Rickmers Maritime **Newsletter**

Rickmers Trust Management Pte. Ltd.

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Cover Story

Consolidation in the Shipping Industry

Industry consolidation continues into 2016

The world of container shipping is seeing three massive mergers amid widespread overcapacity and ongoing losses.

France's CMA CGM announced a US$2.4 billion pre-conditional voluntary general offer for Singapore's Neptune Orient Lines (NOL) on 7 December 2015, which will result in a combined fleet size of 563 vessels, turnover of US$22 billion and a strengthening of CMA's stronghold in major trade routes. The merger, if successfully completed, will enlarge CMA CGM's market share from 8.8% to 11.4%, and reinforce its position as the world's third largest container shipping firm.

In China, the merger of state-owned Cosco and China Shipping Container Lines (CSCL) would result in a combined revenue of over US$40 billion, and create the fourth largest box carrier after CMA CGM with 7.7% market share. This merger, and the merger of Sinotrans & CSC and China Merchants Group, are initiatives of the Chinese government to reshape its shipping business.

QUEST FOR SCALE AND EFFICIENCY

At the heart of these moves is a continuous pursuit of scale and efficiency. The introduction of major shipping alliances like 2M (Maersk, Mediterranean Shipping Co), O3 (CMA CGM, China Shipping, UASC), G6 (OOCL, Hapag-Lloyd, NYK Line, Hyundai, MOL, APL), and CKYHE (COSCO, "K" Line, Yang Ming, Hanjin, Evergreen), set the stage for consolidation, with operating synergies and cost cutting at the forefront of the agenda. Mergers offer the prospect of sharing vessels, networks, and port calls, which could reduce operating costs.

On a macro level, consolidations could address the overcapacity that the industry has faced for some time. Having fewer but larger fleets in the industry might enable operators to better manage capacity and reduce the scope for oversupply during downturns.

LOOKING AHEAD

It remains to be seen if major mergers in the pipeline do indeed bring down costs and improve efficiency. Sceptics have flagged that the further expansion of companies that are already industry behemoths could result in lower competiveness in the sector as these companies assert their dominance. This prospect is on the radars of watchdogs across the world, and is part of the reason why these mergers are subject to a myriad of regulatory approvals.

According to Clarksons Research Services, only 30% of the thousands of firms in the shipping industry own more than 51 vessels. This makes smaller firms prime targets for consolidation, as larger players strive for greater efficiency and cost-optimisation, increasing the likelihood that a wave of consolidations could be on the cards.

As industry players continue to keep tabs on developments, one thing they can be sure of is that "supply", "demand", "capacity", "costs", and "efficiency" will continue to be buzzwords.

CEO Message

Dear Investor,

The rapid supply growth of container vessel capacity against weak demand has prompted widespread capacity reduction by liner companies, and the move has placed significant pressure on charter rates towards the last quarter of 2015. This challenging operating landscape continued into 2016, and charter rates remained low.

So far, we have been fairly successful in negotiating charter agreements for our vessels and keeping them employed with minimal idle time, achieving utilisation rate of 99.2% for FY2015. However, due to reduced charter rates on vessels which began new charters during the year, the Trust registered lower charter revenue of US$108.5 million in 2015, compared to US$130.3 million in 2014.

In light of the depressed charter environment, we recognised non-cash vessel and goodwill impairment charges of US$148.0 million during the year, which has resulted in a net loss of US$129.2 million in 2015. Excluding the impact of impairments, Rickmers Maritime would have recorded a profit of US$18.8 million.

In 2016, 11 of our vessels have charter agreements that will expire during the year. Therefore, keeping our vessels employed and strengthening our financial position continue to be our areas of focus in the year ahead.

We have reviewed the decision we made in the third quarter to temporarily suspend distributions, and decided that it is not yet time to resume distributions. This is not a matter we take lightly, and we will continue to review the decision every quarter. It is our intention to resume payouts when the Trust is able to do so in a more sustainable manner. For now, however, our efforts to conserve cash flow will continue to complement our ongoing initiatives to strengthen our balance sheet and improve our financial standing.

We have made some progress on this ground, particularly with the lifting of several financial constraints following our recent exit from the Intercreditor Deed that was entered into with three syndicates of lending banks in 2010, as well as the reduction in our total outstanding debt in 2015.

Following the exit, the Trustee-Manager will be able to engage in bilateral negotiations with each lending syndicate to extend our loan profile, in particular, the secured bank loan balloon of US$179.7 million which is due for repayment in 2017.

This is not an easy period for the industry, but we believe there is light at the end of the tunnel. It is encouraging that trade growth is expected to improve in 2016, and the oversupply situation is expected to moderate as more vessels are scrapped and fewer vessels are delivered.

We remain vigilant and will continue to keep you informed about the industry outlook and the Trust's plans.

Thank you for your support.

Soeren Andersen
Chief Executive Officer
Rickmers Trust Management Pte. Ltd.

Market Outlook

4Q 2015

According to Clarksons Research Services, global box trade increased by 2.4% in 2015, the slowest growth since 2009, and container vessel capacity grew by 7.2%.

The significant imbalance between supply and demand caused the charter market for all container vessels to deteriorate significantly in 2015, as container lines took the consequence of weak demand growth to shut down services and redeliver chartered vessels to shipowners.

The box freight market is expected to remain under supply pressure in 2016. Time charter rates are expected to continue at current depressed levels in the coming months until a better balance between trade growth and vessel supply is reached.

The average daily charter rates of 3,500 TEU and 4,400 TEU panamax vessels dropped further to about US$6,000 and US$5,950 respectively in January 2016, down from US$7,900 and US$6,700 respectively in October 2015.

Container trade growth is expected to be 4.0% and containership vessel capacity growth is expected to be 3.5% in 2016. Stronger trade growth and higher scrapping activities could help to improve freight earnings.

Operations Update

Fleet Operations

Rickmers Maritime's fleet of 16 containerships achieved utilisation rate of 98.2% in 4Q2015 despite muted demand, bringing utilisation for the full year to 99.2%.

During the quarter, Henry Rickmers, Richard Rickmers, and Moni Rickmers commenced their new charters with Maersk Line at net daily rate of US$5,225 each for 2 to 12 months from 12 March 2016, 4 March 2016, and 29 February 2016 respectively.

Maja Rickmers and CMA CGM Azure commenced new charters with CMA CGM at net daily rate of $5,597 each for 3 to 12 months from 10 February 2016 and 14 February 2016 respectively. Kaethe C. Rickmers will have her charter with NYK extended at US$5,925 on 1 March 2016.

With these renewals, the Trust's fleet is 53.6% employed for 2016. Through its existing charter contracts, the Trust has US$144.6 million of secured revenue between 31 December 2015 and the expiry of the last charter party contract in 2019.

Financial Performance

4Q 2015

FINANCIAL HIGHLIGHTS In US$ million except otherwise stated	4Q2015	4Q2014	Change	FY2015	FY2014	Change
Charter revenue	24.08	31.87	(24%)	108.55	130.33	(17%)
Cash flow from operating activities	13.76	20.65	(33%)	66.57	87.73	(24%)
Net (loss)/ profit	(129.58)	11.19	NM	(129.23)	(15.96)	710
Cash flow available for distribution (before payment to debt capital providers)	12.27	18.01	(32%)	66.07	85.00	(22%)
Distribution per unit (US cents)	-	0.6	NM	1.2^	2.4	(50%)

^Distribution suspended in 3Q2015 and 4Q2015 to conserve cash; NM: Not meaningful

Rickmers Trust Management Pte. Ltd. reported lower charter revenues of US$24.1 million for 4Q2015 and US$108.5 million for FY2015 for the Trust, due mainly to lower market charter rates of vessels which commenced new charters in the year.

Vessel operating expenses increased 8% year-on-year (y-o-y) to US$10.0 million in 4Q2015, due mainly to one-off repair and maintenance expenses on vessels, consumption of bunker due to repositioning of two vessels between charters as well as a contractual increase of fixed operating expenses and vessel management fees which came into effect from 1 January 2015. Finance expenses decreased 42% y-o-y to US$3.4 million in 4Q2015 with the expiry of interest rate swaps and the reduction of outstanding bank loan balances, partially offset by higher interest expense on the Trust's medium-term notes.

The Trust recognised non-cash impairment charges of US$128.4 million in 4Q2015 in light of the depressed charter market. As a result, Rickmers Maritime recorded a net loss of US$129.6 million in 4Q2015 compared to a net profit after tax of US$11.2 million in 4Q2014.

On a full year basis, the Trust recorded a loss of US$129.2 million in FY2015 compared to a loss of US$16.0 million in FY2014, due mainly to higher impairment charges of US$148.0 million in FY2015, against US$63.0 million in FY2014. Excluding the impact of impairments in FY2015, the Trust would have registered a profit of US$18.8 million.

During the year, the Trust repaid US$50.5 million of secured bank loans, reducing its outstanding secured bank loans to US$314.1 million as at 31 December 2015. The Trustee-Manager is in discussions with the lenders to extend the maturity of a bank loan due in 2017, and is exploring alternatives to refinance the medium-term notes due in May 2017.

Experience Speaks

Captain of Kaethe C. Rickmers

Captain Myo Tun Zaw on board Kaethe C. Rickmers

In this first edition of 2016, we introduce 'Experience Speaks', a new column which features insights into vessel operations through the captains of the Trust's vessels. In this instalment, we speak to Captain Myo Tun Zaw of **Kaethe C. Rickmers**.

Captain Myo Tun Zaw's shipping career started at the age of 21, and he has not looked back in the past 25 years. Captain Myo has been a captain for nine years, and has been with **Kaethe C. Rickmers** for four months when we spoke to him.

WHAT DO YOUR DUTIES ENTAIL?

I oversee operations on the vessel and supervise 21 crew members. On most days, I wake up at 7am to run through the vessel's routes and plan maintenance jobs with the Chief Officer. After breakfast, I will head to the bridge to supervise operations.

I prepare and send daily reports to the vessel's owner, Rickmers Maritime, and charterer at 1pm, after which I will make my rounds and check on the deck and engine room.

In the evening, I try to exercise, often by playing table tennis. I return to the bridge after dinner to ensure that we are on course, check the weather forecast for the next day, and estimated time of arrival at the next port.

When I am satisfied that everything is in order, I head to bed. However, if the situation calls for it, I am on duty 24/7.

WHAT DOES BEING A CAPTAIN MEAN TO YOU?

I believe in leading by example. I strive to be a role model, and conduct my duties seriously at all times. The job of a captain is not without its challenges. There are situations that are beyond our control. For example, sailing in bad weather is not to be taken lightly. Fortunately, technological advances have provided us with support systems that make navigating through tough weather conditions more manageable now.

Kaethe C. Rickmers currently sails between Chinese ports and the US east coast via the Panama Canal, and I am proud to facilitate the exchange of goods and services between these regions.

HOW DO YOU DEVELOP YOUR CREWMEMBERS?

I strive to maintain strict discipline within the crew, and do my best to ensure that everyone is dedicated to performing their roles well.

It is important to groom new leaders. In particular, I guide my chief officer in various tasks such as crew management, supervising cargo loading and unloading, deck maintenance, as well as safety and environmental protection checks. I also meet with senior crew members, such as the chief engineer, two to three times a week, to discuss current plan, and to reconcile instructions coming from the vessel owner or the charterer.

Setting goals for the crew helps align everyone towards the same objective. We aim to maintain a zero accident record. It is also important to be attentive to the needs of the crew. This goes a long way in cultivating unity and building teamwork.

WHAT IS ONE KEY ADVICE YOU WOULD GIVE ANYONE INTERESTED IN A CAREER AT SEA?

Safety is of paramount importance. While at sea, always maintain high situational awareness to avoid accidents.

Kaethe C. Rickmers

CONTAINER CAPACITIES	
On deck	2,778 TEU
In Hold	2,282 TEU
Total	5,060 TEU
Service Speed	24.30 kn

MAIN PARTICULARS	
Length overall	294.06 m
Length between perpendiculars	283.00 m
Breadth	32.20 m
Depth to main deck	21.60 m
Draught, designed	12.00 m
Draught, scantling	13.50 m

TANK CAPACITIES	
Heavy fuel oil	6,672.48 m³
Marine diesel oil	448.07 m³
Fresh water	397.34 m³
Ballast water	18,573.04 m³