

Operating Financial Review



# Aerospace

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### FLYING HIGH WITH TOTAL SUPPORT

In 2006, ST Aerospace maintained its leading position as the world's largest commercial airframe Maintenance, Repair and Overhaul (MRO) provider through the global expansion of existing airframe MRO operations. It also broadened its spectrum of aircraft components and engines maintenance capabilities.

To enhance the integration of its operations, ST Aerospace reorganised its core operations under two business segments – Aircraft Maintenance & Modification (AMM), which now includes the engineering and development capabilities; and Component & Engine Total Support (CETS), which includes the integration of components and engines MRO with rotables management and support.

#### Aircraft Maintenance & Modification (AMM)

In 2006, ST Aerospace's AMM business continued to extend its relationship with its core customers. New customers, both large and small, were added. It secured more work with key customers in Asia, Europe and the US, such as All Nippon Airways, FedEx Express, Japan Airlines, Northwest Airlines, UPS as well as Asiana Airlines, Copa Airlines, TransAsia Airways and many others.

During the year, ST Aerospace entered into a three-year agreement with Airbus that allowed Airbus to directly procure aircraft MRO services from any of ST Aerospace's global network of facilities.

Key milestones were also reached with long term customers as ST Aerospace celebrated the redelivery of the 2,500th aircraft to FedEx Express, 330th to Northwest Airlines, 300th to UPS, and 100th to Japan Airlines.

ST Aerospace's strategic partnership with the Republic of Singapore Air Force (RSAF) continued to grow through the

extension of its range of support. Following the success of the Transport Wings Course programme, the RSAF committed to a 20-year Rotary Wing Course (RWC) with ST Aerospace for the provision and maintenance of its helicopters. Through this RWC agreement, ST Aerospace acquired a fleet of six EC120 helicopters, began modifications to the aircraft and received certification from the Civil Aviation Authority of Singapore.

In the engineering and development arena, the group forged ahead with its engineering expertise in both technical services as well as design and development activities. Developing technical services capabilities enables ST Aerospace to undertake total support requirements for airlines under its Total Aviation Support. Its repertoire of technical services competencies includes maintenance planning, maintenance control, design and reliability engineering. This enhances civil aircraft operators' aircraft and equipment performance and lifecycle supportability, thus reducing customers' overall maintenance costs.

On the military engineering front, ST Aerospace continued to build on its range of proficiencies to undertake major engineering enhancements to military aircraft. It took to market its integrated suite of tactical enhancements for fixed and rotary-winged platforms. Featuring its military aircraft upgrade capabilities on board the Super Puma at Asian Aerospace 2006, the group demonstrated solutions that included systems and equipment such as a centralised communications, navigation and sensor management system, a digital moving map, a door gun system and an aircraft ship integrated secure and traverse system. The latter two were equipment designed and installed by ST Aerospace.

ST Aerospace also continued with developments on its indigenous FanTail and Skyblade unmanned platforms, which are now expanded into families of scalable mini Unmanned Aerial Vehicles (UAV) for use in home defence and other applications.

*ST Aerospace, world's largest commercial airframe MRO, offers Total Aviation Support from its spectrum of airframe, components, engines and engineering capabilities.*



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### Component & Engine Total Support (CETS)

In 2006, the CETS segment continued to add to its spectrum of repair and overhaul capabilities for both engines and components.

It completed the acquisition of SAS Component in March as part of its strategy to provide a spectrum of components support, particularly in Europe. This enabled CETS to develop a more holistic Total Aviation Support proposition and components track record.

The group made strides in maintenance capabilities for the CFM56-3 and CFM56-7B engines and completed the capability setup for the CFM56-7B. It also started developing the CFM56-5B MRO capability, including the construction of a new engine test cell. Its subsidiary, STA Engines, secured long term contracts from operators of the Boeing 737NG and Airbus A320, as well as military customers from as far as South America.

During the year, CETS added some 402 new repair capabilities, primarily on pneumatic, hydraulic, electrical and avionics components for commercial and military aircraft. To further add value to its components MRO activities, its subsidiary, STA Systems, embarked on an initiative to build its own designated engineering representative library.

The group maintained the confidence of major customers such as FedEx Express, Japan Airlines, UPS and many other air forces and airlines. Customers added include Adam Sky Connection Airlines (Adam Air), Aloha Airlines, Bangladesh Air Force, Peru Air Force, Shanghai Airlines, Xiamen Airlines and other airlines from China. ST Aerospace has also set up service centres through collaborations with Original Equipment Manufacturers (OEM) such as Parker Aerospace, Eaton and Hamilton Sundstrand.

The newly formed CETS offers Maintenance-By-the-Hour (MBH™) and Free2Fly™ services to customers. MBH™ is a trademarked service through STA Systems and STA Supplies in Singapore while Free2Fly™ is a trademarked material supply programme by SAS Component, the group's newly acquired European components business. Customers around the world can draw on capabilities within both groups, depending on their needs.

### PERFORMANCE OF THE AEROSPACE SECTOR

#### Half Yearly Performance

Turnover of the Aerospace sector in 2H2006 of \$854m was \$35m higher compared to 1H2006. The increase in turnover came from the three business groups namely, AMM, Component/Engine Repair & Overhaul (CERO) and Engineering & Materials Services (EMS). The higher turnover in AMM was contributed by higher redeliveries in ST Aviation Services Co (SASCO). In CERO, higher sales were due to six months of sales from the newly acquired SAS Component in 2H2006 versus four months of sales included in 1H2006. In EMS, the turnover increase was due mainly to project milestone completions.

Compared to 1H2006, PBT for 2H2006 at \$168.9m was \$32.6m higher. AMM and EMS registered higher profits. The higher PBT in AMM was due to higher turnover and improved profitability, while the increased profit in EMS was due to maturity of funds under management as well as higher dividend income. The profit increase in these two business groups was partially offset by lower contributions from CERO as a result of post-acquisition business alignment initiatives and closure of the Stavanger facility at SAS Component.

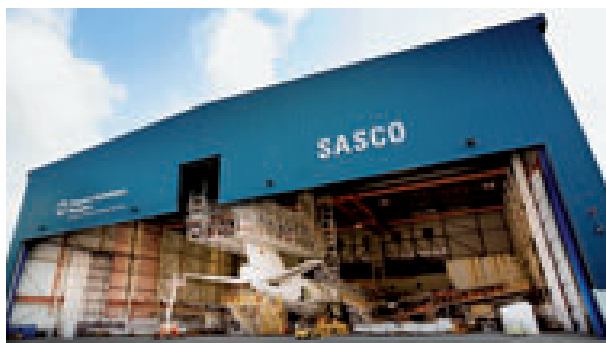
*(from left to right)*

*In 2006, ST Aerospace inducted a new wide-body hangar at SASCO's Changi location.*

*ST Aerospace advanced on its engineering expertise to enhance customers' aircraft and equipment performance and life cycle supportability.*

*ST Aerospace made strides in maintenance capabilities for the B737 with the completed setup of its CFM56-7B MRO capability.*

*Newly acquired SAS Component merged with ARL for a more holistic Total Aviation Support proposition.*



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### Full Year Performance

Aerospace sector's FY2006 turnover at \$1,673m was higher than that of FY2005 by 35% or \$437m. The higher turnover was due to higher redeliveries in AMM as well as the inclusion of sales from SAS Component in CERO, but these were partially offset by fewer project milestone completions and lower material sales in EMS.

Compared to FY2005, the Aerospace sector's FY2006 PBT of \$305.3m was higher by 20% or \$49.9m. The higher PBT was mainly attributable to improved profitability and higher turnover in AMM, but this was partially offset by lower contribution from CERO due to post-acquisition business alignment initiatives and closure of the Stavanger facility at SAS Component.

### Major Acquisitions

2006 saw the integration of Airline Rotables Limited (ARL) with the newly acquired SAS Component, when ST Aerospace transferred its stake in Airline Rotables (UK Holdings) to SAS Component for US\$22.5m (about \$35.5m). The transaction raised ST Aerospace's shareholding in SAS Component from 67% to 71.3%.

### Major Projects

ST Aerospace maintained a healthy order book in 2006 that included Passenger-To-Freighter (PTF) aircraft conversions, maintenance activities and engineering programmes.

Conversions for the MD-11 progressed steadily in 2006 for customers including FedEx Express and UPS. To date, the Aerospace sector has redelivered 42 converted MD-11 aircraft, with 12 completed in 2006.

Engineering achievements in 2006 included the initiation of engineering development efforts for the Boeing 757-200 PTF conversion programme for the Royal New Zealand Air Force. Designs for the required multi mission platform were reviewed and approved in 2006 for work to commence in 2007.

Maintaining its leadership in MRO services among Low Cost Carriers (LCC) and start-up airlines, ST Aerospace clinched contracts from five of six emerging airlines in China and added programmes by other major LCCs. Of notable mention was the award of a US\$635m (about \$1b) agreement with Airbus to provide Total Aviation Support (including aircraft line and light maintenance, components management and support, engineering and technical services) for Skybus Airlines' fleet of 65 Airbus A320 family of aircraft over a period of 12 years. Skybus Airlines is a new LCC in the US.

Expanding into new markets, ST Aerospace signed a Memorandum of Understanding (MOU) to set up an airframe MRO centre in Panama. A lease agreement with the Agencia del Área Económica Especial Panamá-Pacífico was signed for a new facility to commence operations in 2007. This latest addition of Panama Aerospace Engineering (PAE) would complement the sector's MRO centres in Mobile and San Antonio, as well as enhance the group's global network in the US, Europe and Asia Pacific. PAE would initially perform commercial aircraft maintenance and modification works on narrow-body aircraft and aim to progressively build a capacity of more than 1.2m manhours and a workforce of 1,000 skilled engineers and technicians.

Its China facility, STARCO, has been operational for two years and has successfully completed major works on over 120 aircraft for China Eastern Airlines, and other Chinese and international carriers. Within its first year of operations, STARCO was the first non Chinese MRO company to attain a certification from the US Federal Aviation Administration for the A310, A319/A320 and A330. In 2006, STARCO gained more approvals from the European Aviation Safety Agency and the Australian Civil Aviation Safety Authority, in addition to certification from the Chinese airworthiness authorities.

