

PCEO's Statement

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Alex Hungate
President and Chief Executive Officer

Dear Shareholders,

It is a pleasure to lead a team of 14,500 dedicated people who are passionate about what they do and work hard every day to make SATS Asia's leading food solutions and gateway services company.

Despite the ongoing strong headwinds in regional aviation, the management team and I are confident that we can return SATS to profitable growth.

FY2013-14 was a challenging year for us, with rising wage costs and airlines profitability coming under pressure from overcapacity in Asia and intense competition from the Middle East.

Our revenue declined 1.8% year-on-year to \$1.79 billion. This was due to lower revenue from our food solutions business. Our unit meal volumes at Changi Airport dropped 5.8% mainly because of Qantas Airways moving its hub for European flights from Singapore to Dubai. The weakening of the Japanese Yen also resulted in a translation loss on TFK's revenue.

Higher revenue from our gateway services business helped to mitigate the lower revenue from food solutions. During the year, we handled higher volumes of flights and airfreight. Our unit services grew 6.6% while cargo throughput improved 2.6%, with express cargo and perishable segments recording the highest year-on-year growth.

However, the trend of rising staff costs, resulting from a tight labour market, continued during the year. As a result, our operating profit declined 11.1% to \$171 million and operating margin contracted by 1 percentage point to 9.6%.

Our share of profits from our associates and joint venture around the region declined 10.4% year-on-year to

\$47.2 million. This was due mainly to the poorer performance of some of our gateway associates and joint venture arising from lower cargo volumes and higher manpower costs.

Overall, profit attributable to owners of the Company dropped 2.4% to \$180.4 million.

Operational Excellence

We take pride in our premium service levels and aim to be the first-choice provider in every market in which we operate. So, we are always heartened when others recognise our efforts.

At the recent biennial Food and Hotel Asia Culinary Challenge, SATS emerged as champion in the Gourmet Team category, beating nine other teams across Asia to clinch this prestigious title. Besides this and a gold medal in the Gourmet Team category, eight of our participating chefs also picked up one gold, two silver and five bronze medals in the individual categories. These wins are a testament to all our chefs' commitment and efforts in creating tantalising, top-rated food every day for our customers worldwide.

In February this year, our on-airport perishable handling facility, SATS Coolport, was certified by the International Air Transport Association as the world's first Centre of Excellence for Pharmaceutical Handling. This certification gives pharmaceutical companies the guarantee of excellence in service and helps them save resources on facility audits. It also provides airlines and global shippers further assurance that their pharmaceutical shipments are handled to the most exacting standards at Coolport.

SATS was named the Best Air Cargo Terminal in Asia for the 15th time at the Asian Freight and Supply Chain Awards 2013 while AISATS, our



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joint venture company in India, garnered the Excellence Award for Air Cargo Terminal Management at the Indian Chamber of Commerce Supply Chain and Logistics Excellence Awards 2014.

Two of our staff, Tan Beng Luan, a Lost and Found Duty Manager and Christina Dong Qing, a Customer Services Agent, won Changi Airport's Service Personality of the Year and Service Staff (Bronze) Awards respectively.

To meet the growing trend of healthy eating, we successfully developed and launched healthier choice meals on board Scoot flights early this year. Two of our tray meals, namely Beef Bourguignon Pasta Stew and Thai Red Curry Vegetables with Mixed Brown Rice, are the first inflight meals to be officially licensed by the Health Promotion Board, Singapore to bear its Healthier Choice Symbol.

Finally, to benefit from our unique scale advantage in Singapore, we launched a quick response team known as the SATS YES Team in September last year to support our airline clients in the event of major flight disruptions. Comprising nearly 200 non-operations staff volunteers, the YES Team is trained to help airlines provide recovery services to their passengers in the face of adversity. It clearly underscores the commitment of our whole company to supporting our customers.

Competitive Success

SATS is Asia's leading provider of food solutions and gateway services.

In our home market, we have approximately 80% market share at Changi Airport. We offer a comprehensive suite of services that is necessary to turn around an

aircraft. In FY2013-14, we secured a total of about 40 airline contracts and added Cathay Pacific Cargo, Ethiopian Airlines, Spring Airlines and Uzbekistan Airways to our client roster. At the Marina Bay Cruise Centre, we welcomed several new vessels including Mariner of the Seas, Silver Whisper, Sea Princess, Crystal Serenity and Costa Atlantica; we handled close to 110 ship calls and about 416,000 passengers for the year in review.

In Japan, our inflight catering subsidiary TFK serves 40 airlines across its operations at both Narita and Haneda airports, where it holds a market share of around 50% and 40% respectively. During the year, TFK secured new contracts with Philippine Airlines, Shanghai Airlines, Spring Japan Airlines and Vanilla Air, and renewed five contracts with existing airline customers.

Our wholly-owned subsidiary SATS HK, meanwhile, won nine new customers and renewed contracts with another four to bring its client roster to a total of 46 airlines. This represents a new record market share of 30% at Hong Kong International Airport.

We have also grown our non-aviation food business, benefiting from the scale of our state-of-the-art catering facilities. At the Singapore Indoor Stadium which is part of the upcoming Singapore Sports Hub, we have catered to a total of 19 events including popular concerts by Bruno Mars and Eric Clapton. We have secured catering contracts with hospitals in Tokyo and Abu Dhabi through TFK and Food And Allied Support Services Corporation respectively. At the same time, our Beijing associate has won new contracts supplying food to retailers like IKEA and 7-Eleven from its inflight kitchen;

and similarly, our Manila associate has won new institutional catering contracts with Google Philippines to provide staff meals and with the Asian Development Bank for food services management.

As we continue to grow our business and deepen our presence across Asia, particularly in our priority markets of China, India and Indonesia, it is critical that we link our operations to grow scale and create unique service offerings that will address the existing and emerging needs of our customers.

Our investment in PT Cardig Aero Services is a good case in point. This strategic investment represents more than just an additional flag on the map – it forms another node in our growing extensive regional network. By linking each of our gateways together, we can then offer our customers and passengers enhanced connectivity and smooth, hassle-free journeys.

Looking Ahead

In the next 12 months, the regional aviation landscape will continue to be challenging while excess capacity remains in the system.

At Changi Airport, we have observed a moderating trend in passenger traffic. A stronger Singapore Dollar continues to affect inbound tourist arrivals while slowing growth in China is dampening the Chinese demand for travel around this region. Nonetheless, the fundamentals of the Singapore air hub remain strong and Asia's structural growth prospects are intact in the medium-to long-term. The prospects for our priority markets of China, India and Indonesia remain attractive and demand for safe travel and quality food will continue to grow.

SATS is well-placed to capture the opportunities before us and sharpen our core competencies in food and gateway. While we did not proceed with the acquisition of Singapore Cruise Centre, our commitment to grow our cruise operations in Singapore and our ambition to pursue regional cruise opportunities remain strong. With a clear strategy and a healthy balance sheet, we remain disciplined in assessing organic growth and value-creating opportunities that have a strategic fit with our business. We will deploy our capital productively to earn the best returns on a risk-adjusted basis and continually invest in state-of-the-art technologies that offer greater efficiencies and lower our operating costs in the long run. At the same time, we will consciously strike a balance between investing for growth and rewarding our shareholders.

While we are making progress, there is still more work to be done. We must transform our operations to improve service and productivity. New technologies, together with our culture of innovation and the passion of our people, will create exciting opportunities to invent new ways of working and drive greater efficiencies. Process automation will be key: self check-in for passengers, driverless ground support equipment, and the use of robotics in our kitchens, are all on the cards to lower our operating costs.

Our People

At the start of 2014, I shared our refreshed vision and mission for SATS with everyone in the Company to set a clear direction for growth. The management team and I discussed our strategy in detail with the line managers, and they in turn cascaded the discussion down to their teams. At every level, our

people are actively thinking about how we can work together to implement our strategy.

In parallel, we launched several new transformational human capital initiatives during the year. They include the SATS Ambassador Programme which aims to facilitate a deeper understanding amongst our people of the Company's core values of safety and security, trust, innovation, collaboration and excellence; and the Innovation and Productivity Launch which aims to grow our innovative culture by encouraging improvements in our work processes and the development of new products and services.

We believe that these new programmes, along with existing initiatives like the Annual Excellence Conference, which recognises innovation and cascades best practices across our regional operations; and the Annual Safety Campaign, which reinforces a strong safety culture in the Group, have created a fertile environment for learning, development and talent management at SATS. In fact, at the Singapore HR Awards 2013, we were honoured to receive the Leading HR Practices Award in two categories, namely Learning & Human Capital Development, and Talent Management, Retention & Succession Planning.

Recently, we successfully concluded two new collective agreements with our unions, which we are confident will drive mutual benefits for both the Company and our people. Working with the Air-Transport Executive Staff Union, we introduced a performance-based wage component to the remuneration packages of our Administrative Officers for the first time. This

will help bolster SATS' performance-driven culture and ensure our people are rightfully rewarded for their contributions to the Company's success.

Our new collective agreement with the SATS Workers' Union will help to promote a Singaporean core workforce, improve productivity by encouraging upskilling, and introduce a progressive wage model for critical operational positions. This will support our drive for productivity improvements, promote a performance-driven culture as well as enhance our competitiveness for the long-term.

In closing, our people are working hard to implement our scale and connectivity strategy and I would like to thank them for their dedication and support. I am confident that with the expertise, creativity and passion of this committed team across the region, SATS will continue to prosper and grow.

Alex Hungate

President and Chief Executive Officer

28 May 2014