

APL LOGISTICS PERFORMED WELL IN 2008, RECEIVING AWARDS AND RECOGNITION FOR BUSINESS AND ENVIRONMENTAL INITIATIVES.



PRECISE MANAGEMENT

APL Logistics Senior Operations Analyst Mavis Meng tracks a customer's cargo in Yantian, China.

BUSINESS PERFORMANCE – LOGISTICS

	2008	2007	% Change
Revenue (US\$M)	1,324	1,323	0
Core EBITDA (US\$M)	74	72	3
Core EBIT (US\$M)	64	61	5
EBIT (US\$M)	53	57	(7)
EBIT Margin (%)	4.0	4.3	

With a renewed focus on core capabilities and business segments, a modified management structure, continued product innovation and aggressive cost reductions, APL Logistics delivered a satisfactory profit performance in 2008.

However, from the latter part of 2008, the global economic slowdown began to seriously impact the supply chains of the multinationals that form the backbone of APL Logistics' customer base. The business responded successfully, aligning its service and solution portfolios to slowing market demand and altering its customer inventory strategies.

Performance Summary

In 2008, APL Logistics delivered Core EBIT of US\$64 million, up 5%. Revenue for the year was US\$1.32 billion, in line with the previous year's result. Declining demand across all business segments saw fourth quarter revenue decrease by 14% to US\$328 million.

Fourth quarter Core EBIT was down 24% year-on-year, mainly due to margin erosion in the trucking segment of Contract Logistics. The Contract Logistics and International Services divisions' businesses both experienced fourth quarter revenue decreases, of 8% and 22% respectively.

During the year, APL Logistics experienced shifts in the revenue contribution of key customer segments. Revenue from the retail category rose to 29%, while the Consumer and Electronics/Hi-Tech segments contributed 17% and 6%, respectively. The Auto/Industrial segment continued to be the largest revenue contributor at 32% of overall revenue.

At a regional level, the Americas remained the leading revenue generator at 62%, up slightly as a result of improved cost recovery. Asia-Middle East contributed 24% of the Group's Logistics revenue in 2008, with the IndiaLinx™ container rail freight service making a healthy contribution. Reduced demand in Europe saw this region's revenue contribution drop slightly to 14% of the total.

As the year progressed, an emerging trend was the increase in origin diversification for product sourcing – particularly as Southern China's potency as the "world's factory" moderated to some extent. There were signs of production shifts to Northern China and to other countries such as Vietnam. India's production capability continued to rise, while Indonesia saw increased logistics activity.

APL Logistics aligned itself to these market variations and continued to provide the highest standards of service to its customers.

Increased Accountability

In late 2008, the management structure of the Logistics business was modified and separated from NOL's regional structure. This move provided more direct global management accountability and increased control of all aspects of APL Logistics business operations.

Key appointments were made in Contract Logistics, which includes warehousing, distribution and primary transportation services, improving APL Logistics' ability to offer a broad range of services from origin to destination. A key objective is to enhance Contract Logistics capabilities across the globe, with a particular focus on the Asia region.

Compelling Products

As consumer demand slowed through the second half of 2008, our customers' inventory fulfillment strategies were increasingly based on smaller and more frequent shipments. APL Logistics' capabilities proved well matched to this change, with time-definite offerings particularly suited to customers' needs.

OceanGuaranteed® continued to offer a highly compelling proposition – the industry's first service for high-frequency, less-than-containerload (LCL) shipments delivered with the reliability of airfreight at the cost of ocean freight. OceanGuaranteed® was the industry's first cost-effective, expedited surface transportation alternative to airfreight. In 2008, the service was further expanded to include Canadian destinations and its first inland point of origin in Asia – Guangzhou, China.

THE LOGISTICS BUSINESS IS POSITIONED FOR FUTURE GROWTH.

The successful extension of OceanGuaranteed® paved the way for the launch of APL Guaranteed™ Continental, which provides guaranteed delivery of full containerload (FCL) shipments from Asia to most US destinations. Like OceanGuaranteed®, the FCL service guarantees delivery on a specified date, or customers receive a 20% refund. Both time-definite services achieved on-time reliability of around 99% in 2008 (see below).

In June 2008, we marked the first anniversary of our highly successful IndiaLinx™ container rail freight service, a joint venture between APL Logistics and the Government of India. Since its launch in June 2007, IndiaLinx™ has moved over 50,000 TEU (twenty-foot equivalent units) and maintained an average capacity utilisation rate of 95%. The service offers customers certainty of delivery and a single point of contact for the coordination of the inland and ocean portions of their transportation in India. Operational milestones included the launch of dedicated reefer trains between Mumbai and New Delhi and the extension of rail services to Mundra and Faridabad.

TIME-DEFINITE FOCUS VALIDATED

The logic of APL Logistics' leadership in time-definite ocean freight services has been validated by a report released by the Olin Business School at Washington University.

The research paper, "Managing the New Uncertainty", declared that shipping full containerloads with specific delivery dates is the logical next step in ocean service.

Until now, time-definite services have been aimed primarily at shipments that don't fill an ocean container and are transported with other freight in the same container. But given the pressure a global recession is placing on supply chain managers to operate more efficiently, the report states that the time has come for widespread use of day-definite delivery for full containerloads.

The report claimed the benefits of day-definite service for full containerload cargo include:

Continued Recognition

During the year, APL Logistics' track record of continuous innovation, responsible business practices and customer focus was acknowledged by customers and official bodies. The US Army & Air Force Exchange bestowed a Best Valued Partner Award on APL Logistics, while the business was also listed among technology and engineering leader Emerson's Marquee Suppliers.

APL Logistics also received notable industry and environmental plaudits, including the Supply Chain Management Award from the British International Freight Association. Also, for the second successive year, APL Logistics received the Environmental Excellence Award from the US Environmental Protection Agency for its work to reduce greenhouse gas emissions in freight transportation.

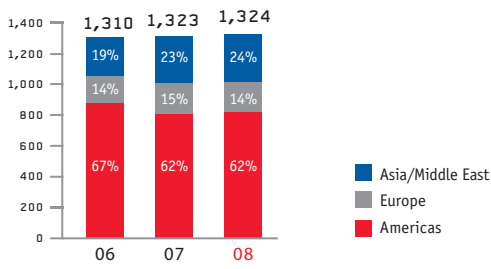
Despite a harsh and dynamically changing operating landscape, APL Logistics will continue to provide strategic and collaborative solutions that fulfill its customers' supply chain needs. By leveraging its strengths in Contract Logistics and International Services, the business will further improve its operating performance and become a significant contributor to the NOL Group's financial results.

- Significant savings in total distribution cost;
- Reduced supply chain variability; and
- A boost for the environment since shippers can replace reliable but highly polluting air freight with dependable ocean service.

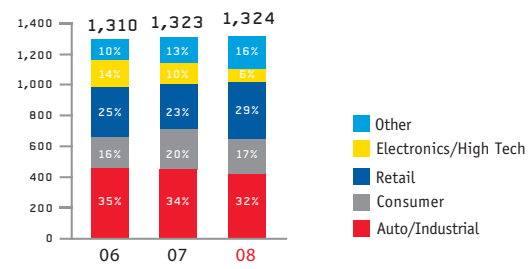
The research compared day-definite services for FCL cargo with air freight and standard FCL ocean services. Their findings: air freight and standard FCL service was 134% to 244% more expensive than day-definite FCL for total distribution cost, which includes transport, in-transit inventory and warehouse inventory costs.

As for reliability, the report said day-definite products had become "virtually indistinguishable from traditional air freight". Because of this, shippers can now reduce their reliance on costly inventory build-ups and safety stock.

REGIONAL SHARE OF LOGISTICS REVENUE (%)



REVENUE BY CUSTOMER SEGMENT (US\$M)



FAST SERVICE

Management Trainee Annabelle Hemmings keeps a shipment moving at an APL Logistics warehouse in the US.