Managing in an Uncertain Environment

John Bowe, President the Americas, APL
Northwestern University, April 23, 2009
recession
Global GDP forecasts 2009

—a changed world post September 08

Changes in 2009 GDP Growth Estimates Over Time

Source: IMF
World trade has declined

-09 drop exceeds the depth of the decline in 1982

Source: Global Insight
Containerized trade will decline this year — first time in two decades

Source: IMF Jan 2008; Global insight; NOL analysis
Exports and Port volumes have declined

—seen in Jan/Feb 09 data

Exports have declined sharply

Port throughputs in steep decline

Feb 09 YTD and Jan 09 Exports By Countries

% y-o-y

Feb 09 YTD

Feb 09 YTD

Jan 09

Feb-07

May-07

Aug-07

Nov-07

Feb-08

May-08

Aug-08

Nov-08

Feb-09

Source: CEIC
Consumer confidence drives the US economy

—hit a historic low at the end of 08...Jan/Feb 09 showing some small signs that the worst may be behind us?

US consumer confidence index; Index level (based on 1980); Base year = 100, SA
US unemployment continues to rise

—stimulus will take time…the US needs job creation now
—real unemployment well over 10% by most estimates
—may get worse before any real improvement begins

Source: Standard & Poor’s
New tonnage coming

—virtually none of it is needed in 09/10
—how many ships will actually make it to market?

Some events that could bring relief to supply challenge:

- Delayed vessel deliveries—while challenging to achieve, some are taking place
- Cancellations of newbuilds—also relatively few thus far but more will come
- Possible defaults—some already have occurred. With financing not forthcoming on many vessels, likelihood is for defaults to grow
- Scrapping of vessels—will increase, but have a negligible impact on total capacity employed
Vessel lay-ups will continue

—there will be unprecedented idle tonnage for the foreseeable future

...enormous pressure on asset owners

According to Howe Robinson, in the next 12 months there are roughly 1,550 ships or 2.75m teus of capacity coming off of existing charters.

It is a reasonable assumption that many will be renewed at significantly lower rates, and not a small number turned back to the market where they will remain idle for quite some time into the future.
APL volumes and revenue per FEU…an indicator of the impact on container carriers

—data from NOL’s period performance releases

Approx. 45% of 08/09 Rev/Feu fall is due to lower BAF/ lower bunker cost…balance attributed to core rate deterioration most significantly Asia/Europe and IA

Source: NOL
Significant opportunities will arise from this downturn

- those who can come through this downturn with a healthy balance sheet will be able to take advantage of the opportunities
- some container shipping consolidation will take place
- asset prices will fall dramatically and remain depressed for some time…rare opportunity to reset asset cost base
- unhealthy availability of financing for ship construction likely a thing of the past…in the future it is more likely that capacity is more rationally secured
- new levels of efficiency and productivity will have to be developed to improve margins due to cost and pricing pressures that will be with us for quite some time
- some will be more capable of prospering than others in this new world we compete in
“Circumstances do not make a man, they reveal him.”

James Allen
Key principles for leaders in tough times

Know your business
Have faith in your business model
Take hard decisions, quickly
Trust in intuition; back it with data
Look outward; not just inward
Build in flexibility
Stay true to your fundamental values
Be customer-centered
Support your people
Communicate effectively
Show personal strength
Know your business

- Seasoned people
- Deep industry & company knowledge
- Detailed business analysis
- Rapid response capability
Have faith in your business model: creating long-term value

- 1. Experience & Brand
- 2. Operations & Production System
- 3. Yield & Network Management
- 4. Customer Management
Take hard decisions quickly

- Capacity reductions
- Reconfiguring networks
- Lay-ups & off-hires
- Reduction of capex
- Job cuts
- Streamlining of structures & processes
- General cost efficiencies
NOL has moved, and moved fast

Taking immediate action in areas within our control to adapt to new trade dynamics

APL slashes capacity on major trade lanes

Updated October 22, 2008 8:49:19 AM
Peter T. Leach

Today APL announced it is slashing vessel capacity on the major east-west shipping lanes and restructuring its network in response to what it called "increasingly challenging conditions in the major container trades".

The subsidiary of Singapore-based Neptune Orient Lines, and the eighth-largest global liner company, said the capacity reductions would amount to 25 percent on the Asia-Europe trade and 20 percent on the trans-Pacific.

"The traditional seasonal softening of demand in the main container trades has been compounded by the global financial crisis and economic slowdown," said APL President Eng Aik Meng.

NOL to cut 1,000 jobs

Nov 19, 2008
By Yang Huiwen

NEPTUNE Orient Lines will cut more than 1,000 jobs to reduce costs as the global recession reduces demand for moving sea cargo.

APL moves Americas HQ to Phoenix

By Marcus Hand in Singapore - Thursday 8 January 2009

APL is shifting its America’s headquarters into the desert in Phoenix, Arizona in a bid to save costs.

Neptune Orient Lines announced in mid-November last year that it would be shifting the headquarters for the Americas region of liner unit to APL, out of Oakland to a yet undecided “more cost effective” location, as the company shed 1,000 jobs worldwide.

The company announced today that it would shift from Oakland to Phoenix, Arizona by the third quarter this year.
Trust intuition; back it up with data
Look outward; not just inward
Build in flexibility

- Maintain a flexible balance sheet
- Charters vs. owned vessels
- Healthy operating cash flows
- Aversion to leverage and debt
- Stay alert to new opportunities
Stay true to your fundamental values

- Superior results
- Innovation
- Customer-centered
- Integrity
- Teamwork
- Respect
Our compass

**Our Vision** is to be the best in the world at moving and managing containerized trade, providing a lifeline for the global economy.

**Our Mission** is to enable trade and create long-term value by delivering:
- Strong returns for our shareholders
- Competitive advantage for our customers
- Opportunities for our employees and
- Support for our communities

Our aim is to increase **shareholder** value through profitable growth.
- We achieve superior results. Each of us accepts responsibility for meeting our commitments.

**Our customers** are our partners. We innovate to be their preferred choice. We deliver service excellence and strive to improve speed, cost and quality.

**Our people** are our foundation, spirit and future. We enable our employees to experience rewarding careers. We conduct ourselves with integrity and embrace diversity and teamwork.

*We respect our **communities** and our world. We celebrate cultural differences and treat others with dignity. We operate responsibly and are committed to safety, security and sound environmental stewardship.*
Product innovation

- IndiaLinx™ container rail freight service
- Ocean53™ the world’s largest ocean capable containers
- Time definite products
Be customer-centered

- Service excellence
- Invest in customer-facing programs
- Take care of customer needs
- Cement partnerships
- Empathy
- Ensure integrity and fundamental scope of services
Support your people

- Talent development
- Motivation & challenge
- Fairness
Communicate effectively

- Be open with stakeholders
- Industry leadership
- Engage & align
- Mitigate negative impacts
- Candour & promptness
- Listen – a two way process
- Face-to-face interactions
Show personal strength

- Resilience
- Conviction & perseverance
- Visibility & energy
- Deliver on promises
- Take responsibility
Key principles for leaders in tough times

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Look outward; not just inward
Build in flexibility
Stay true to your fundamental values
Be customer-centered
Support your people
Communicate effectively
Show personal strength
We can change the future