

corporate governance

Code of corporate governance 2005 specific principles and guidelines for disclosure

Relevant guideline or principle	Page Reference in this Report
Guideline 1.3 Delegation of authority, by the board to any board committee, to make decisions on certain board matters.	Pages 70, 71, 72, 74, 77 and 81
Guideline 1.4 The number of board and board committee meetings held in the year, as well as the attendance of every board member at these meetings.	Page 71
Guideline 1.5 The type of material transactions that require board approval under internal guidelines.	Page 72
Guideline 2.2 Where the company considers a director to be independent in spite of the existence of a relationship as stated in the Code that would otherwise deem him as non-independent, the nature of the director's relationship and the reason for considering him as independent should be disclosed.	Not applicable
Guideline 3.1 Relationship between the chairman and chief executive officer where they are related to each other.	Not applicable
Guideline 4.1 Composition of nominating committee.	Pages 70 and 74
Guideline 4.5 Process for the selection and appointment of new directors to the board.	Page 76
Guideline 4.6 Key information regarding directors, which directors are executive, non-executive or considered by the nominating committee to be independent.	Pages 70, 73 and 75
Guideline 5.1 Process for assessing the effectiveness of the board as a whole and the contribution of each individual director to the effectiveness of the board.	Page 76
Principle 9 Clear disclosure of its remuneration policy, level and mix of remuneration, procedure for setting remuneration and link between remuneration paid to directors and key executives, and performance.	Pages 77 to 80, 84 and 85
Guideline 9.1 Composition of remuneration committee.	Pages 71 and 77
Guideline 9.2 Name and remuneration of each director. The disclosure of remuneration should be in bands of S\$250,000. There will be a breakdown (in percentage terms) of each director's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, and stock options granted and other long-term incentives.	Page 79
Guideline 9.2 Names and remuneration of at least the top 5 key executives (who are not also directors). The disclosure should be in bands of S\$250,000 and include a breakdown of remuneration.	Page 80
Guideline 9.3 Remuneration of employees who are immediate family members of a director or the chief executive officer, and whose remuneration exceed S\$150,000 during the year. The disclosure should be made in bands of S\$250,000 and include a breakdown of remuneration.	Page 80
Guideline 9.4 Details of employee share schemes.	Pages 84 and 85
Guideline 11.8 Composition of audit committee and details of the committee's activities.	Pages 70, 81 and 82
Guideline 12.2 Adequacy of internal controls, including financial, operational and compliance controls, and risk management systems.	Pages 82, 86 to 88

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Singapore Airport Terminal Services Limited (“**SATS**” or the “**Company**”) continually strives to maintain high standards of corporate governance within the Company and its subsidiaries (the “**Group**”) as part of its mission to be and grow as a strong, sound and respected leader in its industry, to protect the interests of its shareholders and maximize long term shareholder value.

As required by the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), the following report (“**Report**”) describes SATS’ corporate governance policies and practices with specific reference to the principles and guidelines set out in the Code of Corporate Governance 2005 (the “**2005 Code**”). This Report has been structured in accordance with the sequence of principles and guidelines as set out in the 2005 Code.

Principle 1: Company to be headed by an effective board to lead and control the company

The Board is responsible to oversee the business, performance and affairs of the Group. Management has the role of ensuring that the day-to-day operation and administration of the Group is carried out in accordance with the policies and strategy 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 direction of the Group to be implemented by Management, and to provide leadership and guidance to Management;
- 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; and
- have overall responsibility for corporate governance, including the processes of evaluating the adequacy of internal controls, risk management, financial reporting and compliance.

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 and Risk Management Committee
- Nominating Committee
- Remuneration and Human Resource Committee

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 and Risk Management Committee	Nominating Committee	Remuneration and Human Resource Committee
Mr Edmund Cheng Wai Wing	Non-Executive Chairman & Independent Director	Chairman			Chairman
Mr David Zalmon Baffsky ¹	Independent Director		Member		
Mr Khaw Kheng Joo ²	Independent Director		Member	Chairman	
Dr Rajiv Behari Lall ³	Independent Director			Member	
Mr Mak Swee Wah ⁴	Non-Executive, Non-Independent Director	Member			Member
Mr Ng Kee Choe ⁵	Independent Director	Member			Member
Dr Ow Chin Hock ⁶	Independent Director			Member	
Mr Keith Tay Ah Kee	Independent Director		Chairman	Member	
Mr Yeo Chee Tong ⁷	Independent Director		Member		Member

Notes:

- ¹ Appointed as a Director on 15 May 2008, and as a member of the Audit and Risk Management Committee with effect from 25 July 2008.
- ² Appointed as a member of the Audit and Risk Management Committee and as Chairman of the Nominating Committee, both with effect from 25 July 2008. Prior to such date, Mr Khaw was a member of the Nominating Committee.
- ³ Appointed as a Director on 5 May 2008 and as a member of the Nominating Committee with effect from 25 July 2008.
- ⁴ Appointed as a Director on 24 July 2008, and as a member of both the Board Executive Committee and the Remuneration and Human Resource Committee with effect from 25 July 2008.
- ⁵ Appointed as a member of the Remuneration and Human Resource Committee with effect from 25 July 2008, and stepped down as a member of the Audit and Risk Management Committee on 24 July 2008.
- ⁶ Stepped down as Chairman of the Nominating Committee on 24 July 2008 but remained a member of the Nominating Committee for the remainder of FY2008-09. Also stepped down as a member of the Audit and Risk Management Committee on 24 July 2008.
- ⁷ Appointed as a member of the Audit and Risk Management Committee with effect from 25 July 2008.

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.

In addition, an ad hoc Board Committee (namely, the SATS-SFI Integration Board Committee or “**SSIBC**”) was established by the Board in early February 2009 following the completion of the acquisition by the Company of a 69.61% stake in Singapore Food Industries Limited (“**SFI**”) on 20 January 2009, amidst a general offer made to shareholders of SFI by SATS to acquire the remaining shares of SFI. The SSIBC has been tasked to oversee the proposed integration of the SATS and SFI groups of companies and their respective operations, and will be disbanded upon the integration exercise being substantively completed. The SSIBC currently comprises five members, being Mr Edmund Cheng Wai Wing (as Chairman of the SSIBC), Mr Mak Swee Wah, Mr Ng Kee Choe, Mr Keith Tay Ah Kee and Mr Yeo Chee Tong. The SSIBC met twice in March 2009 and continues to hold meetings on a monthly basis to review and decide on integration-related matters together with Management (including management of SFI). SFI became a wholly-owned subsidiary of the Company on 17 April 2009 and has since been delisted from the Main Board of the SGX-ST.

Fixed and optional Board meetings are scheduled in advance, with optional meetings held as scheduled if there are matters to be put before the Board at the relevant time. In addition, ad hoc Board meetings are convened if there are pressing matters requiring the Board’s deliberation and decision in between the scheduled meetings. During the financial year ended 31 March 2009 (“**FY2008-09**”), in addition to the quarterly scheduled Board meetings, four ad hoc Board meetings were convened and held in conjunction with the proposed acquisition of SFI. Since 2003, the Board has also conducted annual Board strategy meetings to have more focused discussions on key strategic issues facing the Group. The Board strategy meeting held last year included one of the four ad hoc Board meetings held during FY2008-09 in conjunction with the proposed acquisition of SFI.

The Company’s Articles of Association (“**Articles**”) allow Directors to participate in Board meetings by way of telephone 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. During FY2008-09, various Directors have participated in Board or Board Committee meetings by way of telephone conference. In the course of the last financial year, the Company has also implemented a video conference facility, which has provided Directors with an alternative means of participation in Board and Board Committee meetings.

In respect of FY2008-09, a total of eight Board meetings, including a three-day Board strategy meeting and the ad hoc Board meetings mentioned above, were held. The Directors’ attendance at Board and Board Committee meetings for FY2008-09 is set out below.

No. of Board Committee Meetings Attended in FY2008-09

	No. of Board Meetings Attended (No. of meetings held: 8)	Board Executive Committee (No. of meetings held: 4)	Audit and Risk Management Committee (No. of meetings held: 4)	Nominating Committee (No. of meetings held: 1)	Remuneration and Human Resource Committee (No. of meetings held: 4)
Mr Edmund Cheng Wai Wing	8	4	Not applicable	Not applicable	4
Mr David Zalmon Baffsky ⁸	6	Not applicable	2	Not applicable	Not applicable
Mr Khaw Kheng Joo ⁹	8	Not applicable	2	1	Not applicable
Dr Rajiv Behari Lall ¹⁰	2	Not applicable	Not applicable	0	Not applicable
Mr Mak Swee Wah ¹¹	6	3	Not applicable	Not applicable	3
Mr Ng Kee Choe ¹²	7	4	2	Not applicable	2
Dr Ow Chin Hock ¹³	8	Not applicable	2	1	Not applicable
Mr Keith Tay Ah Kee	8	Not applicable	4	1	Not applicable
Mr Yeo Chee Tong ¹⁴	7	Not applicable	2	Not applicable	4
Mr Chew Choon Seng ¹⁵	2	1	Not applicable	Not applicable	1

Notes:

- 8 Appointed as a Director on 15 May 2008, and as a member of the Audit and Risk Management Committee with effect from 25 July 2008. Mr Baffsky attended six out of seven Board meetings and two out of three Audit and Risk Management Committee meetings which were held during his term of Directorship in FY2008-09.
- 9 Appointed as member of the Audit and Risk Management Committee with effect from 25 July 2008. Mr Khaw attended all meetings of the Audit and Risk Management Committee which were held during his term as a member of the Audit and Risk Management Committee in FY2008-09.
- 10 Appointed as a Director on 5 May 2008, and as a member of the Nominating Committee with effect from 25 July 2008. Dr Lall attended two out of eight Board meetings which were held during his term of Directorship in FY2008-09. The Board noted that he was unable to attend the Board meetings held during the period of July to November last year on compassionate grounds, and a further two Board meetings were ad hoc Board meetings convened at very short notice. No Nominating Committee meeting was held in FY2008-09 after his appointment as Director on 5 May 2008.
- 11 Appointed as a Director on 24 July 2008 and as a member of both the Board Executive Committee and Remuneration and Human Resource Committee with effect from 25 July 2008. Mr Mak attended all meetings of the Board Executive Committee and the Remuneration and Human Resource Committee which were held during his term of Directorship in FY2008-09.
- 12 Appointed as a member of the Remuneration and Human Resource Committee with effect from 25 July 2008, and stepped down as a member of the Audit and Risk Management Committee on 24 July 2008. Mr Ng attended all Audit and Risk Management Committee meetings and two out of three Board Executive Committee meetings which were held during his term as a member of these Board Committees in FY2008-09.
- 13 Stepped down as a member of the Audit and Risk Management Committee on 24 July 2008. Dr Ow attended all Audit and Risk Management Committee meetings which were held during his term as a member of the Audit and Risk Management Committee in FY2008-09.
- 14 Appointed as a member of the Audit and Risk Management Committee with effect from 25 July 2008. Mr Yeo attended all Audit and Risk Management Committee meetings which were held during his term as a member of the Audit and Risk Management Committee in FY2008-09.
- 15 Retired as Director on 24 July 2008 and did not stand for re-election. Mr Chew had attended all Board meetings and all meetings of Board Committees of which he was a member and which were held during his term of Directorship in FY2008-09. At the time of his retirement, Mr Chew was the Deputy Chairman of the Board, as well as a member of both the Board Executive Committee and the Remuneration and Human Resource Committee.

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All members of the Board actively participate in Board discussions and help develop proposals on business strategies and goals for the Group. Board members meet regularly with 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 investment and strategic commitments.

Board Executive Committee

In this regard, the Board has delegated to the Board Executive Committee the function of reviewing and approving certain matters, *inter alia*, guiding Management on business, strategic and operational issues, undertaking an initial review of the three- to five-year forecast/business plan and annual capital and operating expenditure and manpower establishment budgets for the Group, granting initial or final approval (depending on the value of the transaction) of transactions of the Company or its subsidiaries 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 seal, and nominating board members to the Company's subsidiaries and associated companies.

The Board Executive Committee currently comprises Mr Edmund Cheng Wai Wing (who is the Chairman of the Committee), Mr Mak Swee Wah and Mr Ng Kee Choe. Two out of the Board Executive Committee's three members, including its Chairman, are independent Directors.

The Board Executive Committee is scheduled to meet four times a year. Regular reports are presented to the Committee at each meeting on the performance of the Group's subsidiaries, associated companies and joint ventures, and the operational performance of the Group. The President & Chief Executive Officer ("**PCEO**"), Chief Operating Officer ("**COO**") and Senior Vice President (Finance), are usually present at the meetings of the Board Executive Committee.

Orientation and training for Directors

Newly-appointed Directors undergo an orientation programme, which includes site visits and presentations by members of Management, to facilitate their understanding of the Group's businesses, operations and processes. In addition, all Directors are encouraged to attend relevant and useful seminars on leadership and industry-related matters, corporate governance and changes in the financial reporting regime for their continuing education and skills improvement, conducted by external organizations, at the Company's cost.

Newly-appointed Directors are also each sent a formal letter setting out directors' duties and obligations.

Principle 2: Strong and independent element on the board to exercise objective judgement

The present Board wholly comprises non-executive Directors. Of the nine Directors, eight are considered by the Nominating Committee and the Board to be independent Directors based on the 2005 Code's criteria for independence.

The Board, through the Nominating Committee, reviews the structure, 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 is of the view, taking into account the nature and scope of the Company's operations, that the current size of the Board is adequate for the time being for the Board to discharge its duties and responsibilities effectively, and further that the Board comprises Directors who as a group provide core competencies such as accounting or finance, business or management (including human resource development and management) experience, industry knowledge, strategic planning experience, and customer-based experience or knowledge, required for the Board to be effective. The Nominating Committee, as part of its continuing review of the Board size and composition, recommended the appointment in May 2008 of two new directors, namely Dr Rajiv Behari Lall and Mr David Zalmon Baffsky, who, with their specific areas of expertise, supplement and strengthen the collective competency of the Board. As part of the rejuvenation of the Board, Dr Ow Chin Hock will be retiring as a Director and will not be standing for re-election at the forthcoming 36th Annual General Meeting of the Company ("AGM"). In view of the new challenges ahead for the Company with its recent acquisition of the SFI group of companies and the increasing scale of operations and investments internationally, the Board (through the Nominating Committee) is actively seeking additional suitably qualified candidates for appointment as Directors of the Company.

To facilitate a more effective check on Management, the Board members also meet up 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

The roles of Chairman and PCEO are clearly separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. The Chairman and the PCEO are not related to each other, and further, the PCEO is not a member of the Board.

The Chairman of the Board continues to lead the Board to ensure its effectiveness on all aspects of its role and sets its agenda, ensures that the Directors receive accurate, timely and clear information, ensures effective communication with shareholders, encourages constructive relations between the Board and Management, facilitates the effective contributions of the Directors, encourages constructive relations between all Directors and promotes high standards of corporate governance.

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Principle 4: Formal and transparent process for appointment of new directors

Nominating Committee

The Board has established a Nominating Committee with written terms of reference which include the following:

- reviewing and making recommendations to the Board on the structure, size and composition of the Board;
- making recommendations to the Board regarding the process for selection of new Directors and identification of new Directors;
- making recommendations to the Board on re-nominations and re-elections of existing Directors;
- evaluating the independence of Directors on an annual basis;
- 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; and
- doing all things as may form part of the responsibilities of the Nominating Committee under the provisions of the 2005 Code.

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

- Mr Khaw Kheng Joo (Chairman)
- Dr Rajiv Behari Lall (Member)
- Dr Ow Chin Hock (Member)
- Mr Keith Tay Ah Kee (Member)

The Chairman of the Nominating Committee is not directly associated with Temasek Holdings (Private) Limited or Singapore Airlines Limited (“SIA”), who are substantial shareholders of the Company. Under the 2005 Code, a director will be considered “directly associated” with a substantial shareholder when the director is accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the substantial shareholder.

The Nominating Committee is required to meet every financial year and met once in FY2008-09.

Re-nomination and re-election of Directors

The Nominating Committee has considered and is satisfied that all the Directors have been able to carry out, and have adequately carried out, their duties as directors notwithstanding their multiple board representations.

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

Name of Director	Position Held on the Board	Date of First Appointment to the Board	Date of Last Re-election as a Director
Mr Edmund Cheng Wai Wing	Chairman	22 May 2003 (as Director and Chairman)	24 July 2008
Mr David Zalmon Baffsky	Director	15 May 2008	24 July 2008
Mr Khaw Kheng Joo	Director	19 July 2005 (appointed at the Company's 32nd Annual General Meeting)	24 July 2008
Dr Rajiv Behari Lall	Director	5 May 2008	24 July 2008
Mr Mak Swee Wah	Director	24 July 2008 (appointed at the Company's 35th Annual General Meeting)	Not applicable
Mr Ng Kee Choe ¹⁶	Director	1 March 2000	26 July 2007
Dr Ow Chin Hock ¹⁷	Director	21 May 2002	26 July 2007
Mr Keith Tay Ah Kee	Director	26 July 2007 (appointed at the Company's 34th Annual General Meeting)	Not applicable
Mr Yeo Chee Tong ¹⁶	Director	19 May 2006	25 July 2006

Notes:

¹⁶ Mr Yeo Chee Tong and Mr Ng Kee Choe will be retiring and standing for re-election at the AGM. Both Mr Yeo Chee Tong and Mr Ng Kee Choe are considered by the Nominating Committee to be independent Directors. Mr Ng Kee Choe is a member of both the Board Executive Committee and the Remuneration and Human Resource Committee, while Mr Yeo Chee Tong is a member of both the Audit and Risk Management Committee and the Remuneration and Human Resource Committee.

¹⁷ Dr Ow Chin Hock will be retiring at the AGM and will not be standing for re-election. He is considered by the Nominating Committee to be an independent Director. Upon Dr Ow's retirement from the Board, he will cease to be a member of the Nominating Committee.

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 Annual General Meeting. Retiring Directors are selected on the basis of those who have been longest in office since their last election, and as between those persons who became Directors on the same day, they will be selected by agreement or by lot. They are eligible for re-election under the Articles. All Directors are required to retire from office at least once every three years. Further, Directors who are appointed by the Board of Directors since the last Annual General Meeting of the Company hold office only until the following Annual General Meeting and shall then be eligible for re-election under the Articles.

The Directors standing for re-election at the AGM are Mr Yeo Chee Tong and Mr Ng Kee Choe. The Nominating Committee (after having taken the principles for the determination of the Board size and composition adopted by it into consideration) recommend their re-election, after assessing their contribution and performance (including attendance, preparedness, participation and candour) as Directors, and the Board has endorsed the recommendation.

Annual independence review

The Nominating Committee is tasked to determine on an annual basis whether or not a Director is independent, bearing in mind the 2005 Code's definition of an "independent Director" and guidance as to which existing relationships would deem a Director not to be independent.

In this regard, other than Mr Mak Swee Wah, an employee of SIA which is the immediate holding company of SATS, all the other eight Directors on the Board are considered by the Nominating Committee and the Board to be independent Directors.

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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. This assists 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 selection of new Directors and identification of new Directors. Taking into consideration the desired qualifications, skillsets, 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.

Key information regarding the Directors

More information on each of the Directors, their respective backgrounds and fields of expertise as well as their present and past preceding 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.

Principle 5: Formal assessment of effectiveness of the board

The Board has implemented a process for assessing the effectiveness of the Board as a whole, with the objective of continuous improvement. A consulting firm specialising in Board evaluation and human resource assists the Board in the design and implementation of the process, comprising two parts – a structured qualitative assessment of the functioning of the Board, and a review of selected financial performance indicators. Both sets of performance criteria, recommended by the consultants, have the approvals of the Nominating Committee and the Board. The collective Board evaluation process has been implemented since 2003. The qualitative assessment process utilising a confidential questionnaire submitted by each Director individually, has remained substantially unchanged since the last assessment conducted and was last revised for use in and from the financial year ended 31 March 2008 ("**FY2007-08**"). As for the quantitative performance criteria, the Board has adopted, in line with the 2005 Code, performance criteria comprising the Company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index, return on assets, return on equity, return on investment, and economic value added over the preceding five years for the collective Board evaluation.

A process for individual director assessment and feedback is in place. Other than the collective Board evaluation exercise, the Chairman meets with each Director in a private session to discuss and evaluate 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 both 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).

Principle 6: Board's access to information

The Board is issued with detailed Board papers by Management giving the background, explanatory information and justification for each decision and mandate sought by Management, including, where applicable, relevant budgets, forecasts and projections, and issues being dealt with by Management. 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, the various Board Committees receive minutes and reports from Management relating to their specific areas of oversight, which may contain more detailed and specific information than what is circulated to the rest of the Board members.

As part of good corporate governance, Board papers 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 reserved for resolution at Board meetings rather than by circulation to facilitate discussion. The detailed agenda of each Board meeting, prepared by Management and approved by the Chairman, contain specific matters for the decision and information of the Board.

The Board has separate access to the PCEO, COO, Senior Vice President (Finance) 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 Secretary. The Company Secretary attends 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 compliance by the Company with its Memorandum and Articles of Association, laws and regulations, 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 or the Articles, or as required by the Chairman of SATS 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 are good information flows within the Board and the Board Committees, and between senior management and the non-executive Directors. She facilitates orientation and assists with professional development as may be required. The appointment and removal of the Company Secretary are matters 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.

Principle 7: Formal and transparent procedure for fixing remuneration packages of directors

Remuneration and Human Resource Committee

The Board has established a Remuneration and Human Resource Committee which presently comprises four members, all of whom are non-executive Directors and of which the majority including the Chairman are considered by the Nominating Committee to be independent Directors. It is chaired by Mr Edmund Cheng Wai Wing and its other members are Mr Mak Swee Wah, Mr Ng Kee Choe and Mr Yeo Chee Tong. 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 written terms of reference of the Remuneration and Human Resource Committee include the following:

- reviewing and recommending the remuneration framework for the Board (including Directors' fees and allowances);
- overseeing the terms of appointment, scope of duties and remuneration of the PCEO and COO, as well as any other appointment of equivalent seniority to the PCEO or COO within the Company, and the remuneration packages of those occupying the position of Senior Vice President and above within the Group;
- implementing and administering the Company's Employee Share Option Plan, the Restricted Share Plan and the Performance Share Plan (collectively, the "**Share Plans**") in accordance with the prevailing rules of the Share Plans, requirements of the SGX-ST and applicable laws and regulations;
- overseeing the recruitment, promotion and distribution within the Group, of staff talent;
- reviewing, overseeing and advising on the structure, organization and alignment of the functions and management of the Group;
- reviewing succession planning of the Group;
- overseeing industrial relations matters; and
- doing all other things and exercising all other discretions as may form part of responsibilities of the remuneration committee under the provisions of the 2005 Code.

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**" 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.

Where required, the Remuneration and Human Resource Committee has access to expert advice in the field of executive compensation outside the Company.

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Principle 8: Level of directors' remuneration should be appropriate to attract, retain and motivate but not be excessive

Every Director will receive the basic fee. In addition, he will receive the Chairman's or Deputy Chairman's fee if he was the Chairman or Deputy Chairman of the Board respectively, as well as the relevant Board Committee fee (depending on whether he served in the capacity of the Chairman or a member of the relevant Board Committee) for each position he held on a Board Committee, during FY2008-09. If he occupied a position for part of a financial year, the fee payable would be prorated accordingly. An attendance fee for each Board meeting attended by a Director during the financial year was adopted from the financial year ended 31 March 2007 onwards, whereby each Director would receive an attendance fee of S\$1,000 per Board meeting (excluding Board Committee meetings) attended, on account of the time and effort of each of the Directors to avail himself for Board meetings. It has been proposed that from FY2008-09 onwards, in view of the appointment of foreign directors, with the growing international outreach of the operations and investments of the Group and the need for the Company to attract Directors with more international exposure and experience, a variation be introduced in respect of attendance fees for Board meetings whereby:

- A flat attendance fee of S\$1,000 be payable to a Director per Board meeting held in the state/country in which the Director is ordinarily resident; and
- A flat attendance fee of S\$2,000 be payable to a Director per Board meeting held outside the state/country in which the Director is ordinarily resident.

As per current practice, no attendance fees would be payable to Directors in respect of their attendance at Board Committee meetings.

The Board believes that the scale of Directors' fees and proposed revision to the attendance fees for Board meetings, are appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the Directors.

Other than as stated above, the scale of fees proposed to be paid to the Directors, all being non-executive Directors, for FY2008-09 remains unchanged from that of the previous financial year and is as follows:

Type of Appointment	Proposed scale of Directors' fees (from FY2008-09) S\$
Board of Directors	
Basic fee	45,000
Board Chairman's fee	40,000
Board Deputy Chairman's fee	30,000
Attendance fees for each Board meeting attended	
• where the Board meeting is held in the state/country in which the Director is ordinarily resident	1,000
• where the Board meeting is held outside the state/country in which the Director is ordinarily resident	2,000
Audit and Risk Management Committee	
Committee Chairman's fee	30,000
Member's fee	20,000
Board Executive Committee	
Committee Chairman's fee	30,000
Member's fee	10,000
Other Board Committees	
Committee Chairman's fee	20,000
Member's fee	10,000

Principle 9: Disclosure on remuneration policy, level and mix of remuneration, and procedure for setting remuneration

Directors' remuneration

The Board will be recommending the following fees of the Directors in respect of FY2008-09 for approval by shareholders at the AGM, based on the proposed scale of fees set out above:

Name of Director	Total fees payable in respect of FY2008-09, based on proposed scale of Directors' fees (S\$)
Mr Edmund Cheng Wai Wing	144,000
Mr David Zalmon Baffsky ¹⁸	65,274
Mr Khaw Kheng Joo ¹⁹	84,548
Dr Rajiv Behari Lall ²⁰	51,658
Mr Mak Swee Wah ²¹	51,644
Mr Ng Kee Choe ²²	76,151
Dr Ow Chin Hock ²³	73,452
Mr Keith Tay Ah Kee	94,000
Mr Yeo Chee Tong ²⁴	76,699
Mr Chew Choon Seng ²⁵	31,932
Proposed total fees payable to all Directors in office during FY2008-09	749,357

Notes:

- 18 Appointed as a Director on 15 May 2008, and as a member of the Audit and Risk Management Committee with effect from 25 July 2008.
- 19 Appointed as a member of the Audit and Risk Management Committee and as Chairman of the Nominating Committee, both with effect from 25 July 2008. Prior to such date, Mr Khaw was a member of the Nominating Committee.
- 20 Appointed as a Director on 5 May 2008 and as a member of the Nominating Committee with effect from 25 July 2008.
- 21 Appointed as a Director on 24 July 2008, and as a member of both the Board Executive Committee and the Remuneration and Human Resource Committee with effect from 25 July 2008. Directors' fees for Mr Mak, who is the nominee Director of SIA, will be paid to SIA.
- 22 Appointed as a member of the Remuneration and Human Resource Committee with effect from 25 July 2008, and stepped down as a member of the Audit and Risk Management Committee on 24 July 2008.
- 23 Stepped down as Chairman of the Nominating Committee on 24 July 2008 but remained a member of the Nominating Committee for the remainder of FY2008-09. Also stepped down as a member of the Audit and Risk Management Committee on 24 July 2008.
- 24 Appointed as a member of the Audit and Risk Management Committee with effect from 25 July 2008.
- 25 Retired as Director on 24 July 2008 and did not stand for re-election. At the time of his retirement, Mr Chew was the Deputy Chairman of the Board, as well as a member of both the Board Executive Committee and the Remuneration and Human Resource Committee. Directors' fees for Mr Chew, who was the nominee Director of SIA, will be paid to SIA.

Other than the above amounts indicated, the Directors do not receive any other remuneration from the Company.

While the above proposed total fees payable to all Directors in office during the course of FY2008-09 is an increase over that paid for FY2007-08, being S\$620,000, it is noted that the increase in absolute fees payable is due to: (i) the Board having an increase of two Board members since FY2007-08; (ii) the Company having non-resident Directors in FY2008-09 as compared to previously where all Directors were resident in Singapore; and (iii) an increase in the number of Board meetings in FY2008-09 (8 Board meetings were held) as compared to FY2007-08 (5 Board meetings were held) in view of the acquisition of SFI by the Company during FY2008-09.

Key executives' remuneration

Information on the key executives of the Company can be found in the "**Executive Management**" section of this Annual Report.

The Company's key executives' remuneration system is designed so as to include long-term incentives to allow the Company to better align executive compensation with creating more value for shareholders. The key executives' remuneration system includes the components of variable bonus 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. With the introduction of share awards under the SATS RSP and the SATS PSP for staff of managerial grade and above in the Company, including key executives, in 2006, the Company had 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 system with effect from FY2007-08. 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 executives' individual performance through their achievement of certain key performance indicators set for them.

corporate governance

The remuneration of the top key executives of the Group^{26 and 27} during FY2008-09 was as follows:

Remuneration band & name of key executive	Salary (%)	Bonuses		Benefits (%)	Total (%)	Awards under SATS RSP ³⁰	Awards under SATS PSP ³⁰
		Fixed (%)	Variable ²⁹ (%)				
S\$750,000 to S\$1,000,000²⁸							
Clement Woon Hin Yong PCEO	60	5	28	7	100	52,000	72,000
S\$500,000 to S\$750,000²⁸							
Nil							
S\$250,001 to S\$500,000²⁸							
Karmjit Singh COO, West Asia	62	5	21	12	100	23,800	20,000
Leong Kok Hong Senior Vice President (North Asia)	67	6	23	4	100	18,900	-
Andrew Lim Cheng Yueh Senior Vice President (Apron & Passenger Services)	72	7	14	7	100	18,900	-
Yacoob bin Ahmed Piperdi Senior Vice President (Cargo Services)	73	7	14	6	100	27,000	-
Tan Chuan Lye Senior Vice President (Catering)	73	6	17	4	100	27,000	-

Notes:

- 26 Pursuant to Rule 1207(14) of the Listing Manual of the SGX-ST, the remuneration paid to Mr Goh Soo Lim, who served as the Chief Financial Officer of the Company during FY2008-09 up to and including 31 October 2008, was S\$137,943, inclusive of bonuses and benefits in kind. He did not receive any awards under the SATS RSP and the SATS PSP in FY2008-09.
- 27 Pursuant to Rule 1207(14) of the Listing Manual of the SGX-ST, the remuneration paid to Mr Lim Chuang, who was appointed as the Senior Vice President (Finance) of the Company during FY2008-09 from 17 November 2008 was S\$129,230, inclusive of bonuses and benefits in kind. This excludes a base award of 50,000 shares awarded to him under the SATS RSP on 17 November 2008.
- 28 Remuneration bands as indicated do not include the value of any awards granted under the SATS RSP and/or the SATS PSP.
- 29 Includes profit-sharing bonus determined on an accrual basis for FY2008-09.
- 30 Denotes the base awards of shares granted under the SATS RSP and the SATS PSP for FY2008-09 on 28 July 2008. Final number of shares awarded to the recipient could range between 0% and 120% of the base award 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 two-year period for the SATS RSP and a three-year period for the SATS PSP.

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\$150,000 during FY2008-09.

In relation to remuneration for employees other than key executives of the Company, the Remuneration and Human Resource Committee had resolved to cease any further grants of share options under the ESOP. In this regard, the last grant of options under the ESOP was issued on 1 July 2008, and the validity period of exercise of these options would be until 30 June 2018.

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

Principle 10: Board is accountable to shareholders and management is accountable to the board, to provide information/assessment on the company's performance, position and prospects

Shareholders are presented with the quarterly and full-year financial results within 45 days of the end of the quarter or financial year (as the case may be). Through the release of its financial results, the Board aims to present shareholders with a balanced and understandable assessment of SATS' performance, position and prospects.

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

Principle 11: Establishment of audit committee with written terms of reference**Audit and Risk Management Committee**

The Audit and Risk Management Committee comprises four members, all of whom are independent Directors. The Chairman of the Audit and Risk Management Committee is Mr Keith Tay Ah Kee, and its members are Mr David Zalmon Baffsky, Mr Khaw Kheng Joo and Mr Yeo Chee Tong.

The Board is of the view that the members of the Audit and Risk Management Committee have the necessary and appropriate expertise and experience to discharge their duties as the Audit and Risk Management Committee.

The Audit and Risk Management Committee has explicit authority to investigate any matter within its terms of reference, full access to and co-operation of Management, and has full discretion to invite any Director or executive officer to attend its meetings. It also has reasonable resources to discharge its functions.

Under the Charter of the Audit and Risk Management Committee, its responsibilities include the review of the following:

- quarterly and annual financial statements and financial announcements as required under the Listing Manual of the SGX-ST;
- the audit plan, the external auditors' Management letter and the scope and results of the external audit;
- independence and objectivity of the external auditors, their appointment and reappointment and audit fee;
- ensure that the internal audit function is adequately resourced, has appropriate standing within the Company and has a primary line of reporting to the Chairman of the Audit and Risk Management Committee (with secondary administrative reporting to the PCEO);
- adequacy of the internal audit function, scope of internal audit work and audit programme;
- 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, with the Head of Internal Audit and Management;
- effectiveness of the Company's material internal controls, on an annual basis with Management and the internal and/or external auditors;
- the risk management policies, the types and level of risks undertaken by the Group in relation to its business strategy, and the practices adopted by Management to manage, prevent and mitigate risks including the processes and methodologies for identifying, evaluating, monitoring, managing and reporting significant risks affecting the Group's operations;
- suspected fraud or irregularity or suspected infringement of any Singapore law, rule or regulation of which the Audit and Risk Management 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; 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 and Risk Management 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 including the 2005 Code, and other relevant laws and regulations.

The Audit and Risk Management Committee is required by its Charter to meet at least four times a year, with the internal and external auditors of the Company present, including at least once without the presence of Management.

The Audit and Risk Management Committee reviews the independence 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 FY2008-09, and the fees, expenses and emoluments provided to the external auditors, and is satisfied that they have no significant impact on the independence and objectivity of the external auditors.

corporate governance

Principle 12: Sound system of internal controls to safeguard shareholders' investments and the company's assets

The Board recognizes the importance of a sound system of internal controls to safeguard shareholders' interests and investments and the Group's assets, and to manage risks. The Board, through the Audit and Risk Management Committee, oversees and reviews the adequacy and effectiveness of the Group's internal controls and risk management systems.

The "**Internal Controls Statement**" section in this Annual Report sets out details of the Group's system of internal controls and risk management structure and processes, and the Board's views on the adequacy of the Group's internal controls.

Whistle-blowing Policy

The Company has also put in place a "Policy on Reporting Wrongdoing" to institutionalize procedures on reporting possible improprieties involving the Company, and for allowing independent investigation of such matters, and appropriate and consistent follow-up action. A dedicated email address and hotline have been set up to allow employees 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 to note 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 should always verify, in accordance with the verification process set out in the applicable procedures, that the transaction is properly authorised.

Principle 13: Independent internal audit function

The Company has an internal audit function which comprises a dedicated section within the Internal Audit department of SIA, the Company's holding company. It is designed to provide reasonable assurance on the adequacy and effectiveness of controls over operations, reliability of financial information and compliance with the Company's policies and procedures, applicable laws and regulations.

The internal auditors report directly to the Company's Audit and Risk Management Committee. 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 and Risk Management Committee. The Audit and Risk Management Committee may authorise such audit work to be carried out by an independent third party as it deems appropriate.

SIA's Internal Audit department meets all the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

The Audit and Risk Management Committee is satisfied that the internal audit function is adequately resourced and has appropriate standing within SATS, and that the internal audit function is adequate.

Principle 14: Regular, effective and fair communication with shareholders

The Company strives to convey to shareholders pertinent information in a clear, forthcoming, detailed, timely manner and on a regular basis, take into consideration their views and inputs, and address shareholders' concerns. While the Company's Investor Relations department communicates with analysts regularly, the Company monitors the dissemination of material information to ensure that it is made publicly available on a timely and non-selective basis. Material information is published on SGXNET and on the Company's website, and where appropriate, through media releases.

The Company's dedicated Investor Relations department manages the dissemination of corporate information to the media, the public, as well as institutional investors and public shareholders, and promotes relations with and acts as a liaison point for such entities and parties. More details of the Company's investor relations programme can be found in the "**Investor Relations**" section of this Annual Report.

Principle 15: Greater shareholder participation at annual general meetings

While shareholders have a right to appoint up to two proxies to attend and vote at General Meetings on their behalf, the 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 amendment to the Articles if the Board is of the view that there is a demand for the same, and after the Company has evaluated and put in place the necessary security and other measures to facilitate absentia voting and protect against errors, fraud and other irregularities.

At shareholders' meetings, each distinct issue is proposed as a separate resolution.

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.

Dealings in securities

In line with the rules of the Listing Manual of the SGX-ST, the Company has institutionalized a policy and guidelines on dealings in the securities of the Company and the other SIA group companies, which have been disseminated to employees of the Group and directors of the companies within the Group. The policy and guidelines restrict certain employees (all administrative officers and employees of managerial grade, and certain other employees in departments which are likely to be privy to confidential material price-sensitive information, such as 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 prior to each announcement of its quarterly financial results by the Company and one month prior to each announcement of full-year financial results by the Company. The policy and guidelines also remind employees and directors of the Group 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.

corporate governance

Annexure

Share Plans

(I) ESOP

The ESOP comprises two schemes, namely:

- (a) The Senior Executive Share Option Scheme for senior executives; and
- (b) The Employee Share Option Scheme for all other employees.

Its objective is to promote group cohesiveness and team spirit through a sense of ownership of the Company. The Senior Executive Share Option Scheme is intended to attract, retain and motivate senior executives whose participation in policy and decision-making can influence the Company's performance and returns to shareholders. However, as mentioned earlier in this Report, the Company has phased out the grant of employee share options under the Senior Executive Share Option Scheme after 2006.

Options under the ESOP ("**Options**") may be granted to full-time and part-time employees of the Company or of its wholly-owned subsidiaries (other than subsidiaries whose shares become listed on a recognised stock exchange), who satisfy the eligibility criteria under the ESOP.

Non-executive Directors of the Company are not eligible to be granted Options. Directors and employees of the Company's immediate holding company, SIA, or of SIA's subsidiaries (other than the Company itself) are also not eligible as such to be granted Options. No controlling shareholder (as defined in the Listing Manual of the SGX-ST) of the Company, nor the associates (as so defined) of such controlling shareholder, have been granted Options under the ESOP. No grantee of Options under the ESOP has received five percent or more of the total number of Options available under the ESOP.

The aggregate nominal amount of shares over which Options may be granted on any date, when added to the nominal amount of shares issued and issuable in respect of all Options granted under the ESOP, may not exceed 15 percent of the total number of issued ordinary shares in the capital of the Company on the day preceding that date.

The maximum number of shares over which Options may be granted under the ESOP in each financial year to any employee, based on the Company's current issued share capital, ranges from 4,800 for administrative officers to 2,600 for employees other than administrative officers and supervisors, under the Employee Share Option Scheme. No maximum limit applied under the Senior Executive Share Option Scheme, in order to allow greater flexibility in putting together appropriate remuneration packages for senior executives.

The actual number of Options to be offered to any employee under the ESOP will be determined by the Remuneration and Human Resource Committee at its absolute discretion after taking into account the employee's performance and/or other criteria as the Remuneration and Human Resource Committee may consider appropriate, subject to any applicable maximum limits.

The exercise price for each share on exercise of an Option is the average of the last dealt prices for the shares (as determined by reference to the daily official list or any other publication published by the SGX-ST) for the five consecutive market days immediately preceding the date of grant of the Option. No Options are granted on the basis that the exercise price is at a discount to the market price for the relevant period.

Options granted may be exercised in whole or in part during the period commencing on the first anniversary of the date of grant and expiring on its 10th anniversary, subject to the following vesting schedule:

- (i) for senior executives, 25 percent of the total amount of the grant will vest on each of the first to fourth anniversaries of the date of grant; and
- (ii) for all other employees, the grant of Options will vest on the second anniversary of the date of grant.

(II) SATS RSP and SATS PSP

In addition to the ESOP, the Company introduced two new share plans, the SATS RSP and the SATS PSP, which 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. Awards granted under the SATS PSP differ from that of the SATS RSP in that an extended vesting period is usually (though not always) imposed for performance-based restricted awards granted under the SATS RSP beyond the performance target completion date, that is, they also incorporate a time-based service condition as well, to encourage participants to continue serving the Group beyond the achievement date of the pre-determined performance targets.

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 rank, job performance, creativity, innovativeness, entrepreneurship, years of service and potential for future development, his 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 SAT 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.

internal controls statement

Responsibility

SATS' Board recognises the importance of, and its role in, ensuring a proper internal controls environment for the Company and its subsidiaries (collectively, the "**Group**"). SATS Management is responsible for establishing and maintaining a sound system of internal controls over the delivery of accurate, objective and transparent financial reporting, and for the assessment of the effectiveness of internal controls.

The Board is responsible for overseeing and reviewing the adequacy and effectiveness of the Group's internal controls and risk management system. 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

The Board is assisted by the Audit and Risk Management Committee ("**ARMC**") in reviewing the effectiveness of the system of internal controls. In doing so, the ARMC considers the results of the risk management and audit activities carried out for the Group. More information on the ARMC's authorities and duties can be found in the "**Corporate Governance**" section of this Annual Report.

The ARMC is made up of four Directors, all of whom are independent, and is chaired by an independent non-executive Director. The ARMC meets quarterly to exercise oversight of the management of risks within the Group.

The involvement of the ARMC is key to the risk management programme. Under its oversight, the risk management programme is executed with an integrated view of the organisation and its needs in mind.

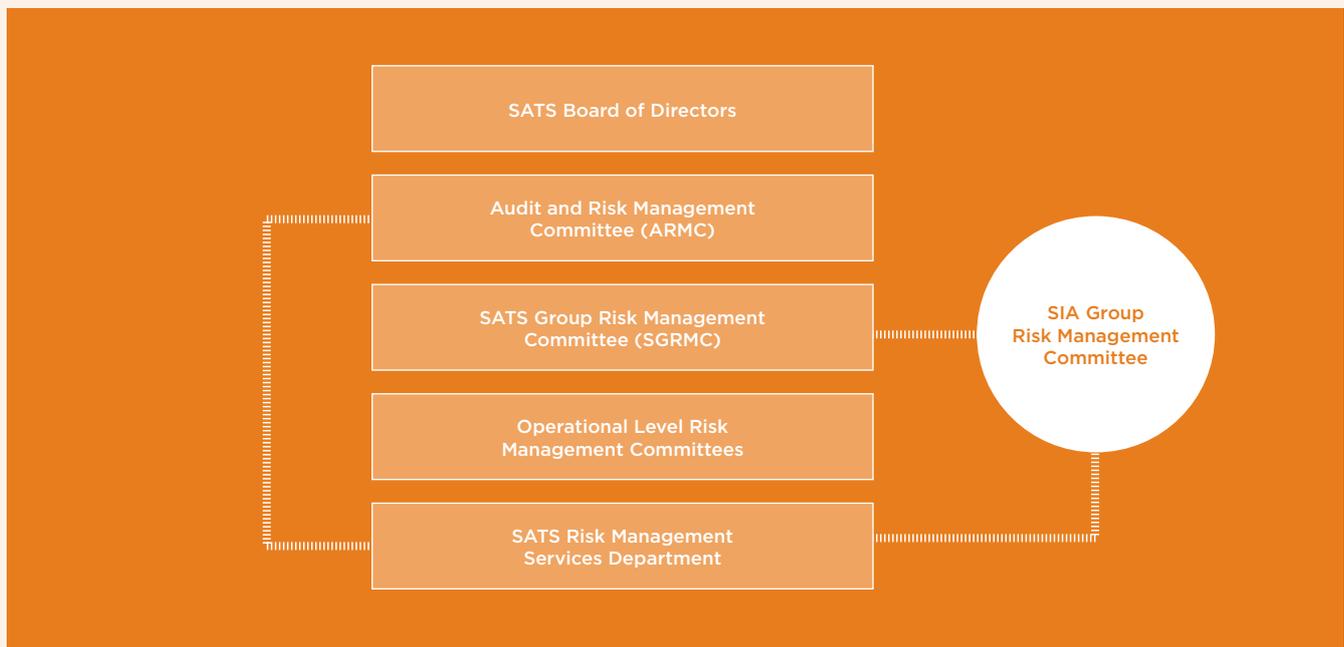
The ARMC is assisted by the SATS Group Risk Management Committee ("**SGRMC**"). The ARMC reviews the activities of the SGRMC, including regular risk management and audit reports, and updates on risk management initiatives, processes and exercises. Management or the SGRMC will report to the ARMC on any major changes to the business and external environment that affect the Group's key risks, and the ARMC will in turn report the same to the Board if it considers the matter sufficiently significant to do so.

The SGRMC, which meets on a quarterly basis, is vested with specific accountability for reviewing the system of risk management for reporting key risks and their associated mitigating factors to the ARMC, for considering what changes to risk management and control processes, and methodologies of risk management, should be recommended, and for ensuring that processes and the methodologies of risk management are put in place.

A centralised Risk Management Services Department, headed by the Group's Risk Manager, coordinates and facilitates the risk management processes within the Group. It provides support to the SGRMC in carrying out its functions.

The SGRMC is also represented at bi-annual meetings at the Group Risk Management Committee of Singapore Airlines Limited ("**SIA**"), the Company's immediate holding company. Both these committees and the risk management units of SIA and SATS share information to facilitate an integrated SIA group-wide approach to risk management.

The Group has formalised its risk management reporting structure as depicted in the diagram below with the establishment of risk management committees to the level of its operating subsidiaries each with its assigned responsibilities and objectives. Additionally, there are established channels of communications for individuals to report on any wrongdoing or impropriety.



Control environment and control activities

The key elements of the Group's comprehensive risk management framework encompasses having:

- written terms of reference for Management's and the Board's various committees;
- written policies, procedures and guidelines including guidelines on matters requiring the Board's approval which are subjected to regular review and improvement;
- defined roles and responsibilities including authorisation levels for all aspects of the business that are set out in the authority matrix;
- appropriate organisational and risk management structures in place;
- considered Business Continuity Management processes that meet the nature, scale and complexity of the Group's businesses, including the establishment of the Crisis Management Directorate for the purpose of effective management of crises;
- a planned and coordinated budgeting process where operating units prepare budgets for the coming year that are approved both by Management and by the Board; and
- the Group's key insurance coverage, the adequacy of which is reviewed on a yearly basis.

The Group's internal audit and risk management functions continually strive to improve efforts in ensuring the compliance with, and implementation of, the risk management practices and policies. The Company's internal audit process provides an independent assessment and perspective to the ARMC, on the processes and controls which may have material financial impact on the Company. There are formal procedures in place for both internal and external auditors to report independently their conclusions and recommendations to the ARMC.

internal controls statement

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. 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.

Management also monitors internal controls through Control Self Assessments (CSA) 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 CSA assessments were updated to reflect the changes in the organisation and increase the strength of the control environment. CSA verification audits were also carried out to provide an independent evaluation of the assessments conducted by the business units.

The following are some of the key risk management activities carried out within the Group:

- 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;
- Control Self Assessments carried out by the various business units which questionnaires were revised for applicability and completeness.

Risk assessment 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 companies. Procedures used facilitate early detection and control of risks.

The Risk Management Committees at various levels 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 ARMC for its review and information respectively.

The Group carried out its bi-annual review 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 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.

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 Chairman, Board, executive head or other appropriate officer of all of the Company's active associated companies, that their respective companies' internal controls were adequate during the financial year under review.

Conclusion

The Board believes that, in the absence of any evidence to the contrary, taking into account the views of the ARMC in the exercise of its responsibilities under its Charter, the system of internal controls including financial, operational and compliance controls, and risk management system maintained by the Group's Management and that was in place throughout FY2008-09 and up to and as of the date of this Annual Report, provides reasonable, but not absolute, assurance against material financial misstatement or loss, and on the whole is adequate to meet the needs of the Group in its current business environment.