

NOL GROUP REPORTS SIGNIFICANT PROFIT FOR 2003

Successful Focus on Cost Containment, Yield Management and Freight Rate Recovery

SINGAPORE, 24 February 2004 – Global transportation and logistics company Neptune Orient Lines Ltd (NOL) today reported a net profit for the full year 2003 of US\$429 million. This compares with a net loss of US\$330 million for the previous year.

The full year 2003 (FY03) profit includes US\$134 million from the sale of crude oil tanker business American Eagle Tankers (AET) in July. Without this and other exceptional items, the Group still made a record profit of US\$335 million.

At an operating level, core Earnings from business operations Before net Interest expenses, Tax, Depreciation, Amortisation and exceptional items (core EBITDA), was US\$753 million, up 219 per cent on the 2002 figure of US\$236 million.

Revenue for the year increased by 19 per cent to US\$5.5 billion from US\$4.6 billion, despite the fact that AET was divested mid-way through the year. This reflects the considerably improved performance of both shipping subsidiary APL and supply chain management unit APL Logistics.

APL continued to contribute the largest proportion of the Group's revenue at 75 per cent of the total, while APL Logistics' share increased to 18 per cent. The balance was contributed by Chartering, whose principal business was AET.

NOL Group Chairman, Mr Cheng Wai Keung, said, "A reversal of such magnitude and in such a short time does not happen without an enormous amount of effort – and I commend our management team and all our staff for their work over the past year. The strategy they set in place was right and the implementation was excellent.

"They were not prepared to simply rely on the recovery in rates to refloat us. Quarter by quarter they continued to hammer in changes that pared down costs, managed yield closely and optimised our assets, and worked hard to recover freight rates. Today you see the results.

"The Group will continue to explore avenues to take advantage of any growth opportunities in the future. Barring unforeseen circumstances, the Board expects NOL to continue to perform better in 2004."

Group CEO David Lim said, "We have had a remarkable year and this was not solely down to improved freight rates in our liner business. The work we put in to reduce costs, and manage yield and the mix of our business, contributed more than 60 per cent of our core EBIT improvement."

Mr Lim said one of the aims of 2003 was to reduce the level of debt the Group carried.

“Our balance sheet is now very healthy,” he said. “The sale of AET netted a sizeable gain, reflecting the value we had built up in that company over the years, and in November, we raised more than US\$300 million in new equity capital. Coupled with our strong operating results, this has brought our gross gearing ratio below one, and our net gearing ratio to a little more than half (0.54).

Group Chief Financial Officer, Mr Lim How Teck said the Group’s debt would reduce further with the recently announced sale of the product tanker business, Neptune Associated Shipping, expected to realise a book profit of about US\$8 million. However, he said, the sale was also important strategically.

“We intend to build on our core capabilities in global transportation and logistics, and the divestment was in line with our strategy to exit non-core business,” he said. “Around 95 per cent of non-core activities have now been divested.”

Commenting on the outlook for this year, Mr David Lim said, “We expect to do better in 2004 even though we will not have the revenues and profits accruing from our AET operations.

“Firstly, we have again set an aggressive target to trim costs by US\$100 million, which will accrue directly to our bottom line.

“Secondly, the liner industry outlook is favourable and we expect freight rates to remain firm and rising. We therefore expect APL to better its performance this year. We see first quarter performance reflecting the growth and profit momentum of 2003, and for this momentum to carry through for the rest of the year.

“And thirdly, we expect our logistics business to continue to show improvement and to contribute to the Group’s earnings. This year, we will continue to look for new expansion opportunities, especially in the developing markets within Asia. We will also focus on how we can more effectively service the common customers between liner and logistics to generate more revenues and earnings.”

Mr Lim said the company had been readied to make significant investments to grow its businesses when the time was right.

“Our aim is to grow the company by providing value-adding solutions and services to our customers, while continuing to earn good returns for our shareholders,” he said. “We will grow by all means possible – organically, as well as through careful and judicious acquisitions. We will grow in our traditional markets, and also explore and expand into new markets. Given the turnaround last year, I am confident that we have the people who can provide the foundation for this to happen.”

In conclusion, Mr Lim said the company today was very different from the company it was a year before. “It is lean, it has a strong balance sheet, and it has a proven team that has worked well to deliver the excellent results last year,” he said. “But we can, and will do better.”

APL Liner

After a difficult and disappointing 2002, APL's core EBIT reached US\$406 million in 2003. This compares with core EBIT of negative US\$72 million for 2002.

There were improvements in rates in nearly all trades particularly Trans-Pacific, Asia-Europe, Intra-Asia and Transatlantic. Overall, the average rate per FEU was US\$2,512. This was still less than the highest ever average on a weighted basis recorded in 2000.

However, the turnaround was down to more than rates alone.

APL CEO Ron Widdows said, "During 2003, we changed the way we worked, managing the mix of our business to make the most of our assets – shifting equipment where it was needed most, flexing the network to respond to demand. This gave us a significantly better yield than we would have achieved through rate increases alone."

Reflecting this, container volumes rose just one per cent on 2002, reaching 1.5 million forty-foot equivalent units (FEUs), while revenue increased 21 per cent to US\$4.18 billion.

During the peak season, resources were moved mainly from Intra-Asia to meet customer demand in both the Trans-Pacific and the Asia Europe trades. As the peak season eased, resources were moved back to Intra-Asia where there was strong demand, particularly on the longer routes, such as China to the Middle East.

Mr Widdows said he expected another good performance this year, with strong demand creating space shortages on major trade routes. "China is a key driver of volumes," he said, "but we are also seeing significant increases in other emerging markets in Asia such as India and the Middle East which are driving strong Intra-Asia demand."

APL is continuing to expand its capacity through upsizing vessels and partnership arrangements with other carriers. This will continue through 2004.

APL remains focused on additional cost savings and a strong emphasis on yield management to optimise utilisation of existing resources. Based on current industry outlooks, the Liner business is expected to better its performance in 2004.

APL Logistics

The results for the full year for 2003 reflected APL Logistics' concentration on its international network and core competencies, which had a positive impact on its performance. Core EBIT for 2003 rose to US\$7 million on turnover of US\$975 million compared with negative core EBIT of US\$27 million for the full year 2002 on turnover of US\$813 million.

CEO for APL Logistics, Hans Hickler, said cost containment was a focus for 2003 and this together with further refining the organisational structure to focus on function

as well as geography allowed greater flexibility to respond to customers' logistics needs.

"APL Logistics is successfully leveraging its origin and destination capabilities, including consolidation of goods, deconsolidation and warehouse management to put the pieces of the supply chain together in an integrated way for customers internationally," he said.

Logistics will leverage its operational improvements to date and work towards bettering its performance in 2004.

Chartering

This division's revenues fell nine per cent to US\$317 million, with core EBIT of US\$75 million, as a result of the sale of crude oil transportation company, American Eagle Tankers (AET) concluded towards the end of July, AET being the largest contributor to the Chartering division's revenues.

With the conclusion of the sale of product tanker subsidiary Neptune Associated Shipping (NAS), announced last week, NOL will effectively exit the chartering business.

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About NOL

NOL is a global transportation and logistics company engaged in shipping and related businesses. 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 while APL Logistics provides end-to-end supply chain management services through its global network.

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