

SUSTAINED GROWTH & PROFITABILITY

Singapore, 27 July 2004: - Global transportation and logistics company, Neptune Orient Lines (NOL), today reported second quarter (2Q) 2004 net profits of US\$186 million, more than double 2Q 2003's net profits of US\$68 million. Total net profits for the first half (1H) increased 299% to US\$354 million.

The strong 2Q net profit growth was achieved on revenue growth of 12% to US\$1.45 billion. This reflects the added value derived from continued tight cost controls.

Core Earnings Before Net Interest Expense, Tax and Exceptional Items (EBIT) in 2Q 2004 reached US\$201 million. For the half year, Core EBIT totalled US\$377 million, a 151% increase over the corresponding period last year.

KEY FINANCIAL / PERFORMANCE HIGHLIGHTS

	2Q04	2Q03	Change	1H04	1H03	Change
Revenue (US\$m)	1,450	1,292	12%	3,003	2,634	14%
Core EBIT (US\$m)	201	108	86%	377	150	151%
Exceptional items (US\$m)	11	(2)	nm	27	9	200%
Net profits (US\$m)	186	68	172%	354	89	299%
EPS (US cts per share)	12.95	5.82	123%	24.71	7.54	228%
Net Gearing (x)	NA	NA	NA	0.26	3.77	(93%)

The balance sheet has strengthened further with net gearing of 0.26x boosted by strong cash flows from the Group's operations.

NOL also announced a new dividend policy. The Group will 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. In line with this policy, the Board has declared an interim dividend of 7 Singapore cents per share net (8.75 cents gross).

Mr Cheng Wai Keung, Chairman of NOL, said, "The quarterly profit performance of both the Liner and Logistics businesses has improved further, despite rising costs within the industry. This is a commendable achievement."

2Q 2004 OPERATING PERFORMANCE

Mr David Lim, Group President and CEO, commented, “The strong 2Q results is the result of management’s continuing focus on enhancing utilisation, supported by a tight rein on costs. Year-on-year, 2Q revenues have increased 12% while Core EBIT has grown 86% to US\$201 million. At the same time, we have maintained our high service standards that have won us customers, in spite of increasing demand putting pressure on the transportation infrastructure worldwide.”

Exceptional items in the 2Q amounted to US\$11 million. This arose largely from a write-back of provisions and a reversal in goodwill amortisation due to the early adoption of a new accounting standard, Financial Reporting Standard (FRS) 103. Under FRS 103, goodwill shall no longer be amortised. For the Group, this amounts to about US\$18 million yearly.

Group capital expenditure reached US\$107 million at the end of the 2Q, with the bulk invested in new container equipment.

Liner

NOL’s Liner business, APL, achieved Core EBIT of US\$189 million in the 2Q, a 130% improvement over last year.

APL CEO, Mr Ron Widdows, said, “strong volume growth and a strong focus on maximising asset utilisation, managing the mix of the business, and controlling costs produced higher average revenue per FEU (forty-foot equivalent unit) boosted Liner performance. Volumes in the 2Q grew 19% year-on-year with continued strong demand and the introduction of additional capacity in the key trade routes of Trans-Pacific, Asia-Europe and Intra-Asia”.

The Group has introduced new services in the 1H of 2004. In March, APL launched the SSX (serving the Indian-Subcontinent) followed by the startup of the ACX (Australia/China Express) in May. In June, the New World Alliance reintroduced the PSV (South China/Los Angeles Express) service. We have also announced the launch of SCX, a new Asia-Europe service from July. The combined new services have added capacity in excess of 5,000 TEUs (twenty-foot equivalent units) per week compared with the capacity in the 1Q of 2004.

Charter rates remained high across the industry in the 2Q. However, the impact on APL was US\$7.4 million in the 1H of 2004. For the full year, additional charter hire costs due to higher charter rates are expected to be around US\$22 million.

APL has recently signed new charter agreements for the delivery of four containerships in 2007/2008.

The Group along with the rest of the industry, also continues to face infrastructural pressures globally, which is putting upward pressure on other operating costs. However, improved efficiency, higher utilisation and cost management helped to mitigate the impact.

Further targeted cost savings of US\$23 million were achieved in the 2Q. This brings cost savings to a total of US\$40 million for the 1H of 2004. The Group is on track to achieve its target of US\$100 million for the full year as most of the targeted savings will accompany the seasonally heavier volume flow in the second half of the year.

Overall Liner costs per unit fell 3% comparing 1H03 with 1H04.

Logistics

Profits at NOL's supply chain management company, APL Logistics, continued to improve. Core EBIT in 2Q 2004 was US\$5 million. This compares with the Core EBIT of US\$3 million in the first quarter of 2004 and US\$2 million in the 2Q of 2003.

Revenues grew 18% year-on-year in the 2Q, from both Contract Logistics and International Services in the Americas and in Asia.

APL Logistics CEO, Mr Hans Hickler, said that Logistics revenues have benefited from globalisation. Longer and more complex supply chains are emerging as multinational companies seek new markets for sourcing and production.

BALANCE SHEET AND CASH FLOWS

Group Chief Financial Officer, Mr Lim How Teck, said that for the second quarter ended 25 June 2004, net gearing stood at 0.26x.

Total debt stood at US\$1.2 billion, a 4% decline over the 1Q. At these debt levels, the Group is not aggressively geared in comparison with industry averages. The Group will continue to monitor its debt position, and decide later if other measures should be adopted to maintain an appropriate level of debt financing. However, given the cyclical nature of the industry, the Group intends to be less geared in a rising market to give it the flexibility to take advantage of procurement and investment opportunities that may arise when markets turn.

Total cash grew from US\$695 million in the 1Q to US\$808 million, boosted by continuing strong cash flows from the Group's operations.

FUEL AND CURRENCY EXPOSURES

The Group continues to maintain a hedging policy of up to 50% of bunker fuel requirements, with the remaining 50% recoverable from customers through Bunker Adjustment Factor (BAF) provisions. As at the end of 2Q 2004, about 15% of expected fuel requirements had been hedged at an average price of US\$135 per metric tonne.

The total actual cost of fuel for the 1H of 2004 increased by US\$26 million because of business expansion. However, the average price per metric tonne remains close to last year's level.

The Group's revenues and costs are largely denominated in US\$. There is exposure, due to local operating costs, to other currencies, the most significant being the Euro, Japanese Yen and the Singapore Dollar. For 2004, the Group has hedged about 80% of its Euro, 90% of its Japanese Yen and 60% of its Singapore Dollar exposures. Total exposure for 2004 is forecast to be about US\$300 million.

DIVIDEND POLICY & INTERIM DIVIDENDS

NOL intends 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.

In line with this policy, the Board of Directors has declared an interim dividend of 7 Singapore cents per share net (8.75 cents gross). This dividend is issued out of existing Section 44 tax credits and is payable on 30 August 2004.

GROUP OUTLOOK FOR 2004

The outlook for the rest of the year remains buoyant. Liner volume growth is strong and utilisation rates have maintained at healthy levels. Higher charter rates and oil prices will put some pressure on costs. Demand, while strong, will also depend on the continuing strength of key consumption markets such as the US and Europe. The Group aims to manage these risks by sustaining an ongoing strategy of yield and network management as well as tight cost controls.

Logistics will continue to improve on its margins as the Group seeks to increase business volumes by leveraging on its existing infrastructure network.

The very strong performance of the Group in the 1H is expected to continue for the rest of the year, barring unforeseen circumstances.

LOOKING AHEAD

NOL intends to continue to build broader capabilities around our core Liner and Logistics business. We believe that our larger and more global customers will look to us for more integrated services and supply chain solutions for their freight movements. At the same time, the lag in infrastructure development in mature economies as well as developing markets will put a premium on “door to door” freight services and the ability to efficiently flow freight through the supply chain for all customers. The Group will structure its capabilities and business so that it can respond speedily and effectively to service these customer needs.

We will also continue to maintain a strong balance sheet going forward. With the sustained performance over the last six quarters, we have built and will continue to build strong retained earnings, which will allow us to confidently face the cyclical challenges of our core shipping business. This will enable us to grow by taking advantage of the cyclical lows to build up our capacity and competitiveness.

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About NOL



NOL is a Singapore-based global 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, employing the latest IT and data connectivity for maximum supply chain visibility and control. NOL Web site: www.nol.com.sg