

# Operations Review

## FOOD SOLUTIONS

**Food Solutions' revenue improved 0.6% to \$973 million. Excluding the food distribution revenue transferred to SATS BRF Food, revenue from Food Solutions would have increased 5.3% or \$50.8 million. This improvement was attributed to the overall growth in number of gross meals produced by SATS' subsidiaries across Asia. Operating profit grew 6.1% to \$166.5 million.**

Our share of after-tax profits from associates and joint ventures rose significantly by 167.7% to \$25.7 million because of the inclusion of a \$15 million provisional negative goodwill arising from the conversion of Evergreen Sky Catering Corporation (ESCC) from a long-term investment to an associate company.

### GROWING NETWORKS AND EXPLORING NEW MARKETS

SATS is well-positioned to serve a rapidly growing region with a large network of kitchens across key hubs in Asia. We have a clear strategy of scaling our food business to become more productive and enhancing connectivity to better serve customers across the region. At Changi Airport, we serve 48 airlines including newly secured customers such as Air Niugini, Delta Airlines and Fiji Airways.

In Japan, TFK showed good revenue growth of 17.1% this year, with volume growth from Delta Airlines, additional flights from Chinese carriers, new airline customers Iberia Airlines and T'way Air, as well as new contracts to supply meals to a theme park and a hotel.

Our associates across the region also acquired new contracts as they continue to add scale. Beijing Airport Inflight Kitchen (BAIK) gained new customer Qantas, while Taj SATS Air Catering grew its customer list with the addition of Garuda Indonesia, Korean Air, Myanmar Airlines, Oman Air, Singapore Airlines, Vistara and Zoom Air.

In Malaysia, Brahim's SATS Food Services (Brahim's SATS) not only secured new airline customers Cathay Dragon, Himalaya Airlines, Lucky Air, Malindo Air and Thai Smile, it has also diversified into non-aviation businesses, securing contracts with BreadTalk and 7-Eleven.

Across the rest of the region, Maldives Inflight Catering (MIC) has secured new customer Royal Flight, developed a new private jet menu in order to address the lack of Arabic and premium offerings, and expanded to cater to Leeli Lounge at the airport as well as to airport staff.

Macau Catering Services (MCS) has secured new customers Palau Pacific Airways and Royal Flight, while Philippines' MacroAsia Catering Services secured EVA Air. In Taiwan, ESCC has won new customer AirBridgeCargo Airlines.

During the year, we increased our shareholding in ESCC to 25% and purchased 20% shareholding in PT Purantara Mitra Angkasa Dua (PMAD), which strengthens the Company's foothold in Indonesia through the PT Cardig Aero Services Group.

### EXPANDING OUR NON-AVIATION BUSINESS

As the global business environment evolves and becomes more competitive, we stay agile by establishing complementary adjacent businesses, diversifying and creating new revenue streams.

Through SATS Food Services (previously known as Singapore Food Industries), we are growing our institutional catering business by tapping on our expertise in running large central kitchens to provide high quality and safe food. For example, SATS is collaborating with Singapore's Health Promotion Board on its integrated "Healthy Meals in Schools Programme" to develop a range of healthy, nutritious and well-balanced meals for schools.

The success of such collaborations has paved the way for new contracts and SATS has been appointed to supply pre-schools with centralised catering services. For schools, this raises productivity and lowers manpower and operational costs as there is no longer a need for dedicated space and staff to prepare meals onsite. Beyond that, we have also been contracted to supply ready-to-eat meals to River Valley Primary School and St Andrew's Secondary School as well as ward rations and meals to Assisi Hospice.

In line with our strategy of feeding and connecting Asia, we are also expanding our geographical presence in key regional markets. In China, our non-aviation business is making headway with SATS Yihai Kerry Kunshan Food completing the construction of its first large central kitchen on schedule at the end of FY2016-17 to commence commercial operations.

## INVESTING IN TECHNOLOGY AND INNOVATION

To position ourselves for future growth, we continue to invest in technology and spearhead innovative solutions to increase productivity and improve the quality of our food and services.

SATS Inflight Catering Centre 2 is undergoing an \$18 million expansion to increase our total aviation production capacity in Singapore to 115,000 meals a day. We will be introducing a new highly automated production line which is capable of processing food on a large scale, enhancing consistency of taste and quality, while reducing labour-intensive processes. This is expected to be completed in time for the opening of the new Changi Airport Terminal 4.

Through innovation, we aim to create greater value for our customers. In July 2016, we launched the SATS Meal Ordering System for schools where parents can order meals for their children online. This helps to improve productivity with lower administration and greater transparency for parents.

We continued to strengthen our reputation for culinary innovation as we became the world's first inflight caterer to have an inhouse team of celebrity Culinary Consultants offering our airline customers a gourmet selection of creative and authentic Asian cuisines. For example, working closely with SilkAir for more than six months, our celebrity Culinary Consultants have fine-tuned a Singapore "All-Time Favourites" menu designed to suit the taste profiles of SilkAir's Business Class passengers. Celebrity Chefs Qian Yi Bin and Idham Mirwan also created seasonal menus for Chinese New Year and Hari Raya Aidilfitri on selected airlines like SilkAir and Jet Airways for a limited time.

In Japan, TFK's 19 LEAN projects have reduced food material purchasing costs and consumption, executed cross-functional staff deployment and improved work efficiency, ultimately achieving \$4.2 million in savings. In its kitchen operations, a new auto-filling machine for liquids and semi-liquid products now enables hot filling in packets, eliminating double handling and shortening the process while extending shelf life.

## AWARDS AND ACCOLADES

We are passionate about delighting our customers so it is an affirmation that we are growing in the right direction when we are recognised for our efforts through awards and accolades.

This financial year, SATS obtained two Gold, four Silver and two Bronze awards at the Food and Hotel Asia Culinary Challenge – widely acknowledged as the region's most prestigious international culinary competition. We were also awarded Gold for the "Best Caterer" category by Cathay Pacific.

In addition, SATS coached and assisted the Singapore National Culinary Team at the Internationale Kochkunst Ausstellung (IKA) Culinary Olympics 2016, one of the most distinguished international culinary competitions in the world. The team scored its first overall championship title with a double gold in the Cold Display and Hot Cooking categories.

MY Business Excellence Sdn Bhd awarded Brahim's SATS with the "Top 20 Malaysia Business Excellence Award" in recognition of its stellar performance across all management fields and Gold in the Employer category for its exemplary efforts in implementing initiatives to retain, train and support workers with disabilities.

In North Asia, TFK won "Best Catering Award" from both Air China and Air Tahiti Nui while BAIK was accorded the "Beijing Airport Safety Award" by the Beijing Airport Safety Committee for being free from aircraft incidents and food issues. In addition, MCS was named "Best Airline Caterer" by Philippine Airlines for outstanding performance in providing high quality meals and customer service while ESCC won the 2016 QSAI Silver Award of Excellence in Catering Quality bestowed by Medina Quality, as a mark of distinction in catering quality in Asia.



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