

chairman's statement

Dear Shareholders,

The financial year 2008-09 has been a key milestone in the history of SATS. We embarked on our largest and most important growth initiative to-date with a significant acquisition of Singapore Food Industries (SFI), thus developing the twin pillars of growth in Airport Services and Food Solutions that will take SATS into its new phase of growth.

SATS in a position of strength

The global economic downturn worsened during the financial year, affecting all sectors of the economy, and not sparing the aviation industry. Amidst forecasts of declining passenger numbers and cargo traffic, players in the aviation industry have been bracing themselves to weather these unprecedented difficult times.

During the first half of FY2008-09, the Board and Management undertook a timely and comprehensive review of SATS' business strategies. At the end of that review, we updated our mission and vision statements as well as identified four strategic thrusts for growth. Firstly, we strive to achieve operational excellence by continuously driving improvements in costs, productivity and performance of our core businesses. Secondly, we will improve our orientation towards customers' needs by offering solutions that support the resolution of their challenges, and in return increasing our share of their spending. Thirdly, we want to be innovative to sustain, improve and renew our service offerings. Lastly, we will drive revenue

growth by increasing our presence to serve key customers in more locations as well as via strategic partnerships and acquisitions to incrementally create a global service network.

Several projects were initiated to implement the defined strategy. During the year, the Board approved the buyout of Country Foods' minority shareholders; the launch of low-cost inflight catering and ground handling units at the Changi Budget Terminal; the acquisition of Menzies Aviation (Hong Kong) to create SATS HK, thereby establishing the first SATS wholly-owned subsidiary for ground handling overseas; and the two-step acquisition of publicly-listed SFI.

The SFI purchase was first accomplished through the acquisition of Ambrosia Investment's 69.6% stake, followed by the successful mandatory public offering for the remaining SFI shares in the open market. We received significant majority support from our independent minority shareholders at the Extraordinary General Meeting held on 20 January 2009, for which we thank our Shareholders for your consent and support. The acquisition was finally completed on 17 April 2009 and SFI was subsequently de-listed from the Singapore Exchange Securities Trading.

The SFI acquisition creates immediate scale in our non-aviation food segment and strengthens our ability to weather the current recessionary economic climate. It is accretive to our earnings and cash generation. SATS is now in a position of strength.

A substantially fortified Food Solutions business puts us in a position to compete with large multinational food services providers for major supply contracts in Singapore. Our overseas presence has also been strengthened, opening up cross-selling opportunities to our customers in new geographical locations. Importantly, we have mitigated our exposure to the aviation industry and effectively created a diversified Food Solutions business. While hard work remains to achieve a successful integration and consolidation of our Food Solutions businesses, SATS is now better positioned to serve the needs of its existing and new stakeholders.

A challenging aviation industry

2008 was a year of two halves for the aviation industry: starting with a strong first half which then gave way to a weak second half. With passenger loads sliding, many carriers have taken painful but necessary cost cutting measures such as capacity reduction and re-alignment of their workforce structure.

SATS witnessed signs of slowdown in passenger and cargo traffic growth in June 2008 and when global trade started contracting, these numbers turned negative in September 2008. For FY2008-09, all operating indices – except flights handled – showed contractions compared to the last financial year.

Bucking the trend of declining passenger loads are the low-cost carriers. Many have reported increased

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passenger traffic and have added more flights and routes. SATS has been refining its service and product offerings for this important segment of the market by setting up low-cost ground handling and inflight catering units. In addition to Cebu Pacific and Jetstar Asia, we recently added Tiger Airways to our client portfolio.

Overview of financial performance

SATS' financial performance for FY2008-09 had been reasonable and within expectations, given the declining economic climate and its impact on the aviation industry. Our operating revenue crossed the billion-dollar mark for the first time to \$1.06 billion. The 10.9% increase was mainly due to a two-month revenue contribution of \$110.2 million from SFI, which became a subsidiary on 20 January 2009.

We saw the full-year impact of additional costs from the change in operations with Terminal 3 opening at Changi Airport (T3) in January 2008. The annual cost increase was \$20 million compared to \$5 million in FY2007-08. During the year, we introduced several cost management measures that helped limit the decline in operating profit to 2% at \$170.9 million. The jobs credit scheme benefit of \$12.3 million, a part of the one-off resilience package from the Singapore Government, also helped mitigate the impact of declining aviation revenue in Singapore.

Our overseas associates likewise have been impacted by the weaker aviation industry. Their pre-tax contribution fell 50.3% to \$22.2 million. Some of them, such as Beijing Aviation Ground Services and Taj SATS Air Catering, have been exposed to higher structural operating costs from their capacity expansion executed during the year.

The global financial markets turmoil has caused us to recognise a one-off loss on disposal of short-term non-equity investments of \$10.8 million. Falling interest rates resulted in lower interest income, which fell 56.1% to \$6.9 million. FY2007-08 results also included a \$17.3 million one-off exceptional gain on the sale of SATS Express Courier Centre 2 building. Consequently, our profit before tax declined 26.2% to \$183.5 million while net profit attributable to equity holders was 24.7% lower at \$146.8 million.



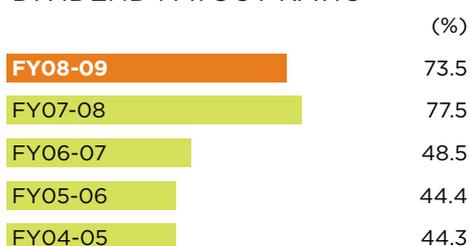
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GROUP REVENUE

\$1,062.1m
up 11%



DIVIDEND PAYOUT RATIO*



*excludes special dividend

Dividends

The Board had in 2008 evaluated and recommended that our dividend policy should be incrementally adjusted to move towards a more efficient capital structure while retaining the flexibility for SATS to access emerging opportunities. Applying similar considerations, the Board has recommended a final dividend of 6 cents per share in view of the company's financial performance in FY2008-09 and its acquisition of SFI. Including the 4 cents per share interim dividend paid earlier on 28 November 2008, the total dividend will be 10 cents per share, which represents a dividend payout ratio of 73.5% of net profit attributable to equity holders.

In comparison, SATS paid a total dividend of 14 cents per share in FY2007-08, which represented a dividend payout ratio of 77.5%. The higher payout was made in view of its capital structure at that point while retaining the financial flexibility for SATS to pursue appropriate investments.

The recommendation for the final dividend will be subject to shareholders' approval at the forthcoming Annual General Meeting on 28 July 2009.

Business review

Airport Services

At home, SATS continues to handle about 80% of the scheduled flights out of Changi Airport. In FY2008-09, we served a total of 30.9 million passengers, and handled close to 88,200 flights and 1.5 million tonnes of cargo. We also secured and renewed several contracts with airline customers including Air India,

Cargolux Airlines, China Southern Airlines, Jet Airways, Lion Air, Philippine Airlines, Tiger Airways and TNT Airways - a testament to our consistent delivery of high quality service with compelling value.

To cater to the growing low-cost carrier segment, we now have an enhanced value proposition that is differentiated to meet the specific requirements of this segment. In March 2009, we announced the launch of low-cost ground handling services under our wholly-owned subsidiary, Asia-Pacific Star. Together with the low-cost inflight catering unit announced six months earlier, we now have in place an end-to-end, integrated service platform for this growing segment of the airline market.

Outside of Singapore, we continue to grow our presence in our target markets of China and India. Our acquisition of a 100% equity stake in ground handler Menzies Aviation (Hong Kong) in October 2008 complements our established cargo handling joint venture, Asia Airfreight Terminal, allowing us to broaden our service offerings to key airline customers in one more location. Moreover, as a major gateway hub to China, Hong Kong presents exciting growth opportunities for SATS.

In India, our 50:50 joint venture with Air India for ground handling received approval from the Government of India. This approval allows us to initiate discussion on the joint venture terms. Upon successful completion, this potential joint venture will substantially increase SATS' presence in India.

Food Solutions

In the area of inflight catering, SATS continues to serve about 80% of



the scheduled flights out of Changi Airport. Our two inflight kitchens produced a total of 25.2 million meals in FY2008-09. We also won a number of new contracts and renewed several existing contracts with airline customers including Asiana Airlines, Best Air, Jet Airways, Northwest Airlines and Philippine Airlines.

With the addition of SFI, our Food Solutions business contributed 50.9% to our total revenue. We are excited about the opportunities that are now open to us. A Board committee - known as the SATS-SFI Integration Board Committee - was set up in February 2009. It has been overseeing the integration of SFI and the creation of our Food Solutions business. Management of SATS and SFI have also formed four taskforces to drive the integration process and to deliver the articulated cost and potential revenue synergies.

In September 2008, our subsidiary, Country Foods announced the launch of an inflight catering facility

dedicated to serving the low-cost carriers as well as other airlines that require alternative meal offerings. Country Foods' joint venture, Country Foods Macau, has performed well since it commenced operations in May 2008. It secured several major entertainment and gaming resort operators as well as Sands' CotaiJet Ferry Services as its customers during the year.

A tradition of great service

Our service-oriented mindset has earned us the recognition as the third most-admired company in Singapore, a view shared by over 2,400 readers of *The Wall Street Journal Asia* in the results of its annual Asia 200 survey announced in September 2008. SATS was also ranked second for the quality of its services and for corporate reputation, and placed fourth for innovation.

Continuing our tradition of a strong showing at the yearly Excellent Service Awards (EXSA) by SPRING Singapore,

SATS walked away with a haul of 497 star, gold and silver awards, with 69 more staff being recognised for their commitment to service at the awards presentation held on 6 November 2008. Aslinda Hamid, a member of our passenger services division, did us proud by winning the EXSA Superstar Award - the highest national award for service excellence - in the Airport sector category.

In July 2008, customer services officer, Garmit Kaur, emerged as winner in the Airport Services category of the sixth annual Asia Pacific Customer Relationship Excellence Awards held in Hong Kong. It was the first time Singapore EXSA Superstars had participated in the prestigious awards. An international judging panel comprising service and industry experts selected the winners.

At the bi-annual "Food & Hotel Asia" tradeshow held in Singapore in April 2008, SATS Catering clinched top honours, upholding its tradition of a great showing. Against strong

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competition, we walked away with the Best Culinary Establishment Award, one of the top three awards in the Culinary Challenge, beating hotel and other hospitality participants locally and from overseas. In the Gourmet Team Challenge, our talented team – led by team captain, Roberto Usai, executive sous chef from ICC2 hot kitchen – clinched the silver award, bettering last year's performance.

Challenging year ahead but with new opportunities for growth

In the new financial year, we continue to operate in a very challenging environment, particularly for our aviation business. We have limited visibility of where an upturn might lie and any recovery in the near term is contingent upon a turnaround in the major global economies such as the US and China.

In this climate, we remain committed to our philosophy of embracing customer intimacy in our value system by continuing to develop innovative service propositions that add value and are most cost-efficient. Just as importantly, as we grow our businesses in the coming years, attracting, retaining and managing talent will be key to our success. We will stay focused on training and developing our people and creating new opportunities for promising talent to grow with our organisation.

We are also committed to our strategy of growth. The acquisition of SFI places us in a stronger position to access a wider range of opportunities than ever before – access to new geographical markets and new customer segments. We are excited about the opportunities at home, with the upcoming launch of the two integrated resorts. With an enhanced Food Solutions business, we will also look at opportunities to grow and be a key service provider to major hospitality organisations.

Subsequent events

On 11 May 2009, we announced the renewal of our comprehensive ground handling and inflight catering contracts at Changi Airport with

Singapore Airlines (SIA). The new contracts, commencing from 1 October 2009, are firm for three years with an automatic extension for a further two, unless either party indicates otherwise six months prior to the completion of the first three years.

Under the new contracts, the scope of services includes passenger and ramp handling, aircraft interior cleaning, inflight catering and cabin handling. This renewal, well ahead of expiry of the old contracts, reinforces the strong strategic relationship between SATS and SIA. It is also a manifestation of our strong position at Singapore's aviation hub.

On 14 May 2009, SIA announced a proposal for an in specie distribution of its entire shareholding in SATS. The proposed distribution, subject to SIA shareholders' approval at an extraordinary general meeting to be convened on 31 July 2009, will see its shareholders receive up to 730 SATS shares for every 1,000 SIA shares held, at no cost to them.

SIA's rationale for the dividend in specie is to unlock shareholder value by giving its shareholders direct ownership of SATS and concentrate on its airline and aircraft maintenance, repair and overhaul businesses.

If approved by SIA shareholders, the proposal is potentially a positive development for SATS shareholders as it will increase our free float from the current 19.4% to 55.5% and this may improve the trading liquidity of SATS shares.

Regardless of our parentage, SIA remains an important customer and a strong strategic partner. Over the years, we have diligently represented the service promise of the SIA brand and have worked collaboratively to innovate our ground handling and catering offerings and performance standards. With this development, we will reinforce our position as an independent ground handler and inflight caterer. A core strategic thrust of our strategy implementation is embracing customer intimacy. We are committed to drive improvements in our service delivery, represent the brand promise of our customers, and

meet the needs of different airline segments by differentiating our offerings through innovation.

Acknowledgement

On behalf of the Board, I would like to extend my appreciation to our Management, Staff and Union who have worked tirelessly with dedication in these challenging times. My gratitude also goes out to fellow members of the Board for their guidance, support and contribution. In particular, I wish to thank Dr Ow Chin Hock who is retiring as a Board member at the forthcoming SATS Annual General Meeting. Dr Ow joined SATS Board in May 2002 and has contributed immeasurably to the Board with his active participation over the last seven years.

I would also like to acknowledge our President and Chief Executive Officer, Clement Woon, who has served his first full-year with SATS. Clement has initiated changes that will steer SATS into its next chapter of growth. We have full confidence in his stewardship to lead our people to realise their fullest potential.

I would also like to take this opportunity to welcome SFI management and staff to the SATS family. Hand in hand, we will build a stronger company.

Last but not least, a sincere thank you to our Shareholders. We are grateful for your confidence and continued support, and look forward to continued dialogue and engagement as we welcome the next exciting chapter in SATS' growth story.

Thank you.

Edmund Cheng Wai Wing
Chairman

22 May 2009