

# Chairman and PCEO's Statement

## Dear Shareholders,

**The COVID-19 pandemic poses a huge challenge to our society, our interconnected economy and to SATS. While we are confident that the company will endure, this crisis has disrupted our growth, requiring us to reshape our organisation and accelerate our transformation strategy.**

We had early warning of the catastrophic effect of the crisis through our operations in China. At the height of the crisis, many cities were under lockdown to stem the spread of the virus. We stocked up on masks and personal protective equipment for our staff and made changes to our work processes to ensure the safety and well-being of our people and the community, and to safeguard business continuity for our customers. Overall, we implemented the largest redeployment of human resources in the history of SATS, impacting over 10,000 employees across the Group. We are grateful for the flexibility and adaptability of our people that have enabled us to react swiftly to the rapidly evolving situation.

## Growth Disrupted

Before the crisis, SATS was generating strong increase in operating volume. For the year under review, we handled 157 million passengers and 810,000 flights, an increase of 24.3% and 18.7% respectively. IATA statistics, in comparison, show a 4.2%<sup>1</sup> increase in global passenger traffic measured by Revenue Passenger Kilometres for the full year in 2019. As early as end January, we saw passenger and meal volumes fall in China and this rapidly extended to the rest of Asia in February and March, resulting in an 8.1% year-on-year decline in revenue. For the

Financial Year ended 31 March 2020, Group revenue increased 6.2% to S\$1.94 billion due mainly to the consolidation of some of our businesses such as Country Foods Pte. Ltd. (Country Foods), Nanjing Weizhou Airline Food Corp., Ltd and the GTR entities. Affected by COVID-19, PATMI declined 32.2% to S\$168 million. EBITDA decreased by 7.3% to S\$356 million. Return on equity dropped to 10.3% from 15.1% in the previous year.

## Dividend

In light of the significant uncertainties about the trajectory of the pandemic and its impact on the economy and travel, the Board of Directors agreed that it would be prudent not to pay a final dividend for Financial Year 2019-20, to allow the company to preserve more jobs and capabilities to support our customers as aviation volumes resume, and to pursue opportunities outside of aviation. The full-year total dividend is therefore 6 cents per share.

## Investments Validated

Despite its impact on our financials, the pandemic validated our investments in new technologies and digitalisation. In March 2019, we launched an automated rice line that can cook 600 kg of rice per hour in our central kitchen in Singapore. We deployed this technology to produce large quantities of meals for the workers residing in dormitories during the "Circuit Breaker" lockdown in the country. Our investments in new capabilities have also enabled us to advance our tiered-kitchen strategy in Greater China. Building on our Nanjing Weizhou Airline Food Corp., Ltd acquisition, we tapped on our central kitchen in Nanjing to gain access to 85 airports across China,

minimising the capital investment required to build kitchens at airports while optimising the economics of large-batch production in the central kitchen.

Further strengthening our capabilities in food solutions, SATS completed our purchase of Monty's Bakehouse in February 2020. Monty's Bakehouse is a pioneer in sustainable cabin packaging and recycling as a member of the Airline Sustainability Forum and representative on the Advisory Committee for the Global Tourism Plastics Initiative led by the UN Environment Programme and UNWTO in collaboration with the Ellen MacArthur Foundation. As airlines and other customers seek to reinvent a low-touch future post pandemic, the packaging design capability of Monty's Bakehouse will enhance our food solutions for aviation customers and support our expansion into new engines of growth.

During the year, SATS also bought the remaining 49% shareholding in our joint venture company SATS BRF Food Pte. Ltd. and renamed the entity Country Foods Pte. Ltd. In this way, SATS is growing its business in the food solutions eco-system, particularly in food distribution and logistics, bringing new trends such as plant-based proteins into the Asian market. We tapped the sourcing and distribution capabilities of Country Foods to stock the supermarket shelves in Singapore with essential food supplies during the lockdown. Significantly, our non-aviation food solutions revenue has grown 39% year-on-year due to new acquisitions and organic growth. These unique capabilities will enable our expansion into new channels of food distribution, such as partnerships with home delivery platforms.

<sup>1</sup> [https://www.iata.org/en/iata-repository/publications/economic-reports/Infographic\\_Economics\\_Air\\_Passenger\\_Demand\\_2019/](https://www.iata.org/en/iata-repository/publications/economic-reports/Infographic_Economics_Air_Passenger_Demand_2019/)

“ We are committed to developing innovative solutions that will help our people and the community to live better and more sustainably. The crisis has confirmed the validity of our investments in new businesses and digitalisation so that we can respond swiftly to changes and add new wings to our business steadily. ”

**Euleen Goh**  
Chairman

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**Alex Hungate**  
President and  
Chief Executive Officer





Although our cargo business dipped due to both the US-China trade war and the pandemic, it proved essential in keeping supply chains moving throughout the crisis. The cargo terminal operations throughout the region are therefore relatively resilient. We are pleased to have won a 25-year concession to operate a cargo terminal in Saudi Arabia at Riyadh's King Khalid International Airport. Winning this concession strengthens our footprint in the Kingdom of Saudi Arabia, the largest economy in the Gulf Corporation Council group of countries. It will take us two years to build the 600,000 tonnes per year facility, but we have already started operations there through a cooperation arrangement with NAQEL – the e-Commerce subsidiary of Saudi Post – to serve Air France-KLM, our first customer in Riyadh. Closer to home in Malaysia, we have also launched a new digitalised air cargo terminal at Kuala Lumpur International Airport Air Cargo Terminal 1. This facility will have the capacity to handle 300,000 tonnes of air cargo annually and has a 10,000-square-foot purpose-built cold-chain facility for the specialised handling of perishable and pharmaceutical products. Modern security cargo scanners offer both horizontal and vertical views of cargo to enhance detection.

### Accelerate Digital Transformation

The events in the last seven months have attested to the importance of our purpose to feed and connect Asia. We were inspired and humbled to see our colleagues in baggage services carrying heavy loads of essential supplies and strapping them down to seats of passenger planes when the halt in travel caused cargo space in bellyholds to diminish; our kitchens in India cooking over two million meals during the crisis to feed essential workers; the 700 employees who volunteered to



The SATS Academy has trained more than 20,000 in Singapore's air transport sector, helping our people and partners to develop new skills and capabilities to stay relevant.



go into the red zone to help protect community health and safety; SATS Academy helping over 20,000 workers in the transport industry to get essential skills training during the lull in flights. We encourage you to read our Sustainability Report to find out more about our response to the pandemic. We are committed to developing innovative solutions that will help our people and the community to live better and more sustainably.

The crisis has confirmed the validity of our investments in new businesses and digitalisation so that we can respond swiftly to changes and add new wings to our business steadily. Looking ahead, we need to accelerate projects such as our digital integrated supply chain that will enable end-to-end traceability for food products, sustainable low-touch food packaging, AI-powered robotic air cargo systems and the use of smart sensors, video analytics and big data in our operations. We are committed to helping our customers develop the solutions they will need to succeed in the new normal.

### Acknowledgements

We want to thank our shareholders, customers, business partners and government agencies for their continued support and our board members for guiding the company through a very challenging year. We are very proud of our employees and are grateful for the hard work and sacrifices they have made. Through their efforts in supporting the community and ensuring business continuity, they have truly demonstrated resilience in action.

**Euleen Goh**

Chairman

**Alex Hungate**

President & CEO

28 July 2020