p>	
2016	<p><b>JR Obligaties BV</b> successfully issues € 2,5 million of bond capital. Interest coupon: 7%, expiry in 2023 and secured by the group holding.</p>	



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