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FEATURE

Our new building, a big step forward

In early May 2008, we successfully moved into our new facility in Bad Tölz. The transition into our new premises was very smooth and we only had to absorb a production break of four days. We held our official opening on Saturday, 27th of September with the local dignitaries, the employees and their families in attendance. The entire project which involved the initial conceptualisation to the construction and move was completed in 24 months. With that, I would like to express my sincere appreciation to all parties that were involved in this project, for the great job done.

The new facility is nearly double in size and the layout is customised to enable us to enhance our production workflow, processes and logistics. The available space is sufficient to support our expansion for our growth strategy up to 2013/14. Further expansion is possible on the existing and optional land, if it is necessary.

The new facility marks a milestone in presenting Sitec as a reliable long term partner for our customers, suppliers, employees and stakeholders.



Mr Armin Hillgarth, Managing Director, Sitec Aerospace



Front view of Sitec's new facility in Germany.



The production floor area of the new facility.

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ECONOMIC CRISIS AND MARKET DEVELOPMENT

Aerospace Business

The production forecasts of the aircraft manufacturers are showing an extremely different picture. The business jet sector is heavily affected. This has led to a dramatic reduction of aircraft production rates and as a result, some production lines are now stopped. On the other hand, the regional airframe market is in trouble as it will face additional competition in the future arising from new players (i.e. the Russian Superjet and the Chinese ARJ21) penetrating into this market segment. This is however not as extreme as the situation in the business jet sector. Both large aircraft manufacturers, Airbus and Boeing have a strong order book. Their production capacity for 2009 and 2010 is highly overbooked, which means that they have more aircrafts on order than they can produce. Their production plan for single aisle airframes stands at a high level. The forecast for the Airbus A330, A340 and A380 program is showing a further increase in the next three years. Military aerospace projects in Europe are at the moment not really affected. As for the USA, we see a potential threat through cuts in military aerospace budgets. This will not directly affect Sitec, but it could increase overall competition in the global aerospace market.



In our opinion, we will see in the next two, or perhaps three years, a slight down turn in the aerospace industry, notwithstanding new aircraft programs, which are at this time in the ramp up, certification or design phases. This will bring growth back to the industry in general. Towards this, Sitec is very confident in being able to participate in that growth because we are well balanced with deliveries of equipment to competing aircraft platforms.

Sitec has invested in the last few years in a number of very promising new programs (A380, A350, B787, ARJ21, Superjet and Future Lynx). These new projects are the foundation for further growth in future and will partly compensate for a possible further downturn of existing business over the next two years. The stronger US-Dollar has put us in a much better position than in the last 24 months. This, together with permanent ongoing cost reduction and quality improvement programs, is the basis for increasing margins.

Our core business in aerospace is mainly in the production of electric rotary actuators, which is gaining more interest from the US market and therefore

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offers larger growth potential. We are one of the global market leaders in this market segment.

Material Handling Business

The material handling business, which was in the past, highly dependent on the automotive market, has seen a down turn immediately. But we intend to partially compensate for this by concentrating on other markets areas, such as solar and food industries. The drop in activities in this business had come at a much faster rate than in the aerospace but we believe that this business will pick up much quicker and earlier when the economy turns for the better. Not only has future investments in new production equipment for the automotive industry stopped suddenly, these backlog of investment projects are now waiting to be restarted. The automotive industry must invest in new models, while the other industries invest in new technologies. This will in turn result in higher investment in new material handling equipment thus propelling our growth.

Management Priorities in the Light of the Global Economic Down Turn

It is currently very important to invest in marketing and sales activities, to participate in acquiring short term additional business. At the moment, we see good opportunities to win larger market shares in the material handling and the aerospace business areas. In the past, we had concentrated more on the implementation of new products to serve our customers on time. To cover the short term future, we now place more focus on cost reduction and quality improvement programs. In order to secure the medium and long term future, we have to invest in new technologies and products by hiring excellent and competent design and sales engineers. Highly motivated and well trained employees are still the basis of our success.

Airbus and Boeing are strictly following their strategies and placing larger work packages and therefore more responsibility on first tier system suppliers. These

first tier companies will often partner with a component designer like Sitec that has the expertise and established track record to support them in their programmes. This is already being seen in the A380, B787 and A350 programmes, where Sitec is supporting fuel, hydraulic, air and water system suppliers. The airframe and system suppliers are looking for financially solid partners; hence our Group's financial strength is especially helpful.

Many small and medium-size companies that are not financially and technically sound will face continued pressure if the global downturn persists. This will provide good opportunities for additional future business for Sitec. On the other hand, this can have a negative effect on our continuous long term production programs. In order to minimise these negative effects, we operate and plan on worst case scenarios, to find ways and tools to manage major problems caused by possible insolvent key suppliers. In the OEM aerospace market it is normally not easy to replace parts and production processes in a short span of time and it would be very costly if we are not prepared for the worst case scenarios.

Due to the new market situation, work packages become bigger and the consequentially pricing comes under pressure. It would be a good chance for our Group of companies in Asia with their lower cost manufacturing capabilities, to benefit from this new market environment.

Overall, we believe Sitec and our SAM group of companies are optimistic of the long term future of the aerospace and other industrial businesses. Although we are adopting a cautious approach to current businesses, we are nonetheless exploring new avenues of growth by riding on the high quality of our workforce, the strength of our manufacturing capabilities and the depth of our design and continuous innovation. ✨

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Moulding the future

SAM Sponsors Institute of Technical Education's ("ITE") New Precision Engineering-Related Courses 5 scholarships in National ITE Certification ("Nitec") in Aerospace Machining Technology await students

Demand for precision engineering ("PE") expertise has increased in tandem with Singapore becoming an increasingly competitive location for manufacturing. Alongside other major industry players, SAM has given its support for the new courses implemented by ITE designed to develop the students, to acquire secondary skills in addition to their own core skills to support the manpower needs of the PE industry. SAM is proud to offer five scholarships in Nitec in Aerospace Machining Technology to deserving students. Through this industry attachment in SAM, students will be equipped with stronger niche competencies and precise skills needed, in particular, the skills and knowledge to produce aerospace components such as engine casings, aero structure and landing gear components using multi-axis universal machining centres.

Even in this global economic crisis, SAM believes in moulding the next generation and continues to invest in the training for the longer term benefits of this industry.

These training and industry learning programmes are a cornerstone of SAM's knowledge-based business and a high level of knowledge and capability must be maintained, regardless of market conditions. The demand for highly skilled technicians with the right skills sets and expertise for the industry will grow, as it rides out of the global economic crisis.

About ITE and Nitec in Aerospace Machining Technology

The Institute of Technical Education ("ITE"), Singapore is established in 1992, as principal provider of career and technical education. It is also a key developer of national occupational skills certification and standards to enhance Singapore's workforce competitiveness. The National ITE Certification ("Nitec") in Aerospace Machining Technology equips students with the skills and knowledge to produce aerospace components such as engine casings, aero structure and landing gear components using multi-axis universal machining centres. ✦

SUCCESS STORIES

We share with you two success stories of ITE graduates who have made an impact on the success of SAM and have truly lived up to the spirit of continual learning and upgrading throughout their careers in SAM.

Baharuddin Bin Abdul Rahman, 44, joined SAM in July 1994 and has since been with SAM for over 14 years. Baharuddin graduated from ITE in November 1986, a joint training course conducted between EDB, Tata Government Training Centre and ITE. Throughout the years, he has held several roles in SAM from a machinist to his current position as Program Leader. Baharuddin's continuous learning spirit has not stopped; he went on to pursue his Diploma in Business Studies from Singapore Institute of Management.



Baharuddin on the left and Steven on the right.

"During the course of my studies, SAM has been very supportive and has provided time-off from work such as study and exam leave. SAM has opened up a career path to where I am now and have also given me opportunities to use the knowledge and skills I have acquired in my daily work." While he was pursuing his studies, he maintained his work-life balance by ensuring that the course does not coincide with work schedule and family time. He hopes to pursue further studies and to contribute more to SAM's growth in whatever he can as an employee. "I aspire to be someone of an asset to the company. It doesn't matter at what positions or level."

Our second ITE graduate, Steven E, 26, joined SAM in 2003 when he graduated from Dover ITE in Mechanical Engineering. His studies were sponsored by SAM. After serving as an apprentice on job training for

three months, he was able to operate the machine independently and venture on various parts of the operation and machine, operating mainly Turning Machine and Turn-Mill. In April 2007, he progressed from a Technician to a Purchasing Executive. SAM believes in nurturing talents and encourages continuous learning and upgrading of skills.

Steven carried on pursuing his studies while maintaining a work-life balance in SAM. *"My superiors had given me encouragement and support to help me strike a balance between work and studies."* During his course, his work was planned around his course, which enabled him to fully concentrate on his night classes. *"I was excused from my shift work during my course and was granted paid study and exam leave."* Besides encouraging our employees to further their studies and upgrade their skills, we also ensure that they receive adequate on-the-job training in the various operation activities in SAM. In Steven's case, he participated in the First Article trial machining, testing/trial new purchased machine and problem solving sessions with the engineering team.

"There were many opportunities of learning in SAM. I was given opportunities by my superior to attend Six Sigma courses, Visual Basic excel etc, to train me not only for the maintenance of the machine, but also for a supervising role." Steven was offered the role as a Purchasing Executive in the Material Department, where he was able to start a new career path in SAM. He is currently pursuing his Advance Diploma (ASMKT) at Singapore Polytechnic and would love to continue a business degree thereafter. *"I hope to be able to learn and experience SAM operations from top to toe and to put my years of knowledge and skills gained to contribute to the growth of SAM."*

Nurturing our talents – Gearing up for growth

Leveraging on the SPUR (Skills Programme for Upgrading and Resilience) funding by Singapore Government, the Company is committed to take up a total of 1200 training places for this financial year. SPUR will fund up to 90% of these training costs and reimburse the Company up to S\$10 per hour in absentee payroll.

The funding not only helps SAM cope with the manpower challenges during this difficult period but more importantly we are able to strengthen the skills of our entire workforce to be ready for the recovery.

SAM launched its first SPUR training programme on 27 April 2009. In order to expedite the commencement of the programmes, SAM even brought the training to our very own workplace. The first batch of 40 employees attended a 2-day course on Communication & Relationship Management. Each employee is expected to undergo a series of 7 core training modules that emphasise on self-knowledge and self development to facilitate individual career development.

For the workshop staff and first line supervisors, they have been identified to attend the Workplace Literacy Program, with the aim of equipping them with the skills to comprehend, analyse and reflect on information.

SAM has set an aggressive target for each employee and total training hours for this year will be three times that of a normal year. In addition to

attending courses held by external course providers, SAM also worked with WDA to explore how to tap on SPUR funding to develop a range of in-house training programmes specific to SAM environment and will be taught by our own Managers. Two of the courses that we will be conducting in-house are Aerospace Quality System and Lean Manufacturing, which our GM for Singapore Operations has committed to be one of the trainers.

The advantage is that the course can be customised to the needs of SAM and participants can leverage on the expertise and experience of these Managers. To equip the Managers with relevant skills to be a good Trainer, all Managers have also been targeted to attend the Train-The-Trainer program. This is a 5-module course offered by the Institute of Technical Education. Upon completion, each Manager will be awarded with an Integrated Trainer Certificate. ✦



Lim Swee Say, Secretary-General of the National Trades Union Congress having a tea session with the first batch of participants of the SPUR programme.



Lim Swee Say, Secretary-General of the National Trades Union Congress touring SAM's production facility

OUR ACHIEVEMENTS

Meerkat achieves AMAT Approved Supplier Status

Meerkat Technologies, a subsidiary of LKT Industrial Berhad, recently attained the Approved Supplier status from Applied Materials, Inc. (AMAT), in April 2009.

Meerkat qualified as an approved supplier by obtaining a score of 5.53 points in key quality elements. The minimum score set by AMAT was 5.0 points.

With this achievement, Meerkat is now the second company in LKT Group to be appointed as approved supplier to AMAT. LKT Precision Engineering was the first to achieve the status last year.

The Validation Audit is a pre-requisite by AMAT in which the Quality Management System of potential suppliers, such as Meerkat, is assessed in a thorough manner under their Standardised Supplier Quality Assessment (SSQA) methodology.

In the SSQA scoring methodology, AMAT evaluates the maturity of Meerkat's Quality Management System by utilising a rating matrix which is scored from 0-10 in four main areas:

- 1) **Management Commitment** – how various levels of management support the requirements
- 2) **Systems Approach** – A documented process that is undergoing continuous process improvements.
- 3) **Deployment** – The extent of implementation of the processes
- 4) **Results** – The key metrics obtained and monitored from the deployment of the processes.

LKT's Director of Operations, Raghunath V. Reddy, attributed the success to the enduring team spirit embraced by the people in Meerkat.

"Despite facing tough challenges, you can see that the people are truly committed as a team. This was clearly reflected in the way they work and their willingness to walk the extra mile," said Raghu.

Vice President of Meerkat Technologies, BK Ng, organised a luncheon in appreciation of the people who worked tirelessly day and night in preparation for the audit.



The people behind the success story – "The achievements of an organisation are the results of the combined effort of each individual" – Vincent Lombardi

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"The team has made lots of sacrifices – spending long hours at the workplace, with all the sweat and tears. Now their effort has paid off and we are truly proud of them," revealed BK Ng.

Meerkat is aiming to reach beyond 6 points in its key quality elements score in order to upgrade itself to "preferred supplier" status on the forthcoming audit at the end of this year.

Although delighted with his team's performance, BK Ng acknowledged that Meerkat still has a long way to go, in terms of sustainable performance and improvisation.

"We can't afford to rest on our laurels as the coming audit will even be tougher. Meerkat needs to sustain the momentum and continue to implement improvements," said BK Ng.

In support of the AMAT business, LKT's Vice President of Engineering and Business Development, Teo Choon Eng said that the Company had made substantial investment to ensure it had adequate state-of-the-art facilities and machineries. Among the infrastructure invested by LKT Group includes Large Format Machining, Cleaning Line, Class 10K Clean Room, Co-ordinate Measuring Machine (CMM), and Leak Testing Machine.

Whilst infrastructure development is crucial in supporting the AMAT business, it was LKT's investment in its people and the establishment of a good system that propelled two of its subsidiaries, namely LKT Precision Engineering and Meerkat Technologies to obtain Approved Supplier status from AMAT.

"It was our people who made it happen. In LKT, we are committed to develop our people and continuously improve our systems and processes to ensure sustainability," concludes Oh Chong Ho, CEO of LKT Industrial Berhad. ✦

New engine mount contracts secured: 2 new projects to be manufactured at SAM Suzhou

Rolls-Royce XWB Engine Mount

Rolls-Royce has given a letter of Intent for SAM to start the development works for the XWB engine mounts. The XWB engine has been selected by Airbus to power the new A350 aircraft and to date, it is the only engine selected for this aircraft. The first development unit is scheduled for March 2010. Serial production is scheduled to start in late 2012 and production ramp up will continue through to 2015, reaching an estimated annual revenue of US\$ 12million.

Goodrich GTF Engine Mounts

Goodrich has agreed to let SAM start work on 2 engine mount types for the GTF; one for the Mitsubishi Regional Jet (MRJ) and one for Bombardier C-Series. Both are regional jets and GTF engine is the sole engine selected for both aircrafts. The first development units for C-Series and MRJ are scheduled for delivery in June 2010 and December 2010 respectively. Serial productions are scheduled for 2012/2013 and production ramp up will continue through to 2016/17 reaching a combined estimated annual revenue of US\$ 4million.

Appointment of Managers in LKT Group:



1) Michael Tan Weng Chow

Michael Tan was appointed as the QA Manager for Meerkat Technologies' Metal Engineering section in February this year. Reporting to Teh Choon Huat, QA Manager for Meerkat Technologies, Michael holds both a degree and Masters in geology, and has had working experience in engineering, production and QA.



2) K. Kamalasekaran

K. Kamalasekaran is the Engineering Manager for Meerkat Technologies (under AMAT business). He reports to Director of Operations, Raghunath. V.Reddy. A degree holder in Engineering Management, he is currently pursuing a Masters in Business Administration.



3) Jacjit Singh s/o Dalbir Singh

Jacjit is the Assembly Manager of Meerkat Technologies (under AMAT business), responsible for all clean room assemblies for the semi-con front end industry. Reporting to Director of Operations, Raghunath.V.Reddy, he has 8 years of experience in clean room assemblies, integration and testing.