

# PCEO's Statement

## Dear Shareholders,

Despite the slowing demand in some of our key markets, we were able to improve our operating and net profits in FY2014-15 by 4.1% and 8.5% respectively, using our scale and new technologies to reduce costs and improve productivity.

Overall expenditure fell 2.5% for the year as we gained benefits from the combined scale of our aviation and non-aviation catering businesses through Group-wide, strategic purchasing arrangements with key suppliers and integrated supply chain improvements.

Falling oil prices in the second half of the year along with initiatives to reduce our carbon footprint also lowered our energy costs, contributing to a reduction in other costs of 8.8%.

In addition, we found sustainable ways of improving productivity by investing in new technologies and in our people to ensure that every one of our colleagues has opportunities to improve their skills and capabilities. We handled volumes similar to the prior year with 500 fewer people; so that despite the sharp increase in labour costs across Asia, we were able to limit growth in staff expenses to 1.5%.

Our progress has also been recognised by the Civil Aviation Authority of Singapore (CAAS) which awarded SATS three out of 16 awards in its Process Innovation Challenge 2 showcase of productivity best practices. These awards were for raising productivity in our airline meal tray assembly through process redesign; reducing man-hours involved in sorting and transferring airlines' cargo pallets between airfreight terminals; and achieving significant reduction in man-hours in the breaking down of inbound cargo pallets and containers.

Further innovations have made aviation catering more productive. For instance, the use of autonomous guided vehicles in our kitchens has eliminated the multiple trips that our meal tray assembly staff need to make between the assembly line and the chiller to replenish food items.

In December last year, we added a flexible assembly line into our inflight catering operations. Where airline meal trays used to be assembled and inspected manually in lines of five to six staff each, the new automated line requires only two to three staff to control the operations. We have also introduced an automated cutlery system using ultrasonic technology to improve cutlery washing while deploying machines to do the tasks of cutlery sorting and packing.

In other cases, we have been the catalyst for technology adoption across the industry. In April 2015, we launched e-Acceptance, a significantly more efficient system for processing export clearances for airfreight. By partnering the Singapore Aircargo Agents Association and CAAS to implement this first-in-Singapore initiative, we can expect to boost productivity by around 30% and reduce the industry's carbon footprint by saving 600,000 sheets of paper annually.

We are working ever closer with our network of JVs and associates across Asia to improve productivity and also to create valuable connectivity for our customers. They contributed \$48.1 million or 25% of our net profit and are critical to our growth strategy. The investment that we made in PT Cardig Aero Services in Indonesia in February 2014 performed according to plan, with excellent collaboration creating value for both companies.

Net  
Profit

**\$195.7M**

Free Cash  
Flow

**\$175.1M**

**Despite the slowing demand in some of our key markets, we were able to improve our operating and net profits in FY2014-15 by 4.1% and 8.5% respectively, using our scale and new technologies to reduce costs and improve productivity.**



**Alex Hungate**  
President and  
Chief Executive Officer

## PCEO's Statement

### TARGETING NEW GROWTH

Our consolidated revenue declined by 1.9%, with 4.7% lower food revenue offset by 2.8% higher gateway revenue. This reduction was due mainly to lower spending by some customers in Japan and Singapore.

While we expect the underlying volumes in both markets to improve over time, we took action to grow non-aviation revenues by using our scale. By targeting new accounts in the catchment area of our large-scale inflight kitchens in Singapore, China, Japan, India and the Philippines, we have created a more diversified revenue stream and improved our scale and cost advantage further.

However, overcapacity at Narita airport and the translation impact of a weaker Japanese Yen continued to affect TFK's performance. Therefore in March this year, we took measures to restructure our cost base with a voluntary severance programme which has left us with a leaner cost structure.

Our cargo volumes hit a new record high of 1.6 million tonnes in FY2014-15. Investments in new high quality services which build valuable linkages for our cargo customers across the region have helped us win market share. In addition, demand for pharmaceutical and other perishable handling has been consistently strong and we expect it to continue to grow.

Last November, our perishable handling centre SATS Coolport was recognised by the International Air Transport Association (IATA) as the world's first Centre of Excellence for Independent Validators in pharmaceutical handling. This certification allows our people to provide consultancy and training to other industry stakeholders in the rigorous requirements of pharmaceutical handling.

Recently in April, we launched the SATS Coolport Academy, an independent training institute offering IATA-certified and other related courses across the region. In conjunction with the launch, IATA appointed the Academy as its first Regional Training Partner in Asia Pacific for pharmaceutical handling.

During the year, we made good progress in upgrading our unique cold-chain network across Asia as our cargo associates in Hong Kong and Indonesia and our joint venture in India were successful in attaining certifications in Good Distribution Practice. Construction of AISATS Coolport, Bengaluru's first dedicated perishable handling facility at Kempegowda International Airport, is now underway. Our goal is to eventually certify our entire network so that we can offer our customers uniformly high service standards across an unbroken cold-chain.

In line with this objective, we concluded a Memorandum of Understanding (MOU) in January this year with our customer Swiss WorldCargo and its partner ground handling company Cargologic.





The aim of this MOU is to enhance all parties' cargo handling services and establish the basis for future collaborations in areas such as e-initiatives, temperature-controlled transport management and specialised handling solutions. Leveraging Cargologic's and SATS' networks across Europe and Asia respectively, the alliance will help to promote end-to-end carriage of premium, care-intensive cargo on Swiss WorldCargo's flights.

The number of ships calling at the Marina Bay Cruise Centre, one of our newer businesses, fell slightly year-on-year, as did the number of passengers passing through the cruise terminal. However, with Royal Caribbean International launching its year-round sailings from Singapore for the first time this year and 20 cruise ships home-porting or turning around at the terminal, both metrics are expected to improve this year.

The opening of the Singapore Sports Hub last June marked our entry into sports catering, adding scale to our overall institutional catering business. We have catered to more than 80 world-class events, including the World Club 10s Rugby and the Women's Tennis Association Finals, held at the venue over the last year. This financial year will see us catering to similar prestigious events such as the Barclays Asia Trophy at the Sports Hub as well as catering to the north cluster at the 28th SEA Games.

## POWER UP

Our team of passionate and dedicated employees is our main source of ideas for driving productivity, growth and innovation. Our FY2014-15 results are a testament to their commitment and ingenuity. As our transformation progresses, they are involved in every project right from idea generation, through planning to implementation. With each project, we communicate the rationale for change and continually seek their feedback. There is great energy and commitment amongst them to serve our customers – what we call our 'Passion to Delight'.



Our commitment to service is fundamental to the 'Passion to Delight' that we all share. An outstanding example of this was how our institutional catering team worked selflessly around the clock to deliver 60,000 meals and 450,000 bottles of water to multiple locations during the week of mourning on the passing of Singapore's founding Prime Minister Mr Lee Kuan Yew.

As we Power Up, we also generate more ideas. For example, we filed our first patent for a tow hitch sensor which enhances safety and improves our operating efficiency. This kind of innovation is the key to our long-term productivity and competitiveness.

The productivity improvements and cost savings during the past year are the first evidence that the transformation of SATS is underway. Our people across the Company are committed to making further progress. Ahead, there are many opportunities to grow our businesses in order to capitalise on urbanisation across Asia. We are ready to pursue the best of these opportunities with energy and passion.

## Alex Hungate

President and Chief Executive Officer

25 May 2015