

# Corporate Governance Report

SATS Ltd. (“**SATS**” or the “**Company**”) continually strives to maintain high standards of corporate governance within the Company and its subsidiaries (the “**Group**”) by promoting corporate performance and accountability to enhance long-term shareholder value.

On 2 May 2012, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“**2012 Code**”), which took effect with respect to Annual Reports of listed entities relating to financial years commencing from 1 November 2012. This report (“**Report**”) describes SATS’ corporate governance policies and practices with specific reference to the principles and guidelines set out in the 2012 Code.

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## **PRINCIPLE 1: COMPANY TO BE HEADED BY AN EFFECTIVE BOARD TO LEAD AND CONTROL THE COMPANY**

The Board is responsible for overseeing the business, financial performance and affairs of the Group. Management’s role is to ensure that the day-to-day operations and administration of the Group are carried out in accordance with the policies and strategies determined by the Board, and in that respect, Management is fully accountable to the Board.

The key functions of the Board are to:

- set the overall business strategies and directions of the Group to be implemented by Management, and to provide leadership and guidance to Management;
- set the Group’s values and standards, and ensure that obligations to Shareholders and other stakeholders are met;
- monitor the performance of Management;
- oversee and conduct regular reviews of the business, financial performance and affairs of the Group;
- evaluate and approve important matters such as major investments, funding needs and expenditure;
- have overall responsibility for corporate governance, including the processes of evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
- ensure communication with all stakeholders; and
- protect and enhance the reputation of the Group.

The Board is supported in its functions by the following Board Committees which have been established to assist in the discharge of the Board’s oversight function:

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

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The current members of the Board and their membership on the Board Committees of the Company are as follows:

Board Member	Board membership	Board Executive Committee	Audit Committee	Nominating Committee	Remuneration and Human Resource Committee	Board Risk and Safety Committee <sup>1</sup>
Mr Edmund Cheng	Chairman & Independent Director	Chairman			Chairman	
Mr Alex Hungate <sup>2</sup>	Executive Director	Member				
Mr David Baffsky	Independent Director			Chairman	Member	
Ms Euleen Goh <sup>3</sup>	Independent Director	Member	Chairman			
Mr David Heng	Non-Independent Director					Member
Mr Nihal Kaviratne	Independent Director		Member			Member
Mr Koh Poh Tiong	Independent Director		Member		Member	
Mr Keith Tay	Independent Director	Member	Member	Member		
Mr Yap Chee Meng <sup>4</sup>	Independent Director					Chairman
Mr Leo Yip	Independent Director			Member	Member	

Notes:

1. Board Risk Committee was renamed as Board Risk and Safety Committee with effect from 25 July 2013.
2. Mr Alex Hungate assumed the role of Executive Director with effect from 16 July 2013 and subsequently as President and Chief Executive Officer ("PCEO") with effect from 1 January 2014.
3. Ms Euleen Goh was appointed to the Board on 1 August 2013, as Chairman of the Audit Committee and member of the Board Executive Committee with effect from 1 August 2013.
4. Mr Yap Chee Meng was appointed to the Board on 1 October 2013 and as Chairman of the Board Risk and Safety Committee with effect from 1 January 2014.

Further details on each of the Board Committees along with a summary of their respective terms of reference can be found subsequently in this Report.

Board meetings are scheduled 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. Since 2003, the Board has also conducted annual Board Strategy meetings in order to have more focused discussions on key strategic issues.

The Company's Articles of Association ("**Articles**") allow Directors to participate in Board and Board Committee meetings by way of telephone or video conference or other similar means of communication equipment whereby all persons participating in the meeting are able to hear each other, without requiring their physical presence at the meeting. The Company has set up telephone and video conference facilities to enable alternative means of participation in Board and Board Committee meetings. During FY2013-14, various Directors have participated in Board or Board Committee meetings by way of telephone conferences. If a Director is unable to attend any Board or Board Committee meeting, he will still receive all the papers and materials to be tabled for discussion at that meeting.

In respect of FY2013-14, five Board meetings, including a three-day Board Strategy meeting, were held. The Directors' attendances at Board and Board Committee meetings for FY2013-14 are set out below.

	No. of Board and Board Committee meetings attended in FY2013-14					
	Board meetings	Board Executive Committee	Audit Committee	Nominating Committee	Remuneration and Human Resource Committee	Board Risk and Safety Committee
No. of meetings held	5	4	4	1	2	4
<b>Board Members</b>						
Mr Edmund Cheng	5	4			2	
Mr Alex Hungate <sup>1</sup>	5	1/1		1	0/1	
Mr David Baffsky <sup>2</sup>	5		2/2	1	1/1	
Ms Euleen Goh <sup>3</sup>	3/3	2/2	2/2			
Mr David Heng <sup>4</sup>	5	3/3				4
Mr Nihal Kaviratne	5		4			4
Mr Koh Poh Tiong <sup>5</sup>	5		4		1/1	3/3
Mr Keith Tay	5	4	4			
Mr Yap Chee Meng <sup>6</sup>	3/3					1/1
Mr Leo Yip	5			1	2	

Notes:

1. Mr Alex Hungate stepped down as a member of Remuneration and Human Resource Committee on 16 July 2013 and was appointed as a member of the Board Executive Committee on 1 January 2014. He did not attend the Remuneration and Human Resource Committee meeting held on 8 July 2013 but attended 1 out of 1 Board Executive Committee meeting, which was held during his term as a member of the Remuneration and Human Resource Committee and Board Executive Committee respectively in FY2013-14.
2. Mr David Baffsky stepped down as a member of the Audit Committee and was appointed as a member of the Remuneration and Human Resource Committee on 1 August 2013. He attended 2 out of 2 Audit Committee meetings and 1 out of 1 Remuneration and Human Resource Committee meeting, which were held during his term as a member of the Audit Committee and Remuneration and Human Resource Committee respectively in FY2013-14.
3. Ms Euleen Goh was appointed as a Director, Chairman of the Audit Committee and a member of the Board Executive Committee on 1 August 2013. She attended 3 out of 3 Board meetings (including the Board Strategy meeting), 2 out of 2 Audit Committee meetings and 2 out of 2 Board Executive Committee meetings, which were held during her term as a Director, Chairman of the Audit Committee and as a member of the Board Executive Committee respectively in FY2013-14.
4. Mr David Heng stepped down as a member of the Board Executive Committee on 1 January 2014. He attended 3 out of 3 Board Executive Committee meetings which were held during his term as a member of the Board Executive Committee in FY2013-14.
5. Mr Koh Poh Tiong stepped down as Chairman of the Board Risk and Safety Committee and was appointed as member of the Remuneration and Human Resource Committee on 1 January 2014. He attended 3 out of 3 Board Risk and Safety Committee meetings and 1 out of 1 Remuneration and Human Resource Committee meeting, which were held during his term as Chairman of the Board Risk and Safety Committee and as a member of the Remuneration and Human Resource Committee respectively in FY2013-14.
6. Mr Yap Chee Meng was appointed as a Director on 1 October 2013 and as Chairman of the Board Risk and Safety Committee on 1 January 2014. He attended 3 out of 3 Board meetings (including the Board Strategy meeting) and 1 out of 1 Board Risk and Safety Committee meeting, which were held during his term as a Director and Chairman of the Board Risk and Safety Committee respectively in FY2013-14.

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All members of the Board participate actively in Board discussions and help to develop proposals on business strategies and goals for the Group. Board members 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.

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.

### Board Executive Committee

The Board has delegated to the Board Executive Committee the function of reviewing and approving certain matters, which include, *inter alia*, reviewing and monitoring the Company's key strategic risks, legal risks, financial policy and risk appetite limits, for approval by the Board; guiding Management on business, strategic and operational issues as well as risk management; undertaking an initial review of the three to five year forecast/business plans and annual capital and operating expenditure budgets for the Group; granting 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; establishing bank accounts; granting powers of attorney; affixation of the Company's common seal; and nominating Board members to the Company's subsidiaries and associated companies. Minutes of the meetings of the Board Executive Committee are forwarded to all Directors for their information.

The Board Executive Committee currently comprises the following four members:

- Mr Edmund Cheng, Chairman
- Mr Alex Hungate, Member
- Ms Euleen Goh, Member
- Mr Keith Tay, Member

The Board Executive Committee is required under its terms of reference to meet at least once in each financial year. The Board Executive Committee met four times in FY2013-14. Regular reports are presented at each meeting of the Board Executive Committee on the performance of the Group's subsidiaries, associated companies and joint ventures, and the

operational performance of the Group. The PCEO, the General Counsel, the Chief Financial Officer ("CFO") and the Executive Vice Presidents ("EVP") are usually invited and are present at the meetings of the Board Executive Committee.

### Orientation and Training for Directors

Newly-appointed Directors undergo a comprehensive orientation programme, which includes visits to major businesses and joint ventures, site visits to the kitchens, apron and cargo terminals, abattoir, 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 enclosing the Company's latest Annual Report and copies of the minutes of immediate past Board and Board Committee meetings. They are also provided with other materials relating to the Board and Board Committees, including the terms of reference of the various Board Committees as well as relevant guidelines and policies.

The Directors are provided with continuing education in areas such as directors' duties and responsibilities, corporate governance, changes in the Companies Act, Chapter 50 (the "Companies Act") and Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), so as to update and refresh them on matters that may affect and/or enhance their performance as Board members. In FY2013-14, legal advisors were invited to update the Board on the Personal Data Protection Act. The Company also invited The Boston Consulting Group to provide a briefing to the Board and senior management on the global aviation landscape and outlook during the Board Strategy meeting held in October 2013. In addition, in order to further the Directors' continuing education and skills improvement, the Company recommends and encourages Directors to attend, at the Company's cost, all relevant and useful seminars conducted by external organisations on corporate governance, leadership and industry-related matters. Mr Nihal Kaviratne attended the Programme for Enhancing Board Stewardship course organised by the Stewardship & Corporate Governance Centre on 22 April 2013 and 23 April 2013. Mr Yap Chee Meng also attended the LCD Module – Listed Company Director Essentials – "Understanding the Regulatory Environment in Singapore: What every director ought to know" organised by the Singapore Institute of Directors on 16 January 2014. The course fees were borne by the Company.

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## **PRINCIPLE 2: STRONG AND INDEPENDENT ELEMENT ON THE BOARD TO EXERCISE OBJECTIVE JUDGEMENT**

### **Independent Directors**

There is a strong and independent element on the Board, as eight out of the ten Directors on the Board are currently considered by the Nominating Committee and the Board to be independent. These eight Directors are Mr Edmund Cheng, Mr David Baffsky, Ms Euleen Goh, Mr Nihal Kaviratne, Mr Koh Poh Tiong, Mr Keith Tay, Mr Yap Chee Meng and Mr Leo Yip.

Mr Alex Hungate assumed the role of an Executive Director on 16 July 2013 and as PCEO on 1 January 2014 and is thus, a non-independent Director.

The Nominating Committee and the Board consider Mr David Heng to be a non-independent Director by reason of Mr Heng's employment as the Co-Head, Markets Group, Senior Managing Director, Investment Head of SEA of Temasek International Pte. Ltd., a subsidiary of Temasek Holdings (Private) Limited ("Temasek"), which is the single largest substantial shareholder of the Company.

As of 28 May 2014, Mr Edmund Cheng would have served as Chairman of the Board for more than ten years. The Nominating Committee takes into account, among other things, whether a Director's long-term relationship with Management could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent judgment with a view to the best interests of the Company. The Board, taking into account the views of the Nominating Committee, has reviewed the extent to which Mr Cheng remains independent, and is of the firm view that Mr Cheng continues to demonstrate strong independence in character and judgment, and in the manner in which he discharges his responsibilities as a Director. Consequently, the Board is satisfied that, despite Mr Cheng's length of tenure, there is no association with Management that could compromise his independence, and that therefore, he remains independent.

### **Board Composition and Size**

The Board, through the Nominating Committee, reviews the diversity of skills, experience, gender, knowledge, size and composition of the Board. The Nominating Committee has developed a set of principles to guide it in carrying out its responsibilities of reviewing and determining an appropriate Board size and composition. The Nominating Committee 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, strategic planning experience, and customer-based experience/knowledge, required for the Board to be effective. Ms Euleen Goh and Mr Yap Chee Meng were appointed to the Board on 1 August 2013 and 1 October 2013 respectively.

The Board, in concurrence with the Nominating Committee, is of the view that, taking into account the nature and scope of the operations of the Company, the requirements of the Company's businesses and the need to avoid undue disruptions from changes to the composition of the Board and Board Committees as well as 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.

The Company has put in place processes to ensure that 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 and help develop proposals on strategy. To facilitate open discussion and review of the effectiveness of Management, Board members meet up from time to time for informal discussions prior to the scheduled Board meetings, without Management being present.

## PRINCIPLE 3: ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER TO BE SEPARATE TO ENSURE A BALANCE OF POWER AND AUTHORITY

Mr Edmund Cheng is the non-executive and independent Chairman, and Mr Alex Hungate is the PCEO of the Company. The roles of the Chairman and the PCEO 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 are not related to each other.

The responsibilities of the Chairman and PCEO are documented and agreed on by the Board. The Chairman of the Board leads the Board to ensure its effectiveness in all aspects of its role, and sets its agenda, guides the dissemination of accurate, timely and clear information amongst Board members, promotes openness and debate at Board level, facilitates effective communication with Shareholders, encourages constructive relations within the Board and between the Board and Management, facilitates the effective contributions of the Directors, and promotes high standards of corporate governance.

The PCEO, assisted by the 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.

## PRINCIPLE 4: FORMAL AND TRANSPARENT PROCESS FOR APPOINTMENT AND RE-APPOINTMENT OF DIRECTORS

### Nominating Committee

The Board has established a Nominating Committee with written terms of reference clearly setting out its authority and duties, which include the following:

- reviewing and making recommendations to the Board on the diversity of skills, experience, gender, knowledge, size and composition of the Board;
- making recommendations to the Board regarding the process for identification and selection of new Directors, including recommending Directors for appointment to the Board Committees;
- making recommendations to the Board on re-nominations and re-appointments of existing Directors;
- reviewing succession planning of Board and Board Committee members, including for the Chairman of the Board;
- evaluating the independence of Directors on an annual basis, and as and when circumstances require;
- determining if Directors who hold directorships on other boards are able to and have been adequately carrying out their duties as Directors of the Company;
- developing and carrying 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 Nominating Committee Chairman and the Board Chairman;
- reviewing the training and professional development programmes for the Board; and
- carrying out such other authorities and duties as provided in the 2012 Code.

The Nominating Committee currently comprises the following three members, all of whom (including the Chairman) are independent Directors:

- Mr David Baffsky, Chairman
- Mr Keith Tay, Member
- Mr Leo Yip, Member

The Nominating Committee is required by its terms of reference to hold meetings at least once a year. It held one meeting in FY2013-14.

## RE-NOMINATION AND RE-APPOINTMENT OF DIRECTORS

Details of the Directors' dates of first appointment to the Board and last re-appointment as Directors are set out below:

Name of Director	Position held on the Board	Date of first appointment to the Board	Date of last re-appointment as a Director
Mr Edmund Cheng	Chairman	22 May 2003 (as Director and Chairman)	26 July 2012
Mr Alex Hungate <sup>1</sup>	Executive Director	27 July 2011	26 July 2013
Mr David Baffsky <sup>2</sup>	Director	15 May 2008	26 July 2012
Ms Euleen Goh <sup>3</sup>	Director	1 August 2013	Not applicable
Mr David Heng <sup>4</sup>	Director	15 October 2009	26 July 2012
Mr Nihal Kaviratne <sup>5</sup>	Director	30 July 2010	26 July 2013
Mr Koh Poh Tiong <sup>6</sup>	Director	1 November 2011	26 July 2012
Mr Keith Tay <sup>7</sup>	Director	26 July 2007	26 July 2013
Mr Yap Chee Meng <sup>8</sup>	Director	1 October 2013	Not applicable
Mr Leo Yip <sup>9</sup>	Director	1 September 2010	27 July 2011

Notes:

1. Mr Alex Hungate assumed the role of PCEO of the Company with effect from 1 January 2014.
2. Mr David Baffsky, who will be retiring pursuant to Section 153(6) of the Companies Act and has indicated his willingness to stand for re-appointment, will be standing for re-appointment pursuant to Section 153(6) of the Companies Act at the Company's 41st Annual General Meeting to be held on 23 July 2014 ("**41st AGM**"). Mr Baffsky is currently regarded by the Nominating Committee and the Board to be an independent Director. Mr Baffsky is the Chairman of the Nominating Committee and a member of the Remuneration and Human Resource Committee.
3. Ms Euleen Goh, who will retire pursuant to Article 90 and has indicated her willingness to stand for re-appointment, will be standing for re-appointment at the 41st AGM. Ms Goh is currently considered by the Nominating Committee and the Board to be an independent Director. Ms Goh is the Chairman of the Audit Committee and a member of the Board Executive Committee.
4. Mr David Heng has elected to retire from office at the 41st AGM. Mr Heng is currently considered by the Nominating Committee and the Board to be a non-independent Director. Mr Heng is a member of the Board Risk and Safety Committee.
5. Mr Nihal Kaviratne, has attained the age of 70 years in March 2014 and his office as a Director of the Company will be vacated at the 41st AGM pursuant to Section 153(2) of the Companies Act. Mr Kaviratne has indicated his willingness to stand for re-appointment and will be standing for re-appointment pursuant to Section 153(6) of the Companies Act at the Company's 41st AGM. Mr Kaviratne is currently regarded by the Nominating Committee and the Board to be an independent Director. Mr Kaviratne is a member of both the Audit Committee and the Board Risk and Safety Committee.
6. Mr Koh Poh Tiong, who will retire by rotation pursuant to Article 83 and has indicated his willingness to stand for re-appointment, will be standing for re-appointment at the 41st AGM. Mr Koh is currently considered by the Nominating Committee and the Board to be an independent Director. Mr Koh is a member of both the Audit Committee and the Remuneration and Human Resource Committee.
7. Mr Keith Tay has elected to retire from office at the 41st AGM. Mr Tay is currently considered by the Nominating Committee and the Board to be an independent Director. Mr Tay is a member of the Audit Committee, the Board Executive Committee and the Nominating Committee.
8. Mr Yap Chee Meng, who will retire pursuant to Article 90 and has indicated his willingness to stand for re-appointment, will be standing for re-appointment at the 41st AGM. Mr Yap is currently considered by the Nominating Committee and the Board to be an independent Director. Mr Yap is the Chairman of the Board Risk and Safety Committee.
9. Mr Leo Yip, who will retire by rotation pursuant to Article 83 and has indicated his willingness to stand for re-appointment, will be standing for re-appointment at the 41st AGM. Mr Yip is currently considered by the Nominating Committee and the Board to be an independent Director. Mr Yip is a member of both the Remuneration and Human Resource Committee and the Nominating Committee.

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The Articles require one-third (or the number nearest one-third rounded upwards to the next whole number) of the Directors for the time being to retire from office at each AGM. 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 will be by agreement or by lot. Retiring Directors are eligible for re-appointment under the Articles. All Directors are required to retire from office at least once every three years. All new Directors appointed by the Board during the financial year shall hold office only until the next AGM, but will be eligible for re-appointment at that AGM. As required by law, a Director who reaches or is over the age of 70 years old is required to retire and stand for re-appointment at every AGM.

The Directors standing for re-appointment pursuant to Article 83 at the 41st AGM are Mr Koh Poh Tiong and Mr Leo Yip. Ms Euleen Goh and Mr Yap Chee Meng are standing for re-appointment pursuant to Article 90. Mr David Baffsky and Mr Nihal Kaviratne are standing for re-appointment pursuant to Section 153 of the Companies Act. The Nominating Committee (after having taken into consideration the principles for the determination of the Board size and composition adopted by it) recommends their retirement and re-appointment, after assessing their contribution and performance (including attendance, preparedness, participation and candour) as Directors, and the Board has endorsed the recommendation.

With effect from FY2010-11, newly appointed non-executive Directors are appointed to serve an initial term of 3 years and such initial term of office may be renewed for a subsequent term or terms of up to a total of 3 years, expiring at the AGM of the Company 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 Nominating Committee and subject to the Board's approval. However, the Board recognises the contribution of Directors who over time have developed deep insights into the Group's businesses and operations and who are therefore able to provide invaluable contributions to the Board as a whole. In such cases, the Board may exercise its discretion to extend the term and retain the services of the Director.

### Independence Review

The Nominating Committee is tasked to determine on an annual basis, and as and when circumstances require, whether or not a Director is independent, bearing in mind 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 2012 Code.

### Selection and Appointment of New Directors

The Nominating Committee regularly reviews the existing attributes and competencies of the Board in order to determine the desired expertise or experience required to strengthen or supplement the Board. Such reviews assist the Nominating Committee in identifying and nominating suitable candidates for appointment to the Board.

The Nominating Committee 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 Nominating Committee may seek assistance from external search consultants for the selection of potential candidates. Directors and Management may also put forward names of potential candidates, together with their curriculum vitae, for consideration. The Nominating Committee, 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' Time Commitments

The Nominating Committee determines annually whether a Director has been adequately carrying out his duties as a Director of the Company, taking into consideration the number of that Director's other listed company board representations and other principal commitments. In respect of FY2013-14, the Nominating Committee is of the view that the number of each Director's other directorships was in line with the Company's guideline that the maximum number of listed company board representations which any Director may hold should range from five to seven. The Nominating Committee is of the view that each Director has been able to effectively discharge his duties as a Director of the Company.

### Key Information Regarding the Directors

More information on each of the Directors, their respective backgrounds (such as academic and professional qualifications) and fields of expertise as well as their present and past directorships or chairmanships in other listed companies and other major appointments over the preceding three years can be found in the "Board of Directors" section of this Annual Report. Information on their shareholdings in the Company can be obtained in the "Report by the Board of Directors" in the "Financials" section of this Annual Report.



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## **PRINCIPLE 5: FORMAL ASSESSMENT OF EFFECTIVENESS OF THE BOARD AND BOARD COMMITTEES AND INDIVIDUAL DIRECTOR'S CONTRIBUTIONS**

The Board, with the assistance of the Nominating Committee, 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 Nominating Committee to discuss the assessment of each individual Director to the effectiveness of the Board.

In FY2013-14, the Nominating Committee conducted the Board assessment by way of a questionnaire (the "Questionnaire") comprising 2 sections. Section 1 of the Questionnaire concerns Board and Board Committees assessment and covers areas such as board composition, information management, board processes, investor relations and corporate social responsibility, managing the Company's performance, strategic review, individual committee assessments, PCEO performance and succession planning, Directors' development and management, risk management, etc. Section 2 of the Questionnaire concerns Directors' self and peer assessment whereby each Director assesses himself on his performance as well as the performance of his peers with a view to raising the quality of board meetings and deliberations. It covers areas such as contribution, knowledge and ability, teaming, integrity, personal commitment, etc.

The Board assessment exercise provides an opportunity to obtain constructive feedback from each Director on whether the Board's procedures and processes allow him/her to discharge his/her duties effectively and the changes which should be made to enhance the effectiveness of the Board and/or Board Committees. The individual Director's assessment exercise allows for peer review with a view to raising the quality of board members.

Other than the collective Board evaluation exercise, the Chairman meets with each Director in a private session to discuss and assess the individual performance of the Director. These one-to-one sessions provide a forum for the Chairman to raise and address with each Director, in a conducive setting, issues or matters pertaining to the Board and the individual Director's performance on the Board, and for free and constructive dialogue on an individual basis. It also enables the Chairman and each Director, respectively, to give mutual feedback

on individual performance of the Director as well as the Chairman, in order to identify areas for individual improvement as well as to assess how each Director may contribute more effectively to the collective performance of the Board (and, in the case of the Chairman, enhance the leadership of the Board).

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## **PRINCIPLE 6: BOARD'S ACCESS TO INFORMATION**

The Board is issued with detailed Board papers by Management giving the background, explanatory information, justification, risks and mitigation measures for each decision and mandate sought by Management, including, where applicable, relevant budgets, business plans, forecasts and projections. Directors are entitled to request from Management additional information as needed to make informed decisions. Information papers on material matters and issues being dealt with by Management, and quarterly reports on major operational matters, market updates, business development activities and potential investment opportunities, are also circulated to the Board. In addition, various Board Committees receive minutes and reports from Management relating to their specific areas of oversight, which may contain more detailed and specific information.

As part of good corporate governance, Board papers or additional information for decision or discussion at Board meetings are circulated, to the extent practicable, a reasonable period in advance of the meetings for Directors' review and consideration, and key matters requiring decision are largely reserved for resolution at Board meetings rather than by circulation to facilitate discussion amongst Board members and with Management. The detailed agenda of each Board meeting, prepared by Management and approved by the Chairman, contains specific matters for the decision and information of the Board.

The Board has separate access to the PCEO, EVPs, CFO, General Counsel and other key Management, as well as the Company's internal and external auditors. Queries by individual Directors on circulated papers are directed to Management who will respond accordingly. Where relevant, Directors' queries and Management's responses are circulated to all Board members for their information.

The Directors also have separate and independent access to the Company Secretaries and the Assistant Company Secretary. The Company Secretary attends

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all Board meetings and minutes the proceedings. The role of the Company Secretary has been defined by the Board to include supervising, monitoring and advising on all governance matters, compliance by the Company with its Memorandum and Articles of Association, laws and regulations, the 2012 Code, and the Listing Manual of the SGX-ST; communicating with relevant regulatory authorities and bodies and Shareholders on behalf of the Company; and performing such other duties of a company secretary, as required under laws and regulations or as specified in the Listing Manual of the SGX-ST or the Articles, or as required by the Chairman of the Board or the Chairman of any Board Committee or the Directors (or any of them), as the case may be. In addition, the Company Secretary assists the Chairman to ensure that there is good information flow within the Board and the Board Committees, and between Management and the Directors. The Company Secretary facilitates orientation and assists with professional development of the Directors as may be required. 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 the Company's expense.

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### PRINCIPLE 7: FORMAL AND TRANSPARENT PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

#### Remuneration and Human Resource Committee

The Board has established a Remuneration and Human Resource Committee. The Remuneration and Human Resource Committee currently comprises the following four members, all of whom (including the Chairman) are non-executive and independent Directors:

- Mr Edmund Cheng, Chairman
- Mr David Baffsky, Member
- Mr Koh Poh Tiong, Member
- Mr Leo Yip, Member

The Remuneration and Human Resource Committee 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 Committee convened two meetings in FY2013-14.

The written terms of reference of the Remuneration and Human Resource Committee clearly set out its authority and duties, which include the following:

- reviewing and recommending the general remuneration framework for the Board (including Directors' fees and allowances) and key management personnel;
- overseeing the terms of appointment, scope of duties and remuneration of the PCEO, as well as any other appointment of equivalent seniority to the PCEO within the Company, and reviewing and recommending the specific remuneration packages of those occupying the position of EVP and above within the Group to the Board;
- implementing and administering the Company's Employee Share Option Plan, Restricted Share Plan and Performance Share Plan (collectively, the "**Share Plans**") in accordance with the prevailing rules of the Share Plans, requirements of the Listing Manual of the SGX-ST and applicable laws and regulations;
- overseeing the recruitment, promotion and distribution of staff talent within the Group;
- reviewing, overseeing and advising on the structure, organisation and alignment of the functions and management of the Group;
- reviewing succession planning of the Group;
- overseeing industrial relations matters; and
- carrying out such other authorities and duties as provided in the 2012 Code.

The Remuneration and Human Resource Committee has access to expert advice from external consultants. In FY2013-14, the Remuneration and Human Resource Committee sought views on market practices and trends from external consultants, Aon Hewitt. The Remuneration and Human Resource Committee undertook a review of the independence and objectivity of the external consultants through discussions with them and was satisfied that the external consultants had no relationships with the Company that would affect their independence.

More details of each of the Share Plans can be found in the Annexure to this Report, and also in the "**Report by the Board of Directors**" in the "**Financials**" section of this Annual Report.

The Remuneration and Human Resource Committee's recommendations regarding Directors' remuneration have been submitted to and endorsed by the Board.

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### PRINCIPLE 8: LEVEL OF DIRECTORS' REMUNERATION SHOULD BE APPROPRIATE TO ATTRACT, RETAIN AND MOTIVATE BUT NOT BE EXCESSIVE

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 FY2013-14. If he occupied a position for part of a financial year, the fee payable would be pro-rated accordingly. Each Director also receives an attendance fee for each Board meeting and Board Committee meeting attended by him during the financial year, on account of the time and effort to avail himself for the meetings. 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.

Payment of competitive and equitable remuneration would better serve the Company's need to attract and retain Directors with the necessary experience and capabilities and desired attributes who can contribute to the Company's future development and growth. In FY2013-14, the Remuneration and Human Resource Committee had considered whether to pay a portion of the Directors' remuneration in the form of shares, and has decided to defer the implementation of such scheme for now.

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

The proposed scale of Directors' fees for financial year ending 31 March 2015 is the same as that for FY2013-14, and is set out below.

Types of Appointment	Scale of Directors' fees (FY2014-15)
<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

# Corporate Governance Report

## PRINCIPLE 9: DISCLOSURE ON REMUNERATION POLICY, LEVEL AND MIX OF REMUNERATION, AND PROCEDURE FOR SETTING REMUNERATION

### Directors' Remuneration

The Directors' remuneration paid out for FY2013-14 is as indicated in the table below:

Directors	Fee (\$)	Salary <sup>1</sup> (\$)	Bonuses (\$)	Benefits <sup>2</sup> (\$)	Shares (\$)	Total (\$)
Mr Edmund Cheng	157,200	–	–	–	–	157,200
Mr Alex Hungate <sup>3</sup>	30,594	580,200	–	42,700	639,423	1,292,917
Mr David Baffsky	122,556	–	–	–	–	109,334
Ms Euleen Goh <sup>4</sup>	71,467	–	–	–	–	71,467
Mr David Heng	85,928	–	–	–	–	85,928
Mr Nihal Kaviratne	112,000	–	–	–	–	112,000
Mr Koh Poh Tiong	106,428	–	–	–	–	106,428
Mr Keith Tay	122,823	–	–	–	–	109,601
Mr Yap Chee Meng <sup>5</sup>	38,645	–	–	–	–	38,645
Mr Leo Yip	83,600	–	–	–	–	83,600

Notes:

- Salary includes annual wage supplement (AWS) and employer's CPF.
- Includes transport and flexible benefits.
- Mr Alex Hungate stepped down as Chief Executive Officer of HSBC (Singapore) in March 2013 and assumed the role of Executive Director on 16 July 2013 and as PCEO of the Company with effect from 1 January 2014. His Director's fee payable was for the period 1 April 2013 to 15 July 2013. He was granted a base award under the SATS RSP for FY2013-14 on 16 July 2013. The number of shares awarded to him under the SATS RSP will vest over a two-year period; there will be no performance conditions for vesting. The share awards are based on the fair value of \$3.1225 as at date of grant.
- Ms Euleen Goh was appointed as a Director of the Company on 1 August 2013.
- Mr Yap Chee Meng was appointed as a Director of the Company on 1 October 2013.

With a view to ensuring that the Company offers more timely remuneration to attract high-calibre Directors, the Company will again be seeking the approval of the Shareholders at the 41st AGM to approve the payment of Directors' fees up to a stipulated amount for FY2014-15 so that Directors' fees can be paid in arrears on a half-yearly basis during the course of the financial year.

### Key Executives' Remuneration

The Company's key executives' remuneration framework is designed to link rewards to 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.

The key executives' remuneration framework includes the components of variable bonus (of which, a portion is tied to Economic Value Added "EVA" performance) and share awards under the SATS Restricted Share Plan ("SATS RSP") and/or the SATS Performance Share Plan ("SATS PSP"), in addition to fixed basic salary and fixed allowances. The Company considers the

PCEO and his direct reports as its key executives. With the introduction of share awards under the SATS RSP and the SATS PSP for employees of managerial grade and above in the Company, including key executives, in 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. The payment of variable bonuses and grants of share awards under the SATS RSP and the SATS PSP are in turn dependent on the Company's financial performance as well as the key executives' individual performance through their achievement of certain key performance indicators set for them. In FY2013-14, a total of 1,924,279 shares and 1,200,000 shares have been granted under the SATS RSP and SATS PSP respectively.

No termination, retirement or post-employment benefits were granted to Directors, the PCEO or the top five key management personnel of the Company (who are not Directors or the PCEO) during FY2013-14.

The aggregate compensation paid to or accrued to the top five key management personnel for FY2013-14 (who are also not Directors or the PCEO as at the date of this report) is indicated in the table below:

		Salary (S\$)	Bonuses <sup>1</sup> (S\$)	Benefits (S\$)	Total (S\$)	Award under SATS RSP <sup>2</sup>	Award under SATS PSP <sup>2</sup>	
Tan Chuan Lye <sup>3</sup>		772,000	233,000	60,900	1,065,900	161,000	326,000	
	Remuneration Band <sup>4</sup>	Salary %	Bonuses <sup>1</sup> Fixed (%)	Benefits Variable (%)	Total %	Award under SATS RSP <sup>2</sup>	Award under SATS PSP <sup>2</sup>	
Ferry Chung Qing An	\$500,001 to \$750,000	67	6	22	5	100	68,000	110,000
Yacoob Bin Ahmed Piperdi	\$500,001 to \$750,000	65	6	20	9	100	89,000	144,000
Wong Hong	\$500,001 to \$750,000	73	6	14	7	100	51,000	83,000
Cho Wee Peng <sup>5</sup>	\$250,001 to \$500,000	87	6	0	7	100	0	0

Notes:

1. Includes actual performance bonus paid for FY2012-13.
2. Denotes the base awards of shares granted under the SATS RSP and the SATS PSP for FY2013-14 on 15 November 2013. Final number of shares awarded to the recipient could range between 0% to 120% of the base granted under the SATS RSP, and between 0% to 150% of the base award granted under the SATS PSP. All awards of shares will vest in the award holder subject to the achievement of pre-determined targets over a one-year period for the SATS RSP and a three-year period for the SATS PSP.
3. Mr Tan was the PCEO of the Company from 1 April 2012 and stepped down on 31 December 2013. He assumed the role of Chairman, Food Solutions from 1 January 2014. He was granted awards under the SATS RSP and SATS PSP on 3 December 2013.
4. Remuneration bands as indicated do not include the value of any awards granted under the SATS RSP and/or the SATS PSP.
5. Mr Cho joined the Company on 1 July 2013 as Chief Financial Officer.

The total remuneration paid to the top five key management personnel (who are also not Directors or the PCEO as at the date of this report) was S\$3,280,898.

None of the immediate family members of a Director or of the PCEO was employed by the Company or its related companies at a remuneration exceeding S\$50,000 during FY2013-14.

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

# Corporate Governance Report

## PRINCIPLE 10: 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.

## PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the governance of risk. It ensures that Management maintains sound risk management and internal control systems to safeguard Shareholders' interests and investments and the Group's assets, and determines the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives. It also determines the company's levels of risk tolerance and risk policies, and oversees Management in the design, implementation and monitoring of the risk management and internal control systems.

The Board through the Audit Committee, oversees and reviews the adequacy and effectiveness of the Group's internal control functions as well as assesses financial and compliance risks; through the Board Risk and Safety Committee, it oversees and reviews the Group's operational and information technology risks and ensures that a robust risk management system is maintained; and through the Board Executive Committee, oversees the strategic, legal and financial risks faced by the Group.

### Board Risk and Safety Committee

The Board Risk and Safety Committee changed its name from "Board Risk Committee" during the year, to emphasize its role in reviewing SATS' safety systems and

programs. It oversees and reviews the adequacy and effectiveness of the Group's risk management systems as well as its safety systems and programmes.

The Board Risk and Safety Committee currently comprises the following three members, all of whom are non-executive Directors, and a majority of whom (including the Chairman) are independent Directors:

- Mr Yap Chee Meng, Chairman
- Mr David Heng, Member
- Mr Nihal Kaviratne, Member

The written terms of reference of the Board Risk and Safety Committee clearly set out its authority and duties, which include the review of the following:

- 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;
- the Group's safety system and programmes for effectiveness and compliance with regulatory requirements and best industry practices for food safety, workplace safety and occupational health;
- 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
- adequacy of insurance coverage for the Group.

The Board Risk and Safety Committee is required by its terms of reference to meet at least four times a year. The Committee met four times in FY2013-14.

The "Risk Management and Internal Controls Statement" section in this Annual Report sets out details of the Group's systems of internal controls and risk management, and the Board's views on the adequacy and effectiveness of the Group's risk management and internal control systems, including financial, operational, compliance and information technology controls.

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## PRINCIPLE 12: AUDIT COMMITTEE

### Audit Committee

The Audit Committee comprises the following four members, all of whom (including the Chairman) are non-executive and independent Directors:-

- Ms Euleen Goh, Chairman
- Mr Keith Tay, Member
- Mr Nihal Kaviratne, Member
- Mr Koh Poh Tiong, Member

The Audit Committee's primary role is to assist the Board to ensure integrity of financial reporting and sound internal control systems. During the year, it 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.

Two members of the Audit Committee, including the Chairman, are qualified accountants. All members of the Audit Committee have extensive experience in financial management. The Board is of the view that the members of the Audit Committee have the necessary and appropriate expertise and experience to effectively discharge their duties as members of the Audit Committee.

The external auditors update and keep the Audit Committee informed about relevant changes to accounting standards and issues which have a material impact on financial statements.

The Audit Committee 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. The Company's internal audit team, and the external auditors, report their findings and recommendations to the Audit Committee independently.

The Audit Committee is required by its terms of reference to meet at least four times a year. It met four times in FY2013-14, and at least one of these meetings was conducted without the presence of Management. The Audit Committee meets (a) with the external auditors, and (b) with the internal auditors, in each case without the presence of Management, at least annually.

The Audit Committee reviews the independence and objectivity of the external auditors annually. It has also

reviewed the nature and volume of non-audit services provided by its external auditors to the Group during FY2013-14, and the fees, expenses and emoluments paid or made to the external auditors, and is satisfied that they have no significant impact on the independence and objectivity of the external auditors. For details of fees payable to the auditors in respect of audit and non-audit services, please refer to Note 6 of the Notes to the Financial Statements on page 103.

The Company has complied with Rules 712, and Rule 715 read with 716 of the Listing Manual of the SGX-ST in relation to its auditing firms.

Under the terms of reference of the Audit Committee, its responsibilities include the review of the following:

- compliance and information technology (financial reporting) risks;
- quarterly and annual financial statements and financial announcements as required under the Listing Manual of the SGX-ST;
- the policy and arrangements by which employees of the Company and any other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- the external audit plan, the external auditors' management letter, the scope and results of the external audit;
- independence and objectivity of the external auditors;
- the appointment, re-appointment or removal of the external auditors, the audit fee, and recommendation to the Board on the proposal to Shareholders for the selection of external auditors;
- adequacy of resources for the internal audit function, ensuring the appropriate standing of the internal audit function within the Company and its primary line of reporting to the Chairman of the Audit Committee (with secondary administrative reporting to the PCEO);
- adequacy and effectiveness of the internal audit function, scope of internal audit work, audit programme and the internal audit charter;
- hiring, removal, evaluation and compensation of the Head of Internal Audit;
- 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;
- adequacy and effectiveness of the Company's internal controls at least annually, with Management and the internal and/or external auditors, and to

## Corporate Governance Report

- report annually to the Board, on the adequacy and effectiveness of the Company's internal controls, including financial, operational, accounting, compliance and information technology controls;
- the Board's Risk Management and Internal Controls Statement;
  - suspected fraud or irregularity or suspected infringement of any Singapore law, rule or regulation of which the Audit Committee is aware, which has or is likely to have a material impact on the Company's or Group's operating results or financial position, and the findings of any internal investigations and Management's response thereto;
  - revisions/additions/updates to the approval limits for write-offs, capital expenditure, disposal of assets and investments, and other financial, operating and other approval limits, of the Company;
  - compliance matters, including corporate securities trading policies, with the Group's General Counsel and/or the Company Secretary (or such persons of equivalent authority); and
  - interested person transactions as required under the Listing Manual of the SGX-ST and the Company's Shareholders' mandate for interested person transactions.

The Audit Committee 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 2012 Code and other relevant laws and regulations.

### Whistle-blowing Policy

The Company's "Policy on Reporting Wrongdoing" institutionalises the Group's procedures on reporting possible improprieties, independent investigation of such matters, and follow-up actions. A dedicated email address, and a 24-hour hotline managed by an independent external service provider, allows employees or any other persons who discover or suspect impropriety to report the same. All information received is treated confidentially. Results of the investigation would not be disclosed or discussed with anyone other than those who have a legitimate right to know.

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.

### Banking Transaction Procedures

Lenders to the Company 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.

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### PRINCIPLE 13: INDEPENDENT INTERNAL AUDIT FUNCTION

The Company's Internal Audit Department ("IAD") provides the Audit Committee with reasonable assurance that the Company 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 is headed by Vice President, Internal Audit, and staffed by suitably qualified executives. Under the Group's Internal Audit Charter, which was approved by the Audit Committee, IAD has unrestricted access to the Audit Committee and unfettered access to all the Group's documents, records, properties and personnel.

The internal auditors report directly to the Audit Committee and administratively to the PCEO. The Audit Committee conducts an annual review of the adequacy and effectiveness of the internal audit function. In situations where the audit work to be carried out by the internal auditors may potentially give rise to conflicts of interest, it will be brought to the attention of the Audit Committee. The Audit Committee may authorise such audit work to be carried out by an independent third party as it deems appropriate.

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 reviewed and approved by the Audit Committee.

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.



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## **PRINCIPLE 14: SHAREHOLDERS RIGHTS AND RESPONSIBILITIES**

The Company believes in equal dissemination of information and releases all media and analysts briefings, and provides timely information to Shareholders, through announcements via SGXNet, and also uploads announcements onto the Company's website.

Shareholders are informed of general meetings through notices published in the newspapers and reports or circulars sent to all Shareholders. Shareholders 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. While the Articles currently provide for a limit of up to two proxies for each Shareholder (including nominee companies), the Company, in compliance with the spirit of the 2012 Code, allows nominee companies to specify, in writing, the names of the beneficial owners of shares in the Company to attend general meetings as observers. The voting rights of Shareholders are described in the Annual Report, and Shareholders are briefed on the rules and voting procedures at the beginning of general meetings. The Company also encourages Shareholders to actively participate during general meetings, which are held in convenient locations.

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## **PRINCIPLE 15: REGULAR, EFFECTIVE AND FAIR COMMUNICATION WITH SHAREHOLDERS**

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.

The Company disseminates material, price-sensitive information to ensure that it is made publicly available on a timely and non-selective basis. Material information relating to SATS' financial performance, business and strategic developments is published on SGXNet first, followed by the Company's website ([www.sats.com.sg](http://www.sats.com.sg)).

In addition, there is a dedicated Investor Relations section on the Company's 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.

Every quarter, with the exception of the fourth quarter, the Company organises an earnings conference call with live audio webcast to brief shareholders, the investment community and the media on SATS' financial performance as well as key business and corporate developments. For the fourth quarter, it hosts a face-to-face briefing for both analysts and the media, with live audio webcast. An on-demand audio webcast is made available on its website on the same day of each earnings conference call and briefing.

The Company's Corporate Relations department, together with the PCEO, and the 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 the Company's businesses and growth strategy. The Company also participated in seminars organised by the Securities Investors Association Singapore in its bid to reach out to retail shareholders. To grow and achieve a wider geographical spread in its shareholder base, the Company tracks changes in its share register on a regular basis.

The Company's Corporate Relations 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.

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## **PRINCIPLE 16: GREATER SHAREHOLDER PARTICIPATION AT GENERAL MEETINGS**

The Company's Articles currently do not provide for Shareholders to vote at general meetings in absentia such as by mail, email or fax. The Company will consider implementing the relevant amendments to the Articles if the Board is of the view that there is a demand for such alternative methods of voting, and after the Company has evaluated and put in place the necessary security processes to facilitate absentia voting, and prevention measures against errors, fraud and other irregularities.

At general meetings, each distinct issue is proposed as a separate resolution. All resolutions are put to the vote by a show of hands. The Company will be employing electronic poll voting at the upcoming AGM. The

# Corporate Governance Report

Chairmen of the various Board Committees, or members of the respective Board Committees standing in for them, as well as the external auditors, will be present and available to address questions at the AGM.

The Company Secretaries prepare minutes of Shareholders' meetings, which incorporate substantial comments or queries from shareholders and responses from the Board and Management. These minutes are available to shareholders upon their request.

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## DEALINGS IN SECURITIES

In line with the rules of the Listing Manual of the SGX-ST, the Company has in place a policy and guidelines on dealings in the securities of the Company, 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 the Company's securities during the period falling two weeks before the announcement of the Company's quarterly financial statements for each of the first three quarters of its financial year and one month before the announcement of the Company's full-year financial statements.

The Company has also adopted a procedure for a trading halt in the Company's securities, which assists the Company to manage its 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 the Company 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, the Directors and employees of the Company are prohibited at all times from trading in the Company's securities if they are in possession of non-public, price-sensitive information of the Company. The policy and guidelines also remind employees and Directors of the Group that they should not deal in the Company's securities on short-term considerations, and

to be mindful of the insider trading prohibitions under the Securities and Futures Act whenever trading in the Company's or any other corporation's securities.

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## ANNEXURE

### 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 "**Report of the Board of Directors**" and "**Notes to Financial Statements**" in the "**Financials**" 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. These plans were introduced with a view to further strengthening the Company's competitiveness in attracting and retaining talented key senior management and senior executives. The SATS RSP and the SATS PSP aim to more directly align the interests of key senior management and senior 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 senior 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.

The SATS RSP serves as an additional motivational tool to recruit and retain talented senior 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 senior 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 Remuneration and Human Resource Committee, 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 Remuneration and Human Resource Committee 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 Remuneration and Human Resource Committee has the right to make reference to the audited results of the Company or the Group to take into account such factors as the Remuneration and Human Resource Committee 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 Remuneration and Human Resource Committee decides that a changed performance target would be a fairer measure of performance.

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.

The SATS RSP and the SATS PSP are due to expire in July 2015. The Remuneration and Human Resource Committee has approved the proposed extension of the duration of the SATS RSP and the SATS PSP for a further period of 10 years to July 2025. There will be 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. The proposed extension of the SATS RSP and the SATS PSP will be proposed to shareholders for approval at the forthcoming 41st AGM.

### **(III) PURCHASE OF SHARES PURSUANT TO THE SHARE BUY-BACK MANDATE**

The Company had obtained the approval from the Shareholders for the Share Purchase Mandate (the "**Mandate**") at the Annual General Meeting of the Company held on 26 July 2013. Pursuant to the Mandate, the Company had purchased a total of 5,667,000 shares of the Company as at 28 May 2014, prior to the printing of this Annual Report, to satisfy obligations under the ESOP, SATS RSP and the SATS PSP. As at 28 May 2014, being the latest practicable date prior to the printing of this Annual Report, 4,489,901 shares purchased or acquired by the Company were held as treasury shares.

# Risk Management and Internal Control Statement

## RESPONSIBILITY

The Board is responsible for risk governance, and for overseeing and reviewing the adequacy and effectiveness of the Group's internal controls and risk management system implemented by management to address strategic, financial, operational, compliance and information technology risks. This system by its nature can only provide reasonable, but not absolute, assurance to investors regarding:

- the safeguarding and protection of the Group's assets against unauthorised or improper use or disposal;
- protection against material misstatements or losses;
- the maintenance of proper accounting records;
- the reliability of financial information used within the business and for publication;
- the compliance with appropriate legislations, regulations and best practices; and
- the identification and containment of business risks.

## RISK MANAGEMENT ORGANISATIONAL STRUCTURE

### Board Executive Committee

The Board, through the Board Executive Committee ("EXCO"), regularly reviews and monitors the key strategic and legal risks facing the Company. The EXCO also reviews the financial policy and risk appetite limits for the approval of the Board. In addition, it provides advice and guidance to the Group's Management on managing business, strategic and operational issues.

### Audit Committee

The Board, through the Audit Committee ("AC"), oversees and reviews the financial controls and reporting process, ensures the integrity of the Group's financial statements, and the adequacy and effectiveness of the Group's internal control and compliance systems.

The Group's internal audit provides an independent assessment to the AC on the processes and controls which may have a material financial impact on the Company. There are formal procedures for both internal and external auditors to report independently their conclusions and recommendations to the AC.

The AC reviews the policy and arrangements by which employees of the Company and any other persons may in confidence raise concerns about possible improprieties in financial reporting and other matters.

### Board Risk and Safety Committee

The Board, through the Board Risk and Safety Committee ("BRSC"), oversees and reviews the Group's operational and information technology risks (including cyber security risks). 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 President and Chief Executive Officer ("PCEO"), meets on a quarterly basis to review the risk management system and mitigation measures.

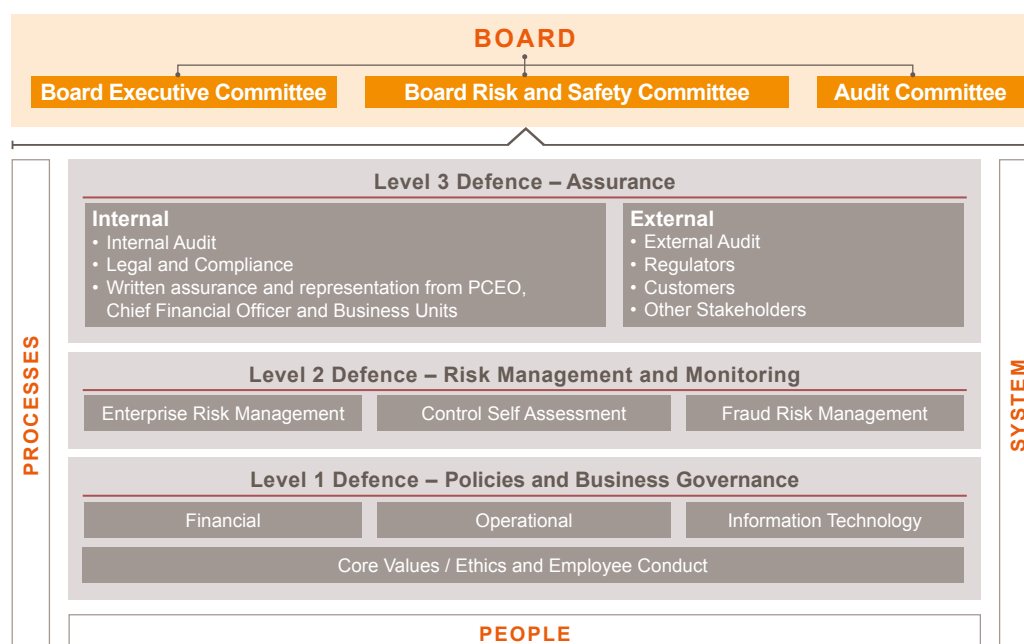
The Risk Management Department coordinates and facilitates the risk management processes within the Group. It provides support to the SGRSC in carrying out its functions.

During the year, a third-party consultant was engaged to review the Group's risk management policies and processes against the risk management practices set out in ISO31000:2009 standards. The Group has received the consultant's recommendations and is in the process of implementing the relevant recommendations.

More information on the EXCO, AC and BRSC's composition, authorities and duties can be found in the "Corporate Governance" section of this Annual 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 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 of the Group.

### 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.

## Risk Management and Internal Control Statement

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 and consequence of a preset scale and ranked accordingly, and this enables the Group to allocate its resources to deal with the different levels of business risks. 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 declaration and the implementation of policies such as SATS Whistle-Blower Policy and Code of Conduct to establish a clear tone from the top with regard to 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, a number of the questionnaires used in conducting the CSAs were updated to reflect the changes in the organisation and to increase the strength of the control environment.

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 Group's Internal Auditors review the effectiveness of the Group's material internal controls (addressing financial, operational, information technology and compliance risks), and risk management system. 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 "Corporate Governance" section of this Annual Report.

### 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 Chief Financial Officer:

- (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) were adequate and effective as at the date of the "Directors' Report".