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# Corporate Governance Report

We are fully committed to upholding the highest standards of corporate governance. Our corporate governance principles reflect our commitment to strong leadership, effective internal controls, a robust corporate culture and accountability to shareholders.

For the financial year ended 31 March 2017 (“FY2016-17”), we have complied in all material aspects with the principles laid down by the Code of Corporate Governance 2012 (“Code”).

## BOARD OF DIRECTORS

### **Key features of our Board:**

- Separation of the role of Chairman and President & Chief Executive Officer (“PCEO”)
- All of our Directors (other than the PCEO) are independent non-executive Directors
- None of our Directors have served for more than 6 years
- Four new independent non-executive Directors were appointed during FY2016-17
- Two out of our eleven Directors are female

## ROLE OF THE BOARD

The Board is responsible for overseeing the business, financial performance and affairs of the Group. The Board has adopted a set of guidelines on matters that require its approval and its key functions include:

- setting the overall business strategies, directions and long-term goals of the Group to be implemented by Management, and ensuring that adequate resources including financial and human resources are available;
- setting the values and standards (including ethical standards) of the Group, and ensuring that obligations to shareholders and other stakeholders are met;
- providing sound leadership and guidance to the PCEO and Management;
- overseeing the business, financial performance and affairs of the Group, and monitoring the performance of Management;
- evaluating and approving important matters such as major investments, funding needs and expenditure;
- having overall responsibility for the corporate governance, strategy, risk management and financial performance of the Group, including the processes of evaluating the adequacy of internal controls, risk management systems, financial reporting and compliance (including legal and regulatory compliance);
- ensuring effective communication with stakeholders;
- protecting and enhancing the reputation of the Group; and
- considering sustainability issues as part of the Group’s strategy.

The Board engages with and provides leadership to Management in the development and execution of strategies, stakeholder engagement, as well as a wide range of matters in the areas of business, strategy, operational issues, governance and risk management. There is a written Financial and Operating Approval Authority Matrix setting out the approval limits of the Board, the Executive Committee and the Management.

## BOARD CODE OF CONDUCT

All Directors aim to objectively discharge their duties and responsibilities at all times as fiduciaries in the best interests of SATS. In FY2016-17, the Board adopted a Code of Conduct as a means to guide the Directors on the areas of ethical risk, and help nurture an environment where integrity and accountability are key.

Our Board Code of Conduct includes the following key principles:

- Directors must avoid situations in which their own personal or business interests directly or indirectly conflict, or appear to conflict, with the interests of SATS;
- Directors should consult the Chairman of the Board and the Chairman of the Nominating Committee before accepting any appointments to the board of directors of another public or private company;
- Directors are to exercise due care and maintain the confidentiality of information entrusted to them by SATS or other parties who have business dealings with SATS;
- Directors must carry out their responsibilities in compliance with SATS guidelines and policies, and applicable laws, rules and regulations; and
- Directors must not trade in the securities of SATS if, at the relevant time, they are in possession of non-public materially price-sensitive information.

**New corporate governance policies:**

The Board recently undertook a review of our corporate governance procedures and has adopted the following new policies:

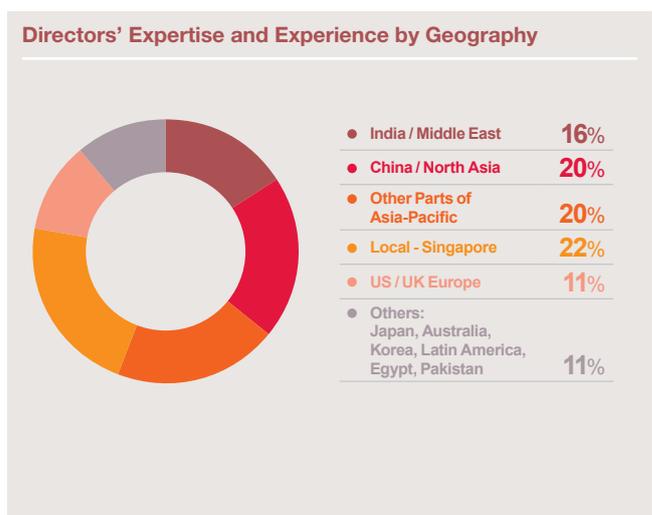
- Role statement for the Chairman and PCEO
- Board Code of Conduct
- Standard operating procedures for release of SGX announcements
- Policy on Directors' disclosure of interest and conflicts of interest

**BOARD COMPOSITION**

We have eleven Directors on our Board, ten of whom (including the Chairman) are independent non-executive Directors (“IDs”). The PCEO is the only non-independent Director.

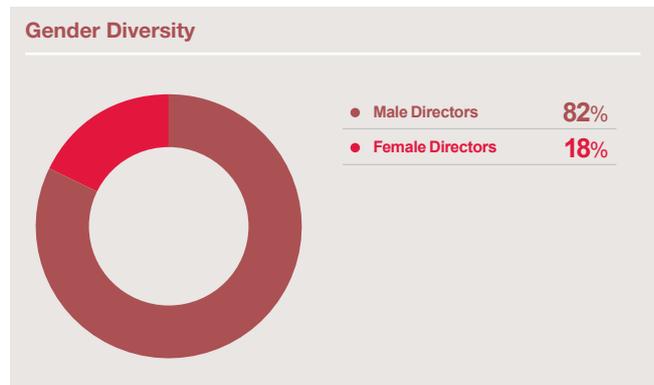
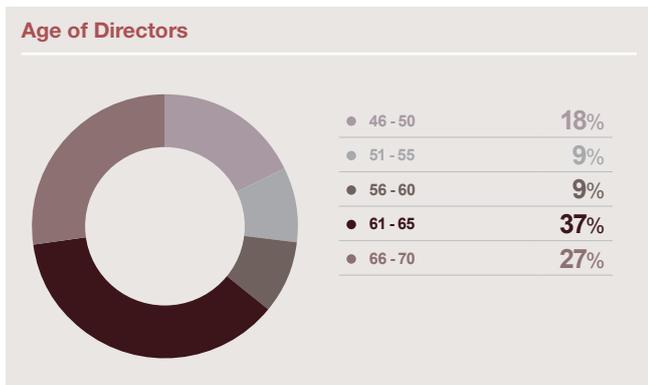
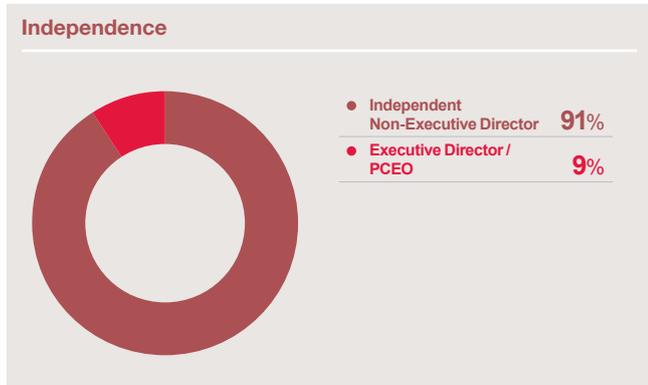
Under the Code, independent Directors should make up at least one-third of the Board. We are not required to have at least half of our Board to be made up of independent Directors, nor to have a lead independent director, because our Chairman, who is independent, and our PCEO are not the same person and are not immediate family members, and our Chairman is not part of the Management team. The proportion of IDs on our Board nevertheless exceeds the recommendations in the Code.

Our Directors are business leaders and professionals with financial, banking, sales and marketing, consumer business, human resource, operational, IT/technology, legal, mergers and acquisitions, compliance and accounting backgrounds. They also have extensive experience in jurisdictions outside Singapore. We believe that the size and composition of the Board are currently appropriate given the size and geographic spread of our operations.



# Corporate Governance Report

There is a process of refreshing the Board progressively over time which enables the Board to draw upon the experience of longer-serving Directors while at the same time tapping into the new external perspectives and insights which more recent appointees can bring. None of our Directors have served for more than six years.



## BOARD DIVERSITY

We are committed to building an open, inclusive and collaborative culture and recognise the benefits of having a Board with diverse backgrounds and experience. We have adopted a Board Diversity Policy which focuses on the importance of an appropriate balance of skills, experience, gender, industry and geographic knowledge and professional qualifications in building an effective Board with the ability to guide and support us in achieving our strategic objectives and for sustainable growth and development. Such diversity will allow the Board to better identify potential risks, raise challenging questions, and contribute to problem-solving.

Under our Board Diversity Policy, the Nominating Committee will, in reviewing the Board’s composition, rotation and retirement of Directors and succession planning, consider aspects such as professional qualifications, industry and geographic knowledge, skills, length of service and the needs of the Company. In particular, we consider gender to be an important aspect of diversity and strive to ensure that there is adequate female representation on the Board. All Board appointments will be based on merit of candidates, and will be considered against objective criteria and having due regard for the benefits of diversity on the Board, our needs and our core values.

The current make-up of our Board reflects our commitment to diversity in gender, nationality, ethnicity, skills and knowledge.

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## **ROLE OF THE CHAIRMAN AND THE PCEO**

The roles of our Chairman (Ms Euleen Goh) and PCEO (Mr Alex Hungate) are clearly separated to ensure appropriate checks and balances, increased accountability and greater capacity of the Board for independent decision-making. The Chairman and the PCEO have a relationship of trust, and collaborate with each other on the development and communication of strategies and performance monitoring. The Chairman and the PCEO are not related to each other.

The responsibilities of the Chairman and the PCEO are clearly established and documented in writing in formal Role Statements, which have been adopted by the Board. The Chairman provides support and advice to the PCEO while at the same time respecting executive responsibility. The PCEO seeks support and advice from the Chairman while at the same time respecting the independence of the Chairman.

The Chairman heads the Board and acts independently of Management. Her primary role is to provide leadership to the Board and its committees and to monitor the translation of the Board's decisions into executive action. In particular, the Chairman is responsible for the following:

### **Leadership, Strategy and Culture**

- leading the Board and upholding the highest standards of integrity and probity;
- ensuring that the Board plays a full and constructive part in the development and determination of our strategy, overall objectives and sustenance and growth of our business;
- enhancing our standing with the outside world;
- ensuring an appropriate balance between the interests of our shareholders and other stakeholders such as employees, regulators and customers; and
- promoting high standards of corporate governance.

### **Board Matters**

- ensuring that the Board is properly organised, functions effectively and meets its obligations and responsibilities, including ensuring the Directors receive accurate, timely and clear information;
- setting the agenda for Board meetings;
- ensuring effective liaison and communication and encouraging constructive relations within the Board and between Board and Management;
- ensuring that the Directors have enough time and information to engage Management and to discuss various matters, and to facilitate the effective contribution of all the Directors;
- ensuring the responsibilities of the Board are well understood by both the Board and Management and the boundaries between the Board and Management are clearly understood and respected;
- ensuring that new Directors participate in a tailored orientation programme and that Directors are able to continually update their skills and knowledge; and
- ensuring that the performance of the Board and each Director is evaluated at least once a year.

### **Relationship with Shareholders, Regulators and Key Customers**

- ensuring effective communication with shareholders;
- representing the Board at official functions and meetings with shareholders;
- ensuring that the view of shareholders are communicated to the Board; and
- promoting our interests when engaging with the regulators and key customers.

The PCEO, assisted by the Executive Vice Presidents (“**EVPs**”) and senior management, makes strategic proposals to the Board and after robust and constructive Board discussions, executes the agreed strategy, manages and develops the Group's businesses and implements the Board's decisions.

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# Corporate Governance Report

## BOARD MEETINGS AND ACTIVITIES

The Board has adopted a set of guidelines on matters that require its approval, which include all matters of strategic importance, corporate governance practices, legal and regulatory compliance, risk management, maintenance of performance standards, corporate strategy, approval of business plans, approval of manpower establishment, operating and capital expenditure budgets, and approval and monitoring of major investments and strategic commitments. The Board has also implemented a written Financial and Operating Approval Authority Matrix setting out the approving authority for purchases, disposals, selection of vendors, write-offs, etc., based on established financial thresholds.

The Board meets regularly and, to facilitate meaningful participation, our Board and Board committee meetings are planned and scheduled one year in advance. In addition, *ad hoc* Board meetings are convened if and when there are pressing matters requiring the Board's deliberation and decision in between the scheduled meetings. Board approvals for more routine matters may sometimes be obtained by the circulation of written resolutions, outside of Board meetings.

### Board Meetings

- The agenda for Board meetings is decided by the Chairman in consultation the PCEO, and is planned to allow for sufficient time to address all items.
- Matters requiring decision and approval and matters which are for the Board's information is clearly set out in the detailed agenda.
- As part of good corporate governance, key matters requiring Board approval are largely reserved for resolution at Board meetings rather than by circulation to facilitate discussion amongst Board members and Management.
- As far as possible, all relevant information, papers and materials are made available to the Directors at least a week prior to the meeting; this would enable any Director who is unable to attend a meeting to provide input and raise queries on the agenda items.
- Board papers are detailed and give the background, explanatory information, justification, risks and mitigation measures for each agenda item and mandate sought by Management, including, where applicable, relevant budgets, business plans, forecasts and projections.
- Directors can ask for additional information as needed to make informed decisions.
- All materials for Board and Board committee meetings are uploaded onto a secure online portal which can be readily accessed on tablet devices provided to Directors.
- A separate resource folder in the online portal contains all operating policies of the Group and Board Committee Terms of Reference for the Directors' reference.
- The Chairman encourages openness and debate at Board meetings and Directors participate actively in Board discussions and share their insights on issues and matters tabled.
- In the event of conflicts of interest, Directors disclose their interests and abstain from such discussions or decisions.
- The Company Secretary attends all Board meetings and minutes the proceedings.
- The General Counsel, the Chief Financial Officer ("CFO") and EVPs are usually invited and are present at meetings of the Board and the Board Executive Committee.
- The Board and Board committees may invite any other member of the Management team to be present at their meetings.
- External professionals may also be invited to present updates on corporate governance, legal and/or accounting matters, listing rules and other relevant topics.
- If a Director is unable to attend a meeting in person, he can participate by telephone or video conference as this is permitted under the SATS' Constitution.
- Minutes of meetings are prepared and circulated to the Directors, as far as practicable, within one week of the relevant meeting, and are archived in a separate folder in the secure online portal for easy access by the Directors.

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### Strategy and Other Meetings

- Since 2003, the Board has conducted annual Board Strategy meetings in order to have more focused discussions on key strategic issues.
- Board members lend their experience and expertise by being part of and contributing to strategy discussions which may be country or business specific outside of formal Board and Board committee meetings.
- Board members also meet regularly with and without the presence of Management and review and monitor the performance of Management in meeting the goals and objectives set for them.
- Where appropriate, Board members are included in strategy discussions ahead of the Board Strategy Meeting to help formulate the strategies that will be presented at the meeting.
- Board members also participate with Management in ongoing discussions on specific geographical or business topics where they as individuals have particular expertise.

### Access to Information

- Board members receive information papers on material matters and issues being dealt with by Management, monthly financial reports covering operating statistics, Group operating expenses, geographical and industry performance, performance of each business segment, associate and joint-venture and an update on the Balance Sheet. The Board also receives quarterly reports on the financial performance of the Group, strategy implementation updates, key operational matters, market updates, human resource developments, business development activities and updates on potential investment opportunities.
- In addition, Board committee members receive minutes and reports from Management relating to their specific areas of oversight, which may contain more detailed and specific information.
- Queries by individual Directors on circulated papers are directed to Management who will respond accordingly and where relevant, Directors' queries and Management's responses are circulated to all Board members for their information.

### Access to Management and Company Secretary

- The Board has separate and independent access to the PCEO, EVPs, CFO, General Counsel and Company Secretary and other key Management, as well as to the internal and external auditors.
- The Board also has separate and independent access to the Company Secretary, who supervises, monitors and advises on all governance matters, and on compliance with the Constitution, applicable laws and regulations, the Code, and the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"). The Company Secretary communicates with relevant regulatory authorities and shareholders, facilitates communication between the Board, its committee and Management, and helps with orientation and the professional development of the Directors. The appointment and removal of the Company Secretary are subject to the approval of the Board.
- There is also a Board-endorsed procedure for Directors, either individually or collectively, in furtherance of their duties, to take independent professional advice, if necessary, at SATS' expense.

### Non-Executive Directors

- We have put in place processes to ensure that our non-executive Directors are well supported by accurate, complete and timely information, unrestricted access to Management, and have sufficient time and resources to discharge their oversight function effectively, and to constructively challenge Management and help develop proposals on strategy.
- To facilitate open discussion and review of the performance and effectiveness of Management, our non-executive Directors meet up about four times a year for informal discussions prior to the scheduled Board meetings, and from time to time where required, without Management being present.

# Corporate Governance Report

## Non-Executive Directors' Remuneration

Every Director receives a basic fee. In addition, he receives a Chairman's fee if he is the Chairman of the Board, as well as the relevant Board Committee fee (depending on whether he served in the capacity as the Chairman or as a member of the relevant Board Committee) for each position he held on a Board Committee, during FY2016-17. Non-executive Directors, who ceased to be a director during any part of the financial year, are paid pro-rated fees for the term of their office. Each Director also receives an attendance fee for each Board meeting and Board Committee meeting attended by him during the financial year. The attendance fees for Board and Board Committee meetings vary according to whether the meeting is held in the state/country in which the Director is ordinarily resident and whether the Director is attending in person or via teleconference/video conference.

Whilst the Remuneration and Human Resource Committee is mindful that non-executive Directors should not be over-compensated, it is of the view that competitive and equitable remuneration will attract, motivate and retain Directors with the necessary experience and capabilities and desired attributes who can contribute to the Company's future development and growth.

The Board believes that the existing fee structure is appropriate for the requirements of the Company, taking into account factors such as effort and time spent and responsibilities of the Directors.

The proposed scale of Directors' fees for the financial year ending 31 March 2018 ("FY2017-18") remains unchanged from that of FY2016-17, and is set out below:

Types of Appointment	Scale of Director's fees (FY2017-18)
<b>Board of Directors</b>	<b>S\$</b>
Basic fee	45,000
Board Chairman's fee	40,000
Board Deputy Chairman's fee	30,000
<b>Audit Committee</b>	
Committee Chairman's fee	30,000
Member's fee	20,000
<b>Board Executive Committee</b>	
Committee Chairman's fee	30,000
Member's fee	10,000
<b>Other Board Committees</b>	
Committee Chairman's fee	20,000
Member's fee	10,000
<b>Board Meeting Attendance Fee</b>	
Attendance via teleconference/videoconference	1,000
Attendance in person in home city (up to 4 hours for travel within home city)	2,500
Attendance in person outside home city	5,000
<b>Board Committee Meeting Attendance Fee</b>	
Attendance via teleconference/videoconference	500
Attendance in person in home city (up to 4 hours for travel within home city)	1,200
Attendance in person outside home city	2,500

The aggregate amount of Directors' fees paid to the non-executive Directors for FY2016-17 was S\$867,328.65 (breakdown given on page 45). The non-executive Directors did not receive any salary, performance-related income/bonuses, stock options, share-based awards or other long term incentives for FY2016-17.

At the 44<sup>th</sup> Annual General Meeting (“AGM”) of the Company, approval of the shareholders will be sought for Directors’ fees of up to S\$1,300,000 for FY2017-18. There will be no change in the fees for the current FY2017-18, with the scale of fees payable to the non-executive Directors held flat since 2010. If approved, the proposed fees for FY2017-18 will facilitate the payment of Directors’ fees during the financial year in which such fees are incurred. The additional fees sought are to provide for the appointment of additional Directors, additions to the existing composition of the Board Committees, formation of additional Board Committees and/or fees for appointment to the Board of SATS group of companies, if so required. To facilitate timely payment of Directors’ fees, the fees will be paid in arrears on a half-yearly basis in the course of the financial year once the fees have been approved at the 44<sup>th</sup> AGM.

The Directors Remuneration paid for FY2016-17, details of the Directors date of appointment to the Board, last re-appointment/re-election as Directors, the Directors’ membership in Board Committees and the Directors’ attendance at Board and Board Committee meetings and AGM is set out below:

Name of Directors	Date of first appointment to the Board	Date of last re-appointment to the Board	Board Meeting (including BSM*)	Board Committee Meetings					AGM 2016	Total Directors’ Remuneration for FY2016-17 (SGD)	
				Attendance (1 April 2016 to 31 March 2017)							
				BOD <sup>(1)</sup>	NC <sup>(2)</sup>	EXCO <sup>(3)</sup>	AC <sup>(4)</sup>	BRSC <sup>(5)</sup>			RHRC <sup>(6)</sup>
				No. of meetings held (1 April 2016 to 31 March 2017)							
			6	3	4	4	4	2			
<b>a. Executive Director</b>											
Mr Alex Hungate	27 Jul 2011	19 Jul 2016	6	–	4	–	2/2 <sup>(a)</sup>	–	1	No Fee**	
<b>b. Non-Executive and Independent Directors</b>											
Ms Euleen Goh	1 Aug 2013 (Director)  19 Jul 2016 (Chairman)	21 Jul 2015	6	3	4	2/2 <sup>(b)</sup>	–	1/1 <sup>(b)</sup>	1	\$158,301.00	
Mr Achal Agarwal	1 Sept 2016	N.A.	3/3	–	–	2/2 <sup>(c)</sup>	–	–	N.A.	\$47,729.00	
Mr Thierry Breton	1 Oct 2015	19 Jul 2016	2	–	–	–	–	–	0	\$51,000.00	
Mr Chia Kim Huat	15 Mar 2017	N.A.	1/1	–	–	–	–	–	N.A.	\$4,601.65	
Mr Koh Poh Tiong	1 Nov 2011	19 Jul 2016	5	2/2 <sup>(d)</sup>	3/3 <sup>(d)</sup>	2/2 <sup>(d)</sup>	–	2/2 <sup>(d)</sup>	1	\$106,771.00	
Mr Michael Kok	6 Mar 2015	21 Jul 2015	6	–	4	–	3/3 <sup>(e)</sup>	1/1 <sup>(e)</sup>	1	\$104,415.00***	
Ms Jessica Tan	17 Apr 2017	N.A.	N.A.	–	–	–	–	–	N.A.	No Fee****	
Mr Tan Soo Nan	25 Apr 2016	19 Jul 2016	6	2/2 <sup>(f)</sup>	–	2/2 <sup>(f)</sup>	2/2 <sup>(f)</sup>	–	1	\$97,025.00	
Mr Yap Chee Meng	1 Oct 2013	23 Jul 2014	6	–	–	4	4	–	1	\$112,102.00	
Mr Yap Kim Wah	20 Jul 2016	N.A.	5/5	–	–	2/2 <sup>(g)</sup>	2/2 <sup>(g)</sup>	–	N.A.	\$68,736.00	
<b>c. Non-Executive and Independent Directors who retired/stepped down on 19 Jul 2016</b>											
Mr Edmund Cheng	22 May 2003 (Chairman and Director)	21 Jul 2015	1/1	1/1 <sup>(h)</sup>	1/1 <sup>(h)</sup>	–	–	1/1 <sup>(h)</sup>	1	53,564.00*****	
Mr David Baffsky	15 May 2008	21 Jul 2015	1/1	1/1 <sup>(i)</sup>	–	–	–	1/1 <sup>(i)</sup>	1	\$30,542.00	
Mr Nihal Kaviratne	30 Jul 2010	21 Jul 2015	1/1	–	–	1/2 <sup>(i)</sup>	1/1 <sup>(i)</sup>	–	1	\$32,542.00	

# Corporate Governance Report

## Notes:

- (1) Board of Directors (“**BOD**”) meetings included a 2 day Board Strategy Meeting held from 24 to 26 Aug 2016 in Kuala Lumpur
  - (2) Nominating Committee (“**NC**”)
  - (3) Board Executive Committee (“**EXCO**”)
  - (4) Audit Committee (“**AC**”)
  - (5) Board Risk and Safety Committee (“**BRSC**”)
  - (6) Remuneration and Human Resource Committee (“**RHRC**”)
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- (a) Mr Alex Hungate stepped down as a member of the BRSC with effect from 1 September 2016. He attended 2 out of 2 BRSC meetings held during his term as a member of the BRSC in FY2016-17.
  - (b) Ms Euleen Goh was appointed as Chairman of the RHRC and stepped down as a member of the AC with effect from 1 September 2016. She attended 1 out of 1 RHRC meeting and 2 out of 2 AC meetings held during her term as a member of the RHRC and AC respectively in FY2016-17.
  - (c) Mr Achal Agarwal was appointed as a member of the AC with effect from 1 September 2016. He attended 2 out of 2 AC meetings held during his term as a member of the AC in FY2016-17.
  - (d) Mr Koh Poh Tiong was appointed as Chairman of the NC on 20 July 2016. He attended 2 out of 2 NC meetings held during his term as Chairman of the NC in FY2016-17. Mr Koh was also appointed as a member of the EXCO and stepped down as a member of the AC with effect from 1 September 2016. He attended 2 out of 2 AC meetings and 3 out of 3 EXCO meetings held during his term as a member of the AC and EXCO respectively in FY2016-17.
  - (e) Mr Michael Kok was appointed as a member of the BRSC and RHRC with effect from 20 July 2016 and 1 September 2016, respectively. He attended 3 out of 3 BRSC meetings and 1 out of 1 RHRC meeting held during his term as a member of the BRSC and RHRC respectively in FY2016-17.
  - (f) Mr Tan Soo Nan was appointed as a member of the NC with effect from 20 July 2016, and as a member of the AC and as Chairman of the BRSC with effect from 1 September 2016. He attended 2 out of 2 NC meetings, 2 out of 2 AC meetings and 2 out of 2 BRSC meetings held during his term as a member of the NC and AC and as Chairman of the BRSC respectively in FY2016-17.
  - (g) Mr Yap Kim Wah was appointed as a member of the AC and BRSC with effect from 1 September 2016. He attended 2 out of 2 AC meetings and 2 out of 2 BRSC meetings held during his term as a member of the AC and BRSC respectively in FY2016-17.
  - (h) Mr Edmund Cheng stepped down as Chairman of the BOD and relinquished all Board Committee appointments on 19 July 2016. He attended 1 out of 1 Board meeting, 1 out of 1 EXCO meeting, 1 out of 1 NC meeting and 1 out of 1 RHRC meeting held during his term as Chairman of the BOD, EXCO and RHRC, and as a member of the NC respectively in FY2016-17.
  - (i) Mr David Baffsky retired from the BOD and stepped down as Chairman of the NC and as a member of the RHRC on 19 July 2016. He attended 1 out of 1 NC meeting and 1 out of 1 RHRC meeting held during his term as Chairman of the NC and as a member of the RHRC respectively in FY2016-17.
  - (j) Mr Nihal Kaviratne retired from the BOD and relinquished all Board Committee appointments on 19 July 2016. He attended 1 out of 2 AC meetings and 1 out of 1 BRSC meeting held during his term as a member of the AC and BRSC respectively in FY2016-17.
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- \* Board Strategy Meeting
- \*\* No Directors’ fees were paid to the PCEO, Mr Alex Hungate.
- \*\*\* Mr Michael Kok was appointed as Chairman of SATS Food Services Pte. Ltd.’s (“**SFS**”) joint venture subsidiary, SATS Yihai Kerry Kunshan Food Co., Ltd. on 14 September 2016. He was paid retainer fee and meeting attendance fee of S\$9,500 by SFS.
- \*\*\*\* Ms Jessica Tan was appointed on 17 April 2017 and as such no Directors’ fees were paid to her for FY2016-17.
- \*\*\*\*\* Mr Edmund Cheng was, as Chairman of TFK Corporation, a subsidiary of the Company, paid retainer and attendance fees of S\$3,883 by TFK for the period from 1 April 2016 to 19 July 2016.

## BOARD COMMITTEES

The Board is supported in its functions by, and has delegated authority to, the following Board committees which have been established to assist in the discharge of the Board’s oversight function, based on written and clearly defined terms of reference:

- Board Executive Committee
- Audit Committee
- Nominating Committee
- Remuneration and Human Resource Committee
- Board Risk and Safety Committee

The composition of our Board committees is as follows:

Board Committee	Composition	Members
Board Executive Committee	<ul style="list-style-type: none"> <li>• Four members</li> <li>• Three out of four (including Chairman) are IDs</li> </ul>	<ul style="list-style-type: none"> <li>• Ms Euleen Goh (Chairman)</li> <li>• Mr Alex Hungate</li> <li>• Mr Koh Poh Tiong</li> <li>• Mr Michael Kok</li> </ul>
Audit Committee	<ul style="list-style-type: none"> <li>• Four members</li> <li>• All IDs</li> </ul>	<ul style="list-style-type: none"> <li>• Mr Yap Chee Meng (Chairman)</li> <li>• Mr Achal Agarwal</li> <li>• Mr Tan Soo Nan</li> <li>• Mr Yap Kim Wah</li> </ul>
Nominating Committee	<ul style="list-style-type: none"> <li>• Three members</li> <li>• All IDs</li> </ul>	<ul style="list-style-type: none"> <li>• Mr Koh Poh Tiong (Chairman)</li> <li>• Ms Euleen Goh</li> <li>• Mr Tan Soo Nan</li> </ul>
Remuneration and Human Resource Committee	<ul style="list-style-type: none"> <li>• Three members</li> <li>• All IDs</li> </ul>	<ul style="list-style-type: none"> <li>• Ms Euleen Goh (Chairman)</li> <li>• Mr Koh Poh Tiong</li> <li>• Mr Michael Kok</li> </ul>
Board Risk and Safety Committee	<ul style="list-style-type: none"> <li>• Four members</li> <li>• All IDs</li> </ul>	<ul style="list-style-type: none"> <li>• Mr Tan Soo Nan (Chairman)</li> <li>• Mr Michael Kok</li> <li>• Mr Yap Chee Meng</li> <li>• Mr Yap Kim Wah</li> </ul>

### BOARD EXECUTIVE COMMITTEE (“EXCO”)

The EXCO is chaired by Ms Euleen Goh and its members are Mr Alex Hungate, Mr Koh Poh Tiong and Mr Michael Kok.

#### Key Responsibilities of the EXCO

- Guide Management on business, strategic and operational issues;
- Review and monitor key strategic and legal risks, financial policy and risk appetite limits;
- Undertake initial review of the three to five year forecast/business plans and annual capital and operating expenditure budgets for the Group;
- Grant initial or final approval (depending on the value) of transactions relating to the acquisition or disposal of businesses, assets or undertakings, joint ventures, mergers, amalgamations or similar corporate transactions;
- Establish bank accounts;
- Grant powers of attorney;
- Affix common seal; and
- Nominate Board members to SATS’ subsidiaries and associated companies.

#### EXCO Meetings

The EXCO is required under its terms of reference to meet at least once in each financial year. The EXCO met four times in FY2016-17. Regular reports are presented at each meeting of the EXCO and matters such as the financial performance of the Group, status of strategy implementation, post investment reviews of significant investments and potential investments are discussed prior to seeking the relevant Board approvals and guidance. The General Counsel, the CFO and the EVPs are usually invited and are present at the meetings of the EXCO. A summary of the minutes of the meetings of the EXCO is forwarded to all Directors for their information. All circular resolutions of the EXCO are brought to the Board for notation at each quarterly Board meeting.

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# Corporate Governance Report

## AUDIT COMMITTEE (“AC”)

The AC is chaired by Mr Yap Chee Meng, and its members are Mr Achal Agarwal, Mr Tan Soo Nan and Mr Yap Kim Wah. All of the AC members (including the AC Chairman) are independent.

At least two members of the AC, (including the AC Chairman), namely Mr Yap Chee Meng and Mr Tan Soon Nan, have recent and relevant accounting or related financial management expertise or experience.

Mr Yap Chee Meng, the AC Chairman has extensive and practical accounting and financial management expertise and experience and is well qualified to chair the AC. He was a senior partner of KPMG Singapore, the Chief Operating Officer of KPMG International for the Asia Pacific Region and a member of its Global Executive Team in the period between 1 October 2010 to 30 September 2013. He is a Fellow of the Institute of Singapore Chartered Accountants and the Institute of Chartered Accountants in England and Wales. Mr Yap was appointed as a member of the AC on 1 May 2015, and as Chairman of the AC on 1 September 2016.

Mr Tan Soo Nan has relevant financial management expertise and experience to discharge his responsibilities as an AC member. He is currently an executive and non-independent director of Raffles Medical Group Ltd and Raffles Health Insurance Pte. Ltd. He is an Associate of the IFS School of Finance and holds a Bachelor of Business Administration degree from the University of Singapore. He has more than 40 years of experience in various sectors including banking, finance and investments.

None of the AC members were previous partners or directors of SATS' existing external audit firm within the previous 12 months prior to their appointment to the AC, and none of the AC members have any financial interest in SATS' existing external audit firm.

The AC members collectively have extensive experience in finance, accounting, strategy and analytics, in the airline industry, in consumer marketing, and in banking, finance and investments. The Board is of the view that the members of the AC have the necessary and appropriate expertise to effectively discharge their duties as members of the AC.

### Key Responsibilities of the AC

The AC's primary role is to assist the Board to ensure the integrity of financial reporting and sound internal control systems. It has explicit authority to investigate any matter within its terms of reference, full access to and co-operation of Management, and full discretion to invite any Director or executive officer to attend its meetings. It also has reasonable resources to discharge its functions. SATS' internal audit team, and the external auditors, report their findings and recommendations to the AC independently. The external auditors also update and keep the AC informed about relevant changes to accounting standards and issues which have a material impact on financial statements.

Its key responsibilities include the review of:

#### Financial Reporting

- quarterly and annual financial statements and financial results announcements; and
- revisions/additions/updates to the accounting policies for write-offs, capital expenditure, disposal of assets and investments, and other financial policies.

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### **Internal Controls**

- compliance and information technology (financial reporting) risks;
- the adequacy and effectiveness of the internal controls at least annually, with Management and the internal and/or external auditors, and report annually to the Board, on the adequacy and effectiveness of the internal controls, including financial, operational, accounting, compliance and information technology controls;
- the Board's Risk Management and Internal Controls Statement in conjunction with the Board Risk and Safety Committee;
- the policy and arrangements by which our employees and any other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- any suspected fraud or irregularity or suspected infringement of any Singapore law, rule or regulation of which the AC is aware, which has or is likely to have a material impact on our operating results or financial position, and the findings of any internal investigations and Management's response thereto.

### **External Audit**

- the external audit plan, the external auditors' management letter, the scope and results of the external audit, and Management's response;
- the assistance given by the executive officers of the Group and the Company Secretary to the external auditors;
- the independence and objectivity of the external auditors; and
- the appointment, re-appointment or removal of the external auditors, the audit fee, and making recommendation to the Board on the proposal to shareholders for the selection of external auditors.

### **Internal Audit**

- the adequacy of resources for the internal audit function, ensuring the appropriate standing of the internal audit function within SATS and its primary line of reporting to the Chairman of the AC (with secondary administrative reporting to the PCEO);
- the adequacy and effectiveness of the internal audit function, scope of internal audit work, audit programme and the internal audit charter;
- the hiring, removal, evaluation and compensation of the Head of Internal Audit; and
- major findings on internal audit during the year and Management's responses thereto, difficulties encountered during the course of the audit, significant changes to the audit programme and compliance with relevant professional internal audit standards.

### **Interested Party Transactions**

- interested person transactions as required under the Listing Manual of the SGX-ST and our mandate for interested person transactions.

The AC is also tasked to perform all other functions and responsibilities of an audit committee that may be imposed by the Companies Act, the Listing Manual of the SGX-ST, the Code and other relevant laws and regulations.

During the year, the AC reviewed the Group's financial statements before the announcement of the quarterly and full-year results. In the process, it reviewed the key areas of management judgment, critical accounting policies, and any significant changes that would have a material impact on the financial statements.

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# Corporate Governance Report

The Key Audit Matters are set out below:

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<b>Key Audit Matters (KAM)</b>	<b>AC commentary on the KAMs, how the matters were reviewed and what decisions were taken</b>
Impairment of goodwill	<p>The AC reviewed the outcomes of the goodwill impairment process and discussed the details of the review with Management, focusing on the key assumptions applied in the determination of the value-in-use of the cash generating units (CGUs).</p> <p>The AC considered the findings of the external auditors, including their assessment of the suitability of valuation methodologies and the underlying key assumptions applied in the determination of the value-in-use of the CGUs.</p> <p>The AC was satisfied with the impairment review process, the approach and methodology used and the assessment that no impairment of goodwill was required at this time.</p>
Impairment of associates and joint ventures	<p>The AC considered Management's approach and methodology applied to the impairment of associates and joint ventures, focusing on those with indicators of impairment and the key assumptions used in the determination of their value-in-use, including the macroeconomic outlook and other key drivers of cash flow projections. The AC was periodically briefed on the developments in the key associates and joint ventures.</p> <p>The AC received detailed reporting from the external auditors on their assessment of the value-in-use of the associates and joint ventures with indicators of impairment.</p> <p>The AC was satisfied with the impairment review process, the approach and methodology used, and the assessment that no impairment of associates and joint ventures was required at this time.</p>
Accounting for business combinations	<p>The AC reviewed Management's processes for the review and determination of the accounting for its business combinations, including the treatment of contingent consideration and goodwill where significant estimates and judgments were involved. The AC was regularly briefed on Management's plans for its investments and divestments.</p> <p>The AC considered the findings of the external auditors in relation to the accounting for business combinations.</p> <p>The AC was satisfied with the accounting and disclosures in the financial statements for the Group's investments and divestments.</p>

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## AC Meetings

The AC is required under its terms of reference to meet at least four times a year. The AC met 4 times in FY2016-17, and once without the presence of Management.

The AC meets with the external auditors and with the internal auditors, in each case without the presence of Management, at least annually.

### Review of Independence and Objectivity of External Auditors

The AC reviews the independence and objectivity of the external auditors annually. It has also reviewed the nature and volume of non-audit services provided by the external auditors, KPMG<sup>1</sup>, to the Group during FY2016-17, and the fees, expenses and emoluments paid or made to them, and is satisfied that they have no significant impact on the independence and objectivity of the external auditors. The total fees payable to KPMG<sup>1</sup> for FY2016-17, and the breakdown of fees for audit and non-audit services, are as follows:

Fees for FY2016-17	S\$(m)
For audit services	0.7
For non-audit services	0.1
Total	0.8

At the recommendation of the AC and as approved by the Board, the re-appointment of KPMG LLP as the external auditors is subject to shareholders' approval at the 2017 AGM.

### The Company has complied with Rule 712 and Rule 715 of the Listing Manual of the SGX-ST in relation to its auditing firms.

#### Accountability

Shareholders are presented with the quarterly and full-year financial results respectively within 45 days of the end of the quarter and 60 days of the end of the financial year. Through the release of its financial results, the Board aims to present the Shareholders with a balanced and understandable assessment of SATS' performance, position and prospects. The Company has in place a process to support Management's representations to the Board on the integrity of the Group's financial statements and internal control systems in relation to the requirement under the Listing Manual of the SGX-ST for the Board to issue a negative assurance statement that accompanies the Company's announcement of its quarterly and full-year financial statements.

Monthly management accounts of the Group (covering, inter alia, consolidated unaudited profit and loss accounts, consolidated balance sheet and explanatory notes explaining any variance) are circulated to the Board for their information.

#### Independent Internal Audit Function

The Group's Internal Audit Department ("IAD") objectives, scope of authority and responsibilities are defined in the Group's Internal Audit Charter, which is approved by the AC. IAD is independent of the activities it audits, and does not undertake any operational responsibility or authority over any of the activities within its audit scope.

IAD serves to provide the AC with reasonable assurance that the Group maintains adequate and effective internal controls, through assessing the design and operating effectiveness of key internal controls and procedures that govern key business processes and risks identified in the overall risk framework of the Group.

IAD adopts a risk-based approach in formulating the annual internal audit plan that aligns its activities to the key risk areas across the Group. The annual internal audit plan is developed based on a documented risk and control assessment framework, which considers inherent risk and control effectiveness of each auditable entity or process in the Group, and includes consideration of inputs and expectations from Management and the Board. Audit projects are planned based on the results of the assessment, with priority given to auditing higher risk areas. The annual internal audit plan is reviewed and approved by the AC. The AC conducts an annual review of the adequacy and effectiveness of the internal audit function and that IAD has appropriate standing within the Group to perform its function effectively.

<sup>1</sup> KPMG refers to KPMG LLP and other KPMG member firms.

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## Corporate Governance Report

Audit reports containing identified issues and corrective action plans are reported to the AC and senior management. Progress of the corrective action plans is monitored and past due action plans are included in regular reports to senior management and the AC. IAD works closely with the external auditor to coordinate audit efforts and updates the external auditors of all relevant audit matters.

IAD is headed by Vice President, Internal Audit, and staffed by suitably qualified executives. Internal auditors report to the Head of Internal Audit, who reports functionally to the AC and administratively to the PCEO. In the execution of its audit activities, IAD is authorized to obtain the assistance of specialist or specialised services (such as technology audits) from within or outside the organisation or to outsource audit projects to reputable firms with project-appropriate resources and specialised skills. In situations where the audit work to be carried out by IAD may potentially give rise to conflicts of interest, it will be brought to the attention of the AC. The AC may authorise such audit work to be carried out by an independent third party as it deems appropriate.

Under the Group's Internal Audit Charter, IAD has full access to the AC and unrestricted access to all the Group's documents, records, properties and personnel. Restrictions to these accesses imposed by any employee or Management of the Group, which prevents IAD from performing its duties, will be reported immediately to PCEO or directly to the AC, based on circumstances as determined by the Head of Internal Audit.

IAD is a corporate member of the Singapore chapter of the Institute of Internal Auditors ("IIA"). It is guided by the Standards for the Professional Practice of Internal Auditing set by the IIA. Training and development opportunities are provided for IAD staff to ensure their technical knowledge and skill sets remain current and relevant. Support is also given to IAD staff to achieve and maintain their certification and relevant professional accreditations (eg. Certified Internal Auditor, Certified Fraud Examiner, Certified Information Systems Auditor, Certified Public Accountants, etc.). A structured programme is in place for professional service providers engaged by the Group to regularly share their knowledge and expertise with IAD staff. IAD staff also attend external trainings and seminars conducted by reputable public accounting and auditing firms, and professional associations such as IIA, Association of Certified Fraud Examiners, and Singapore Accountancy Commission.

### Review of Interested Person Transactions

The Group has established policies and procedures for reviewing and approving interested person transactions in accordance with the general mandate from shareholders that such transactions are made on normal commercial terms and will not be prejudicial to the interests of SATS and its minority shareholders.

The Group also complies with the provisions on interested person transactions under the Listing Manual of the SGX-ST.

### NOMINATING COMMITTEE ("NC")

The NC is chaired by Mr Koh Poh Tiong, and its members are Ms Euleen Goh and Mr Tan Soo Nan. All of the NC members (including the NC Chairman) are independent.

### Key Responsibilities of the NC

- implement and monitor the Board Diversity Policy and review and make recommendations to the Board on the diversity of skills, experience, gender, knowledge, size and composition of the Board;
- make recommendations to the Board regarding the process for identification and selection of new Directors, including recommending Directors for appointment to the Board committees;
- make recommendations to the Board on re-nominations and re-appointments of existing Directors;
- review succession planning of Board and Board committee members, including for the Chairman of the Board;
- evaluate the independence of Directors on an annual basis, and as and when circumstances require;
- determine if Directors who hold directorships on other boards are able to and have been adequately carrying out their duties as Directors of SATS;
- develop and carry out the process for assessing the effectiveness of the Board as a whole and the effectiveness of the Board committees, and assessing the contributions made by the Chairman of the Board. The assessment of each individual Director's contribution to the effectiveness of the Board is a joint responsibility of the NC Chairman and the Board Chairman;
- review the training and professional development programmes for the Board; and
- such other authorities and duties as provided in the Code.

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## NC Meetings

The NC met three times in FY2016-17, which met the requirement of at least once a year under its terms of reference. The NC members also met informally on a number of occasions to interview potential candidates to be appointed as Directors on the Board.

## Review of Board Composition and Size

The Board, through the NC, reviews the diversity of skills, experience, gender, knowledge, size and composition of the Board. The NC has developed a set of principles to guide it in carrying out its responsibilities of reviewing and determining an appropriate Board size and composition, and implements and monitors the Board Diversity Policy. The NC reviews the composition of the Board to ensure that the Board comprises Directors who as a group provide core competencies, in areas such as accounting, finance, legal, business, Management (including human capital development and Management) experience, industry knowledge, technology, strategic planning experience, and customer-based experience/knowledge, required for the Board to be effective.

The Board, in concurrence with the NC, is of the view that, taking into account the nature and scope of our operations, the requirements of our businesses and to facilitate effective decision-making, the appropriate size of the Board should range from eight to twelve members, with independent Directors making up at least one-third of the Board. No individual or small groups of individuals dominate the Board's decision-making.

No alternate Directors were appointed during FY2016-17. The Board will generally avoid approving the appointment of alternate Directors, in line with the principle that Directors must be able to commit time to SATS' affairs.

Four non-executive independent Directors, namely, Mr Achal Agarwal, Mr Chia Kim Huat, Ms Jessica Tan and Mr Yap Kim Wah, were appointed during FY2016-17. This was after an extensive search and interviews by the NC.

Mr Agarwal is currently the President of Kimberly-Clark's Asia-Pacific consumer business, and has more than 30 years of experience in managing large, complex and fast-growing organisations in Asia as well as extensive experience in the consumer marketing business segment.

Mr Chia is currently the Executive Committee Partner and Regional Head, Corporate & Transactional Practice of Rajah & Tann Singapore LLP, with extensive experience in capital markets, public and private mergers and acquisitions, cross border joint ventures and private equity investments, both in Singapore and the region.

Ms Tan is currently a Member of Parliament in Singapore for the East Coast GRC, the Chairman for the Public Accounts Committee, the Chairman of the East Coast-Fengshan Town Council and a member of the Social and Family Development and Manpower Government Parliamentary Committee. She has more than 27 years of experience in the IT industry, with strengths in business development, building organisational capacity and capability and leading profitable and sustainable businesses.

Mr Yap is currently the Deputy Chairman and Chief Executive Officer of Hyflux Caprica Pte Ltd, and has more than 35 years of experience in the airline business at senior management level.

The Board believes that their collective wealth of experience and skillsets will enhance and complement the competencies and skills of the Board.

Each Director brings to the Board a myriad of technical, professional, business and geographical experience and competencies to SATS, as can be seen from the chart on "**Directors' Expertise and Experience Matrix**" set out at page 39 above.

## Selection and Appointment of New Directors

The NC regularly reviews the existing attributes and competencies of the Board in order to determine the desired experience or expertise required to strengthen or supplement the Board. A Directors' Experience and Expertise Matrix is prepared, which provides an overview of the Directors' experience and expertise and serves as a guide for the NC when sourcing and identifying suitable candidates for the Board.

The NC is in charge of making recommendations to the Board regarding the identification and selection of new Directors. Taking into consideration the desired qualifications, skill sets, competencies and experience which are required to supplement the Board's existing attributes, if need be, the NC may seek assistance from external search consultants for the selection of

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## Corporate Governance Report

potential candidates. No external search consultant was engaged during FY2016-17. Directors and Management may also put forward names of potential candidates, together with their curriculum vitae, for consideration. The NC, together with the Chairman of the Board, then meet with the short-listed candidates to assess their suitability, before submitting the appropriate recommendations as to the appointment of any candidate to the Board for its approval.

### Review of Directors' Independence

The NC is tasked to determine on an annual basis, and as and when circumstances require, whether or not a Director is independent, having regard to the definition of an "independent Director" and guidance as to the types of relationships which would deem a Director not to be independent, under the Code. The relationships referred to the Code describe relationships between a Director and SATS, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement with a view to the best interests of SATS.

The Directors complete an annual confirmation of independence, whereby they are required to critically assess their independence, which the NC takes into account for the purposes of this review. The Directors are mindful, however, that the relationships identified in the annual confirmation of independence are only indicators of possible situations where independent judgment may be impaired, but are not in themselves conclusive. Independence is often only meaningful in the context of each particular relationship considering the business environment, shareholding, organisational structure and operating constraints.

The NC and the Board have determined that the independent Directors are Ms Euleen Goh, Mr Achal Agarwal, Mr Thierry Breton, Mr Chia Kim Huat, Mr Koh Poh Tiong, Mr Michael Kok, Ms Jessica Tan, Mr Tan Soo Nan, Mr Yap Chee Meng and Mr Yap Kim Wah.

Mr Alex Hungate is the PCEO, and is the only Executive Director on the Board. He is thus a non-independent Director. The nature of our business and operations merit the continuity of an executive Director on the Board to provide independent Directors with the requisite background and knowledge to facilitate their independent judgment and decision-making.

### Review of Directors' Time Commitments

The NC determines annually whether a Director has been adequately carrying out his duties as a Director of SATS, taking into consideration the number of that Director's other listed company board representations and other principal commitments. In respect of FY2016-17, the NC is of the view that the number of each Director's other directorships was in line with our guideline that the maximum number of listed company board representations which any Director may hold should range from five to seven. The NC is of the view that each Director has been able to effectively discharge his duties as a Director of SATS.

The role of the Chairman, in particular, requires significant time commitment. As Chairman, Ms Euleen Goh plays a crucial role as she is required to provide leadership to the Board and to ensure that the Board plays a full and constructive part in the development and determination of the Group's strategies, objectives and growth. Although Ms Goh also currently serves on the boards of 3 other listed companies the NC and the Board (each, without Ms Goh's participation) were of the view that she has managed her other time commitments appropriately and has enough capacity to discharge her obligations as our Chairman.

The meeting attendance records of all Directors, their list of directorships and other principal commitments are fully disclosed in our Annual Report.

### Assessment of Board Performance

The Board, with the assistance of the NC, has implemented a process for assessing the effectiveness of the Board as a whole and its Board committees, and for assessing the contributions by the Chairman of the Board.

The Chairman of the Board meets with the Chairman of the NC to discuss the assessment of each individual Director's contribution to the effectiveness of the Board.

Assessment of Board and Board committees and individual Director's performance is carried out annually. In FY2016-17, Egon Zehnder (an independent consultant with no other connection with SATS or any of the Directors) was engaged to review and revise the existing evaluation questionnaire and conduct interviews with the Directors to obtain open and frank feedback. The revised questionnaire has evaluations on the Board and Board committees, on self/peer performance, and on self-assessment

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on independence. Issues such as Board composition, Board independence, Board dynamics and culture, Board processes, information management, investor relations and corporate social responsibility, oversight on strategy and performance, effectiveness of Board Committees, PCEO performance and succession planning, Directors' development and management and risk management are covered. For the self/peer evaluation, the factors considered include preparedness and quality of contributions at meetings, and depth of knowledge of the Director in his area of expertise.

Egon Zehnder engaged each Director for a one-hour discussion. The results from the questionnaire and the feedback obtained from the Directors were collated by Egon Zehnder and shared with the Board Chairman and the NC Chairman, and subsequently with the entire Board. Egon Zehnder reported that the following aspects of the Board stood out:

- The dedication and thoroughness of the Chairman;
- The independence, engagement and commitment of all the Directors;
- All Directors have relevant experience and insights to make valuable contribution to the business;
- Openness and transparency among Directors: willingness to speak their minds;
- The effective balance between support and challenge that the Board offers the Management team;
- Highly constructive and trusted partnership between the Chairman and the PCEO;
- A Management team that is fully transparent with the Board, and actively taps on the experience and network of the Directors, following the lead set by the PCEO;
- Rigour and commitment to strong governance across all aspects of the business; and
- The growth (versus only governance) focus of the Board.

The Board Chairman held discussions with each individual Director on any concerns which the Director might have, provided him or her with feedback on his or her performance, and also sought his or her feedback on the Chairman's performance. A clear action plan was then discussed with the Board and acted upon.

### **Orientation and Training for Directors**

The NC exercises oversight on the orientation, training and professional development of Directors.

We have a formal and structured orientation framework. Newly-appointed Directors undergo a two-day familiarisation exercise whereby they undergo a comprehensive and tailored programme, including visits to major businesses and joint ventures, site visits to the kitchens, apron and cargo terminals, abattoirs, etc., as well as presentations by members of Management, to facilitate the Directors' understanding of the Group's objectives, strategic plans, businesses, operations and processes. Each of the newly-appointed Directors is also sent a formal appointment letter setting out directors' duties and obligations, and requesting the Director to sign the prescribed undertaking to use his best endeavours to comply with the requirements of the SGX-ST Listing Manual. Copies of the minutes of immediate past Board and Board committee meetings are made available on the online portal. They are also provided with other materials relating to the Board and Board committees, including the terms of reference of the various Board committees on which they are appointed as well as relevant guidelines and policies.

The Directors are provided with continuing education particularly on relevant new laws, regulations and changing commercial risks. They are briefed by the Company Secretary in areas such as directors' duties and responsibilities under the Companies Act, Listing Manual of the SGX-ST, Securities and Futures Act, etc. to enable them to carry out their statutory and fiduciary duties as well as to update and refresh them on matters that may affect and/or enhance their performance as Board members.

As part of the Directors' ongoing training, Directors are encouraged to attend training, conferences, courses and seminars conducted by external organisations such as the Singapore Institute of Directors and Temasek Management Services Pte. Ltd. on corporate governance, leadership and industry-related subjects. The registration process is facilitated by SATS and the course fees are borne by SATS.

### **Review of Board Tenure**

The NC reviews the tenure of the non-executive Directors. With effect from FY2010-11, newly appointed non-executive Directors are appointed to serve an initial term of three years and such initial term of office may be renewed for a subsequent term or terms of up to a total of three years, expiring at the AGM closest to the 6th anniversary of their initial appointment. The tenure of each Director would be considered at that juncture, taking into account the recommendations of the NC and subject to the Board's approval. None of our current non-executive Directors has served on our Board for more than six years.

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# Corporate Governance Report

## Rotation and Re-Election of Directors

The NC reviews and recommends to the Board the rotation and re-election of Directors at the AGM.

One-third (or the number nearest one-third rounded upwards to the next whole number) of the Directors are required to retire from office at each AGM. All Directors (including the PCEO) are required to retire from office at least once every three years. Retiring Directors are selected based on those who have been longest in office since their last election, and as between those persons who became or who were re-appointed Directors on the same day, selection is by agreement or by lot. Retiring Directors are eligible for re-election. All new Directors appointed by the Board during the financial year hold office only until the next AGM, but will be eligible for re-appointment at that AGM.

The Directors who are retiring by rotation under Article 90 of the Constitution and standing for re-election at the upcoming 44<sup>th</sup> AGM are Ms Euleen Goh, Mr Yap Chee Meng and Mr Michael Kok. Mr Achal Agarwal, Mr Chia Kim Huat, Ms Jessica Tan and Mr Yap Kim Wah are standing for re-election pursuant to Article 96 of the Constitution. The NC (after having taken into consideration the principles for the determination of the Board size and composition adopted by it and the duration of their appointments to the Board) recommends their retirement and re-appointment as Directors, after assessing their contribution and performance (including attendance, preparedness, participation and candor) as Directors and the Board has endorsed the recommendation.

## REMUNERATION AND HUMAN RESOURCE COMMITTEE (“RHRC”)

The RHRC is chaired by Ms Euleen Goh, and its members are Mr Koh Poh Tiong and Mr Michael Kok. All of the RHRC members (including the RHRC Chairman) are independent Directors.

The RHRC has access to expert advice from external consultants on remuneration. In FY2016-17, the RHRC sought views on market practices and trends from an external consultant, Aon Hewitt. The RHRC undertook a review of the independence and objectivity of the external consultants through discussions with them and was satisfied that the external consultant has no relationships with the Company that would affect their independence and objectivity.

### Key Responsibilities of the RHRC

The RHRC plays an important role in helping to ensure that we are able to attract, recruit, motivate and retain the best talents through competitive remuneration and progressive policies such as pay-for-performance so as to achieve the Group's goals and deliver sustainable shareholder value. Its key responsibilities include:

- reviewing and recommending the remuneration framework of the Company including compensation structure, bonus and employee share plans to the Board for endorsement;
- overseeing the terms of appointment, scope of duties and remuneration of the PCEO, as well as those occupying the position of Relevant Key Management Personnel<sup>1</sup> within the Group to the Board;
- evaluating on an annual basis, the achievement of performance targets for each Relevant Key Management Personnel as agreed at the beginning of the financial year with the Board and/or the PCEO, as the case may be;
- reviewing and approving compensation payable to the PCEO and the Relevant Key Management Personnel in the event of early termination of their contracts of services, if such payment is considered appropriate in the circumstances by the RHRC;
- advising on the organisation structure to drive the Company's strategic growth;
- reviewing succession planning for Relevant Key Management Personnel and other selected key positions, with the PCEO, taking into account current needs and future strategic capabilities;
- reviewing talent development framework and processes to build deep bench strength and a strong talent pipeline; and
- carrying out such other authorities and duties as provided in the Code.

The RHRC's recommendations regarding remuneration of the PCEO, Relevant Key Management Personnel and Directors have been submitted to and endorsed by the Board.

### RHRC Meetings

The RHRC is required by its terms of reference to meet at least twice each financial year, with additional meetings to be convened as and when required. The RHRC convened 2 meetings in FY2016-17.

<sup>1</sup> Relevant Key Management Personnel are employees holding the rank of Executive Vice President and above

## Key Executives' Remuneration

The Company's key executives' remuneration framework is designed to link rewards to the Company and individual performance, and takes into consideration the risk policies of the Company so as to be symmetric with risk outcomes and sensitive to the time horizon of risks. The framework enables the Company to align key executive compensation with the interests of shareholders and promotes the long-term success of the Company.

## Remuneration Mix

The key executives' remuneration mix includes fixed and variable components. The remuneration components for key executives are summarised below:

TOTAL REMUNERATION	FIXED COMPONENTS		VARIABLE COMPONENTS (PERFORMANCE-RELATED)	
	Base Salary	Benefits & Provident	Variable Bonus	Long-Term Incentive

### Fixed Components

The fixed components comprise base salary, the annual wage supplement ("AWS") and cash allowances. The fixed components are benchmarked to comparable positions in the market, and reflect the market worth of the positions.

### Variable Components

Variable Bonus comprises the following two components:

#### (a) Performance Bonus ("PB")

Performance Bonus is designed to support good balance of both the Group's financial objectives and the Company's operating performance. Payment of performance bonus is based on achieving the target levels set for each of the following Key Performance Indicators ("KPIs") and taking into account individual performance:

- SATS Group PATMI
- SATS Company's Operating Profit
- SATS Company's Operational Performance Scorecard

Individual performance objectives are set at the beginning of each financial year and are cascaded down. For key Senior Management<sup>2</sup>, an individual Performance Scorecard comprising of both quantitative and qualitative targets in the dimensions of Financials & Business, Customer, People and Strategic Transformation Projects are being used, thereby creating alignment between the performance of the Group, the Company and the individual.

After the close of the financial year, the RHRC reviews the achievements against the targets set to determine the overall performance taking into consideration qualitative factors such as the business environment, regulatory landscape and industry trends, and approves a bonus pool that is commensurate with the performance achieved.

In determining the payout quantum for each Relevant Key Management Personnel, the RHRC considers the overall actual achievement against Group, business unit and individual performance scorecard.

#### (b) Economic Value Added ("EVA") – based Incentive Plan ("EBIP")

The EBIP rewards for sustainable shareholder value creation over the medium-term achieved by growing profits, deploying capital efficiently and managing the risk profile and risk time horizon of the business. A portion of the annual performance-related bonus of key executives is tied to the EVA achieved by the Group in the year. Under the plan, one-third of the accumulated EBIP bonus, comprising the EBIP declared in the financial year and the balance of such bonus brought forward from preceding years (which comprises multiple years of incentive dollar retained in the EVA bank), is paid out in cash each year. The remaining two-thirds are carried forward in the individual executive's EBIP account and is at risk as it is subject to performance-related clawback and could be reduced in the event of EVA underperformance in future years. This mechanism encourages key executives to work for sustainable EVA generation and to adopt strategies that are aligned with the long-term interests of the Group.

<sup>2</sup> Senior Management are employees holding the rank of Senior Vice President and above

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## Corporate Governance Report

The rules of the EBIP are subject to review by the RHRC, which has the discretion, under authority of the Board, to amend the rules where appropriate and relevant to the business conditions.

### Long-term Incentive

Long-term incentives reinforce the delivery of long-term growth and shareholder value to drive an ownership culture and retain key talent. The SATS Restricted Share Plan and the SATS Performance Share Plan are equity awards provisionally granted to employees of managerial grade and above in the Company including key executives. Since 2006, the Company has phased out the award of employee share options under the Senior Executive Share Option Scheme (one of the two schemes under the SATS Employee Share Option Plan (“**ESOP**”) which was adopted by the Company in 2000) as part of the key executives’ remuneration framework with effect from FY2007-08. The final grant of share options under the ESOP was made in July 2008.

#### (a) The SATS Restricted Share Plan (“**SATS RSP**”)

Under the SATS RSP 2016, an initial award is made in the form of a right to receive shares, provided performance conditions are met in the future. Annual grants are made based on individual performance of employees of managerial grade and above. Final awards may vary between 0-120% of the initial award, depending on the extent to which target based on Group Return on Equity (“**ROE**”) is met over a one-year performance period. The final awards will vest equally over a three-year period.

As part of recognition to non-management employees for their contributions, approval was granted by the RHRC to award 50 SATS remuneration shares, with no performance condition, to each eligible non-management employee. A total of 225,500 shares were awarded to the eligible employees on 23 September 2016.

#### (b) The SATS Performance Share Plan (“**SATS PSP**”)

Under the SATS PSP 2016, an initial award is made in the form of a right to receive shares, provided performance conditions are met in the future. Annual awards are made based on the individual performance of key senior management. The final award, which may vary between 0-150% of the initial award, depends on stretched value-aligned performance targets. They are based on absolute and relative Total Shareholder Return (“**TSR**”), meeting targets over a performance period of three financial years.

In FY2016-17, a total of 1,660,000 shares and 1,723,000 shares have been granted under the SATS RSP and SATS PSP respectively.

Details such as the plan description, performance conditions, vesting conditions and payout under the SATS RSP and SATS PSP are set out in the Share-Based Payments section of the Directors’ Statement and the corresponding “**Notes to the Financial Statements**” section of this Annual Report.

No termination, retirement or post-employment benefits were granted to Directors, the PCEO or the Relevant Key Management Personnel of the Company (who are not Directors or the PCEO) during FY2016-17.

The aggregate compensation paid to or accrued to the PCEO and the Relevant Key Management Personnel (who are not also Directors or the PCEO as at the date of this Report) for FY2016-17 is set out below:

President and Chief Executive Officer (PCEO)	Salary <sup>2</sup> (S\$)	Bonuses <sup>3</sup> (S\$)	Benefits (S\$)	Total (S\$)	Award under SATS RSP <sup>4</sup>	Award under SATS PSP <sup>4</sup>	
Alex Hungate	1,059,000	1,867,000	75,000	<b>3,001,000</b>	161,000	550,000	
Key Management Personnel	Remuneration Band <sup>1</sup> S\$	Salary <sup>2</sup> %	Bonuses <sup>3</sup> %	Benefits %	Total %	Award under SATS RSP <sup>4</sup>	Award under SATS PSP <sup>4</sup>
Yacoob Bin Ahmed Piperdi	\$1,250,001 to \$1,500,000	39	57	3	<b>100</b>	68,000	185,000
Tan Chuan Lye	\$1,000,001 to \$1,250,000	70	24	6	<b>100</b>	17,000	27,000

Notes:

1. Remuneration bands as indicated do not include the value of any awards granted under the SATS RSP and/or SATS PSP.
2. Salary includes AWS and employer's CPF for the year ended 31 March 2017.
3. Variable bonus comprises both actual performance bonus and economic value added (EVA) bonus which were paid out in FY2016-17 in respect of FY2015-16 Company and individual performance.
4. Denotes the base awards of shares granted under the SATS RSP and the SATS PSP for FY2016-17 on 1 August 2016. The final number of RSP award will range from 0% to 120% of the initial grant and is contingent on the achievement of pre-determined target a one-year performance period and will vest equally over a three-year period. The final number of PSP award will range from 0% to 150% of the initial grant and is contingent on the achievement of pre-determined target over a three-year performance period.
5. The fair value at allocation for the SATS RSP and SATS PSP for FY2016-17 is at \$3.73 per share and \$1.39 per share respectively.
6. The above table reflects the remuneration of the employees who hold the rank of Executive Vice President and above, who are the Relevant Key Management Personnel of the Company.

The aggregate total compensation paid to the Relevant Key Management Personnel (who are not also Directors or the PCEO as at the date of this report) was S\$2,412,500.

No immediate family members of any Director or of the PCEO were employed by the Company or any of its related companies during FY2016-17.

Further details regarding each of the Share Plans are provided in the Annexure to this Report, and also in the Directors' Statement and the corresponding "Notes to the Financial Statements" section of this Annual Report.

### Learning and Development Programmes for Employees

The Company's People vision is to engage and develop employees in an open environment of learning and sharing, with managers who lead by example. The objectives are to harness the potential of its people and bring out the best in them. To do this, we seek to enhance employee experience and engagement to strengthen their sense of belonging to the organisation, and to maximise employee productivity to help its business grow and thrive.

We have anchored training and development to build a performance driven culture centred around SATS' five core values: Excellence, Safety & Security, Innovation, Trust and Collaboration. In line with that, we have established a People Development System, comprising the Company's learning principle, policy, learning centre, training framework, learning roadmap, learning initiatives and learning management system.

Human Capital Development Framework comprises two main prongs for the conduct of training: (i) functional skills training for the jobs, and (ii) corporate driven soft-skill training to shape culture, Management & leadership development.

We aim to cultivate an environment of appreciation for learning, so that our employees are able to grow with SATS in the volatile and dynamic business environment. Thus, the programmes available in SATS are designed to be a mix of structured facilitated learning, structured non-facilitated learning and informal learning; all aimed to engage a diversified employee profile with different learning needs and styles. Learning activities are customised to the topics covered and aimed at helping employees learn through their own discovery and participation for greater learning impact. All our learning activities are

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## Corporate Governance Report

andragogically designed, activities-based to involve the five senses and engage the heart of the participants. For example, SATS Ambassador Programme and Familiarisation are designed to be in carnival-style, filled with fun activities and sharing while learning about SATS' core values in action.

We believe that a well-trained workforce is the critical success factor to the growth of the business. Learning and development programmes are put in place to train our employees to deliver SATS brand promise "Passion to Delight". It is with this passion that we are able to achieve our mission "to be the first choice provider" and the vision of being "Asia's leading" in food solution and gateway services.

### **Annual Performance Assessment of the PCEO and Succession Plan for the PCEO and the Relevant Key Management Personnel**

RHRC reviews the performance of the PCEO and the Relevant Key Management Personnel annually and recommends their performance level to the Board for approval.

SATS firmly believes in grooming our internal talents to take on the key management roles, and we have put in place a structured process in talent and succession management.

The RHRC instituted a rigorous process for the PCEO's succession plan and conducted an annual succession planning review of Senior Management and other selected key positions, with the PCEO, taking into account current needs and future strategic capabilities. An annual discussion will be held with the Board to review the potential successors and their corresponding development plan. The potential successors and high performing employees are put through a structured talent development programme based on the development assessment centre methodology.

The RHRC also reviews the talent development framework and processes to build deep bench strength and a strong talent pipeline. Critical jobs are identified and a total of 9 potential successors are identified for each position. Human Capital engages the PCEO and the business leaders to review the list of critical jobs and the potential successors annually based on current and future business needs.

### **BOARD RISK AND SAFETY COMMITTEE ("BRSC")**

The BRSC is chaired by Mr Tan Soo Nan, and its members are Mr Michael Kok, Mr Yap Chee Meng and Mr Yap Kim Wah. All of the BRSC members (including the BRSC Chairman) are independent Directors.

#### **Key Responsibilities of the BRSC**

The BRSC oversees and reviews the adequacy and effectiveness of the Group's risk and safety management systems and programmes. Its key responsibilities include review of:

- the Group's operational and information technology risks (including cyber security risks);
- the adequacy of resources for the risk management functions and that they have appropriate standing within the Group;
- the risk management policies and practices and the types and level of risks faced by the Group;
- the activities of the SATS Group Risk and Safety Committee which is responsible for putting in place risk management processes and methodologies, identifying risks and instilling mitigation plans, updating risk registers and profiles;
- reports on any material breaches of risk limits and the adequacy of proposed action;
- the Board's Risk Management and Internal Controls Statement in conjunction with the Audit Committee;
- the Group's safety system and programmes for effectiveness and compliance with regulatory requirements and best industry practices for food safety, workplace safety and health;
- the regular reports on safety, initiation of remedial actions and assessment of level of compliance with the safety management plan;
- food safety and accident investigation findings and implementation of recommendations by Management; and
- the adequacy of insurance coverage for the Group.

#### **BRSC Meetings**

The BRSC is required by its terms of reference to meet at least four times a year. The BRSC met four times in FY2016-17.

## RISK MANAGEMENT & INTERNAL CONTROL STATEMENT

The Board is responsible for risk governance and for determining the Company's level of risk tolerance and risk appetite. The Board oversees and reviews at least annually the adequacy and effectiveness of the Group's internal controls and risk management system implemented by Management to address risks. This system aims to provide reasonable assurance to investors regarding:

- safeguarding the Group's assets against unauthorised or improper use or disposal;
- protection against material misstatements or losses;
- maintenance of proper accounting records;
- reliability of financial information used within the business and for publication;
- compliance with appropriate legislations, regulations (including requirements under the listing rules of the SGX-ST) and adoption of applicable corporate governance best practices; and
- identification and management of business risks.

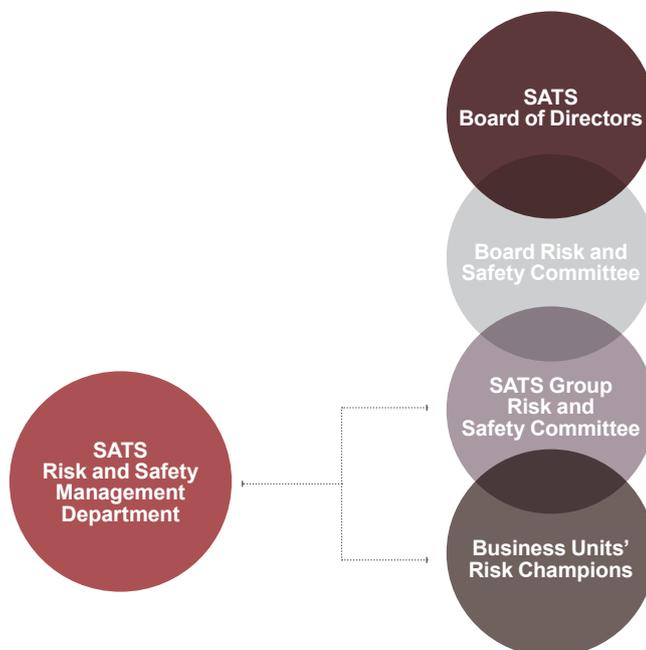
### Risk Management Organisational Structure

The BRSC assists the Board in reviewing the adequacy and effectiveness of the systems of safety and risk management. Under its oversight, the safety and risk management programme is executed with an integrated view of the organisation and its needs in mind.

The BRSC is supported by the SATS Group Risk and Safety Committee ("**SGRSC**"). The BRSC reviews the activities of the SGRSC, including regular risk management reports, initiatives, processes and exercises. The SGRSC, chaired by the PCEO, meets on a quarterly basis to review the risk management system and mitigation measures.

The Risk and Safety Management Department coordinates and facilitates the risk management processes within the Group. It provides support to the SGRSC in carrying out its functions.

The Group risk management reporting structure is as depicted in the diagram below.

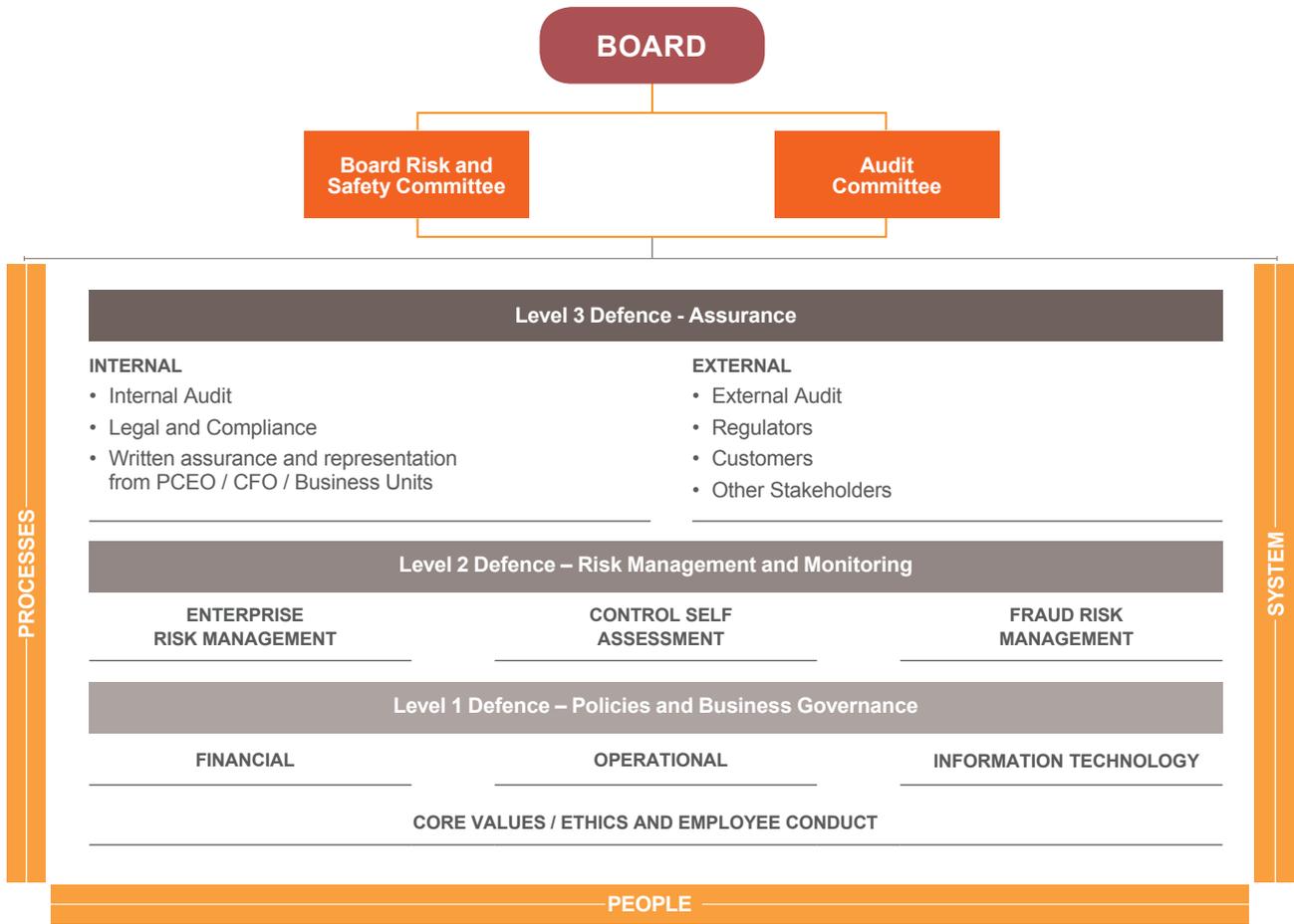


More information on the EXCO, AC and BRSC's composition, authorities, duties and key risk responsibilities can be found in the respective "**Board Committees**" sub-sections of this Corporate Governance Report.

# Corporate Governance Report

## Management Controls and Assurance Framework

The Group's Management Controls and Assurance Framework ("Framework") comprises three levels of defence towards ensuring the adequacy and effectiveness of the Group's system of risk management and internal controls.



## Level 1 Defence – Policies and Business Governance

Management ensures good corporate governance through the implementation and management of policies and procedures relevant to the Group's business environment. These policies and procedures govern financial, operational, information technology and compliance matters.

The Group's key policies and procedures include:

- written terms of reference for various Management and Board Committees;
- defined roles and responsibilities, and authorisation levels for all aspects of the businesses that are set out in the Financial and Operating Approval Authority Matrix, including guidelines on matters requiring the Board's approval;
- appropriate management organisational structures;
- a planned and coordinated budgeting process where operating units prepare budgets for the coming year that are approved by both Management and the Board; and
- policies that set out principles to guide employees in carrying out their duties and responsibilities to the highest standards of personal and corporate integrity. They cover areas such as workplace health and safety, conduct in the workplace, safeguarding of the Company's assets (including proprietary information and intellectual properties), confidentiality, conflict of interest, and non-solicitation of customers and employees.

The Group has its own approval limits and procedures for every banking and finance transaction, having regard to the nature

of the transaction concerned. All banking and finance transactions undertaken by the Group must be properly authorised, including the opening of new bank accounts and the taking up of any proposed credit facilities and the Group's key insurance coverage, the adequacy of which is reviewed on a yearly basis. These approval limits and procedures are updated from time to time and are available on request to the bankers of and lenders to the Group.

### Cyber Security Governance and Management

SATS has put in place an Information Security Policy which is aligned with ISO27001. All users of information assets owned or managed by SATS are required to comply with this Policy and its supporting standards and guidelines. In addition, SATS has also established a Cyber Security Management Framework designed to protect, detect, respond to cyber security threats and recover quickly from any attacks/exploit. The framework covers security controls (leveraging on people, process and technology) in the following 3 areas to protect SATS businesses and information assets.

## CYBER SECURITY MANAGEMENT FRAMEWORK

PROTECTION	OPERATIONS	GOVERNANCE
<p><b>Ability to protect, limit or contain the impact of a potential Cyber Security event</b></p> <p>Defence</p> <ul style="list-style-type: none"> <li>• Intrusion Protection System</li> <li>• Firewall</li> <li>• Virtual Private Network</li> <li>• Proxy Service</li> <li>• Email and Site Filter</li> <li>• Switch &amp; Router</li> </ul> <p>Mobile Security</p> <p>Host Security</p> <p>Server Security</p> <p>System Security</p> <p>Application Security</p> <p>Data Protection</p> <p>Access Control</p>	<p><b>Timely discovery of Cyber Security events and response to recover the system</b></p> <p>Identity and Access Management</p> <p>Security Information and Event Management</p> <p>Incident Response and Management</p> <p>Threat Intelligence</p> <p>Vulnerability Management</p> <p>Patch Management</p> <p>Capacity Management</p> <p>IT Disaster Recovery</p> <p>Business Continuity Management</p>	<p><b>Proactively identify cyber risks and establish processes and procedures to focus, prioritise its efforts towards minimising Cyber Security risks</b></p> <p>Policies</p> <p>Standards</p> <p>Procedures</p> <p>User Awareness</p> <p>Security Testing</p> <p>Audit and Compliance</p> <p>Service Level Agreement</p> <p>Risk Management</p> <p>Metrics and Reporting</p>

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# Corporate Governance Report

## Level 2 Defence – Risk Management and Monitoring

The Risk Management system concentrates on those key risks which may have a significant influence on the Group's assets, finances and profits, and those that may potentially endanger the continued existence of the Group's companies. Procedures used facilitate early detection and control of risks.

The operational business units meet regularly to review risk and control matters, including ascertaining that there are effective follow-up procedures. The outcome and status are reported to the BRSC and the AC for review and information.

The Group carried out reviews of the key risk profiles of the Group. The preventive and mitigating control actions were further refined and developed for adequacy and effectiveness.

The on-going process to identify, assess, monitor and manage business risks that will impede the achievement of the Group's objectives is continuously reviewed for improvements. The key risks are evaluated based on probability, consequence and velocity of a preset scale and ranked accordingly. The risk management process, which has been put in place throughout the year and up to the date of this statement, is firmly embedded within the Group's business operations and is every employee's responsibility.

The following are the key risk management activities carried out within the Group during the year:

- risk review and identification exercises conducted at the business units and departments, to review the existing risks in the risk register and to identify new risks that may have emerged;
- business continuity/contingency plans were tested during the financial year under review. The procedures were fine-tuned and enhanced for improvements further to the post mortem briefings held; and
- control self-assessment (“CSA”) exercise carried out by the business units. This exercise requires the various business units to assess the status of their respective internal controls and develop action plans to remedy identified control weaknesses.

Fraud risk management processes include conflict of interest and bankruptcy declaration, mandatory block leave for sensitive positions, as well as implementation of policies such as SATS Whistle-Blower Policy and Code of Conduct to establish a clear tone from the top regarding employees' business and ethical conduct.

## Level 3 Defence – Assurance

Management monitors internal controls through CSAs that have been developed based on the principle of minimum acceptable controls. During the course of the year, CSA controls were reviewed for relevancy and adequacy to business processes. The controls are assessed by the business unit control owners and independently by the various internal audit teams, including the Group's Internal Auditors. Action plans are developed to remedy identified control weaknesses.

Written assurances and representations, together with an attached checklist of key elements of internal controls approved by the Board, have been obtained from all the executive heads of all the Company's operating subsidiaries as well as from the executive heads or other appropriate officers of all of the Company's active associated companies, that their respective companies' internal controls were adequate during the financial year under review.

The external auditors will highlight any material internal control weaknesses which have come to their attention in the course of their statutory audit. Any significant non-compliance or failures in internal controls and recommendations for improvement are reported to the AC.

The details of the Group's independent Internal Audit function are set out in the “**Audit Committee**” sub-section of this Corporate Governance Report.

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## Board's Oversight

The Board of Directors, supported by the AC and BRSC, oversees the Group's systems of internal controls and risk management. The Board has received assurance from the PCEO and CFO:

- (a) that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and financial position; and
- (b) regarding the adequacy and effectiveness of the Group's risk management and internal control systems, addressing financial, operational, compliance and information technology risks.

## Conclusion

Taking into account the views of the AC and BRSC in the exercise of their responsibilities under their respective terms of reference, the framework of management controls, the internal control policies and procedures established and maintained by the Group's Management, the reviews conducted by the internal and external auditors and the documented governance assurance, the Board opines, with the concurrence of the AC, that the systems of internal controls and risk management (addressing financial, operational, compliance and information technology risks) which the Group considers relevant and material to its current business scope and environment were adequate and effective as at the date of the "**Directors' Statement**".

However, the Board notes that no system of risk management and internal controls can provide absolute assurance in this regard, or absolute assurance against poor judgement in decision making, human error, losses, fraud or other irregularities.

## Corporate Culture

### SATS Code of Conduct

The SATS Code of Conduct sets out the standards of behaviour by which we deal with our customers, business partners, colleagues, suppliers and each other. All employees are required to read and acknowledge the Code of Conduct upon joining the Company. The principles covered in the Code of Conduct are:

#### *Passion to delight*

Standing behind our promise of quality are the people with the passion to delight. We believe in fostering a collaborative environment where every employee of the organisation is obliged to observe our code of conduct in interactions within the employees, customers and business partners.

#### *High integrity*

We build trust with business partners through integrity. We forbid employees to seek work outside of SATS so that they can give full devotion to the work they do for us. Integrity is further protected through non-competition and non-solicitation requirements for a period of one year after the employee has ceased employment with us.

We are careful to avoid situations where personal connections or financial interests may influence impartiality. Employees are required to inform us of situations where they have family members who have business dealings with us. Further, employees and members of their family are not allowed to accept gifts or preferential treatment arising from their employment with us.

Information is valuable to our business. Employees are expected to keep confidentiality, not make false claims and refrain from insider trading.

#### *Safety in the workplace*

Workplace safety is of paramount importance to our business. We ensure that all employees and contractors are adequately trained to perform their tasks competently and we insist on strict adherence to safety rules.

#### *Safeguarding assets*

Employees are expected to exercise responsibility and good judgement in the use of company assets. Use of these properties must be authorised and the individual is required to comply with the rules governing usage.

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# Corporate Governance Report

## Whistle-blowing policy

Our “Policy on Reporting Wrongdoing” institutionalises the Group’s procedures on reporting possible improprieties, independent investigation of such matters, and follow-up actions. Complaints or suspicions of impropriety can be made by employees, customers, suppliers or other persons in the form of emails, faxes, letters or written/verbal reports. A dedicated email address and hotline is maintained by the IAD to receive such complaints or reports. Anonymous complaints may be considered, taking into account factors such as the seriousness of the issues raised, the credibility of the concern and the likelihood of confirming the allegation from attributable sources.

Our IAD is responsible for reviewing all complaints received unless it concerns the Head of Internal Audit or the PCEO. Any complaint concerning the Head of Internal Audit or the PCEO is escalated to the AC Chairman who may delegate investigation of such complaints to any person deemed fit by the AC Chairman. Depending on the complexity and the nature of complaint, external service providers may be engaged to assist in investigations.

All information received is treated confidentially to the extent permitted by law or the applicable regulatory authority. Results of the investigation would not be disclosed or discussed with anyone other than those who have a legitimate right to know.

## Banking transaction procedures

Our lenders are notified that all bank transactions undertaken by any member of the Group must be properly authorised, including the opening of new bank accounts and any proposed credit facilities. Each member of the Group has its own approval limits and procedures for every banking transaction, having regard to the nature of the transaction concerned. These approval limits and procedures are updated from time to time and are available on request. The bankers of each member of the Group have been advised to verify, in accordance with the verification process set out in the applicable procedures, that the transaction is properly authorised.

## Accountability to Shareholders

### Shareholder rights

SATS practices fair and equal dissemination of information. All media releases, announcements and investor presentations are issued via SGXNET and uploaded on our website, providing timely information to shareholders.

Shareholders are informed of general meetings through notices published in the newspaper, electronic releases via the SGXNET and reports or circulars sent to all shareholders. Shareholders are given the opportunity to participate effectively in and vote at general meetings. They are invited at such meetings to put forth any questions they may have on the motions to be debated and decided upon. If any shareholder is unable to attend, he is allowed to appoint up to two proxies to vote on his behalf at the meeting through proxy forms sent in advance. Institutional shareholders are allowed to appoint multiple proxies, so indirect investors who hold shares through nominee companies or custodian banks or through a CPF agent bank may be appointed as proxies to attend, speak and vote at the AGM.

The voting rights of shareholders are described in the Annual Report, and shareholders are briefed by independent scrutineers on the rules and voting procedures at the beginning of general meetings. We encourage shareholders to actively participate in general meetings, which are held at convenient locations.

## Communication with Shareholders

### Investor relations

SATS strives to communicate pertinent information to shareholders and the investment community on a regular and timely basis; in a clear, forthcoming and detailed manner; and by taking into consideration their views when addressing their concerns. We disseminate material, price-sensitive information and ensure that it is made publicly available on a timely and non-selective basis. Material information relating to our financial performance, business and strategic developments is published on SGXNET first, followed by our website at [www.sats.com.sg](http://www.sats.com.sg).

In addition, there is a dedicated investor relations section on our website where current and past annual reports, quarterly financial results, webcasts of quarterly earnings briefings, the latest corporate presentations, and other information considered to be of interest to shareholders and the investment community are readily available.

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Every quarter, with the exception of the fourth quarter, we organise an earnings conference call with live audio webcast to brief shareholders, the investment community and the media on our financial performance as well as key business and corporate developments. For the fourth quarter, we host a face-to-face briefing for both analysts and the media, with live audio webcast. An on-demand audio webcast is made available on our website on the same day of each earnings conference call and briefing. We also participate in investor conferences twice a year to meet with investors who are interested to know more about our business. From time to time, we may receive queries through emails or requests from key institutional investors to meet with senior management on specific matters.

Our Public Affairs & Branding department, together with the PCEO and CFO, actively engage shareholders and the investment community from Singapore and overseas through investor meetings, conference calls, investment conferences and operational site visits to help them better understand our businesses and growth strategy.

Our Public Affairs & Branding department is responsible for managing the dissemination of corporate information to the media, the public, shareholders and the investment community. It also promotes relations with and acts as a liaison point for such entities and parties. Shareholders who wish to contact us may do so by contacting the Public Affairs & Branding department. The contact particulars are listed on our website.

We also have a dedicated investor relations team and a clearly-defined investor relations policy.

We participated in conferences organised by the Singapore Exchange and investment banks in Singapore and overseas, to reach out to institutional shareholders to grow our shareholder base across a wider geographical spread. In addition, we also track changes in our share register on a regular basis.

### **Sustainability**

Our sustainability initiatives are driven by our Passion to Delight and the desire to deliver long-term value to our stakeholders. We regularly engage with our stakeholders to identify material aspects that guide our decision making. Multiple channels, both formal and informal, are available for dialogue with our stakeholders. We believe working collaboratively with external stakeholders brings together the expertise and passion of individual organisations to create a greater collective impact on the environment and society we serve.

Aligned with our strategy to feed and connect Asia responsibly, we focus on initiatives that will improve Quality, Our People, the Environment and the Community. SATS adopts Reporting Principles and Standard Disclosures in accordance with Global Reporting Initiatives (GRI) G4 Reporting Guidelines. Our aspect boundary includes SATS operations in Singapore and 100% owned subsidiaries overseas.

### **Dividend policy**

The Company targets to provide sustainable and progressive dividend payouts. The past 4 years' dividend payouts and the current year's proposed dividend payout is set out in the "**Financial Review**" section of the Annual Report.

### **Conduct of shareholder meetings**

Our Constitution currently does not permit shareholders to vote at general meetings in absentia (such as via mail, email or fax). We will consider implementing the relevant amendments to the Constitution if the Board is of the view that there is a demand for such alternative methods of voting, and after we have evaluated and put in place the necessary security processes to facilitate in absentia voting, and prevention measures against errors, fraud and other irregularities.

Generally, all Directors are required to attend general meetings. The Chairman of the Board, the Chairman of each of the EXCO, AC, NC, RHRC and BRSC and the external auditors, the compensation advisers and legal advisers are present to address shareholders' queries.

At general meetings, each distinct issue is proposed as a separate resolution. All resolutions are put to the vote by electronic poll voting. Voting by poll allows for an equitable and transparent voting process. Shareholders will be better able to demonstrate their concerns in a manner more accurately reflective of their shareholdings. Independent scrutineers are appointed to conduct the voting process. Independent scrutineers brief the shareholders on the e-polling voting process and

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## Corporate Governance Report

verify and tabulate votes after each resolution. The results of the voting at the general meetings showing the number of votes cast for and against each resolution and the respective percentages are shown to the shareholders at the end of each resolution before the Chairman makes a declaration on the passing of the resolution. In addition, the voting results at the general meetings showing the number of votes cast for and against each resolution and the respective percentages and the name of the independent scrutineer will be announced via SGXNET immediately after each general meeting.

The Company Secretary prepares minutes of shareholders' meetings, which incorporate comments or queries from shareholders and responses from the Board and Management. These minutes are available to shareholders upon request.

### Dealings in securities

In line with the rules of the Listing Manual of the SGX-ST, we have in place a policy and guidelines on dealings in our securities, which have been disseminated to employees of the Group and Directors of the companies within the Group. The policy and guidelines restrict certain employees (including all administrative officers and employees of managerial grade and above, and employees in departments which are likely to be privy to confidential material price-sensitive information, such as the offices of the PCEO, EVPs and Senior Vice Presidents, the Legal and Finance departments, and departments or units of companies in the Group having charge of business development and/or marketing activities) from trading in our securities during the period falling two weeks before the announcement of our quarterly financial statements for each of the first three quarters of its financial year and one month before the announcement of our full-year financial statements.

We have also adopted a procedure for a trading halt in our securities, which assists us to manage our continuous disclosure obligations in accordance with the spirit of rule 703 of the Listing Manual of the SGX-ST in the event of a leak of material unpublished information, or a false rumour or report where a media comment about us is sufficiently specific and detailed to warrant a response or to adequately respond to a query by the SGX-ST arising from such leak of material unpublished information or a false rumour or report.

In addition, our Directors and employees are prohibited at all times from trading in the Company's securities if they are in possession of non-public, price-sensitive information. The policy and guidelines also remind employees and Directors of the Group that they should not deal in our securities on short-term considerations, and to be mindful of the insider trading prohibitions under the Securities and Futures Act whenever trading in our or any other corporation's securities. In any event, the non-executive Directors who are currently our shareholders hold an insignificant number of our shares and have not traded their shares since their appointment.

### Annexure

#### Remuneration report

##### *Share Plans*

##### *(I) ESOP*

The Company has ceased to issue further grants of share options under the ESOP since the last grant in July 2008. Please refer to the "**Directors' Statement**" and corresponding "**Notes to Financial Statements**" section of this Annual Report for more details relating to the ESOP.

##### *(II) SATS RSP and SATS PSP*

The SATS RSP and the SATS PSP were approved by shareholders at the Extraordinary General Meeting of the Company held on 19 July 2005 for an initial term of 10 years till July 2015. A 10-year extension till July 2025 was approved at the 41<sup>st</sup> AGM of the Company. There was no change to the maximum limit of new shares which may be issued under the SATS RSP and the SATS PSP following the extension of their respective durations. These plans were introduced with a view to further strengthening the Company's competitiveness in attracting and retaining talented key senior management and executives. The SATS RSP and the SATS PSP aim to more directly align the interests of key senior management and executives with the interests of shareholders, to improve performance and achieve sustainable growth for the Company in the changing business environment, and to foster a greater ownership culture amongst key senior management and executives. These plans contemplate the award of fully paid shares of the Company, when and after pre-determined performance or service conditions are accomplished. Non-executive Directors of the Group are not eligible to participate in the SATS RSP and the SATS PSP.

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The SATS RSP serves as an additional motivational tool to recruit and retain talented executives as well as to reward Company and individual performance. In addition, it enhances the Group's overall compensation packages, strengthening the Group's ability to attract and retain high performing talent. The SATS PSP is targeted at a select group of key senior management who shoulder the responsibility for the Company's performance and who are able to drive the growth of the Company through innovation, creativity and superior performance. Awards under the SATS PSP are performance-based, with performance targets set in accordance with medium-term corporate objectives covering market competitiveness, quality of returns, business growth and productivity growth. The performance targets are stretched targets based on criteria such as total shareholders' return, economic value added, market share, market ranking or return on sales.

Awards granted under the SATS RSP, which is intended to apply to a broader base of executives, will vest only after the satisfactory completion of time-based service conditions, that is, after the participant has served the Group for a specified number of years (time-based restricted awards) or, where the award is performance-based (performance-based restricted awards), after a further period of service beyond the performance target completion date. No minimum vesting periods are prescribed under the SATS RSP, and the length of the vesting period(s) in respect of each award will be determined on a case-by-case basis. Award of such performance-based restricted awards is intended to ensure that the earning of shares under the SATS RSP is aligned with the pay-for-performance principle. The use of time-based restricted awards will only be made on a case-by-case basis where business needs justify such awards.

The selection of a participant and the number of shares which he would be awarded under the SATS RSP will be determined at the absolute discretion of the RHRC, which will take into account criteria such as his or her rank, job performance, creativity, innovativeness, entrepreneurship, years of service and potential for future development, his or her contribution to the success and development of the Group and, if applicable, the extent of effort and resourcefulness required to achieve the performance target(s) within the performance period.

Under the SATS RSP and the SATS PSP, the RHRC has the discretion to determine whether the performance condition has been satisfied (whether fully or partially) or exceeded and in making any such determination, the RHRC has the right to make reference to the audited results of the Company or the Group to take into account such factors as the RHRC may determine to be relevant, such as changes in accounting methods, taxes and extraordinary events, and further, the right to amend the performance target(s) if the RHRC decides that a changed performance target would be a fairer measure of performance.

The senior management who are participants of SATS RSP and SATS PSP are required to observe a moratorium on a minimum threshold of their shares in the Company. They are prohibited from trading, pledging or hedging their minimum threshold. The RHRC in their review of the Company's share plans also reviewed the minimum threshold. The RHRC commissioned a review of the minimum threshold by an external consultant, Aon Hewitt, in October 2014 and had approved the findings and recommendation of Aon Hewitt.

The aggregate number of shares which may be issued pursuant to awards granted under the SATS RSP or the SATS PSP, when added to the number of new shares issued and issuable in respect of all options granted under the ESOP, and all awards under the SATS RSP and the SATS PSP, may not exceed 15 percent of the total number of issued ordinary shares in the capital of the Company on the day preceding the relevant date of award.

For FY2016-17, the total number of shares comprised in awards granted under the SATS RSP and SATS PSP did not exceed 0.3 percent of the total number of issued shares (excluding treasury shares). The obligation to deliver the shares is expected to be satisfied out of treasury shares.