



NOL Group 2006 1st Half Results

Singapore, 14 August 2006: Global cargo transportation and logistics company Neptune Orient Lines (NOL) today reported net profit of US\$187 million for the first half (1H) of 2006, down 52% from the same period of 2005. The company posted a second quarter (2Q) net profit of US\$67 million, 66% lower than in 2005.

FINANCIAL HIGHLIGHTS

	1H06 ¹	1H05	Change %	2Q06 ¹	2Q05	Change %
Revenue (US\$m)	3,520	3,493	1	1,637	1,689	(3)
Core EBIT (US\$m)	227	426	(47)	84	210	(60)
Net profit before NRI (US\$m) ²	181	377	(52)	63	187	(66)
NRI (US\$m) ³	6	15	(60)	4	9	(56)
Net profits (US\$m) ²	187	392	(52)	67	196	(66)
EPS (US cts per share)	12.85	26.96	(52)	4.63	13.51	(66)
Ending no. of shares (m)	1,456	1,453	-	1,456	1,453	-

¹ NOL's 1H06 results are for 31 December 2005 to 30 June 2006; 2Q06 results are for 8 April to 30 June 2006.

² Net profits refer to amounts attributable to equity holders ie shareholders, excluding minority interest

³ NRI = Non-Recurring Items

NOL Chairman Mr Cheng Wai Keung, said: "After record financial performances in the past three years, we are now in a more challenging business environment, which is reflected in reduced earnings for the first half of 2006.

"Business conditions for both our liner and logistics segments have become more difficult. Freight rates have softened, but our cost management efforts continue, mitigating the cost pressures from high fuel prices."

NOL's policy is to maintain an annual dividend of 8 Singapore cents per share net, or a full year dividend payout of 20% of net profits, whichever is higher.

The Board of Directors has recommended an interim tax exempt dividend of 4 Singapore cents per share to be paid on 18 September 2006 to all shareholders whose names appear on the Company's share register at close of business on 29 August 2006.

1H06 OPERATING PERFORMANCE

1H 2006 total Group revenues rose slightly year-on-year to US\$3.52 billion, while the Group's Core Earnings Before Gross Interest Expense, Tax and Non-Recurring Items (EBIT) of US\$227 million was down 47% from the corresponding period of 2005.

Mr David Lim, NOL Group President and CEO, said: "While demand for our services remains strong across most trades, continued higher fuel costs and a softening of rates in some trades have impacted earnings – particularly when compared with the performances of 2003 to 2005. In the second quarter we continued to see growth in volumes but the revenues of both the liner and logistics businesses declined slightly in the quarter.

"Over the past three years, NOL consistently demonstrated its ability to outperform its competitors. We are focused on continuing to perform at the top of the industry in less favourable market conditions," said Mr Lim.

"We are actively developing capabilities that provide greater service reliability and help customers more effectively manage overall supply chain costs. We also continue to pursue opportunities to better integrate our liner and logistics service offerings," said Mr Lim.

Liner

Average revenues per FEU for NOL's liner business, APL, in 1H 2006 were US\$2,650, down 4% compared to the previous year.

Container volumes were 5% higher than a year before at 1.01 million FEU, with headhaul capacity increasing by 8%.

1H 2006 Core EBIT for APL was US\$194 million, down 52% from the same period in 2005. Core EBIT in the second quarter was US\$71 million, 65% lower than in the comparable period in 2005.

Headhaul utilisation remained healthy at 95% for both 1H 2006 and for the second quarter, compared to 95% for 1H 2005 and 98% in the second quarter of 2005.

"Slightly lower utilisations are a result of our active yield management strategy," said Mr Ron Widdows, CEO of APL. "We continue to manage our business mix to ensure we carry cargo which provides the maximum yield."

Bunker costs combined with rate softening continued to be the major factors leading to compressed margins for the industry.

In the second quarter, total costs per FEU rose 3%, due mainly to the impact of fuel prices which were US\$60 million higher than in the corresponding prior year period.

"Excluding the impact of fuel, costs per FEU in the second quarter were down 2% from the same period of 2005. This reflects our continuing efforts to control costs to offset the oil price challenge," said Mr Widdows.

Mr Widdows said: "APL's focus is on continuing to provide our customers with the best possible services while keeping our network tight, working our assets hard and growing capacity sensibly, and largely in line with the market."

APL has increased new vessel commitments to 32 scheduled for delivery over the next four years. Only three of these ships will enter the fleet in 2006, which is consistent with APL's approach of keeping its network tight as market conditions toughen. These ships range in size from 3,500 to 8,100 TEU, with 14 of these being in the 6,350-TEU class.

"This is our current vessel delivery schedule and we plan to make additional commitments in response to market conditions and the needs of our customers," said Mr Widdows.

APL is targeting growth in capacity at least at the level of growth in the marketplace and will broaden the scope of its services by adding tonnage and through cooperation with other carriers in major trades. For example, as part of The New World Alliance (TNWA), APL will this month launch an all-water Asia-US East Coast with the member lines of the Grand Alliance (GA).

Mr Widdows concluded: "Today, global headhaul demand is growing at a double-digit rate and, industry-wide, ships are running at or near full capacity. Whilst there are industry projections that supply will increase faster than demand later this year and into 2007, it is too early to say how much supply will run ahead of demand."

Logistics

APL Logistics' revenues for 1H 2006 rose 4% year-on-year to US\$636 million. The contract logistics services line of business posted revenue growth of 4% over 1H 2005 and international services revenues were 3% higher year-on-year. The strongest year-on-year revenue growth was posted by the Asia-Middle East region, consistent with the continued shift of sourcing and manufacturing to low cost locations.

The second quarter saw contract logistics sales slipping 2% to US\$197 million, while international services revenues were flat at US\$95 million.

Core EBIT of US\$26 million for the first half was down by 7% on the previous year. In the second quarter, Core EBIT was down 17% on the previous year to US\$10 million. The fall in Core EBIT reflects more competitive conditions in some logistics sectors, and a step-up in investments in sales and engineering capabilities and IT systems.

Mr Brian Lutt, President of APL Logistics, said: "We experienced more challenging business conditions in the contract logistics segment, with lower utilisation levels at multi-user warehouse facilities and as a result of our continuing focus on re-aligning this business segment with our international conveyance strategy. Our international logistics services segment was impacted by a combination of rate declines and new business not materialising at the rate anticipated."

The challenging market conditions experienced in the first half are expected to continue in the second half of the year.

Mr Lutt said: "We are committed to a programme of growth for APL Logistics and will continue to invest in new capabilities to underpin the future growth of the business. This includes investing in IT systems such as a new global freight forwarding application and expanding our sales and engineering capability. We are launching new products and services for our customers, and expect these investments to yield results next year.

Mr Lutt cited the recently announced rail freight joint venture, India Infrastructure and Logistics Private Limited (IIL), which currently has more than 300 rail wagons on order, with the first batch scheduled for delivery in the second quarter of 2007. "We expect our first trains to be running soon after delivery," he said.

Moreover, APL Logistics today announced the launch of the industry's first premium expedited ocean freight service for less than container load (LCL), in cooperation with US-based freight transportation leader Con-way. OceanGuaranteedSM will offer a time-definite cargo service between major Asian origins to be delivered throughout the US.

Mr Lutt said: "OceanGuaranteedSM is an entirely new service targeted specifically at sectors that need fast supply chain fulfilment such as apparel, high-tech, electronics and automotive. It offers a rapid, reliable and great value alternative to international airfreight."

BALANCE SHEET

Group Chief Financial Officer, Pat Leung, said: "NOL's balance sheet continues to be healthy. As at the end of 1H 2006, the Group had net debt of US\$196 million and operating cash flow of US\$238 million. Also, in that time net gearing level (ratio of net borrowings to the total equity of the Group) has shown a progressive improvement from 0.15 times at the end of Q1 2006 to 0.10 times as at Q2 2006."

Capital expenditure for the first half totalled US\$101 million with US\$259 million expected in the 2H 2006 taking total capital expenditure for FY 2006 to US\$360 million.

FUEL AND CURRENCY EXPOSURES

The Group's bunker costs for 1H 2006 increased by US\$132 million year-on-year due to business growth and considerably higher fuel prices.

The Group continues to recover part of its fuel exposures from customers through Bunker Adjustment Factor (BAF) provisions. NOL Group continues to maintain a policy of hedging about 40% of 12-month forward bunker exposures to reduce the risk of sudden changes to bunker costs.

The Group's annual net exposure to other major currencies in which local operating costs are incurred - the Euro, Japanese Yen, Hong Kong Dollar, Singapore Dollar, Chinese Yuan, Korean Won, Canadian Dollar, British Pound, Australian Dollar,

Indian Rupee and Taiwan Dollar - is estimated to be about US\$1 billion. These exposures continue to be hedged in 2006.

GROUP OUTLOOK

NOL expects the more difficult operating environment in the liner industry to continue over the next 12 months. The freight rate outlook will largely depend on whether the strong demand seen in the first half continues and the extent to which it keeps pace with expected supply.

With high fuel prices in the forward market, NOL expects that fuel will continue to place significant pressure on bunker and land transportation costs.

To meet these challenges, the Group will continue with its proven strategy of keeping to a tight network, optimising asset utilisation, focusing on yield management and finding opportunities to mitigate and reduce costs.

In logistics, the global market for third-party logistics continues to grow in tandem with economic expansion, and more outsourcing. We expect the logistics industry to continue to consolidate and restructure, reflecting the changing nature of global supply chains.

APL Logistics will continue to invest in new capabilities and to expand its business. We expect that the investments made this year will only begin to add to the Group's revenues and profits next year.

NOL Group will continue to focus on aligning and integrating its logistics and liner capabilities, to provide higher levels of service to customers in moving and managing their freight globally.

-ENDS-

Note to editors:

Click [here](#) for the Corporate Presentation and Financial Statements.

Media Enquiries:

Mr Paul Barrett
Director Corporate Communications
Telephone: (65) 6371 7959
Facsimile: (65) 6371 2411
paul_barrett@nol.com.sg

Investor Enquiries:

Ms. Lim Siew Siew
Director Investor Relations
Telephone: (65) 6371 5028
Facsimile: (65) 6371 7690
siew_siew_lim@nol.com.sg

About NOL

NOL is a Singapore-based global cargo transportation and logistics company. Its container transportation arm, APL, provides customers around the world with container transportation services that combine high quality inter-modal operations with state-of-the-art information technology. Its supply chain services arm, APL Logistics, provides international, end-to-end logistics services and solutions, employing the latest IT and data connectivity for maximum supply chain visibility and control. NOL Web site: www.nol.com.sg

About APL

APL is a global container transportation company offering more than 60 weekly services and nearly 300 calls at more than 90 ports in Asia, Europe, the Middle East and North America. It combines world-class intermodal operations with leading IT tools and e-commerce. APL is a unit of Singapore-based Neptune Orient Lines (NOL), a global cargo transportation and logistics company. APL Web site: www.apl.com

**About APL Logistics**

APL Logistics provides international, end-to-end supply chain services and solutions in more than 50 countries, including both origin and destination services such as freight consolidation, warehousing and distribution management. It uses innovative IT for maximum supply chain visibility and control. APL Logistics is a unit of Singapore-based Neptune Orient Lines (NOL), a global cargo transportation and logistics company. APL Logistics Web site: www.apllogistics.com