

In Conversation with PCEO



Alex Hungate
President and
Chief Executive Officer

Q Tell us about the recent investments that SATS has made?

A While our aviation business in Singapore remains a pillar of strength, we see significant opportunities in the growth of travel and eCommerce as well as the increased demand for safe, high quality food from the burgeoning urban population in Asia.

We are seeking to get more exposure to these opportunities by building up into adjacent businesses and building out geographically in the region. In this dynamic environment, with our strong brand and existing network of partners and customers, we have a strong pipeline of opportunities which align with our vision of feeding and connecting Asia.

Passenger volume in Asia is expected to grow strongly and airports across the region are adding capacity to meet the growing demand. We continue to build out our aviation footprint in the region to tap into the growth potential of these markets. For example, we formed a catering joint venture (JV) with Brahim's Holdings Berhad, the market leader in inflight catering in Malaysia.

Building up adjacent businesses and expanding across the region will involve a certain amount of risk, but we mitigate this by working with the right partners. For example, we have recently teamed up with Wilmar International, a group with a strong customer base and established supply chain in China, to set up central kitchens in the major cities in that country. We are combining our expertise in cooking high quality, safe food on a large scale with Wilmar's existing strengths which will help us to operate effectively in China.

We will continue to explore opportunities in the region that have a strategic fit with our business and provide good returns.

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Net Profit

\$220.6M

Free Cash Flow

\$221.9M

Q How has SATS performed this FY2015-16?

A Despite the challenges posed by slower economic growth and intense competition, SATS' operating and net profit grew by 20.6% and 12.7% to \$214.7 million and \$220.6 million respectively. These profits are the highest ever achieved by the Company.

This performance was the result of improved service and increased productivity throughout our operations, driven by the introduction of innovative new technology. Productivity, measured using Value Added per Employment Cost, increased 3.5% year-on-year. This would not have been possible without the active participation of our people in the redesign of jobs and work processes across the various business units.

For example, we have introduced an automated cutlery sorting and packing system in our catering operations. The intelligent system is able to scan and identify the different cutlery, sort, pack and then seal them within a transparent foil. With this highly automated system, we were able to achieve a 36% increase in productivity for the cutlery line.

The use of technology allows us to increase volume without increasing cost proportionately. So the growth in our customer base and business volumes also contributed to the 240 basis point expansion of operating margins.



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Q How do the different parts of the Group work together to benefit customers?

A SATS has the largest Food Solutions and Gateway Services network in Asia, with presence in 51 cities and 12 countries across the region. At one level, this gives us a marketing advantage as we sell and support our aviation and non-aviation customers. The teamwork between TFK and SATS to win the Delta business in Japan this year is a great example of such cooperation.

Our Food Solutions customers can tap into culinary expertise from chefs from across the world. They work closely with each other until they can faithfully reproduce authentic dishes for our airline customers who are proud of their national dishes both outbound from their home base as well as inbound. These chefs, together with our panel of celebrity chefs, work closely with our customers to help them develop new, signature menus that can help them to generate new revenues.

We are constantly trying out new technology and processes in our Food Solutions and Gateway Services operations. The most successful of these innovations, which in some cases we can patent, create quality and productivity advantages for other operations in our network when they are rolled out. This is on top of the growing number of opportunities that we are developing to aggregate our purchasing volumes across the region.



As we connect passengers and airfreight across Asia, we use software and data to minimise connection times. This capability has a revenue benefit for our airline customers because they can market shorter journey times. For passengers, it means that we can make end-to-end travel more seamless, and for airfreight with special requirements, like temperature, it means that we can handle it with higher quality than our competitors. For example, we handled about 270,000 tonnes of temperature-sensitive cargo this year through SATS Coolport, our cold-chain facility in Singapore. With our help, Air India SATS Airport Services will soon open a similar cold-chain facility at Bengaluru airport which will allow them to pursue this fast growing market segment in India.

The fact that many of our JV partnerships go back decades is testament to the enduring value that cooperation across our network can create for them and our shared customers.

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Q How will SATS sustain long-term growth and value creation?

A The success of SATS in the long-term is in the hands of our people. It is their passion to delight our customers over the decades of this Company's history that powers our brand and reputation. It is their innovation that is accelerating the introduction of new technology and delivering higher productivity and better service. It is their entrepreneurship that has forged new businesses and partnerships that will drive growth and create value for SATS in the future. Without them, we could not put our strong balance sheet to such good use, but with their commitment and talents, we can continue to pursue organic and inorganic investments that will create long-term value.

This is why we invest systematically in our people, so that we build their capabilities and leadership qualities at the same time as they build their careers with SATS. Our STEP plus LEAP talent assessment framework, SATS Connect leadership development programme, and robust performance management processes, collectively help us to identify and develop talent at all levels across the Group. We are actively expanding our bench strength at all levels so that we can accelerate the implementation of our vision of feeding and

connecting Asia. Even as we expand the company, we know how important it is to remain true to our core values. Everyone at the company, whether they are a newcomer or a 40-year veteran, attends our SATS Ambassador programme to ensure that we all uphold our brand promise and that our culture remains a source of strength.

There is no one more committed to our people and their personal and professional development than our outgoing Chairman, Edmund Cheng. Over 13 years of stewardship, he has personified our passion for customer service, culinary excellence and above all, the development of our human capital. We have all been inspired by him and I would like to thank him wholeheartedly for everything that he has done for SATS.

Alex Hungate
President and Chief Executive Officer

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