

## CEO's Statement

### Dear Shareholders,

SATS' results for FY2009-10 were positively impacted by two major developments, namely the grants under the Jobs Credit Scheme and the consolidation of Singapore Food Industries (SFI). On the other hand, our aviation business was affected by capacity cuts as well as price and cost actions initiated by the airlines to improve their load factors and yields. Even as there were signs of an aviation recovery towards the third quarter of the financial year, volumes were below that of the preceding year. The silver lining was that a bottom had been reached and the industry was en route to recovery. Therefore, in spite of the weak economic conditions and a year that saw mostly consolidation and building strength in depth through projects that we had undertaken, we delivered above average returns to our shareholders.

### Performance Delivery

The Jobs Credit Scheme was Singapore's version of a stimulus package to help companies overcome the impact of the financial crisis that had begun to worsen by October 2008. In FY2009-10, we benefited from a \$17.1 million grant that went towards defraying some of our employment costs. We received a comparatively higher level of grant due to our substantial headcount in Singapore.

However, since 1 April 2010, the Scheme has been discontinued and the challenge that it poses for the new financial year will be our ability to more than compensate for the grant amount. The recovery of the aviation industry as well as our focus on driving productivity and accessing growth will be essential to meet our target for year-on-year profit growth.

The integration of SFI was substantially completed in FY2009-10. Costs synergies of \$7 million per annum have been achieved while sufficient projects have been identified and initiated to deliver more than \$12 million of annualised savings in the coming months. The savings have resulted in the higher margins and profitability reported by SFI in FY2009-10.

During the year, SATS Catering and SFI worked together on many revenue-generating projects to showcase the

combined strength of SATS' Food Solutions division. We were eventually successful in winning catering services contracts for iconic projects such as the Singapore Airshow, Asian Youth Games and the inaugural Youth Olympics Games. Co-operation in pre-processing, menu design, purchasing, production and food logistics has galvanised the two entities as one.

In May 2009, Singapore Airlines (SIA) announced the distribution of its holdings in SATS via an in specie dividend proposal that was eventually approved by its shareholders and completed in September 2009. As the founding shareholder, SIA has been instrumental in the development of SATS' core competencies. These are the bases that we intend to use to build and strengthen our market position. While we have lost the synergies that we previously enjoyed as a subsidiary of SIA, the change in our parentage does not in any way alter our aspiration to continuously improve total shareholder returns. SATS will continue to embrace the excellent service culture of SIA and at the same time, forge and strengthen relationships, anticipate emerging needs, and offer effective solutions to our customers.

FY2009-10 was a year where the effectiveness of management was put to test. Our results showed that we have been able to respond to the challenge and deliver a 23.5% growth in earnings on a largely similar capital base as the preceding year. As a result, our return on equity increased from 10.6% to 12.6% while return on invested capital increased from 13.8% to 15.6% last year. Furthermore, our free cash flow improved 22.3% to \$190.1 million while earnings per share grew 22.8% to 16.7 cents. SATS is financially healthy. It has shown its resilience during the economic crisis.

### Strategy Implementation

The timely approval from our Board on the strategy developed in April 2008, to mitigate concentration risks by extending our core competencies to non-aviation food, has served our stakeholders well. In retrospect, the acquisition of SFI was timely and at the right price. It clearly demonstrates the will of the Board to reallocate capital to reposition SATS as a substantial player in the broader hospitality and tourism industry, in contrast to the hitherto position of an outsource supplier in the

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narrower aviation segment. Even as we continue to implement this strategy, let me record my gratitude to the group of 40 executives who proactively participated in the development of this groundbreaking strategy which laid the seeds for the "new SATS".

Transformational projects will be the vehicles to drive change and implement ideas towards our growth aspirations. To this end, Country Foods (CF), our wholly-owned subsidiary, is leading the effort to innovate a new service concept for hospital catering. We believe that a central kitchen concept will help hospitals improve their financial performance by reallocating real estate assets to their core business. CF has successfully demonstrated its capability to deliver quality food and service to several local hospitals during the year. Although we have a lot more to do before we reach a tipping point for this idea, we are confident that we are on the right track to establish a unique offering that will have implications beyond the local market. CF will continue to invest in facilities and capabilities towards achieving this goal. The institutional catering market, in which hospital catering is a segment, offers tremendous growth opportunities if we are able to deliver extraordinary value to customers in this market.

SFI made progress during the year to improve its distribution business. Inventory was better managed, which led to an improvement in its free cash flow generation. In addition, we have stepped up efforts to improve products and branding for better differentiation. We also focused on key national agencies to increase service and consequently business. During the year, we contributed to national relief efforts in the aftermath of regional disasters. In addition to the Singapore Armed Forces, we achieved sales of retort products to other friendly armed forces for their training requirements. Our deliberate efforts to understand the evolving needs of these national agencies on an ongoing basis will improve our share of their spending.

Jewels Artisan Chocolate, SATS' own branded artisan chocolate café, was officially launched in January 2010 at Orchard Central, located right in the middle of Orchard Road. Artisan chocolate was an idea that emerged from our innovation process to showcase our capability, by transforming our in-house chocolates into a branded product. Although SATS has little experience in the

customer-facing retail market (B2C) in Singapore, we embarked on creating Jewels, both as a showcase of our capability and as a project that would develop our B2C competencies. Without this investment, we would not have the opportunity to develop skills and competence that are key to access this potential market. Jewels Artisan Chocolate is now a standard offering as part of our many food catering opportunities. They are also increasingly a preferred corporate gift idea for many companies.

The Jewels project is an example of our appetite for innovation and risk tolerance to bring the passionate ideas of our employees to life by taking small excursions from our established positions. It is possible that one of these investments may offer game changing opportunities for SATS one day. Management is willing to take calculated risk and be prudent in our approach to such opportunities.

In the UK, Daniels Group continues its growth trajectory with a strong showing in FY2009-10. Four out of the five Daniels' categories in the chilled food segment grew last year. While the chilled juice market size has declined, Johnson Juice had earlier in the year gained market share by winning the account of a key retailer. We also made an investment in a new soup and chilled ready meal plant in Grimsby, Lincolnshire that would increase our existing capacity by 25%.

In the new financial year, improving margins and accessing the markets in continental Europe remain our key challenges in the UK. Strategically, we can increase our trading volumes with the major retailers by expanding into new categories. We will also continue our evaluation of potential categories that are consistent with our strategic characteristics.

SATS HK, a wholly-owned subsidiary of SATS, made good progress during the year. Instead of expanding aggressively, we opted to focus on improving our service delivery both at the apron and the passenger terminals at Hong Kong International Airport (HKIA). Compliments from customers and passengers have increased and our efforts have been rewarded with new customer contracts towards the end of the financial year. Winning the confidence of SIA Cargo to subscribe to our ramp services

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further boosted our morale and also confirmed that our efforts to build a consistent and differentiated service was the right thing to do from the start. We are optimistic that with the new customer pipeline, we will be profitable even though we are the third player by market share at HKIA. Through this acquisition, we have learnt to operate as a small player in an airport, breaking the myth that we have to be the dominant player to be successful in ground handling.

Another wholly-owned subsidiary, Asia-Pacific Star (APS), led our access to the passenger growth in the low-cost carrier (LCC) segment last year. As expected, LCCs accounted for the lion’s share of passenger growth at Singapore Changi Airport. However, the revenue streams from LCCs remained small as their requirements on the ground were much less compared to those of the traditional carriers. We knew from the onset that success from this segment would only be delivered if we took a differentiated approach.

While low-cost airlines aim to offer lower fares to passengers, their viability is dependent on the ability to derive ancillary revenues from passengers without increasing their back-office costs. APS offers an integrated approach for both ground handling and inflight services. Similar to Jewels Artisan Chocolate, we need B2C competencies if we are to be successful in supporting LCCs to drive inflight sales. During the year,



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we gained much experience in these areas, including better understanding the specific operating characteristics of LCCs. Our ambition is to be able to provide integrated inflight and ground handling services to key LCCs at more than one location. This means that eventually, APS has to go regional independently, differentiating itself from the traditional services in the SATS' network. The formula for a successful LCC handling business is taking shape nicely and we are confident that APS will contribute to our profitability very soon.

At Singapore Changi Airport, we are on the verge of being challenged by a third ground handler. Although we are mindful that there may be negative impact from this development, we will embrace the challenges of increased competition. We have observed the lessons from the entry and exit of Swissport at Changi Airport. We have learnt from our entry into HKIA as the smallest player. We have invested in product differentiation so that we can be the best at the high-end of the market. We have also invested

in LCC handling so that we can offer unique services at competitive prices at the other end as well. To sum up, we are aptly prepared and we are more competitive than we were ever before.

### Accessing Growth

Performances of our overseas associates had been mixed during the year as the global economy recovers. Recovery was not evenly spread and improvements were seen at only a few stations. Nevertheless, this gave rise to an overall improvement in associates' profit contribution of \$41.9 million, up 88.7% from a year ago.

SATS is fully committed to participate at key gateways through similar joint ventures that allow access to long-term growth. Our experiences during the year have highlighted some weaknesses in our approach with respect to these overseas associates. We must continue to improve our engagement, to transfer successful ideas

from Changi Airport and to effectively connect these regional stations as an integrated network from an operational and global marketing aspect. Our initial efforts to do these have shown promising results, confirming that the approach we have taken is a step in the right direction.

During the year, we continued to search for interesting acquisitions that could be synergistic and would extend our core competencies. Growing through acquisitions will offer a more efficient market entry with immediate scale. However, valuation has to be reasonable. While we had made a few bids, we were not successful due to pricing. Market valuation seemed to have outpaced the speed of the global economic recovery. There will not be a "must-have" acquisition in our management paradigm. Profiling targets and executing at the right time will deliver a sustainable acquisition strategy.

### **Managing Change**

We have, in FY2009-10, improved our capability to acquire and integrate acquisitions, and delivered on cost management. We firmly believe that a strong company will not be built purely on acquisitions or on cost reductions alone. Our aspiration is to be innovative in our approach, driving excellence in all our operations and processes, and embracing a culture where our customers will be at the centre of our business decisions.

Business growth must be complemented by a strengthened infrastructure in management capability and business processes. We have worked on these aspects including intangibles such as corporate branding and company culture. The various projects that we undertook during the year not just opened doors to growth opportunities, they were the vehicles to develop our competencies. "Learning by doing", coupled with a "can do" attitude, have paved the way for continuous improvements and growth. We are excited by our future prospects brought about by this change process.

### **Acknowledging Support**

In closing, I wish to express my appreciation and gratitude to my colleagues who have been fully committed and engaged in our efforts and change projects. Recognition and appreciation also go to all our staff and the unions for



their unstinting support and participation throughout the year. I also wish to thank our Board of Directors for their guidance and support. Their proactive engagement and spontaneous sharing of their experiences will continue to help shape the future of SATS. I am indebted to our Chairman, Mr Edmund Cheng, for his leadership of the Board and guidance to management. Last but not least, my appreciation goes to our shareholders for their support of our activities throughout the year.

### **Clement Woon**

President & Chief Executive Officer

1 June 2010