Chairman's Statement

Dear Shareholders,

I am happy to report that SATS had a successful first year as a public listed company. The Group now operates more independently of its parent company, Singapore Airlines, and pursues a more aggressive growth strategy. The listing also presented opportunities for our staff to participate in the equity of the Company.

During the year under review, the Group was able to record a 9.3% increase in net earnings after tax to S$175 million, helped by a 12.3% growth in revenue to S$887 million. The strong revenue growth came from a significant increase in business volume during the first half of the year.

We continued to see growth in all our operating units, and the numbers speak for themselves. During the year under review, SATS handled 75,600 flights, an increase of 4.6% over the preceding year; served 24 million passengers, an increase of 10.6%; processed 1.4 million tonnes of cargo and mail, an increase of 6.1%; and produced 22.9 million inflight meals, an increase of 9.5%.

In Singapore, from which we derived more than 90% of our profits, we continued to upgrade facilities and improve service standards. In July 2000 we commissioned the SATS Inflight Catering Centre (SICC1), a state-of-the-art facility that cost $217 million.

SICC1 has the capacity to produce 45,000 meals a day and is designed so that this capacity can be doubled to meet future increases in demand. With the new SICC1,

Our efforts in the past have been confined exclusively to Asia, but we are now extending our vision to other continents.

SATS Catering operates two of the most modern inflight kitchens in the world, with a combined production capacity of 75,000 meals a day.

In April 2001, SATS Cargo's sixth airfreight terminal commenced operations. Costing $270 million, it has increased the Group's cargo handling capacity by 62% to 2.1 million tonnes a year.

Another major facility, the $30 million SATS Express Courier Centre 2, which is purpose-built for our long-term business partner DHL, is scheduled for completion in September this year and will further strengthen our express cargo business in Singapore.

Our long-term strategy is to further increase our presence overseas and raise the contribution to profits by our associated companies and joint ventures. To date, we have 12 ground handling and inflight catering associated companies in the Maldives, China, Vietnam, Taiwan, Japan, Macau, Hong Kong, India and the Philippines.

In May last year, we acquired a stake in Evergreen Airline Services Corporation (EGAS), which provides ramp handling at the Chiang Kai Shek International Airport, Taipei. SATS holds a 20% stake in EGAS, our second partnership with Eva Air.

During the year, our associated companies contributed 8.4% to our Group's bottomline.

Our efforts in the past have been confined exclusively to Asia, but we are now extending our vision to other continents. In March this year we launched a S$500 million medium-term note programme. This provided us with another funding source to facilitate our expansion locally and internationally. The inaugural issue, jointly arranged by Citicorp and DBS Bank, comprised $200 million of three-year fixed rate notes with an annual coupon rate of 2.9%.

In line with our commitment to continually improve our service to customers, we launched the YES! To Exceptional Service campaign, aimed at invigorating the service culture of the Group.

We will capitalise on Information Technology to improve service and efficiency. A new warehousing system, known as the Cargo Operations System (COSYS) has been cutover in our airfreight terminals. Using client-server technology, COSYS uses radio frequency data terminals and other such devices to allow faster and more accurate processing of shipment records and better service to shippers and consignees.

To improve efficiency, we are implementing an enterprise resource planning system from SAP. Implementation should be completed by the middle of next year.

We have also embarked on a project to integrate our various operations centres and make staff deployment more efficient.

With global passenger traffic expected to grow 4.9% a year in the next 20 years, and air cargo volumes at 5.7% annually, the outlook for air transport continues to be positive.

I wish to express my deepest appreciation to management and employees for a good performance, and to my fellow Board Directors for their support and advice.

CHEONG CHOONG KONG
Chairman