

IN CONVERSATION WITH PCEO

How would you describe SATS' FY2012-13 performance?

Against the backdrop of continuing economic uncertainty and cost inflation, SATS has achieved a reasonably good set of results. Our revenue and profit attributable to owners of the Company grew by 7.9% and 8.1% respectively while our underlying net profit, excluding all one-offs, improved by 13.8%. I am immensely proud of our staff who have undoubtedly put in their commitment and hard work to achieve these results.

In our core aviation business, we secured new clients including Air Mauritius, FedEx, Lufthansa German Airlines and Scoot while achieving high levels of contract renewals. We renewed our ground handling and inflight catering contracts with Singapore Airlines for a firm five-year tenure, with an option to extend for another five years. This contract renewal, together with many others, endorses SATS as a strategic partner of choice for many notable airline customers such as Singapore Airlines, All Nippon Airways, China Eastern Airlines, EVA Airways and Korean Air.

Outside of Singapore, our Japanese subsidiary TFK made a remarkable turnaround in FY2012-13. Despite the cross-strait tensions, TFK's operating profit grew \$11.8 million to \$12.1 million. It also won several new inflight catering contracts during the year.

In our non-aviation segment, we have had an exciting first year in cruise handling and terminal management. SATS-Creuers Cruise Services handled more than 80 ship calls and processed over 230,000 passengers at the Marina Bay Cruise Centre Singapore in its first year of operations. The terminal is now a home port for seven cruise vessels.

Just before the end of the financial year, we were appointed as the catering and hospitality partner for the latest addition to Singapore's national infrastructure – the Sports Hub. This is a significant milestone and a large undertaking, in terms of expected revenue, scale and contract tenure. We are very honoured to take on such a key role in creating a memorable event experience for every visitor to this iconic venue. SATS has an experienced partner, Delaware North Companies, in this undertaking and we look forward to growing our trusted relationship which first started three years ago at the Commonwealth Games in Delhi.

Beyond strengthening our core and growing new businesses, we continue to drive cost efficiency in order to improve our operating margins and reinvest for further growth. While we have made progress in managing our costs, there are still more to be done to drive further efficiencies and improvements in productivity in order to protect our business and margins.

As external costs continue to rise, how best do you think SATS can manage this cost pressure in the medium to long term?

We recognise that to win market share and protect our margins in today's challenging business environment, we must have a relentless focus on being the least-cost, most efficient service provider whom our customers can turn to.

With the curb on foreign labour hiring, increase in foreign worker levies as well as continued wage inflation, managing rising labour costs in our domestic market is a critical challenge for SATS. Food inflation is also on the rise, but its impact is not as pronounced as the increase in labour costs.

We have been proactively exploring the use of automation and technology to enhance our process efficiency and maximise our deployment of manpower. During the year in review, we launched the mobile Airwaybill Manifesting System on tablets for checking export airwaybill manifests – a first in an Asian airfreight terminal. This system which leverages web-based, device-independent Wi-Fi technology has enabled us to achieve greater efficiency, traceability and higher accuracy in our handling of airwaybills.

In addition, we successfully concluded a trial to introduce automation in three commercial cookhouses of the Singapore Armed Forces. This initiative involved the installation of automated kitchen equipment to simplify and lighten the manual workload of our matured employees. Coupled with retraining, it resulted in a 12% improvement in workplace productivity and a reduction in manpower, with the extra headcount being redeployed to other cookhouses to ease the current labour crunch. Looking ahead, we have many such projects in the pipeline to further improve our productivity and operational efficiency.

Our employees are our main source of ideas for improving productivity and containing costs. It is critical to involve them right from the start of implementing our productivity enhancement measures, a process which also encompasses staff retraining and upskilling. More importantly, we believe in showing our appreciation for their commitment and sacrifice, by sharing part of the resulting productivity gains with them.

With each potential new initiative, we work closely with our labour unions to communicate the rationale for change and to seek feedback from our people. This proactive engagement helps drive a sense of shared ownership and buy-in amongst our employees, and align them with the management to reach a common goal. We are very thankful for the ongoing support from our staff and unions, and this harmonious relationship is something that we do not take for granted.

Finally, the key to ensuring that we can continue managing costs in a sustainable way and for the long term also lies in working together with our customers to drive joint projects and sharing the resultant benefits with them. In the current climate where cost inflation is the norm, we must collaborate with our customers to seek smart ways to work more efficiently, for example, by integrating our systems with those of our customers such that we can provide customised and cost-effective solutions that will create new revenue opportunities for them.

What will be management's focus in the new financial year?

Innovation and productivity enhancements will continue to be an integral part of our efforts. We must constantly strive to improve what we do, from more efficient and sustainable ways of meeting our customer needs to maintaining and adopting best practice standards. This gives our customers

and passengers greater choice and the highest level of service. The Innovation and Productivity Committee – comprising our senior management team – is taking the lead to drive this.

While the routing of Qantas Airways' long-haul flights via Dubai instead of Singapore will undoubtedly impact our aviation volumes, we continue to look for ways to strengthen our core business. We must continue to build stickiness with our key customers and offer valued propositions to support their needs. At the same time, we must remain vigilant of our costs.

Besides reinforcing our core business, a key focus is to grow adjacent businesses to strengthen our offerings in gateway and food. We will continue to expand our aviation presence in Asia and the Middle East. We already have a strong presence in several major cities such as Tokyo, Hong Kong, Delhi and Bangalore. We aim to replicate our Singapore hub operations overseas, providing both food solutions and gateway services as a one-stop complete service package.



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Given our capabilities in food solutions, we aim to capture a bigger slice of the institutional catering market. We expect more outsourced opportunities from institutions such as hospitals and event venues. As such, it is important that we stay nimble and be ready to benefit from this growing outsourcing opportunity with our proven food and logistics competence. Whether they are in the mining, construction or offshore oil and gas industries, companies operating in remote sites can also come to rely on SATS to provide essential services including nutritious hot meals and freshly laundered workwear.

SATS recently won the Human Capital Breakthrough Award as one of Singapore's boldest and most innovative companies. What has contributed to your winning of this award and what more can be done in the area of talent development and management?

We are proud and honoured to be recognised for our human capital practices through this prestigious Award.

Training and talent development programmes are important, both for our employees to fulfil their potential and to help our business achieve its goals.

SATS is a service company with over 14,000 employees. Our success rests in the hands of our people to deliver the best possible service to our customers. Having well-trained, motivated and productive employees, guided by our core values of Safety and Security, Excellence, Innovation, Trust and Collaboration, are vital to our business success.

Accordingly, nurturing talent is a priority for us and we have established a talent development framework to assess, mentor and coach our people. Underpinned by the Development Assessment Centre (DAC) programme comprising the LEAP (Learn, Excel, Aspire and Propel) modules that target at the various job levels within the Group, this framework prepares our talents to lead SATS into the future. Pleasantly for us, the DAC programme has aided in securing a talent pipeline to meet our future succession needs.

Furthermore, we strongly encourage our people to take full responsibility for their own development and provide them with the necessary tools to do so. For instance, we have set up a vibrant learning centre called 'My Space' to facilitate training and sharing of ideas. We have also mapped our in-house training programmes to national standards set by the Singapore Workforce Development Agency.



Another training initiative which our Human Capital team has launched is a two-day SATS Ambassador Programme to give our people a deeper insight of our core values and the desired behaviours at work that exemplify these values. We strongly believe that our people are the ambassadors of our service and the flag bearers of our brand. It is hence important that all employees live the brand by delivering their service through passion and bringing delight to our customers and passengers.

Tan Chuan Lye
President and Chief Executive Officer

23 May 2013