

# CHAIRMAN'S STATEMENT

## Dear Shareholders,

For the financial year in review, SATS continued to operate under difficult economic conditions. The global economy was weak amidst the Eurozone sovereign debt crisis and fears over the US fiscal cliff. Demand for air cargo, a leading indicator of economic growth, remained soft while inflationary pressure continued to weigh on the domestic labour market.

Notwithstanding these headwinds, we delivered a good set of operating results, improving on our performance over the previous year. This is the result of our relentless focus on creating sustainable growth by strengthening our core capabilities in gateway services and food solutions, while seeking and capturing strategic opportunities to grow our business and expand our footprint in Asia Pacific and the Middle East.

Creating sustainable growth requires us to forge strong partnerships with our customers to develop solutions that continually meet their evolving business needs. The renewal of our ground handling and inflight catering contracts with Singapore Airlines is testament to the successful partnership we have built with our major customer of over 40 years. This underscores our strong position at Singapore Changi Airport. Our strategic goals remain unchanged. We are focused on growing our core businesses of gateway and food, pushing for further productivity improvements through innovation, and sharing the benefits of operational excellence with our customers and employees.

To drive the Group's momentum into its next phase of growth, we have planned for succession and announced that Tan Chuan Lye, our President and Chief Executive Officer, will retire at the end of this year while Alex Hungate will succeed him. Alex, who has served on the Board since July 2011, brings a depth of global financial, strategic and people development expertise and I am confident that he will ably steer SATS to achieve its long-term vision.

## FY2012-13 Results and Dividends

For FY2012-13, I am pleased to report that our Group revenue grew 7.9% year-on-year to \$1.82 billion. Our gateway and food revenue improved 7.6% and 8.1% respectively, led by increased flights and higher meal volumes. Excluding TFK, our inflight catering unit in Japan, our food revenue grew at a slower rate of 7.2%.

Group operating profit rose 13.8% to \$192.3 million due mainly to better performance of our food business, including the turnaround in TFK's operating results. Operating expenses increased 7.3% to \$1.63 billion, with higher staff and raw material costs being the key contributors to the increase.



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Profit contributions from Associates and Joint Ventures, net of tax, rose 27.9% to \$52.7 million, led by good profit growth from associates in the North Asia and Southeast Asia regions.

In the fourth quarter, we took a \$16.8 million provision for impairment of the deferred consideration due on the sale of Daniels Group. The deferred consideration receivable is contingent on Daniels' performance over the two years to March 2013. As its performance has been below expectations due to seasonal factors and the general UK economy, an impairment provision has been made against the deferred consideration receivable.

Consequently, profit attributable to owners of the Company increased 8.1% to \$184.8 million. Excluding this impairment and all one-off items, our underlying net profit from continuing operations improved 13.8% to \$202 million.

As at 31 March 2013, our total assets stood at \$2 billion. Cash and cash equivalents fell from \$470.1 million last year to \$404.2 million while total equity declined from \$1.62 billion to \$1.5 billion due mainly to dividend payment of \$288.6 million. Free cash flow generated during the year amounted to \$208.1 million while debt-to-equity ratio was a healthy 0.09 times.

In view of our financial performance and strong balance sheet, and taking into account capital management considerations, the Directors are pleased to recommend for shareholders' approval, a final ordinary dividend of 6 cents per share and a special dividend of 4 cents per share. Including the interim ordinary dividend of 5 cents per share paid on 5 December 2012, the total dividend will be 15 cents per share, compared to 26 cents per share last year. This represents a dividend payout ratio of 90.3% of profit attributable to owners of the Company.

If approved at the forthcoming Annual General Meeting of the Company on 26 July 2013, the proposed dividend of 10 cents per share will be paid on 16 August 2013.

## Maintaining Momentum, Achieving Milestones

SATS is the leading ground handler and airline caterer at Singapore Changi Airport, with an approximately 80% market share. In FY2012-13, we served close to 125,000 flights at the airport and produced a total of 28 million inflight meals.

The renewal of 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, further cements our position as the first-choice service provider at Singapore Changi Airport.

In gateway services, we secured contracts with new customers such as Air India Express, FedEx, Lufthansa Cargo, Scoot and United Airways. We also renewed our ground and cargo handling contracts with existing customers including Asiana Airlines Cargo, China Eastern Airlines, China Southern Airlines, EVA Airways, Korean Air, Qantas Airways and United Airlines.

Our subsidiary in Hong Kong, SATS HK, successfully added eight new airlines to its customer base. These include Air India, Air Seychelles and Ethiopian Airlines. It also renewed several contracts with customers such as Malaysia Airlines, Singapore Airlines, Spring Airlines and Turkish Airlines.



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During the year, we achieved several milestones in the non-aviation gateway sector. The Marina Bay Cruise Centre Singapore (MBCCS), managed and operated by SATS-Creuers Cruise Services (SATS-Creuers), commenced operations on 26 May 2012. This 28,000-square-metre terminal is now the home port to seven cruise ships including Voyager of the Seas, Diamond Princess, Celebrity Millennium and Costa Atlantica.

In its first year of operations, SATS-Creuers handled more than 80 ship calls and over 230,000 passengers at MBCCS. To further anchor Singapore's position as the leading cruise hub in Asia, we will continue to strengthen our capabilities and offerings in the cruise sector.

The growth momentum in our food solutions business continued in FY2012-13. This was mainly supported by higher airline meal volumes and better performance recorded by TFK.

At Singapore Changi Airport, we secured new contracts with Air Mauritius and Drukair – Royal Bhutan Airlines while renewing contracts with All Nippon Airways, Myanmar Airways, Qantas Airways and Singapore Airlines.

TFK turned around and reported an operating profit of \$12.1 million in FY2012-13, following its recovery from the March 2011 disasters in Japan. It renewed contracts with Qantas Airways and Lufthansa German Airlines, and clinched new contracts from customers including AirAsia Japan, Finnair, Scoot and Swiss International Air Lines.



Our institutional catering business secured several contract wins during the year. They include a three-year catering contract from the Home Team Academy – a department under the Ministry of Home Affairs which trains officers in homefront security and safety – as well as the Singapore Sports Hub catering contract. The tenure of the Sports Hub contract is 21 years. Together with our joint venture partner Delaware North Companies, we expect to commence delivering hospitality and catering services in April 2014 for the Sports Hub's retail concessions, corporate suites, members' dining areas, MICE and special events across five of its venues.

On the remote catering front, our joint venture Food and Allied Support Services Corporation broke new ground when it won a contract to provide catering and housekeeping services for a pipe-laying barge as well as a jack-up rig to be deployed in Indian waters.

### In Pursuit of Excellence

In our continuous pursuit of excellence, we are gratified that our efforts have been widely recognised. In FY2012-13, we achieved the following accolades, among others:

- We won the 'Best Air Cargo Terminal in Asia' title for the 15th time at the Asian Freight & Supply Chain Awards 2013 organised by Cargonews Asia;
- We won a joint Silver Award for Best Managed Board at the Singapore Corporate Awards 2012. This award is testament to our efforts in building a strong corporate governance framework; and
- We clinched the distinction award at the inaugural Human Capital Breakthrough Award for being one of Singapore's boldest and most innovative companies in the field of people management.

### Creating Sustainable Growth

While the global economy remains uncertain, the outlook for Singapore's aviation industry continues to be positive, underpinned by robust intra-Asia passenger traffic. This presents growth opportunities for both our gateway and food businesses. Airfreight demand, however, is anticipated to remain weak.

The continuing labour crunch in Singapore and its impact on operating costs remains a major challenge for us. To deliver sustained growth amidst these challenges, we must adopt a long-term approach and ensure we are not just expanding the business but also building up our strengths internally. We must remain nimble and flexible, and embrace a culture of constant innovation to enhance our business performance.



In light of this strategic need, the Innovation and Productivity Committee chaired by Chuan Lye, will explore how the Group can leverage automation and technology to re-engineer our processes, improve our productivity and sustain our offerings. To date, close to 10 projects in key operation areas have been identified and are now in the implementation phase, while another four are currently under review.

Increasingly, we view innovation as not just something that we undertake on our own. We also need to pursue innovation in partnership with our customers, as greater benefits can be realised and shared when we work closely together. In implementing our productivity enhancement measures, we also recognise that our people, in many instances, have taken on increased responsibilities or even new roles that contribute to higher efficiencies. As such, we believe in showing our appreciation for their commitment and effort, through sharing part of the resulting productivity gains with them.

Continuing to enhance our strong track record in Singapore is also paramount to positioning ourselves for sustainable growth here. Aviation remains core to us and our leading position at Singapore Changi Airport continues to open doors for us in the region. Furthermore, MBCCS' potential as a regional cruise hub presents significant opportunities to extend our cruise sector business beyond Singapore.

Our strong balance sheet and net cash position allows us to grow through inorganic opportunities and joint ventures with specialist partners and industry leaders in the Asia Pacific and Middle East regions. We will continue to seek value-creating acquisitions to grow our business in both aviation and non-aviation segments.

## Acknowledgements

As Chuan Lye retires later this year from his role as President and Chief Executive Officer, on behalf of the Board and Management, I would like to extend to him our deep gratitude for his dedicated service and sterling contributions to SATS over the past 36 years.

Chuan Lye has served the Group loyally and has contributed significantly in growing and transforming SATS to what it is today. During his tenure, he has played a pivotal role in aligning the Group's strategy and in championing its innovation and productivity drive. I am delighted that he has agreed to stay on as Executive Advisor with effect from 1 January 2014. I am sure the Group will continue to benefit from his extensive expertise and experience.

I also wish to thank my fellow Board members for their wise counsel and invaluable support. I would like to put on record my deep appreciation to Ng Kee Choe and Yeo Chee Tong, who stepped down from the Board at the last Annual General Meeting. Kee Choe served on the Board Executive Committee and the Remuneration and Human Resource Committee for the past 12 years, while Chee Tong served as an independent director, chaired the Board Risk Committee and was a member of the Nominating Committee for six years. I wish to thank them for their invaluable contributions during their time with us.

I would also like to extend my sincere thanks to our customers, business partners, staff unions and shareholders for your continued confidence and support.

Last but not least, I would like to thank our talented team of employees. SATS' ability to deliver outstanding performance and sustainable value depends on our people's commitment, expertise and creativity in providing customers with superior levels of service. I am grateful for their steadfast contribution and dedication. As SATS grows in a sustainable way, this committed team will remain the foundation of our company's success.

**Edmund Cheng Wai Wing**

Chairman

23 May 2013