

# Chairman's Statement

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Dear Shareholders,

FY2010-11 marked another good year for SATS, as we continued our growth momentum from last year. The recovering aviation industry and global economy helped to sustain growth, with the key drivers coming from staying true to our beliefs in customer service, innovation and operational excellence.

We introduced innovation in both our products and services, most notably with the opening of Coolport@Changi, Asia’s first on-airport perishables handling centre as well as the launch of Singapore’s first city check-in service with baggage acceptance at Marina Bay Sands.

We extended our capabilities with the commencement of technical ramp handling services at Singapore Changi Airport and supported the

initiation of the China Jilin (Singapore) Modern Agricultural Food Zone (Jilin Food Zone) with an investment in an integrated pig farm that would allow us to access China’s processed food market and secure additional food sources for our food solutions business.

We also extended our geographical presence, enabling us to serve our existing customers in new locations as well as reach out to new customers. In Japan, we acquired a 50.7% equity stake in TFK Corporation (TFK), Tokyo’s leading airline caterer which has a presence at both Narita and Haneda airports. In India, we incorporated a joint venture (JV) company, Air India SATS Airport Services (AISATS), to house our existing interests in Bangalore and Hyderabad as well as future interests when we enter other Indian airports.

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In August 2010, the Company changed its name to SATS Ltd. to better reflect the full spectrum of its businesses. We are in the process of rebranding SATS to develop a stronger proposition for all our customer segments.

## RESULTS REVIEW AND DIVIDENDS

SATS' aviation business benefited from the worldwide rebound of the aviation industry in FY2010-11. We extended our footprint and offerings across both gateway services and food solutions, and capitalised on new sources of growth within and beyond the aviation sector.

In FY2010-11, our operating revenue increased 12.4% to \$1.73 billion as all business divisions reported higher revenue and TFK made its maiden revenue contribution in the fourth quarter. Our aviation revenue grew 18.1% to \$1.03 billion while non-aviation revenue rose 4.8% to \$694.4 million.

Operating profit was \$184.5 million due to the impact of exceptional items. Excluding the one-off \$6 million in M&A costs in FY2010-11 and \$17.1 million in jobs credit received in FY2009-10, our underlying operating profit grew 13.9% to \$190.5 million.

Contribution from our associated and JV companies grew 46.1% to \$61.2 million as a result of better performance reported by our ground handling associates and the inclusion of AISATS' contribution for the first time. Consequently, our profit before tax rose 10.1% to \$245.5 million and profit attributable to equity holders increased 5.6% to \$191.4 million. Excluding exceptional items, our underlying net profit increased 20.3% to \$197.4 million.

For the full year, we generated free cash flow of \$132.2 million and our cash balance as at 31 March 2011 stood at \$296.1 million. As a result of our strong financial performance and cash reserves, your Board has recommended a final dividend of 6 cents per share and a special dividend of 6 cents per share. Including the interim dividend of 5 cents per share paid on 2 December 2010, the proposed

total dividends will be 17 cents per share, 4 cents higher than the total dividends paid in FY2009-10. This represents a dividend payout ratio of 98.4% of our profit attributable to equity holders. Upon shareholders' approval at the forthcoming Annual General Meeting of the Company, the final and special dividends will be paid on 17 August 2011.

## BUSINESS REVIEW

### Gateway Services

SATS maintained its position as the leading ground handler at Singapore Changi Airport in FY2010-11, serving 75% of the scheduled flights there. We expanded our comprehensive suite of ground handling services to include technical ramp handling services from May 2010 onwards and built on our competencies to offer this service to both narrow and wide-body aircraft. We strengthened existing customer relationships by renewing ground and cargo handling contracts with nine airlines including All Nippon Airways, British Airways, Korean Air, Malaysia Airlines and United Airlines. We also established new customer relationships by securing contracts with four carriers, namely Air Macau, China Cargo Airlines, Hainan Airlines and Hong Kong Airlines. The continued expansion of facilities and services for the fast growing low cost carrier segment is promising and delivering results.

SATS HK, our subsidiary in Hong Kong, similarly secured and renewed contracts with customers such as Delta Air Lines, Juneyao Airlines, Malaysia Airlines, Singapore Airlines and South East Asian Airlines.

We take pride in our portfolio of long-standing customers and in extending the suite of services that we are able to offer them. We are also very pleased to have secured several new customers during the year. These contracts are an affirmation of SATS' continued competitiveness and they underscore our ongoing commitment to better serve our customers through operational excellence and innovation.

We strive to deliver strategic value to a wider group of stakeholders beyond our customers. For example, the specialised cold chain logistics services at Coolport@Changi enhance the capabilities of Singapore's logistics industry to meet Asia's increasingly sophisticated demand. We are heartened by the strong positive response from the industry, by achieving a 70% utilisation rate less than a year after Coolport's opening.

September 2010 also saw the launch of Singapore's first city check-in service, in partnership with Marina Bay Sands. We are proud to be able to offer a new service to our airline customers' passengers, by allowing them to check-in at a convenient location in the city centre well ahead of their outbound flights.

### Food Solutions

We continued to perform well in aviation food solutions, serving 86% of the scheduled flights at Singapore Changi Airport. We also secured and renewed contracts with Air India, Cathay Pacific Airways, Finnair, Hong Kong Airlines and Jet Airways during FY2010-11.

On the overseas aviation food solutions front, the acquisition of a 50.7% stake in TFK (with voting rights of 53.8%) for \$122 million was a significant step towards strengthening our core business globally. It enables us to acquire a leadership position in the airline catering market in Tokyo, and at the same time participate in an exciting phase of long-term expansion in Japan's primary air hubs of Narita and Haneda. While we are deeply saddened by the tragic disasters which struck Japan in March this year, we believe that the resilience of the Japanese will see the country through this difficult period and TFK is doing its part to support airline customers in restoring normalcy. We are confident of the long-term opportunities in the Japanese aviation market and are committed to contributing towards its growth and expansion.

On the non-aviation food solutions side, we renewed our contract with the Singapore Armed Forces in May 2010 to deliver logistical support for

its operations in Australia till 2015, with the option to extend the agreement for a further five years.

We supported the inaugural Youth Olympic Games in Singapore by catering meals at the Games Village for some 7,000 athletes, officials and volunteers in August 2010. We also provided staff meals during the Singapore Grand Prix in September 2010.

The integrated pig farm project in the Jilin Food Zone in Jilin province, China, broke ground in September 2010. We are excited to contribute to this JV by way of sharing our expertise in food safety and in the production, marketing and distribution of food products. Through this JV, SATS is also taking a strategic step towards securing a safe, reliable and sustainable food supply for Singapore over the long term.

In the UK, our subsidiary, Daniels Group, maintained its innovation and growth momentum through winning new contracts for soups, desserts, ready meals, fruits and juices from major UK retailers. As a result, Daniels saw its revenue in pound sterling grow 11.6% to £178.7 million in FY2010-11.

In June 2010, Daniels celebrated the official opening of its new food production plant in Lakeside at Grimsby's Europarc Business Centre. The increased soup and ready meal capacity afforded by this new plant has enabled Daniels to support the increased level of business from its key customers.

### AFFIRMING PARTNERSHIP

As a service provider, SATS is renowned for exceeding customers' expectations. We are gratified to have had our efforts recognised through the following awards, among others:

- 'Best Air Cargo Terminal in Asia' for the 13th time, as voted by the air cargo community at the Asian Freight & Supply Chain Awards organised by Cargonews Asia;
- Agri-Food and Veterinary Authority's (AVA) 'Gold Award' for attaining an "A" grade under its Food Factory Grading Scheme for 15 consecutive years and 'Food Safety Partnership Award';

- 17 Star, 19 Gold and 15 Silver Awards at SPRING Singapore's Excellent Service Awards 2010; and
- 'Airport Service Individual and Team Awards', 'Flight Delay Handling Team Award' and 'Service Process Redesign Award' at the Singapore Airlines CEO Transforming Customer Services Awards 2010.

### AN EYE ON THE FUTURE

The past year saw a recovery in our business activities with the rebound of the aviation industry and the wider economy. While aviation demand has improved, the industry remains volatile especially in the wake of rising fuel prices. Nonetheless, we will continue to strengthen our core competencies and deepen our interests across other avenues to seek growth.

We are always on the lookout for innovative ways to generate further value for our customers, and the coming year will be no different. As we did in the case of TFK, we will evaluate any compelling acquisition opportunities which make sense for our business, wherever they may present themselves. On that note, I am pleased to inform you that we recently acquired a 40% equity stake in a Saudi Arabian niche inflight caterer, Adel Abuljadayel Flight Catering Company. This acquisition marks our first foray into the Middle East aviation market and allows us to potentially develop new service opportunities with our key customers, and secure new customers at more locations.

Another area of growth for us lies in leveraging our core competencies in gateway services and food solutions to grow in sectors outside our traditional areas of focus. We continue to expand our relationships in the hospitality and tourism-related industries, where we have been successful in securing new customers; and the year ahead will see us continue to reach out to new sectors.

Even as the Group grows, it is important that we look internally and continue to drive operational and cost efficiencies. With exceeding customers' expectations and ensuring our continued

competitiveness at the core of everything we do, we see people development as key. Our leaders must be fully equipped to handle the extended range of capabilities we now possess. Every one of our staff must identify with our brand, our common culture, and most importantly, see SATS as a company in which they enjoy working and have a long-term future.

Additionally, with the Group's remarkable growth in recent years, it is important that our brand accurately reflects the full range of our businesses and capabilities. For this reason, we underwent an exercise earlier this year to refresh our brand and align our values to who we are today – a strategic partner and first choice provider of end-to-end solutions globally.

### IN GRATITUDE

On behalf of the Board, I would like to extend my sincere thanks to every member of our staff, our union, and management. As a services company, our people are the foundation upon which our every success lies. I am grateful to them for their continued passion, loyalty and commitment.

I also wish to thank my fellow Board members for their wise counsel and support throughout the year. It is with reluctance that I bid farewell to three members, Swee Wah, Rajiv and Kheng Joo, who will be stepping down from the Board at the forthcoming Annual General Meeting. Together with the rest of the Board members, I thank them for their invaluable service and contributions to SATS over the past years.

Finally, to our customers, business partners and shareholders, my sincere thanks for your continued confidence and support.

**Edmund Cheng Wai Wing**

Chairman

23 May 2011