

NOL GROUP REPORTS 705% INCREASE IN PROFIT FOR Q1 2004

Singapore, 13 May 2004: – Global transportation and logistics company Neptune Orient Lines Ltd (NOL) today reported a first quarter (Q1) 2004 net profit of US\$163.2 million – a 705 per cent increase on Q1 2003's net profit of US\$20.3 million.

Year-on-year, Group revenue for Q1 increased 16 per cent to US\$1.55 billion compared with US\$1.34 billion for Q1 2003.

Core Earnings Before Net Interest Expense and Tax (EBIT) was US\$176 million compared with US\$42 million for the same period in 2003, an improvement of 319 per cent.

Exceptional items for Q1 2004 include US\$8 million realised from the sale of product tanker business Neptune Associated Shipping in March.

Chairman Mr Cheng Wai Keung said, "Our liner business, APL, achieved very good results in the first quarter and is set to continue to perform well for the rest of the year. APL Logistics, too has improved its performance.

"The management team is not resting on its laurels after the record results of 2003. They have maintained fiscal discipline and a tight control on costs to keep the momentum going. The result is that we have performed better than many others in the industry at this point in the year."

Looking forward, Mr Cheng said with the positive business environment, yield management and continued cost cutting, barring any unforeseen circumstances, the Group continues to expect to perform better in 2004.

Group President and CEO, Mr David Lim, said, "When we announced our full year 2003 results we said that we expected even better results this year. We are firmly on track to achieve that."

He said the growth in liner volumes in the traditionally slower first quarter reflected a number of initiatives taken by the liner team. "They worked hard to secure cargo to keep our ship utilisation at a high level, and to maximise the use of our assets by careful management of our networks," he said.

The company had also continued to lower costs. "The tight supply in the charter market and rising oil prices have put pressure on our costs. Nonetheless, we managed to reduce costs in our liner operations by US\$17 million in the 1Q, and are on track to achieve our target of reducing costs by US\$100 million for the whole year."

For the first quarter, increases in charter rates on renewals and new charters would add about US\$4.8 million to charter costs, Mr Lim said. "We estimate that for the full year, this could amount to around US\$22 million."

The rise in oil prices will also have some impact, he said. “For ship costs, bunker fuels are currently eight per cent higher than the average for Q1. However, we are able to recover around half the price increases through fuel surcharges. Together with our hedging strategies, we estimate that at current prices the impact could be around US\$10 million added to fuel costs.

“However, despite the increase, average costs per box have come down in Q1 and we expect to sustain our profit margins for the rest of the year.”

During the first quarter, the company saw stable freight rates across the major trade lanes. “Looking ahead, in addition to rate restoration on other trade lanes, Trans-Pacific contracting has yielded satisfactory levels of rate increases in line with our expectations,” Mr Lim said.

Group Chief Financial Officer Mr Lim How Teck said debt levels at the end of Q104 were US\$1.28 billion and net gearing stood at 0.40. Net gearing was 0.54 at full year 2003.

“The Group continues to work to manage all aspects of the business in order to enhance shareholder value, including exploring ways of making optimal use of all assets, financial as well as physical,” Mr Lim How Teck said.

Mr David Lim said the outlook for the industry this year remains buoyant. “Although there are some risk factors that could affect demand, we assess these risks to be relatively small. In particular, we believe that volume growth coming out of Asia will be strong,” he said.

“We are therefore confident that we will continue to grow both our volumes and profits for the rest of the year, and to deliver better results compared with last year. This will enable us to move forward with our intention to sustain dividend payments over time.”

Mr Lim added, “Longer term, we will stretch ourselves to keep on earning a premium over our cost of capital, and to maintain the current momentum of double-digit revenue growth. We believe that this high rate of growth is achievable given robust growth trends in global trade, and the rapid development of emerging markets in Asia, Europe and elsewhere.

“Ocean transport will remain our core capability. But we will add to this by building up other capabilities in the supply chain to deliver higher value to our customers.

“As I indicated at the time we released full year results, we are aligning and integrating our liner and logistics capabilities, and organising our capabilities around our customers. Over the next few years, we aim to transform the Group into an integrated global transport and logistics company. Our goal is to deliver solutions and integrated transport and logistics services to our customers across the entire spectrum of the supply chain.

“This transformation will be achieved step by step, and by building on the businesses and capabilities we already have.

“Our guiding principle as we move forward will be to remain alert and responsive to changes in our operating environment, working closely with customers, and being guided by their needs as we build up new capabilities. In this way, we believe that we will be able to sustain NOL’s performance, and to deliver value to our customers and shareholders alike,” Mr Lim concluded.

APL Liner

NOL’s liner business, APL, achieved very good results in Q1 2004, with core EBIT of US\$176 million compared with US\$5 million for the same period last year.

Revenue increased by 29 per cent over Q1 2003 to a five-year high of US\$1.23 billion. APL CEO, Mr Ron Widdows, said this was because of continued strong demand in all key trade lanes, active yield management and a higher freight rate base at the beginning the year.

Costs per unit were down 4.7 per cent compared with Q4 2003 and 3.1 per cent down on full year 2003. This was achieved by managing the mix of business, improved utilisation maximising the use of assets, and the progress in targeted cost reduction initiatives.

“Cost saving initiatives that contributed to the net improvement included contract re-negotiations, network rationalisation, continued tight control on General and Administration (G&A) spending and improved equipment management,” Mr Widdows said. “This helped offset higher vessel costs and bunker costs that increased towards the end of Q1.”

The outlook for the rest of this year remains buoyant with on-going strong demand growth and high utilisation. By continuing to focus on efficient use of existing resources and tight cost management, APL expects to mitigate against higher bunker costs that are currently forecast for the remainder of 2004.

APL is expected to achieve significant earnings for the full year (FY) 2004.

APL Logistics

NOL’s supply chain management company, APL Logistics, continued to show improvement.

Revenue increased in the first quarter by 25 per cent to US\$288 million, compared with Q1 2003 revenue of US\$231 million. Core EBIT was positive US\$3 million compared with a loss of US\$1 million in Q1 2003.

The revenue growth came particularly from contract logistics in the Americas and international services in Asia and Europe.

APL Logistics CEO Mr Hans Hickler said, “The continuing outsourcing trend to Asia and the consequent supply chain complexities mean our customers are looking to us

to provide seamless global solutions that flow components of manufactured goods to factories as well as the final product to market. This is an area we see growing further in the future.”

APL Logistics expects to improve its performance for FY 2004 through cost controls, revenue growth and building on the initiatives implemented in 2003.

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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