

# 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.

This 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 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 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 Committee
Mr Edmund Cheng Wai Wing	Chairman and Independent Director	Chairman			Chairman	
Mr David Zalmon Baffsky	Independent Director		Member	Chairman		
Mr David Heng Chen Seng	Non-Independent Director	Member				Member
Mr Alexander Charles Hungate <sup>1</sup>	Independent Director				Member	
Mr Nihal Vijaya Devadas Kaviratne CBE	Independent Director		Member			Member
Mr Koh Poh Tiong <sup>2</sup>	Independent Director		Member			Member
Mr Ng Kee Choe <sup>3</sup>	Non-Independent Director	Member			Member	
Mr Keith Tay Ah Kee	Independent Director	Member	Chairman			
Mr Yeo Chee Tong <sup>4</sup>	Independent Director			Member		Chairman
Mr Leo Yip Seng Cheong	Independent Director			Member	Member	

Notes:

\* The Chairman and all members of the Board of Directors are non-executive.

1 Appointed as a Director on 27 July 2011, Mr Alexander Hungate was appointed as a member of the Remuneration and Human Resource Committee with effect from 1 August 2011.

2 Appointed as a Director on 1 November 2011, Mr Koh Poh Tiong was appointed as a member of the Audit Committee and a member of the Board Risk Committee with effect from 7 February 2012.

3 Mr Ng Kee Choe, a member of the Board Executive Committee and a member of the Remuneration and Human Resource Committee, will be retiring as a Director, member of the Board Executive Committee and member of the Remuneration and Human Resource Committee at the conclusion of the 39th AGM to be held on 26 July 2012 (“39th AGM”).

4 Mr Yeo Chee Tong, Chairman of the Board Risk Committee and a member of the Nominating Committee, will be retiring as a Director, Chairman of the Board Risk Committee and member of the Nominating Committee at the conclusion of the 39th AGM.

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 to have more focused discussions on key strategic issues facing the Group.

The Company’s Articles of Association (“**Articles**”) allow Directors to participate in Board and Board Committee meetings by way of teleconference or video conference or other similar means of communication 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 teleconference and video conference facilities to enable alternative means of participation in Board and Board Committee meetings. During FY2011-12, various Directors have participated in Board or Board Committee meetings by way of teleconference or video conference.

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In respect of FY2011-12, a total of five Board meetings, including a three-day Board Strategy meeting, were held. The Directors' attendance at Board and Board Committee meetings for FY2011-12 is set out below.

	No. of Board and Board Committee meetings attended in FY2011-12					
	Board	Board Executive Committee	Audit Committee	Nominating Committee	Remuneration and Human Resource Committee	Board Risk Committee
No. of meetings held	5	6	4	2	3	5
<b>Board Members</b>						
Mr Edmund Cheng Wai Wing	5	6			3	
Mr David Zalmon Baffsky <sup>1</sup>	5		4	2		
Mr David Heng Chen Seng	4	4				3
Mr Alexander Charles Hungate <sup>2</sup>	3				1	
Mr Nihal Vijaya Devadas Kaviratne CBE <sup>3</sup>	5		4			3
Mr Koh Poh Tiong <sup>4</sup>	2					1
Mr Ng Kee Choe	5	5			3	
Mr Keith Tay Ah Kee <sup>5</sup>	5	4	4			
Mr Yeo Chee Tong <sup>6</sup>	5		2	2	2	3
Mr Leo Yip Seng Cheong <sup>7</sup>	5			1	3	
Mr Khaw Kheng Joo <sup>8</sup>	2					1
Dr Rajiv Behari Lall <sup>9</sup>	0					
Mr Mak Swee Wah <sup>10</sup>	1	2				2

### Notes:

- 1 Appointed as Chairman of the Nominating Committee with effect from 1 August 2011. Mr Baffsky attended 2 out of 2 Nominating Committee meetings which were held during his term as Chairman of the Nominating Committee in FY2011-12.
- 2 Appointed as a Director on 27 July 2011 and as a member of the Remuneration and Human Resource Committee with effect from 1 August 2011. Mr Hungate attended 3 out of 3 Board meetings and 1 out of 1 Remuneration and Human Resource Committee meeting which were held during his term as a Director and a member of the Remuneration and Human Resource Committee respectively in FY2011-12.
- 3 Appointed as a member of the Board Risk Committee with effect from 1 August 2011. Mr Kaviratne attended 3 out of 3 Board Risk Committee meetings which were held during his term as a member of the Board Risk Committee in FY2011-12.
- 4 Appointed as a Director on 1 November 2011 and as a member of the Audit Committee and the Board Risk Committee with effect from 7 February 2012. Mr Koh attended 2 out of 2 Board meetings and 1 out of 1 Board Risk Committee meeting which were held during his term as a Director and a member of the Board Risk Committee respectively in FY2011-12.
- 5 Stepped down as a member of Nominating Committee on 1 August 2011. No Nominating Committee meeting was held during his term as a member of the Nominating Committee in FY 2011-12. Appointed as a member of the Board Executive Committee with effect from 1 August 2011. Mr Tay attended 4 out of 4 Board Executive Committee meetings which were held during his term as a member of the Board Executive Committee in FY 2011-12.
- 6 Stepped down as a member of the Audit Committee and the Remuneration and Human Resource Committee on 1 August 2011. Mr Yeo attended 2 out of 2 Audit Committee meetings and 2 out of 2 Remuneration and Human Resource Committee meetings which were held during his term as a member of the Audit Committee and a member of the Remuneration and Human Resource Committee respectively in FY 2011-12. Appointed as Chairman of the Board Risk Committee and a member of the Nominating Committee with effect from 1 August 2011. Mr Yeo attended 3 out of 3 Board Risk Committee meetings and 2 out of 2 Nominating Committee meetings which were held during his term as Chairman of the Board Risk Committee and a member of the Nominating Committee respectively in FY 2011-12.
- 7 Appointed as a member of the Nominating Committee with effect from 1 August 2011. Mr Yip attended 1 out of 2 Nominating Committee meetings which were held during his term as a member of the Nominating Committee in FY 2011-12.
- 8 Mr Khaw Kheng Joo had elected to retire from office at the last AGM. Mr Khaw attended 2 out of 2 Board meetings and 1 out of 2 Board Risk Committee meetings which were held during his term as a Director and a member of the Board Risk Committee respectively in FY 2011-12.
- 9 Dr Rajiv Behari Lall had retired from office at the last AGM.
- 10 Mr Mak Swee Wah had retired from office at the last AGM. Mr Mak attended 1 out of 2 Board meetings, 2 out of 2 Board Executive Committee meetings and 2 out of 2 Board Risk Committee meetings which were held during his term as a Director, a member of the Board Executive Committee and as Chairman of the Board Risk Committee respectively in FY 2011-12.

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All members of the Board actively participate in Board discussions and helped to 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

The Board has delegated to the Board Executive Committee the function of reviewing and approving certain matters, which include, *inter alia*, guiding Management on business, strategic and operational issues, 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 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. 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 Wai Wing, Chairman
- Mr David Heng Chen Seng, Member
- Mr Ng Kee Choe, Member
- Mr Keith Tay Ah Kee, 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 six times in FY2011-12. Regular reports are presented to the Board Executive 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 and Chief Executive Officer ("PCEO"), the General Counsel, the Chief Financial Officer ("CFO") and the Executive Vice Presidents are usually invited and 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, and corporate governance for their continuing education and skills improvement, conducted by external organisations, at the Company's cost.

Each of the newly-appointed Directors is also sent a formal letter setting out directors' duties and obligations. They are also provided with other materials relating to the Board and Board Committees, including terms of reference of the various Board Committees as well as relevant guidelines and policies.

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

The present Board comprises all non-executive Directors. Of the 10 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 reviews the composition of the Board to ensure that

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the Board comprises Directors who as a group provide core competencies, such as accounting or finance, legal, business or management (including human capital development and management) experience, industry knowledge, strategic planning experience, and customer-based experience or knowledge, required for the Board to be effective.

As part of the Board's continuing review of the Board size and composition, on the recommendation of the Nominating Committee, the Board approved the appointment of Mr Koh Poh Tiong as a Director of the Company in November 2011, to supplement and strengthen the collective competency of the Board.

The Nominating Committee is currently considering the appointment of additional directors with specific areas of expertise to supplement and strengthen the collective competency of the Board as well as for Board rejuvenation.

To facilitate open discussion and review on the effectiveness of Management, the 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**

The roles of the Chairman and the PCEO are clearly separated to ensure appropriate check and balance, 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, guides the dissemination of accurate, timely and clear information amongst Board members, promotes effective communication with Shareholders, encourages constructive relations between the Board and Management, facilitates the effective contributions of the Directors, encourages constructive relations amongst all Directors and promotes high standards of corporate governance.

### **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 identification and selection 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 three members, all of whom (including the Chairman) are independent Directors:

- Mr David Zalmon Baffsky, Chairman
- Mr Yeo Chee Tong, Member
- Mr Leo Yip Seng Cheong, Member

The Chairman of the Nominating Committee is not directly associated with Temasek Holdings (Private) Limited ("**Temasek**"), a substantial shareholder 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 by its terms of reference to hold meetings at least once a year. It held two meetings in FY2011-12.

### Re-nomination and re-election of Directors

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 <sup>1</sup>	Chairman	22 May 2003 (as Director and Chairman)	30 July 2010
Mr David Zalmon Baffsky <sup>2</sup>	Director	15 May 2008	Re-appointed on 27 July 2011
Mr David Heng Chen Seng <sup>3</sup>	Director	15 October 2009	30 July 2010
Mr Alexander Charles Hungate	Director	27 July 2011 (appointed at the Company's 38th AGM)	Not Applicable
Mr Nihal Vijaya Devadas Kaviratne CBE	Director	30 July 2010	Not Applicable
Mr Koh Poh Tiong <sup>4</sup>	Director	1 November 2011	Not Applicable
Mr Ng Kee Choe <sup>5</sup>	Director	1 March 2000	28 July 2009
Mr Keith Tay Ah Kee	Director	26 July 2007	30 July 2010
Mr Yeo Chee Tong <sup>6</sup>	Director	19 May 2006	27 July 2011
Mr Leo Yip Seng Cheong	Director	1 September 2010	27 July 2011

Note:

- 1 Mr Edmund Cheng Wai Wing, who will retire by rotation pursuant to Article 83 and has indicated his willingness to stand for re-election, will be standing for re-election at the 39th AGM. Mr Cheng is considered by the Nominating Committee to be an independent Director. Mr Cheng is the Chairman of the Board of Directors and Chairman of both the Board Executive Committee and the Remuneration and Human Resource Committee.
- 2 Mr David Zalmon 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 (Cap. 50) at the Company's 39th AGM. Mr Baffsky is regarded by the Nominating Committee to be an independent Director. Mr Baffsky is the Chairman of the Nominating Committee and a member of the Audit Committee.
- 3 Mr David Heng Chen Seng, who will retire by rotation pursuant to Article 83 and has indicated his willingness to stand for re-election, will be standing for re-election at the 39th AGM. Mr Heng is considered by the Nominating Committee to be non-independent. Mr Heng is a member of both the Board Executive Committee and the Board Risk Committee.
- 4 Mr Koh Poh Tiong, who will retire pursuant to Article 90, has indicated his willingness to stand for re-election, will be standing for re-election at the 39th AGM. Mr Koh is considered by the Nominating Committee to be an independent Director. Mr Koh Poh Tiong is a member of both the Audit Committee and the Board Risk Committee.
- 5 Mr Ng Kee Choe, who will retire by rotation pursuant to Article 83, will be retiring and will not be standing for re-election at the 39th AGM. Mr Ng is a member of both the Board Executive Committee and the Remuneration and Human Resource Committee.
- 6 Mr Yeo Chee Tong has elected to retire from office at 39th AGM. Mr Yeo is the Chairman of the Board Risk Committee and 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 ("AGM"). 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. All new Directors appointed by the Board during the financial year shall only hold office until the next AGM and be eligible for re-election at that AGM. As required by law, a director who reaches the age of 70 years old is required to retire and stand for re-appointment at every AGM.

The Directors standing for re-election pursuant to Article 83 at the 39th AGM are Mr Edmund Cheng Wai Wing and Mr David Heng Chen Seng. Mr Koh Poh Tiong is standing for re-election pursuant to Article 90. Mr David Zalmon Baffsky is standing for re-appointment pursuant to Section 153(6) of the Companies Act (Cap. 50). 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, re-election 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 Directors would be appointed to serve an initial term of three years and such initial term of office may be renewed for a subsequent term or terms of up to a total of 6 years, expiring at the AGM of the Company

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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.

### 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, the following Directors are regarded as non-independent Directors of the Company:

- Mr David Heng Chen Seng is the Senior Managing Director, Investment and Co-Head of SEA of Temasek, the largest single substantial shareholder of the Company. By reason of his employment with Temasek, Mr Heng is regarded as a non-independent Director of the Company; and
- Mr Ng Kee Choe, who receives a monthly allowance from Temasek, for serving as a member of the Temasek Advisory Panel and, as such, is regarded as a non-independent Director of the Company.

Except for the abovenamed Directors, all the other eight Directors on the Board are considered by the Nominating Committee and the Board to be independent Directors.

### 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.

### 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.

### 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 been adopted by the Nominating Committee and the Board. The qualitative assessment process utilises a set of confidential questionnaires submitted by each Director individually. 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 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.

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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 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, justification, risks and mitigation 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, 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 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. 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, 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 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 Singapore Exchange Securities Trading Limited ("**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 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.

\* Includes the Assistant Company Secretary



### 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 are non-executive Directors and of which the majority, including the Chairman, are considered by the Nominating Committee and the Board to be independent Directors:

- Mr Edmund Cheng Wai Wing, Chairman
- Mr Alexander Charles Hungate, Member
- Mr Ng Kee Choe, Member
- Mr Leo Yip Seng Cheong, 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 three meetings in FY2011-12.

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, as well as any other appointment of equivalent seniority to the PCEO 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 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
- doing all other things and exercising all other discretions as may form part of responsibilities of a 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" 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.

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

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

Every Director will receive a basic fee. In addition, he will receive 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 a member of the relevant Board Committee) for each position he held on a Board Committee, during FY2011-12. If he occupied a position for part of a financial year, the fee payable would be prorated accordingly. Each Director would also receive 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 of each of the Directors to avail himself for Board and Board Committee meetings. The attendance fees for Board and Board Committee meetings vary according to whether these meetings were 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.

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 2013 is the same as that of FY2011-12.

Types of Appointment	Scale of Directors' fees (FY2012-13)
<b>Board of Directors</b>	S\$
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

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

#### Directors' remuneration

Based on the scale of fees approved by the Shareholders at the last AGM, the Directors' remuneration paid out for FY2011-12 amounted to S\$965,074. The composition of the remuneration of the Directors for FY2011-12 is as follows:

Directors	Fee (%)	Salary (%)	Benefits (%)	Total (%)
<b>Below \$250,000</b>				
Mr Edmund Cheng Wai Wing	100	–	–	100
Mr David Zalmon Baffsky	100	–	–	100
Mr David Heng Chen Seng	100	–	–	100
Mr Alexander Charles Hungate <sup>1</sup>	100	–	–	100
Mr Nihal Vijaya Devadas Kaviratne CBE	100	–	–	100
Mr Koh Poh Tiong <sup>2</sup>	100	–	–	100
Mr Ng Kee Choe	100	–	–	100
Mr Keith Tay Ah Kee	100	–	–	100
Mr Yeo Chee Tong	100	–	–	100
Mr Leo Yip Seng Cheong	100	–	–	100
Mr Khaw Kheng Joo <sup>3</sup>	100	–	–	100
Dr Rajiv Behari Lall <sup>3</sup>	100	–	–	100
Mr Mak Swee Wah <sup>3</sup>	100	–	–	100

Notes:

- 1 Appointed as a Director on 27 July 2011, and appointed as a member of the Remuneration and Human Resource Committee with effect from 1 August 2011. Mr Hungate has declined any fees for his role as a Director of SATS.
- 2 Appointed as a Director on 1 November 2011 and appointed as a member of both the Audit Committee and Board Risk Committee with effect from 7 February 2012.
- 3 Mr Khaw Kheng Joo, Dr Rajiv Lall and Mr Mak Swee Wah retired as Directors of the Company on 27 July 2011.

Since the 2010 AGM, 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 39th AGM to approve the payment of Directors' fees up to a stipulated amount for FY2012-13 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 system is designed to include long-term incentives to allow the Company to better align executive compensation with creating more value for the 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. SATS 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 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 final grant of share options for all employees other than senior executives 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.

## Corporate Governance Report

	Remuneration Band <sup>1</sup>	Bonuses <sup>2</sup>				Total (%)	Award under SATS RSP <sup>3</sup>	Award under SATS PSP <sup>3</sup>
		Salary (%)	Fixed (%)	Variable (%)	Benefits (%)			
Tan Chuan Lye	\$500,001 to \$750,000	70	5	17	8	100	37,800	63,000
Lim Chuang	\$250,001 to \$500,000	69	6	11	14	100	14,400	31,500
Ferry Chung Qing An <sup>4</sup>	\$250,001 to \$500,000	87	4	2	7	100	180,000	–
Yacoob Bin Ahmed Piperdi	\$250,001 to \$500,000	72	6	12	10	100	9,000	20,700
Poon Choon Liang	\$250,001 to \$500,000	66	6	22	6	100	18,000	28,800

### Notes:

- 1 Remuneration bands as indicated do not include the value of any awards granted under the SATS RSP and/or the SATS PSP.
- 2 Includes actual performance bonus paid for FY2010-11.
- 3 Denotes the base awards of shares granted under the SATS RSP and the SATS PSP for FY2011-12 on 3rd August 2011. The number of shares awarded to recipient under the SATS RSP will vest in the award holder over a four-year period; there will be no performance conditions for vesting. The final number of shares awarded to the recipient under the SATS PSP could range between 0% to 200% of the base award; these awards of PSP shares will vest in the award holder subject to the achievement of pre-determined targets over a three-year period.
- 4 Mr Ferry Chung joined SATS on 1 August 2011. He was granted a base award under the SATS RSP for FY2011-12 on 1st August 2011. The number of shares awarded to him under the SATS RSP will vest in the award holder over a four-year period; there will be no performance conditions for vesting.

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 FY2011-12.

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.

### **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 each of the first three quarters and 60 days of the end of the financial year (as the case may be). 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, 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 Committee

The Audit Committee currently comprises the following four members all of whom are independent Directors:

- Mr Keith Tay Ah Kee, Chairman
- Mr David Zalmon Baffsky, Member
- Mr Nihal Vijaya Devadas Kaviratne CBE, Member
- Mr Koh Poh Tiong, Member

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

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.

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

- quarterly and full-year 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;
- adequacy of resources for the internal audit function, ensuring it has appropriate standing within the Company and has a primary line of reporting to the Chairman of the Audit Committee (with secondary administrative reporting to the PCEO). KPMG LLP ("KPMG") had been engaged to supplement the internal audit function since 4Q FY2010-11. The Company will continue to engage KPMG to supplement its internal audit function in FY2012-13;
- 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 Internal Audit and Management;
- effectiveness of the Company's material internal controls, with Management and the internal and/or external auditors on an annual basis;
- 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; 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 2005 Code and other relevant laws and regulations.

The Audit Committee is required by its terms of reference to meet at least four times a year, with the internal and external auditors of the Company present. The Audit Committee met four times in FY2011-12.

The Audit 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 FY2011-12, 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.

### **PRINCIPLE 12: SOUND SYSTEM OF INTERNAL CONTROLS TO SAFEGUARD SHAREHOLDERS' INVESTMENTS AND THE COMPANY'S ASSETS**

The Board recognises 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 Committee, oversees and reviews the adequacy and effectiveness of the Group's internal control functions as well as assesses financial risks; and, through the Board Risk Committee, generally oversees and reviews the other risks faced by the Group.

#### **Board Risk Committee**

The Board Risk Committee currently comprises the following three members, all of whom are non-executive Directors, and oversees and reviews the adequacy and effectiveness of the Group's risk management systems as well as its safety systems and programmes:

- Mr Yeo Chee Tong, Chairman
- Mr David Heng Chen Seng, Member
- Mr Nihal Vijaya Devadas Kaviratne CBE, Member
- Mr Koh Poh Tiong, Member

The written terms of reference of the Board Risk Committee 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 Management Committee which is responsible for putting in place risk management processes and methodologies, identifying risks and instilling mitigation plans, updating risk registers and profiles;
- risk champions appointed by the respective operating units to drive risk management initiatives;
- 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 Committee is required by its terms of reference to meet at least four times a year. The Committee met five times in FY2011-12.

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" and hotline to report wrongdoing to institutionalise procedures on reporting possible improprieties involving the Group and for allowing independent investigation of such matters, and appropriate and consistent follow-up action. A dedicated email address and 24-hour hotline managed by an independent external service provider 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.

## Corporate Governance Report

### 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.

### PRINCIPLE 13: INDEPENDENT INTERNAL AUDIT FUNCTION

For FY2011-12, the Company's internal audit function was undertaken by the Internal Audit department of the Company and KPMG. 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 Audit 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 Committee. The Audit Committee may authorise such audit work to be carried out by an independent third party as it deems appropriate.

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

KPMG had been engaged to supplement the internal audit function since 4Q FY2010-11. The Company will continue to engage KPMG to supplement its internal audit function in FY2012-13.

### PRINCIPLE 14: REGULAR, EFFECTIVE AND FAIR COMMUNICATION WITH SHAREHOLDERS

The Company strives to convey to the Shareholders pertinent information in a clear, forthcoming, detailed and timely manner and on a regular basis, takes into consideration their views and inputs, and addresses 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 ([www.sats.com.sg](http://www.sats.com.sg)), and where appropriate, through media releases.

The Company's 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

The Company's Articles allow Shareholders 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 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 and other measures to facilitate absentia voting and protect against errors, fraud and other irregularities.

At the 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 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 President and Chief Executive Officer, Executive Vice Presidents 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 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 Staff 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.

### 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 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.



## Corporate Governance Report

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% of the total number of issued ordinary shares in the capital of the Company on the day preceding the relevant date of award.

### (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 27 July 2011. Pursuant to the Mandate, the Company had purchased a total of 620,000 shares of the Company as at 23 May 2012, prior to the printing of this Annual Report, to satisfy the obligations for the SATS RSP and the SATS PSP. The shares purchased are currently held as treasury shares.

# Internal Control Statement

## RESPONSIBILITY

The SATS Board recognises the importance of, and its role in, ensuring a proper internal controls environment for 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, addressing financial, operating and compliance risks.

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

### Audit Committee

The Board, through the Audit Committee (“AC”), oversees and reviews the adequacy and effectiveness of the Group's internal control functions, the Group's Corporate Governance, and the system of ensuring integrity of financial reporting and assessing financial risk management.

The AC is made up of four Directors, all of whom are independent, and is chaired by an independent non-executive Director. Two of the directors are concurrent members of the Board Risk Committee. The AC meets quarterly to exercise oversight of the management of financial risks, corporate governance and internal controls within the Group.

The Group's internal audit 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 AC 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 AC.

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

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 CSAs 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.

## Internal Control Statement

### Board Risk Committee

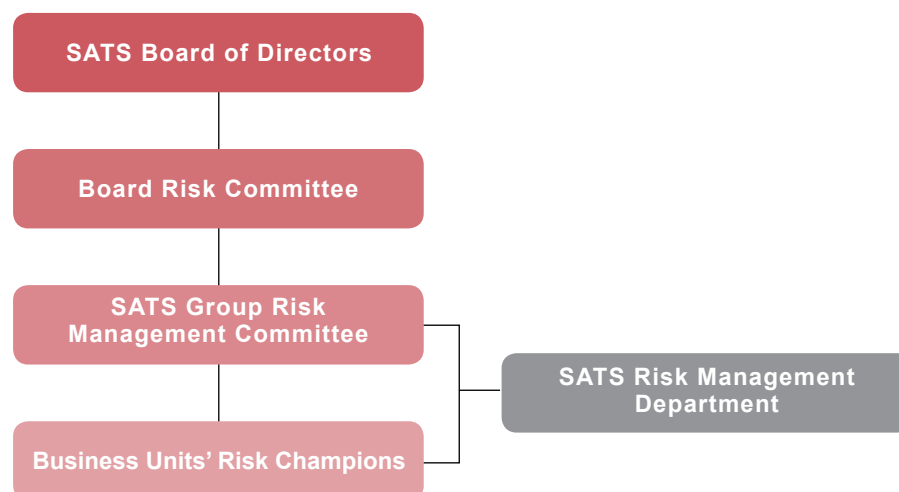
The Board, through the Board Risk Committee (“**BRC**”), generally oversees and reviews the other risks faced by the Group including operational and compliance risks. The BRC assists the Board in reviewing the effectiveness of the system of safety and risk management, and in doing so, the BRC considers the results of the risk management activities carried out for the Group.

The BRC is made up of four Directors, all of whom are non-executive Directors. Two of the directors are concurrent members of the Audit Committee. The BRC met five times in FY2011-12 to exercise oversight of the management of risks within the Group. The involvement of the BRC is key to the safety and risk management programme of the Group. Under its oversight, the safety and risk management programme is executed with an integrated view of the organisation and its needs in mind.

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

The SGRMC, chaired by the President and Chief Executive Officer, meets on a quarterly basis. It is vested with specific accountability for reviewing the system of risk management for reporting key risks and their associated mitigating factors to the BRC, 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 department, headed by the Assistant Vice President, Risk Management, coordinates and facilitates the risk management processes within the Group. It provides support to the SGRMC in carrying out its functions. The Group has formalised its risk management reporting structure as depicted in the diagram below. Additionally, there are established channels of communication for individuals to report on any wrongdoing or impropriety.



More information on the AC’s and BRC’s authorities and duties can be found in the “**Corporate Governance**” section of this Annual Report.

## Internal Control Statement

### CONTROL ENVIRONMENT AND CONTROL ACTIVITIES

The key elements of the Group's comprehensive internal controls framework include:

- written terms of reference for Management's and the various Board's Committees;
- written policies, procedures and guidelines, including guidelines on matters requiring the Board's approval which are subject to regular review and improvement;
- defined roles and responsibilities, including authorisation levels for all aspects of the businesses 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 crisis; and
- a planned and coordinated budgeting process where operating units prepare budgets for the coming year that are approved by both Management and the Board.

The Risk Management department continually strives to improve efforts in ensuring the compliance with, and implementation of, the risk management practices and policies.

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;
- CSAs 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 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 BRC and the AC for review and information.

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 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.

### CONCLUSION

Taking into account the views of the AC and the BRC in the exercise of their responsibilities under their respective terms of reference, the framework established and maintained by the Group's Management, and the reviews conducted by the internal and external auditors, the Board opines, with the concurrence of the AC, that the system of internal controls (addressing financial, operational and compliance risks) was adequate as at the date of the report.