

CEO's Statement



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Dear Shareholders,

We started FY2010-11 on a good note following the successful integration of Singapore Food Industries (SFI) into SATS. The aviation industry was then recovering but subsequent events proved this to be one of the most challenging years in our history. In spite of this, we managed to benefit from the recovery and win several awards for disruption handling. Our focus to grow our gateway services and food solutions businesses delivered results, as both businesses were benefiting from the growth in the tourism and hospitality industries at home and abroad.

In August 2010, we changed our name from Singapore Airport Terminal Services Limited to SATS Ltd. to better reflect our strategic directions and characteristics. Consequently, a project was also started to review our branding with the objective of building a consistent representation across our businesses and geographies. I am happy to inform you that we will be launching our new brand identity in June 2011.

GATEWAY SERVICES

The 2010 eruption of the Eyjafjallajökull volcano in Iceland would be etched in the annals of aviation history, having created one of the largest disruptions in civilian air travel since World War II. While this occurred in Europe, passengers were trapped in Asia and elsewhere. Our ONE! Service was pushed to the limit to show compassion, bring peace of mind and comfort to stranded passengers, and facilitate the recovery of travel plans. In addition, our staff worked tirelessly to re-process cargo backlogs so that transshipment cargo were able to reach their final destinations quickly despite schedule and capacity restraints brought about by the volcanic eruption. Once again, the commitment of our people and the strength of our processes have helped our airline customers build and strengthen their branding, and safeguard the high reputation of the Singapore Hub.

Our competence in disruption handling was put to the test again during the year. The eruption of

Mount Merapi in Central Java, the grounding of A380 flights as a consequence of the Rolls Royce engine incident on Qantas flight QF32, and the extreme winter in the northern hemisphere had caused travel disruptions at Singapore Changi Airport. Singapore Changi Airport and several airlines, in particular Singapore Airlines, as well as SATS received many commendations from travellers after these episodes of disruption. These commendations and recognition of our efforts reminded us of our responsibility to care for passengers and our core strength in aviation services. While they are an affirmation of our gateway strategy, they also increase our resolve to strengthen our global network in aviation ground services and catering despite the frequent challenges that we face.

On 1 May 2010, SATS started providing technical ramp handling services at Singapore Changi Airport after many months of preparations and hard work. At last, we are now on par with the competition to offer the full suite of ground handling services. While technical ramp handling was not new to our staff as we previously provided these services sometime ago, we relied on the capabilities within our aviation network to renew our own capability here in Singapore. Our approach was a simple one; step by step with a sure footing, we grew our capability while ensuring that safety and service levels were not compromised. During the year, we secured majority share in the business jet market and clinched contracts with several scheduled carriers. Our proactive plan to integrate technical ramp handling services into our ground operations and increase productivity via efficient deployment of resources has helped our airline customers save costs.

Innovation, as one of our thrusts for change, drove product and service enhancements to enable organic growth. In passenger services, we launched the new SATS Premier Check-in Services at Terminal 2 of Singapore Changi Airport, a premier greet-and-assist service from aircraft to destination. In apron services, we increased both our capabilities and services for aircraft interior cleaning and renamed the department as "Aircraft Aesthetics" to better reflect the additional capabilities and wider scope of services offered.

In the area of cargo terminal operations, we launched the unique Coolport@Changi, in addition to the many service enhancements, to complement an already excellent logistics infrastructure at Singapore Changi Airport, thereby attracting more perishables traffic through the airport. This facility improves the capability of SATS' airline customers to offer a more reliable and exacting service in handling perishables cargo and also supports Singapore's efforts to position itself as a bio-medical hub. During the year, we also started a new third-party logistics warehousing operations in the Airport Logistics Park of Singapore. This unit will help strengthen SATS' relationship with logistics companies through both upstream and downstream supply chain collaborations. We are confident that over time, it will improve our cargo revenue stream as we start to offer more value-added services.

In FY2010-11, our wholly-owned subsidiaries, SATS HK and Asia-Pacific Star (APS), achieved profitability for the first time. Continual improvement in services and optimisation of capacity helped SATS HK turn around during the year. Our appreciation goes to our airline customers who have put their trust in us to look after their passengers at the Hong Kong International Airport. APS, on the other hand, was set up to offer a differentiated service to low-cost carriers (LCCs) in Singapore. It provides both ground handling and inflight catering services to the LCCs. From a humble beginning, we now have a majority share of the LCC market in Singapore. SATS has unique competencies in developing a broad range of meal types that can be adjusted to the varying catering needs of LCCs. No two LCCs operate in the same way and APS' ability to meet their needs is an important reason for its success. Although its revenue contribution is small in relative terms, APS has forged a formula that could potentially be exported into the region.

We were expecting a third ground handler to start its operations at Singapore Changi Airport but that did not materialise in FY2010-11. Nevertheless, we continued to work hard by focussing on service and capability differentiation. Our staff and associates stood up to the challenge and delivered as planned.

FOOD SOLUTIONS

Inflight catering had faced the same challenges as gateway services in the aviation sector. Continuous improvement programmes were undertaken by management to help mitigate food cost inflation, which was one of the major challenges in FY2010-11. During the year, we worked on "healthy choice" recipes for local cuisines, with the aim to reduce fat, cholesterol and calories in our much-loved local dishes like laksa and nasi lemak. We hope that these may eventually be featured in inflight meals. Food innovations such as these are part of our focus throughout the year.

In the area of non-aviation food solutions, we were awarded a contract to provide meals for young athletes at the Games Village during the Youth Olympic Games which took place in Singapore in August 2010. This was a momentous opportunity to showcase our capability for mass catering. In addition to taste, we had to meet the various ethnic meal type requirements, feed about 7,000 youths, games officials and volunteers, and adhere to stringent standards and requirements for health and food safety. Although the contract was initially for three meals a day, the actual requirement of the young athletes was almost a round-the-clock buffet spread. We scored well on service, food taste and availability despite initial hiccups arising from the complexity of operating in a makeshift kitchen. The integrated competencies of SFI, SATS Catering and Country Foods enabled us to deliver the required performance and meet the service level agreements in the contract.

The food distribution business of SFI was turned around during the year. Special attention was paid to inventory management, product and branding as well as collections from customers. I am pleased to note that we have reached the performance level where we can confidently grow this business again.

At Country Foods, we opened a restaurant, Tables by the Bay, at Keppel Club as the front for our events catering division, Le Lifestyle. We have received good reviews for the restaurant which allows us to demonstrate to prospective clients our offerings and train our service staff for events. Hospital catering, on the other hand, remains our key challenge. We expected hospitals to welcome outsourcing of this non-core activity as

they face capacity, staffing and meal production challenges, and the adoption of a central kitchen concept would seem logical. However, we have found their readiness to take this step relatively low as most hospitals still keep to their own in-house production.

The organic growth attained by our Singapore food solutions business was primarily driven by the recovery in the aviation sector as well as the growth in the tourism and hospitality industries, energised by the opening of the two integrated resorts, the annual Singapore Grand Prix and the many tourism events in Singapore.

Over in the UK, our subsidiary Daniels Group celebrated the official opening of a new plant for soup and chilled ready meals (CRM) production in Lakeside at Grimsby's Europarc Business Centre in June 2010. The combined plant is a departure from the past concept of dedicated plants for each of the five food categories that we participate in. It also gives us the flexibility to expand production for both the soup and CRM categories at lower fixed cost levels.

During the year, we launched many new products including a new range of desserts, new soup types, and a premium range of soups under the New Covent Garden brand. The drinks category was dampened by escalating prices in juicing oranges that affected our financial results. The actions taken to pass on some of the raw material price increases to customers were partially successful. While our UK business continued to grow, the weak pound sterling against the Singapore dollar resulted in marginal revenue growth in FY2010-11. However, on a constant currency basis, Daniels Group's revenue rose 11.6% year-on-year.

OVERSEAS JOINT VENTURES

SATS' global aviation network consists of associates, joint ventures (JV) and subsidiaries. The regulated environment around airports generally poses challenges for us to strike the right deals. Nevertheless, we achieved several successes in growing our network during the year. In India, we received approval to create a JV with Air India for ground handling services. This 50-50 JV now houses our Bangalore and Hyderabad ground services operations that have started since

2008. All formal procedures were completed by the end of FY2010-11 and the Group has accounted for its share of this JV's profits.

We also expanded our network to cover both Narita and Haneda airports in Tokyo following the acquisition of a majority stake in TFK Corporation (TFK), the catering arm of Japan Airlines. With both airports planning for an expansion of flight slots by 2014, the future for growth is bright. However, the triple disasters on 11 March 2011 may delay these plans slightly. Nevertheless, we expect Japan to recover from this crisis and TFK, being a long-term investment, will benefit from this recovery.

In April 2011, we entered the Middle East market through our JV, Adel Abuljadayel Flight Catering Company (AAFC), which has a presence in both Jeddah and Riyadh airports. AAFC traditionally has been catering to private jets and ad-hoc flights and has established a good track record. The forward plan is to enable AAFC to secure more contracts with scheduled airlines and we believe that with the increasing traffic into Jeddah and Riyadh, this JV has much potential for further development.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

SATS has a long standing commitment towards sustainable development. We have implemented many projects to conserve energy, and reduce, reuse and recycle material resources.

In FY2010-11, we consolidated our CSR activities with the objective of eventually setting up a SATS Foundation that would also support charitable work through volunteerism and financial aid. SATS Foundation's focus is on three specific areas. The first is to promote volunteerism and a caring mindset amongst our employees. As service is the foundation of our business, we hope that through volunteerism, we can continually strengthen this foundation. The second focus aims to enable and empower disadvantaged groups by providing support to them. The third area is to promote "green" practices within SATS by reducing and mitigating adverse impact on the environment.

During the year, our staff participated in the Assisi Hospice Charity Fun Day 2010 and the Down Syndrome Association's Charity Walk and Carnival, and mentored children from the Singapore Indian

Development Association in the First Lego League Robotics Competition. We also worked with the National Volunteer and Philanthropy Centre to organise an outing for the elderly from the Society of the Aged Sick and supported the Sree Narayana Mission in its Welfare Service Flag Day. A group of our employees celebrated the Lunar New Year with the elderly from the Society for the Aged Sick and painted a mural at the Geylang East Home for the Aged in February 2011.

Increasingly, we plan to integrate these meaningful activities into our business philosophy and culture, engage and develop our staff, and fulfill our responsibility to the communities where we operate in.

APPRECIATION

Much had been accomplished in FY2010-11 as we continued to work towards increasing shareholder value, improving our processes and strengthening our company culture. This challenging year could not have been overcome without the unstinting support of my management colleagues and all our staff. We were bound by our collective aspiration towards service excellence and to represent our customers in the way that they have come to expect of us.

The change of leadership in our unions during the year has renewed their efforts and commitment to cooperatively and collaboratively work on change projects to improve our workplace. I would like to thank S. Gunasekaran, General Secretary of SATSWU, Paul Ng Kim Seng, President of SATSWU, Martin Chan, General Secretary of AESU, and S. Supramaniam, President of AESU, for their advice and support to effect continuous improvements for the benefit of all SATS stakeholders. On behalf of management, a special vote of thanks goes to our Chairman, Mr Edmund Cheng, and the Board of Directors for their guidance and support. We also wish to express our appreciation to the many shareholders who have supported and remained with us throughout the year.

Clement Woon Hin Yong
President & Chief Executive Officer

23 May 2011