

CEO's statement

Dear Shareholders,

I joined SATS in November 2007 and this is my first report to you after having completed a full financial year with the company. It has been an interesting and challenging time to join SATS. The aviation industry is a cyclical industry and is once again affected by the volatile movement of fuel prices and a weakening global economy. Save for the one-off items, revenue and profits of SATS have been moving sideways for a number of years. The basic strategy to focus on the businesses at Changi Airport and regional expansion through joint ventures was already in full force and maturing quickly. SATS' strategic orientation needed a review and renewal. It was with this backdrop that your Board directed the developments of the company during the year in review.

My team and I conducted a complete review of the prevailing situation and concluded that SATS holds key capabilities which can be extended beyond the airport and that our airport activities will remain key to our future successes. We also concluded that we would have to strengthen our Singapore businesses by looking outside the airport. We have to be more innovative in creating and improving our services, products and processes, and to look beyond the region incrementally towards being a global player to increase our share of customers' spending. These are the highways that we will take to improve the SATS' value proposition to our stakeholders.

The SATS Board, at its annual strategy session, reviewed and approved the new strategic direction for the company, paving the way for strategy implementation. Consequently, seven strategic projects that had the potential to transform the future of the company were defined. Two of these projects were eventually rejected. One was to dramatically increase our share of the global airline catering business. The Board concluded that this project contained too many risks against the backdrop of a turbulent aviation industry that was once again heading south. SATS' current organisation structure and competencies are not yet geared towards managing such global risks.

The second project was to enter the Turkish ground handling market via a joint venture. During the due diligence process, the Turkish ground handling market changed fundamentally with the emergence of new risks. Although the Turkish ground handling market continued to be interesting, the project was deemed unattractive in view of our current purpose and would not meet our criteria for investment. The project was postponed indefinitely.

Four of the remaining five projects were completed before the end of the financial year. The final project, relating to our plans for China, is still pending as we await responses from our intended partners. With the turbulence in the aviation industry, we do not expect any outcome for this project any time soon.

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During the year, we completed our preparation and entry to serve the low-cost carriers (LCCs). As part of its strategic review, management has segmented the airline industry into its constituents. Our aspiration is to align the SATS service proposition to the needs of the respective airline segments. This will help manage customer expectations, costs and consequently margins. The LCC segment is an emerging segment that promises high passenger growth. We are now established to supply meal solutions and ground handling services for this segment. Although the incremental revenue at the onset is relatively small, we believe that participating in the growing LCC traffic will improve stakeholder value in the long term since the segment is expected to account for most of the traffic growth at Changi over the next few years.

In October 2008, we acquired 100% of Menzies Aviation (Hong Kong), a ground handling company, and renamed it as SATS HK, our first wholly-owned subsidiary outside Singapore. Complementing our cargo handling joint venture, Asia Airfreight Terminal, we now offer more services to our esteemed customers at the Hong Kong International Airport, serving them at one more location with more services to increase our share of their spending. At SATS HK, we are introducing the SATS service promise and focusing on improving our services and delivery to maximise the utilisation of our installed capacity.

SATS completed the acquisition of the remaining shares in Country Foods in its effort to enter meaningfully into the non-aviation food market. Subsequent to this, we sought and received overwhelming approval from our Shareholders to acquire Singapore Food Industries (SFI), a publicly-listed company. The two-step acquisition process involved the initial acquisition of the 69.6% equity in SFI held by Ambrosia Investment, a wholly-owned subsidiary of Temasek Holdings. This was followed by a mandatory public offer for all the remaining shares in SFI. The acquisition was successfully completed in April 2009, resulting in the subsequent delisting of SFI. The integration of SATS and SFI has begun since late February 2009, with a management integration executive committee and a SATS Board integration committee being set up to oversee and guide the integration process towards achieving the projected synergies.



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Although the year would probably be best remembered for the high profile projects that were successfully implemented, we should not forget the operational and tactical moves that have been planned and implemented. For instance, we note the successful launch and growth of the A380 service. Just as Singapore Airlines is the first in the world to fly the A380, SATS is the first to handle the A380 and provide inflight catering services onboard. This exposure puts us in good stead as we prepared for the Qantas A380 launch in the earlier part of 2009. Leveraging on our initial experience, we have worked collaboratively with our customers and suppliers to fine-tune and improve the A380 service. We have also worked on ideas to better our service delivery at the passenger terminals and on the tarmac. The benefits of some of these improvement programs will be realised in 2009 and beyond.

To drive efficiency continuously, SATS has implemented Lean Management since 2006. Through the core

concept of waste management and reduction, LEAN promises to lower our cost base.

In July 2008, we implemented a LEAN project in our Singapore cargo operations. Although cargo throughput at this time was showing modest increase, we had more capacity than we needed as the total cargo volumes had declined over the last few years. We took a holistic approach to resolve this by flattening our operational hierarchy and shutting down two of the older cargo terminals. Activities were transferred to the newer terminals 5 and 6. The change in operating procedures required the retraining of our staff to equip them with more multi-tasking abilities. This project helped avoid the recruitment of more than 200 staff and our margins would have improved, had it not been for the sudden economic downturn caused by the US sub-prime crisis which saw cargo volumes dipping 20% in December 2008 and January 2009 compared to the same months in the previous year. If not for the implementation of this LEAN project, managing the current downturn would have been more painful for SATS. We were ahead of the curve on this one.

The changes have also opened up new opportunities for us. We have evaluated and completed the feasibility study to convert Airfreight Terminal 2 into a perishable handling centre (PHC). The PHC will potentially support the growth of perishable cargo into Singapore. This project,

to be completed in FY2009-10, will improve the utilisation of our cargo assets. Besides the PHC project, many LEAN projects were carried out in the inflight catering operations, leading to substantial costs reduction. All these activities contributed to mitigating the impact of the economic downturn during the second half of the year.

The global financial crisis exposed weaknesses in our funds management system. We incurred a one-off loss of \$10.8 million in relation to our short-term non-equity investments. Most of the loss was attributed to our exposure to a Fortis Bank-issued credit-linked note which had a bankruptcy credit event called in October 2008 during the financial crisis. Since then, we have created a Treasury function with competent staff and have strengthened our policies and procedures relating to the management of funds and financing of our operations.

Decentralisation was the theme for change in 2009. Effective strategic business units delivered results for the company. During the year, we empowered the individual business units to be responsible for their marketing and sales efforts. Hitherto, this was managed centrally. Since the business units know their costs best and will be in the best position to manage their own margins, this change will ensure congruence between promise and delivery. In addition, we have also initiated global key account management to increase our share of customers' spending by



working across all business units to offer the same key customers a broader scope of services at more locations.

Our overseas associates' performance was below our expectations during the year. We were penalised for additional capacity brought on earlier in the year. Although each joint venture has its own set of operating environment, we are made aware that we have to better equip our seconded staff at these companies to weather the turbulent times ahead. We have initiated an "in-house" MBA program for our overseas staff and have also worked with our partners to improve budgeting and performance planning as well as corporate governance. We hope that these initiatives will improve performance during the economic recovery phase.

With the acquisition of SFI, SATS has now entered into a new phase. Human capital management will be critical for us to access the emerging opportunities. Management will work

towards attracting the best talent within and from outside the company. We are developing improvement tools and methodologies so that continuous improvement will be more science than art to assure sustainability.

The performance of your company has been reasonable given the recessive economic situation. The inherent cost flexibility has helped us weather the steep declines in business volumes. SATS delivered a PATMI of \$146.8 million. Cash generated during the year amounted to \$155.5 million, a growth of 11%. I wish to thank our employees, whose commitment and dedication have contributed to these results. Our journey of change is not yet completed. FY2009-10 requires the commitment and further support from our people to implement new initiatives that are integral to our development and transformation journey.

I wish to record my appreciation and thanks to our Shareholders who had overwhelmingly supported the SFI

acquisition proposal. This acquisition is necessary to our transformation process to reduce our reliance on the aviation industry. Consequently, your company will be stronger and more resilient to the turbulences from economic cycles.

Last but not least, I wish to thank our Board of Directors for their guidance and support. Their instructive guidance challenged management's thinking and increased our resolve to build a strong, growing company. I am indebted to our Chairman, Mr Edmund Cheng, for his support and insightful leadership.

Clement Woon Hin Yong
President and Chief Executive Officer

22 May 2009