

# Chairman and PCEO's Statement

“We are at the starting point of a new and exciting journey of building greater resilience at SATS and creating long-term value for our stakeholders. Strengthening our core will give us the capability to expand our horizons.”

**Euleen Goh**  
Chairman

**Kerry Mok**  
President and Chief Executive Officer



# Chairman and PCEO's Statement

Dear Shareholders,

The last financial year has seen an unprecedented aviation restart, with flights handled by the SATS Group in Changi recovering from 43% to 84% of pre-COVID volumes. We correspondingly ramped up our operations and invested in our catering facilities, and are proud to have smoothly delivered on the Changi experience and contributed to Changi Airport being named the World's Best Airport in 2023 by Skytrax.

Internationally, we launched our new central kitchen in Tianjin and reinforced our position in Asia with AISATS being selected to design, build, finance and operate an integrated multi-modal cargo hub at the upcoming Noida International Airport in Uttar Pradesh, India. Significant effort also went into the acquisition of Worldwide Flight Services (WFS), which we announced on 28 September 2022 and completed on 3 April 2023, with the integration of the WFS Group into the SATS Group currently underway.

These are significant steps in our twin engine growth strategy, as we reinforce

our market leadership in Singapore and grow our presence overseas. Moving forward, we will focus on driving efficiency across our operations and leveraging our combined scale and connectivity to drive value creation for our business.

## Looking back | the year past

Emerging from the pandemic, we were cognisant of how COVID-19 and recent geopolitical events had transformed the business landscape. Many employees trained in the critical areas of our operations had left SATS during the pandemic, and we had to hire and train more than 2,000 new employees as business volume returned. China's

zero-COVID policy kept its borders closed till January 2023, impacting tourism, supply chains and the global economy. The Russia-Ukraine conflict caused food and energy prices to soar, triggering global inflation and setting in motion the most aggressive monetary tightening policies in a decade, resulting in interest rate hikes. Deteriorating US-China relations sparked fresh supply chain concerns, and saw companies start moving their sourcing and production closer to where demand is generated.

Against this backdrop, SATS had to navigate many challenges and complexities as we ramped up our operations to support travel recovery.

## Gearing up | travel rebound

FY23 started expeditiously as we planned for aviation recovery. Travel returned in the second half of the financial year, with China remaining closed till the last quarter. Air cargo volume peaked during the pandemic but slowed down from the first quarter of FY23 due to macroeconomic factors. To ensure we ramp up our operations safely in readiness for travel rebound, we conducted an aggressive recruitment exercise jointly with the Civil Aviation Authority of Singapore at the OneAviation Career Fair. We also collaborated with academia in Singapore and Greater China on various initiatives to nurture a larger pool of work-ready graduates and facilitate bilateral knowledge exchange between industry and academia.



## Strengthening core capabilities | driving efficiency

The pandemic and geopolitical events in the last few years have caused massive disruptions to the global supply chain and reshaped government and business investment decisions. This has resulted in companies moving their sourcing and production closer to where demand is generated, shifting trade flows between countries and impacting how SATS delivers on its purpose to feed and connect communities. To ensure SATS' long-term growth and business sustainability in the face of these changes, we seized opportunities to advance our twin-engine growth strategy of replicating our capabilities across our network to grow internationally while strengthening our core capabilities in our home market.

On 28 September 2022, SATS announced the acquisition of global air cargo logistics provider Worldwide Flight Services ("WFS") for €1.3 billion (equivalent to approximately S\$1.8 billion) from an affiliate of Cerberus Capital Management ("Cerberus"). We thank our shareholders for supporting the acquisition with a 96.8% approval at the EGM held on 18 January 2023. The acquisition was completed on 3 April 2023. Integrating the operations of both groups strengthens one of SATS' core capabilities - cargo terminal operations. By transforming SATS into a leading provider of gateway services with more than 200 locations in over 20 countries, we are extending our reach beyond our traditional geographies. This provides SATS access to performance data across a global network, which will enable us in turn to provide greater speed and traceability to our customers and enhance their supply chain efficiency. The combined business will also position SATS well for the future and build our resilience. We will be better placed to navigate significant and unexpected market events, such as pandemics and changes in trade flows. It will also offer SATS access to a global talent pool critical to supporting our future growth ambitions.

## PROFIT FROM SoAJV

Increased share of earnings to the Group by

**165.5%**

At the end of March FY23, volumes of flights handled, aviation meals served, and cargo tonnage for SATS and our subsidiaries (excluding consolidation with Asia Airfreight Terminal (AAT)) returned to 76%, 74% and 90% of pre-pandemic levels. For FY23, revenue grew 49.4% or \$581.5 million to \$1.76 billion on the back of aviation recovery and AAT consolidation. Despite the top-line increase, SATS recorded a loss attributable to owners of the Company of \$26.5 million for the year, impacted by several one-off expenses such as a reduction of \$81.5 million in government grants compared to the year before, one-off merger and acquisition expenses of \$44.9 million, and the early ramp-up of operations to support aviation recovery. SATS' joint ventures and associates performed well, increasing their share of earnings to the Group by 165.5% or \$28.3 million to \$45.4 million. The fundamentals of the Company remain strong. EBITDA<sup>1</sup> grew 83.9% or \$79 million to \$173.2 million.

## Dividend

As SATS incurred a full-year loss excluding government reliefs, the Board of Directors believes it would be prudent not to pay a dividend until SATS is profitable without government reliefs.

<sup>1</sup> EBITDA includes the share of results of associates and joint ventures.



# Chairman and PCEO's Statement



SATS' new central kitchen in Tianjin

Growing our capability in specialised cargo handling, SATS was the first ground handler in the world to achieve IATA lithium battery certification in three markets – Hong Kong, Indonesia and Singapore. Our competency in the safe handling of lithium batteries helps our customers meet safety regulations for dangerous goods. SATS' newest subsidiary, AAT, has been aggressively building their capability to serve more cargo volume going through Hong Kong, the world's busiest air cargo hub. It also launched AAT Coolport in July 2022, Hong Kong's first on-airport cold

chain facility, allowing for improved handling of perishables and temperature sensitive products.

In India, AISATS has been selected to design, build, finance and operate an integrated Multi-Modal Cargo Hub ("MMCH") at the upcoming Noida International Airport in Jewar, Uttar Pradesh. The five-tier cargo hub will be the first of its kind in India. It will comprise an Integrated Cargo Terminal with warehousing and logistics zones to be built over 87 acres of land. The

MMCH will include integrated facilities with airside access for general cargo, e-Commerce, temperature-controlled rooms for perishables and pharmaceuticals, and express courier shipments. It will also provide trucking facilities to support road-to-road, road-to-air, and air-to-road movements to facilitate seamless and best-in-class cargo experience.

We are also growing our Food Solutions business alongside our Gateway Services. Tapping into the rising demand for convenient meal solutions in China, SATS bolstered our presence in China by opening a 21,553 sq m new central kitchen in Tianjin. The Tianjin central kitchen utilises automation and the Internet of Things (IoT) to provide real-time critical information to efficiently ensure food quality and safety. Cooking processes are pre-programmed and monitored via live dashboards, with alerts automatically triggered in the event of any deviations from cooking timings and temperature settings in pre-set recipes to ensure strict compliance with high food quality and safety standards. With our quality promise, we aim to capture a slice of the growing ready-to-eat market in China.

SATS also signed an MOU with Mitsui to form a strategic alliance to jointly explore how we can harness our strengths to grow our businesses. We will jointly explore opportunities across the food value chain, such as diversifying supply sources, developing innovative products and services, and expanding sales and distribution channels to grow our food and retail business together.

Singapore remains a key pillar of our growth strategy, and we continue strengthening our capability in our home market. To ensure greater safety and efficiency operating in a tight labour market where wages are high, we have introduced further automation to help us manage increased volume efficiently.

We implemented a new digital ground operating system, G-Ops, that tracks the key operational milestones of our apron processes in real time across the terminals. This system facilitates better coordination of under-the-wing operations, from ramp to technical ramp and baggage handling. The performance metrics captured in the system enable us to drive continuous improvements across our ramp operations for higher service performance, improved productivity and optimised capacity utilisation.

In October 2022, we restarted our operations in SATS Inflight Catering Centre 1 with new automation targeted at ramping up annual aviation production capacity in Singapore to achieve 53 million inflight meals by 2025. We invested in new equipment that reduces the need for manual labour, such as a large-scale sous vide immersion circulator that dishes out perfectly cooked proteins, a multi-storey material handling system that automatically sorts and distributes washed aircraft food trolleys, utensils and cutlery, and a computerised multilevel storage system that sends food directly to the food dishing lines.

**EXPANDED CAPACITY TO REACH**

**53M**

inflight meal production capacity by 2025.

## Supporting and growing key customers | driving operational leverage

Our investments in new capabilities and operating systems have enabled us to support our customers better while growing operational efficiencies for SATS. For example, SATS Food Solutions will enable airline customers such as Singapore Airlines to gain efficiencies in their menu and demand planning by tapping on our AI-enabled food waste tracking

capability to measure the volume and types of unconsumed meals from inbound flights into Singapore from 1 July 2023. We have also leveraged our culinary expertise, knowledge of nutrition and food technology to support certain childcare centres to achieve productivity gains in meal preparations with ready-to-heat proteins.

Our enlarged footprint will enable SATS to grow our business with key customers. Before the acquisition of WFS, SATS could service airline clients in our operations in Asian cities. Post integration, we will be able to serve our customers across a larger network with more value-added services and new solutions.

As one company, we were able to help WFS get started in Bengaluru much quicker by transferring our expertise in cargo handling in Bengaluru to WFS. Our newly acquired subsidiary also adopted the SATS COSYS+ cargo operating system, enabling a smooth transition for our customers.



Large-scale sous vide immersion circulator dishes out perfectly cooked proteins

**“Growing our capability in specialised cargo handling, SATS was the first ground handler in the world to achieve IATA lithium battery certification in three markets – Hong Kong, Indonesia and Singapore.”**

# Chairman and PCEO's Statement



## Expanding sustainability horizons | creating greater impact

As we grow and expand, SATS' activities have become more diverse and widespread. To ensure greater commitment and alignment concerning the prioritisation of ESG initiatives across all business units, SATS has formed an ESG Steering Committee comprising key members of the Group Management Board. This committee evaluates all business cases and trade-offs, reviews resourcing plans and the potential financial impact of ESG projects, sets ESG KPIs and develops strategies for strengthening SATS' disclosures and ratings. Guided by the ESG Steering Committee, Management updates the Board on the recommendations and takes guidance from the Board to refine the Company's ESG strategy.

### TOTAL EMISSIONS

**81%**

of SATS' total emissions was from Scope 3 emissions.

Operationalising our sustainability strategy across the value chain can be challenging, but we are progressing steadily. Based on a GHG Protocol Quantis evaluation last year, SATS' Scope 3 contributes to about 81% of our total emissions, of which 67% came from purchased goods and services, much of which is agricultural

and protein inputs for our food business. Therefore, building a responsible and sustainable supply chain is a priority for SATS to achieve our decarbonisation goal. Many of our suppliers are small and medium-sized enterprises that may not have the resources or the capability to develop their sustainability measurements. SATS partnered with Enterprise Singapore and UN Global Compact Network Singapore to conduct the first in a series of supplier engagement workshops in April 2023 to share with more than 20 of our strategic food suppliers and partners the importance of embedding sustainability in their business and show them how to start tracking their carbon emissions.

Safety remains a key priority as we ramp up our operations to support travel recovery. To build a strong safety culture and reinforce the message that we should never compromise safety at work, SATS senior management across our network did safety walks and engaged in meaningful conversations with operations staff on the World Day for Safety and Health at Work this year to drive home the message that we want everyone to be home safe.

## Looking ahead | moving with speed

We will be working on integrating SATS and WFS to create synergies for our combined business to drive value for our customers through our extensive network coverage. We are in the early stages of our integration, but we have already started working together at three tradeshows in Istanbul, Munich and Miami.

In addition, we will be focusing on enhancing operational excellence to improve operating margins through productivity gains. The combined business is expected to generate positive free cash flows to pay down our debt. As part of SATS' approach to lower its cost of financing to deleverage its balance sheet, SATS has recently completed the redemption of the Senior Secured Floating Rate Notes due 2027 as well as commenced a tender offer and redemption in respect of the outstanding EUR Senior Secured Notes and USD Senior Secured Notes

due in 2027, all of which were issued by Promontoria Holding 264 B.V.<sup>2</sup>, a wholly-owned subsidiary of the WFS Group. SATS expects that the purchase and redemption of all outstanding EUR Senior Secured Notes and USD Senior Secured Notes will be completed by 6 June 2023, through loan facilities of EUR 1.04 billion taken by SATS. This will result in net interest savings in excess of S\$100 million for the Group, until the maturity date of the notes in 2027.

Beyond accelerating the integration with WFS, we are reviewing our organisational structure to streamline it for growth.

## Acknowledgements

We have some board changes this year. Mr Michael Kok has stepped down as an Independent Non-Executive Director of the SATS board. Upon the conclusion of our 50th Annual General Meeting, Mr Yap Kim Wah will also be stepping down from his role as an Independent Non-Executive Director of the Company, while Mr Tan Soo Nan will be retiring from his role as an Independent Non-Executive Director.

Mr Kok has served as a board member of SATS for eight years. He was also a member of the Executive Committee and the Remuneration and Human Resource Committee. Mr Tan and Mr Yap have been board members for seven years. Mr Tan has served on the Board Risk and Safety Committee which he once chaired, as well as the Audit Committee. Mr Yap has been Chairman of the Board Risk and Safety Committee and a member of the Audit Committee.

The Board and Management would like to thank Mr Kok, Mr Tan and Mr Yap for their service. Their contributions and counsel have been invaluable to the Company. We are grateful for their dedication and guidance to SATS and wish them well.

At the same time, we welcome Dr Detlef Trefzger and Mr Eng Aik Meng as Independent Non-Executive Directors of the

<sup>2</sup> Promontoria Holding 264 B.V. will be changing its name to Neptune Holdings 4 B.V.

**“Gearing up for travel recovery was not easy, given the current operating environment, but we are grateful to our customers and business partners for their unwavering support. We thank our shareholders for your faith and trust in our leadership to transform SATS into a global operation with a strong Singapore home base.”**

Company. Dr Trefzger and Mr Eng joined the Board on 15 April 2023. Dr Trefzger is the Founder and Chairman of Larix Equity AG, an investment and advisory firm that pursues investment opportunities in climate-driven data, technologies and platforms that enable companies to accelerate their decarbonisation efforts. Dr Trefzger has been a senior executive in the transport and logistics industry for more than three decades and was CEO of the Kuehne+Nagel Group for 9 consecutive years before he set up his own company. Mr Eng is the co-founder of TE Healthcare Advisory Pte Ltd, a single-specialty hospital healthcare group focusing on oncology, cardiology, and orthopaedics. The group manages practices in Hong Kong, Malaysia, Singapore, Indonesia, Vietnam, the Philippines, and Thailand. Before joining the healthcare industry, Mr Eng was the President of APL, a large shipping and marine terminals group. He has more than 20 years of experience in the maritime sector.

Gearing up for travel recovery was not easy, given the current operating environment, but we are grateful to our

customers and business partners for their unwavering support. We thank our shareholders for your faith and trust in our leadership to transform SATS into a global operation with a strong Singapore home base. We will continue to lean on your support to strengthen the Company and grow long-term value for our stakeholders. We would also like to thank our board members for their guidance and stewardship, and SATS management and our dedicated employees for coming together to overcome challenges.

We are at the starting point of a new and exciting journey of building greater resilience at SATS and creating long-term value for our stakeholders. Strengthening our core will give us the capability to expand our horizons.

**Euleen Goh**  
Chairman

**Kerry Mok**  
President & Chief Executive Officer

23 May 2023