# JR SHIPPING *TODAY*

HIGHLIGHTS FROM THE JR SHIPPING ANNUAL REPORT 2012

# MANAGEMENT STATEMENT

After four years of crisis management, JR Shipping Group was able to consolidate its position as short sea shipping specialist in 2012. By creating a new financing structure, the group managed to restrict the necessary restructuring measures within its fleet to a minimum. The future of its activities in the container feeder and multipurpose markets has been secured. Besides that, 2012 saw the first two offshore service vessels delivered to SeaZip Offshore Service BV, the shipping group's sister organisation. In early 2013, a charter contract was closed for both vessels with a leading party in the offshore wind farm market.

The efforts made in 2012 have led to a stable situation, which enables the shipping group to look beyond the crisis. While 2013 and 2014 will no doubt be challenging, the group's starting position for future-oriented policies and further concrete actions offers many opportunities. The main principle of these policies is diversification. While JR Shipping's Management Board will continue to focus primarily on the container feeder market, it also harbours realistic ambitions of being successful in both other markets and new types of services. There are four policies supporting the direction which in 2013 will be pursued, at an accelerated pace:

- consolidation of the various container feeder market segments
- expansion of operations in the multipurpose market
- continued growth of service provision to third parties
- provision of specialised services in the offshore wind farm market

Although uncertainty continues to hamper global business growth prospects, JR Shipping's Management Board and staff perceived 2012 as a turning point. The deepest lows seem to be over and more and more signs indicate the start of the shipping industry's recovery. 2013, the year of JR Shipping's twentieth anniversary, will therefore be the year to look at the business' future. This, in turn, is an excellent opportunity to highlight some of the contents of the 2012 annual report in order to show what the shipping company stands for.

Harlingen, may 2013

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JR Shipping Management Board


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# MARKET AND BUSINESS DEVELOPMENTS IN 2012

**Global economic development in 2012 was worse than expected. Growth in the USA was disappointing and Europe was hit by another year of recession. The consequences for the shipping industry were disastrous. After four years of crisis, many ship owners seem to have little room left for manoeuvre and new losses are leading to rigorous cost cutting. A number of JR Shipping's vessels also finished the year 2012 with a loss. How-ever, the shipping company managed to keep afloat. With a financial restructure of a large part of its fleet at the end of 2012, the company secured the continuity of its activities in anticipation of better economic times.**

Improved global trade figures are crucial for the recovery of the shipping industry. The fact that capacity in various shipping segments has been lost and will continue to be lost due to the persistent crisis conditions will, ironically enough, eventually contribute to this recovery. It is obvious that there is still a long and challenging way to go towards a shipping sector that is sound and profitable.

## Disturbed balance

In 2012, when the container shipping market once again experienced rough times, there was no sign of this prospect yet. More specifically, pressure on rates in intercontinental container shipping was almost unbearable. This pressure was partly caused by capacity expansion, which was fully out of proportion to market demand. Due to programmes for the construction of new vessels which were initiated during the years of high growth, the global fleet in 2012 expanded with over 50 vessels with a capacity of more than 10,000 TEU. The balance between supply and demand has been seriously disturbed and it will take years before the market climate for larger container vessels improves.

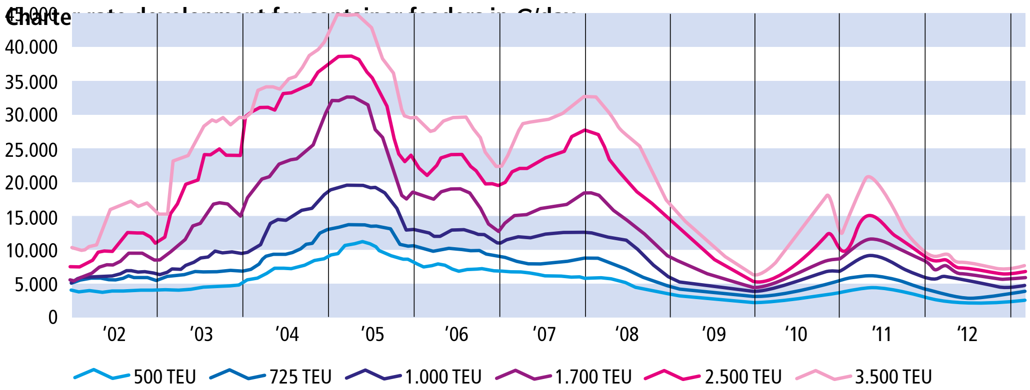
## Container feeder market

The container feeder market, in which JR Shipping has successfully manifested itself over recent years, has also seen an imbalance, albeit to a lesser extent. This imbalance first emerged in 2007, well before the start of the crisis. Consistent with the cyclical character of all shipping markets, many new ships were brought into service in 2007 and 2008. This led to a slight overcapacity. For the first time in years, modest rate reductions had to be accepted in 2007. In 2008, when the credit crunch caused the global economy to falter, rates went down more drastically. In 2009, the enduring crisis led to an unprecedented low. Container feeders' daily yields in almost all ship classes fell well below the break-even point.

Both 2009 and 2010 were disastrous years, also for JR Shipping. In both years, though, the shipping company took measures to bridge the crisis at an early stage. In 2009, a working capital financing fund was created for the entire fleet (JR Vloot Support CV) and in 2010, when market recovery failed to materialise, further vessel-specific measures were taken. Because of these measures, the financing banks have maintained a constructive attitude throughout the crisis. The shipping group continued to commit itself to securing adequate service provision to its customers under extremely difficult market conditions. Indeed, its vessels provided services below cost price level, but this doesn't change the fact that JR Shipping has done everything in its power to keep them available for the market.

In late 2010, charter rates started to stabilise and, in 2011, they improved for the first time, specifically for the larger vessels in the container feeder segment. This improvement proved consistent with the principles underlying the transitional measures which had been taken in 2009 and 2010, respectively. The first 6 months of 2011 finally gave some cause for optimism, but this did not continue and rates went downhill after the summer of that year. The dreaded double dip occurred and rates in almost all shipping markets, again, dropped to rock-bottom.
The rates hardly improved at the beginning of 2012. The operation of container feeders was downright poor.

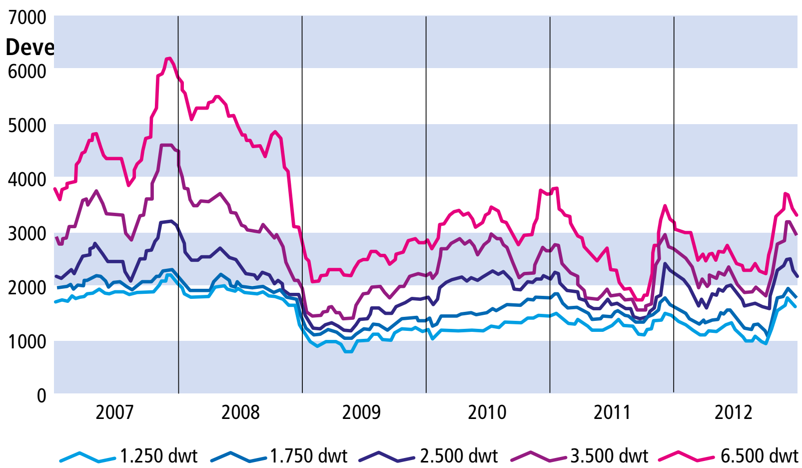
In late 2011, it had become apparent that the dividing line between commercially viable and inviable vessels was getting clearer. In early 2012, the judgement 'beyond redemption' was pronounced on seven vessels. During 2012, a bankruptcy petition had to be filed for five vessels. Besides that, after consultations with the bank, two ships were laid up pending further restructuring measures. These vessels went bankrupt in early 2013 as well. Going through these inevitable and difficult processes, the interests of charterers were kept in mind and the company managed to restrict the loss and damage suffered by suppliers. All the outstanding trade creditors were fully paid. The situation of the sixteen remaining container feeders remained delicate. Eventually, permanent consultations with banks, customers, and investors led to a useful solution for the larger part of the fleet.




*Source: Clarkson Research Studies*

## Multipurpose vessels

The situation in the multipurpose market in 2012 was far from workable either. At the start of the crisis, the balance between supply and demand in this market was relatively healthy, so that, initially, it appeared the consequences would be easier to manage. Reflecting the unprecedented elongated duration of the crisis, though, this sector was eventually also exceptionally hit hard and had to face bankruptcies too. JR Shipping, which embarked on the market for multipurpose vessels in 1993, has been active on this market for a second time since 2011, with two multipurpose vessels of 4,750 ton deadweight. Since 2012, the shipping group also operates three very similar multipurpose vessels for third parties. While 2012 revenues were below the multi-annual turnover requirement, they stood out favourably against the 2012 market average.




*Source: Norbroker*

## Offshore service vessels

In late 2012, the first offshore service catamarans were delivered to SeaZip Offshore Service, the Dutch shipping group's sister organisation. In line with the diversification policy which it revealed in 2008, the shipping company decided in 2010 to start operations in the growth market of offshore wind farms. This decision was based on a thorough market study which showed a rapidly growing need in the next few years for well-equipped service and accommodation vessels, combined with professional shipping services. To fulfil this need, the combination SeaZip/JR Shipping has all the required qualifications. In early 2013, a charter contract was closed for both vessels with a leading market participant in the sustainable energy industry. The rates which were agreed were in line with the expectations. The offshore wind farm market creates its own momentum and has hardly been affected by the recession. At the very most, there may be an occasional delay in the implementation of a project.

## Fleet performance

Considering the persistent crisis conditions, it goes without saying that, for the fourth year in a row, operating results in 2012 were far below the required and desired level. Charter and freight rates were around or below the break-even point for operational costs and interest cost, which once more led to a negative working capital position for many vessels. The situation was worst for the smaller container feeders (up to 750 TEU). While larger vessels, including the Baltic Max container feeders, performed somewhat less poorly, they also had to accept considerable rate reductions in 2012, again. In late 2012, the tide seemed to turn for the better in this category. Multipurpose market rates in 2012 also remained well below long year average. The multipurpose vessels operated by JR Shipping formed no exception to this rule. Compared to the 2012 benchmark, though, the results achieved by these vessels were above-average, which is partly due to their relatively low fuel consumption and maximum grip on operational costs.

*Containerfeeder vessel Emotion*

*Multipurpose vessel Esprit*

*Offshore service vessel SeaZip 2*

# 2012 AS A TURNING POINT FOR CONTINUITY

**As of end 2012, it can be concluded that JR Shipping has succeeded in piloting the larger part of its fleet through the crisis. Reorganisation measures, which had become inevitable, could be restricted to a minimum. Together with the financing HSH Nordbank, an unparalleled restructure was achieved for eleven vessels, which provides the shipping company with a firm foundation for the continuity of its services in the container feeder market. JR Fleet Fund CV, in which the eleven vessels are assembled, makes the shipping company future-proof. Its priority for 2013 is: the further realisation of its diversification aims.**

In late 2011, the dividing line between commercially viable and inviable vessels became evident. For the sake of the continuity of the shipping group and the services it provides to industrial customers, a bankruptcy petition was filed for a limited number of vessels in early 2012. Both banks and investors reacted with understanding to this decision. Contractual agreements were met to the very end, supplier interests were given careful consideration and all outstanding trade creditors were fully paid. However, this does not alter the fact that JR Shipping's Management Board sees these forced reorganisation measures as a defeat.

At the same time, it was clear that a number of commercially viable vessels would inevitably come to suffer from working capital deficits if no effective measures were taken. Furthermore, some vessels financed by HSH Nordbank were under an acute threat. For some other vessels, towering debts in combination with the continued low rates would at some point also lead to an unbearable situation. In light of the acute risk for some of its ships, JR Shipping's Management Board entered into consultations with HSH Nordbank at an early stage. After some rounds of negotiations, HSH Nordbank indicated that it saw no further opportunities for vessel-specific solutions, but that it was willing to consider a collective approach concerning all eleven vessels. The bank sought a model to best spread and manage the risks involved.

## JR Fleet Fund CV as the solution

Consequently, JR Shipping's Management Board developed a model based on one collective fund which would be able to operate the eleven vessels concerned as a single business unit. Shares in this new collective fund were to be divided among the existing shipping CVs in proportion to the relevant vessels' financial position. Based on this concept, the shipping company entered into negotiations with the bank again and managed to achieve an unparalleled breakthrough in the summer of 2012. On the condition that all investors would agree with this new type of operation, the bank was willing to make the following unparalleled financing agreements:

- an agreement for eleven vessels for a term until the end of 2019
- extension of the stand-still agreements until the end of 2013
- relaxation of the redemption agreements from January 1, 2014
- a 7-year fixed-rate period with an interest rate of 2.75%.

It soon became clear that restructuring in keeping with these underlying principles would provide the prospects required to secure the continuity of the JR Shipping fleet. It is proof of unconditional trust in JR Shipping's business operations that the bank was willing to make these agreements.

## Maximum support

Due to the continued positive relations between JR Shipping and its investors who, despite large losses of capital invested, still trust the course of the shipping company, sufficient support for the necessary restructuring operation was secured. After streamlining the details of the restructuring plan, the green light to JR Fleet Fund CV's formalisation could be given in late 2012. The following container feeders operate under the fund: MV Enforcer, Encounter, Energizer, Endeavor, Endurance, Ensemble, Elan, Elite, Elysee, Emotion and Empire. As of end 2012, JR Shipping operates 16 container feeders, 5 multipurpose vessels and 2 offshore service vessels, which is a solid base to guarantee the future of the shipping company.

# FUTURE - CHALLENGES AND AMBITIONS

**JR Shipping can look back on a year during which an important foundation for the company's continuity was laid. By providing transparency throughout and actively entering into dialogue with customers, investors, banks and suppliers, the shipping group managed to retain their trust. Staffing levels in the organisation ashore and aboard the vessels could more or less be maintained, so that no concessions had to be made regarding the quality of the company's operational processes. This means that the shipping group's carefully accumulated expertise has been preserved. While the company has been affected by the crisis, it has demonstrated its capacity to survive the heaviest storms.**

Using its present fleet, JR Shipping is still eminently equipped to serve the container feeder market's most important segments, expand its activities in the market for multipurpose vessels, distinguish itself as an innovative service provider in the offshore-wind farm market, and market its know-how and experience more comprehensively for the purposes of project development and financing, restructuring programmes, operational ship management and purchase and sale of existing vessels. There is ambition and momentum at JR Shipping and there seems to be enough confidence to progressively build a new financial structure which should provide the company with new flexibility.

At the same time, the shipping group is aware of the many challenges it will be confronted with in the period ahead. The first quarter of 2013 proved scarcely better than the last quarter of 2012 and economic uncertainty still prevails. Market recovery has never been more crucial for the shipping industry to get out of the slump it is in. It will need a long time to achieve a better balance in the market. The situation for vessels employed in intercontinental container transport ('global liners') is still extremely alarming. Balance recovery will probably be achieved sooner in the markets for container feeder and multipurpose vessels. It is becoming increasingly difficult to take rescue measures and reorganisations. It is expected that in 2013 a substantial amount of capacity will be lost and not all ship owners will be able to provide continuity of operations.

## Fuel efficiency

The industry is anticipating another specific challenge. From early 2015, strict fuel emission standards will come into force in certain coastal areas and in large parts of the total European trading area. Smaller vessels with little installed power will be able to sail in these territories using clean gas oil, but for larger ships this alternative could turn out to be too expensive. Adjustments to ships often require major investments which ship owners, in light of the past lean years, currently have great difficulty in affording. They will have to work together to find solutions to this problem. In 2012, it became clear that there is an advantages for fuel-efficient vessels. JR Shipping's multipurpose vessels outperformed the market average because of their relatively low fuel consumption. In the case of any future fleet expansions, JR Shipping will take into consideration the increasing importance of clean and fuel efficient vessels.

## New opportunities

Alongside challenges, the developments of recent years also bring new opportunities. For JR Shipping Group, there is the opportunity of an additional market - the market for service provision to third parties. Smaller shipping companies and captain-owners may find it relevant to outsource part of their managerial duties. JR Shipping will be able to provide the desired support in many areas. In 2012, the first forms of cooperation were initiated. Services vary from commercial to operational ship management. Besides that, an increasing number of costumers know how to find the way to JR Shipping for expertise in the fields of ship design, ship financing, restructuring, and S & P brokerage of their vessels. Finally, the shipping company focuses on the niche market of opportunity investments, focusing on multipurpose vessels. Within the group of investors who have a long-term commitment to the company there is evidently interested in investing in such opportunity projects.

# CONCLUDING REMARKS

In 2012, unlike some other colleague shipping companies, JR Shipping managed to create conditions for continuity. There is now enough stability to consider the situation beyond the crisis, together with investors and banking relations. While many hurdles will have to be overcome before the markets for container feeder and multipurpose vessels have recovered, there are opportunities too, one of which is the growing market of offshore wind farms. The shipping company and its sister organisation SeaZip Offshore Service will be players in that market.

JR Shipping's decision to participate in this market was based on the diversification policy the company revealed in 2008, which it is now able to pursue because of the stable situation which was achieved in 2012. There are four policies supporting the course of JR Shipping.

## Consolidation of the container feeder fleet

JR Shipping keeps focusing on consolidating its current position in the container feeder market. For this purpose, the shipping group deploys its present fleet, which serves all major market segments from approximately 350 TEU up to approximately 1400 TEU, and continues to take into account the anticipated specific needs of container shipping lines. Significant current and future focus areas are cost control, fuel efficiency, safety and quality. JR Shipping will keep control of all processes which are crucial for the quality of its business operations, both at sea and ashore.

## Expansion of the multipurpose fleet

Exactly twenty years ago, the operation of a number of compact multipurpose vessels laid the foundation for the current shipping company. Ten years afterwards, JR Shipping chose to focus on container feeder shipping, which was a growth market at that time. In a short space of time, it built up a comprehensive fleet, not least because the shipping company took charge of its own project financing. The decision to diversify business operations was taken just before the crisis broke out and was based on, among other things, the need to ensure adequate risk spreading. While, from 2008, the company was forced to shift the emphasis to crisis management, these ambitions survived. In 2011, JR Shipping brought two multipurpose vessels into service. In 2012, it expanded its Management Board with an experienced expert in this market, Mr. J. van Niejenhuis, whose expertise will help the company to expand its multipurpose division.

## Providing services to third parties

To broaden its operations in the multipurpose market, JR Shipping, on the one hand, will expand its fleet and, on the other hand, take on the complete or partial operational management of vessels for third parties. There is a proven need for this, both among smaller colleague companies and captain-owners. Since 2012, JR Shipping has managed a number of vessels owned by third parties. The expertise which has been accumulated is also put to use otherwise, for instance, by supporting the setting-up and running of ship financing projects and advising financial service providers about restructuring plans. Besides that, the shipping group provides support in the areas of project development and purchase and sale of existing vessels.

## The market for offshore wind farms

In 2010, likewise within the context of its diversification ambitions, the shipping group produced a comprehensive market research relating to offshore wind farms. In the next twenty years, this growth market will see an explosive increase in demand for innovative service and accommodation vessels and all-round maritime service concepts. The first incentive for this demand is the large number of wind farms which will be constructed in the North Sea. Another incentive is the trend for their locations to beat ever-increasing distances from the coast and at greater depths. The consequences of this trend are that highly specific requirements are set for both the vessels which are to be deployed and the accuracy and safety guarantees which specialised maritime services must be able to provide. Responding to this trend, JR Shipping decided to establish SeaZip

Offshore Service BV with the ambition to build up its own fleet of state-of-the-art service catamarans and accommodation vessels.
SeaZip's services are coordinated and executed from the offices of the JR Shipping Group. The delivery of its first service catamarans in 2012, the SeaZip 1 and 2, two swift and extremely seaworthy vessels of the type Damen Fast Crew Supplier 2610, was an event of symbolic importance. Since April 1, 2013, both vessels have been sailing for BARD Offshore, a part of the German-based BARD Group, which develops and operates wind turbines and is currently realising large-scale wind farm projects in the North Sea. This cooperation is an excellent starting point for further expansion in this market.

## Looking beyond 20 years of JR Shipping

Activities in the market for offshore wind farm projects and the supply of specialised services to third parties will make a proportionate contribution to JR Shipping Group's future development. Besides that, the group will focus on consolidating its existing container feeder fleet and expanding its fleet of multipurpose vessels. In 2012, an important foundation was built for that. The 2012 financial year could therefore be considered a turning point in the 20-year history of the shipping company.

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