



## CEO'S REPORT

### RONALD WIDDOWS

We approached 2008 with plans to improve on our solid 2007 performance. But as the year unfolded and the effects of the global financial crisis spread, we found ourselves dealing with a rapid deterioration in business conditions.

The scale of the collapse which occurred from late September 2008 onward was unprecedented, with consistent, week-by-week drops in shipment levels across nearly all trade routes.

### Financial Performance

In 2008, Group revenue was a record US\$9.29 billion, an increase of 14% on 2007. This was due to a strong first half and higher volumes through the year, combined with improved recovery of bunker fuel costs. Group Core EBIT was US\$213 million, down from US\$592 million in 2007. Earnings declined as 2008 progressed, due to a sharp drop in market demand and lower freight rates. Net profit was US\$83 million, down 84% on the previous year. Return on Capital Employed (ROCE) was 4.6%, compared to 18.4% in 2007.

The fourth quarter was a particularly difficult one with the Group reporting a Core EBIT loss of US\$45 million and a net loss of US\$149 million for this quarter. During the fourth quarter, we also took restructuring charges of US\$72 million. These charges impacted on our full year net profit but placed NOL on a better footing to meet worsening market conditions.

### Business Unit Performance

NOL reports its results through three highly integrated business segments – Container Shipping, Terminals and Logistics. Container Shipping accounts for approximately 81% of Group revenue (before inter-segment elimination).

Container Shipping performed solidly through the first half, but falling demand and very high fuel prices created a difficult third quarter, while the fourth quarter saw a dramatic deterioration in market conditions. Terminals, which was separated out from the liner business in early 2008, also felt the pressure of sharply reduced market demand in the latter part of the year.

During the year, Logistics moved rapidly to reduce costs and also altered its portfolio to meet changing customer requirements. These moves greatly assisted NOL in achieving a profitable full-year result.

### Taking Action

Prior to the start of the year, we identified signs of slowing demand. In the first half of 2008, we moved to align capacity with diminishing demand and bring our Logistics costs under better control. Throughout the year, as the scale of the decline in global trade became apparent, we continued making business adjustments, though these changes could not fully counter the speed and dramatic nature of the downturn experienced in global container trades.

A major achievement during the early part of 2008 was the outcome of Transpacific contracting where APL played a leadership role in an industry level focus on improved fuel cost recovery. We implemented floating bunker fuel surcharges on a majority of customer contracts that took effect in May, ensuring that our overall bunker recovery for the year was much higher than in 2007.

In October, we announced capacity reductions of 25% in our Asia-Europe trade, 20% in Transpacific and 16% in Intra-Asia trade. During the fourth quarter we also reconfigured networks, rationalised services, began to lay up a number of vessels, off-hired charter vessels, reduced our container fleet and shaped our asset base down.

Our Asia regional structure was streamlined to further reduce costs and APL Logistics adopted a more direct reporting structure to ensure high levels of management accountability and control.

A key decision was the relocation of our Americas regional headquarters from its traditional base at Oakland, California to Phoenix, Arizona. The shift, which we expect to complete by the end of the third quarter of 2009, will provide a more cost-effective base for our operations for the future.

In November, we made the difficult decision to reduce the size of the Group's global workforce by about 1,000 positions. This was

OUR PEOPLE MET THE CHALLENGES  
OF 2008 WITH SKILL AND RESOLVE.  
SERVICE EXCELLENCE REMAINED  
OUR PRIORITY.



**KEY LINK**

*The APL Holland calls at our Kaohsiung terminal in Taiwan. The facility is one of our major transshipment hubs and a vital link in our Asia network.*

# AS CONDITIONS WORSENEED, WE CONTINUED TO ADJUST OUR BUSINESS TO CHANGES IN THE MARKET PLACE.

implemented with speed and, though the impact was felt company-wide, we have minimised the effect of these changes on our high standards of customer service.

NOL is in the midst of a period where hard decisions must be executed in a timely way to ensure that we remain competitive. We will continue to closely examine all areas of our business to seek out opportunities for greater efficiency and productivity.

As we navigate through the current tough conditions, we are also positioning our business for future growth. We expect considerable opportunities to arise in the wake of the global economic crisis and we are ensuring that NOL will be well placed to capitalise on these.

## Balance Sheet Strength

NOL has adopted a prudent approach to fleet expansion and maintained a healthy balance sheet, which will help in dealing with the current economic downturn. Operating cash flows remained positive through 2008, keeping our balance sheet strong. During the year, NOL delivered cash flow of US\$500 million from operating activities and had cash and cash equivalents of US\$429 million as at 26 December 2008.

In recent years, the Group's cash flow from operating activities has remained robust, delivering US\$828 million in 2007 and US\$560 million in 2006 and enabling us to fund recurrent expenditures and focus on debt reduction. Our earlier strong operating performance through 2004 and 2005 provided us with a springboard for significant debt reduction.

Active cash and debt management have been of high priority, resulting in a healthy net gearing of 0.33 times as at 26 December 2008, which compares favourably with industry peers. Our net debt was US\$816 million as at the same date.

NOL has in place a range of committed credit facilities with maturities extending beyond 2014. Details are set out

at Notes 10, 25 and 35 of the Group's Financial Report. These arrangements provide NOL with the flexibility to respond quickly should market opportunities arise, while also providing a liquidity cushion.

## Effective Risk Management

An important aspect of NOL's corporate governance is a disciplined approach to risk management, overseen by the Enterprise Risk Management Committee of the Board. The Group is exposed to various market risks, including fluctuations in currency exchange rates, interest rates and bunker prices.

Various risk management programs are employed to hedge against market risk exposures, to minimise potential volatility in our Group's financial performance. For example, we use swap contracts and call options to manage bunker price risk and have a policy to hedge forecast bunker cost exposures not covered by service contracts with our customers. Our approach is summarised at Note 35 of the Group's Financial Report.

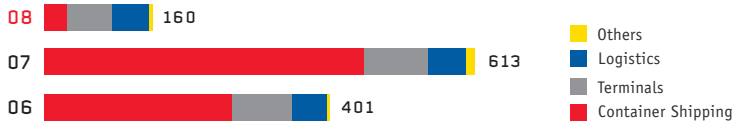
## Merger and Acquisition Activity

2008 saw NOL explore an opportunity to acquire the business of a major competitor, Hapag-Lloyd. We believe our bid fully valued the Hapag-Lloyd business, and also addressed the challenging market conditions facing the container shipping industry.

In mid-October we concluded that proceeding with the acquisition would have exposed our company to unacceptable risks. Accordingly, our offer lapsed and we directed all our energy into dealing with the rapid deterioration in business conditions. With the passage of time, it is very clear that our decision to withdraw was the correct one, given the magnitude of the global downturn we now face.

We remain open to the possibility of pursuing merger and acquisition transactions in the future, but only at the right time and the right price. Any deals we do will be at a price, and on terms, that will create value for our shareholders.

**GROUP EBIT BY BUSINESS**  
(US\$M)



The process of analysing the Hapag-Lloyd growth opportunity, and preparing for the possibility of merger integration, was a major undertaking, occupying considerable time and resources. It also involved a high degree of analysis of our own internal business and cost structures.

This turned out to be extremely beneficial as market conditions worsened. Armed with a sharpened and detailed understanding of our marketplace and our own businesses, we were well positioned to respond rapidly and with conviction to declining business conditions.

**Building our Future**

During the year we continued investing in our future capabilities, and also made significant investments in the development of our people. Work continued on improvements to our IT systems to ensure they continue to be state-of-the-art. These efforts will provide a platform for improved customer service, better yield management and operational excellence and will be key to our long term growth plans.

Another important piece of work in 2008 was the development of our Group’s Vision, Mission and Values statements, which are now expressed in a document called Our Compass. The document clearly states our vision of being the world’s best at moving and managing containerised trade. Our Compass expresses our mission, conveys

to each employee what we believe and how we will act, and guides us in the way we run our businesses.

It is impossible to predict the duration and depth of the downturn we face, but it appears likely we have entered an operating environment worse than any in the history of containerisation.

Yet we can remain confident. NOL has a strong balance sheet, leading brands in our sector and the most desired services in some of the world’s choicest trade lanes. And importantly, we have first-class people, the ultimate determinant of a company’s success. I believe that, by keeping sight of the things that make our company strong, including excellent customer service and disciplined cost management, we will weather this storm and emerge a stronger organisation.

Operating profitably over 2008 has been no small achievement. Our success in realigning services and reducing capacity were significant factors in NOL’s profitable full-year result.

Our people have worked very hard to produce the best possible results in a tough period. Within NOL, we have the talent and resolve to navigate through these challenging times and be well placed to grow as conditions recover.

*Senior executives Eng Aik Meng, President, APL (left), Steve Schollaert, President, Terminals and Cedric Foo, Group Deputy President and Chief Financial Officer.*

