

Corporate Governance

Code of Corporate Governance 2005 Specific Principles and Guidelines for Disclosure

Relevant Guideline or Principle	Page Reference
Guideline 1.3 Delegation of authority, by the board to any board committee, to make decisions on certain board matters.	Pages 70 to 73, 76, 77, 81 and 82
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 73
Guideline 4.5 Process for the selection and appointment of new directors to the board.	Page 75
Guideline 4.6 Key information regarding directors, which directors are executive, non-executive or considered by the nominating committee to be independent.	Pages 70, 72 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 75
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 81 and 85
Guideline 9.1 Composition of remuneration committee.	Pages 70 and 76
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 81
Guideline 9.4 Details of employee share schemes.	Pages 81 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, 83, 86 to 88

Corporate Governance

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”) by promoting corporate performance and accountability in order 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 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;
- 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 (renamed on 1 November 2009, formerly known as the Audit and Risk Management Committee)
- Nominating Committee
- Remuneration and Human Resource Committee
- Board Risk Committee (established on 1 November 2009)

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	Non-Executive Chairman & Independent Director	Chairman			Chairman	
Mr David Zalmon Baffsky	Independent Director		Member			
Mr David Heng Chen Seng ¹	Non-Executive, Non-Independent Director	Member				Member
Mr Khaw Kheng Joo ²	Independent Director			Chairman		Member
Dr Rajiv Behari Lall	Independent Director			Member		
Mr Mak Swee Wah ³	Non-Executive, Non-Independent Director	Member				Chairman
Mr Ng Kee Choe	Non-Executive, Non-Independent Director	Member			Member	
Mr Keith Tay Ah Kee	Independent Director		Chairman	Member		
Mr Yeo Chee Tong	Independent Director		Member		Member	

Notes:

¹ Appointed as a Director on 15 October 2009, and as a member of both the Board Executive Committee and Board Risk Committee with effect from 1 November 2009.

² Appointed as a member of the Board Risk Committee with effect from 1 November 2009, and stepped down as a member of the Audit Committee with effect from 1 November 2009.

³ Appointed as the Chairman of the Board Risk Committee with effect from 1 November 2009, and stepped down as a member of the Remuneration and Human Resource Committee with effect from 1 November 2009.

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Principle 1: Company to be headed by an effective board to lead and control the company (Cont'd)

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 the previous financial year ended 31 March 2009 (“**FY2008-09**”) to oversee the integration of the SATS and Singapore Food Industries Limited (now known as Singapore Food Industries Pte. Ltd.) (“**SFI**”) groups of companies and their respective operations following the completion of the acquisition of SFI by the Company. The SSIBC’s members comprised Mr Edmund Cheng Wai Wing (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 five times during the financial year ended 31 March 2010 (“**FY2009-10**”) to review integration-related matters together with Management and it was subsequently disbanded on 31 December 2009 upon substantial completion of the integration exercise.

Fixed Board meetings on a quarterly basis are scheduled in advance. 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 FY2009-10, in addition to the quarterly scheduled Board meetings, there were two *ad hoc* Board meetings convened. 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 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. The Company has set up telephone and video conference facilities to enable alternative means of participation in Board and Board Committee meetings. During FY2009-10, various Directors have participated in Board or Board Committee meetings by way of telephone conference or video conference.

In respect of FY2009-10, a total of seven Board meetings, including a three-day Board strategy meeting and two *ad hoc* Board meetings, were held. The Directors’ attendance at Board and Board Committee meetings for FY2009-10 is set out below.

	No. of Board Committee Meetings Attended						
	No. of Board Meetings Attended (No. of meetings held: 7)	Board Executive Committee (No. of meetings held: 5)	Audit Committee (No. of meetings held: 5)	Nominating Committee (No. of meetings held: 2)	Remuneration and Human Resource Committee (No. of meetings held: 8)	Board Risk Committee (No. of meetings held: 1)	SATS-SFI Integration Board Committee (No. of meetings held: 5)
Mr Edmund Cheng Wai Wing	7 (1 via teleconference)	5	Not applicable	Not applicable	8	Not applicable	5
Mr David Zalmon Baffsky	7 (2 via teleconference)	Not applicable	5 (2 via teleconference)	Not applicable	Not applicable	Not applicable	Not applicable
Mr David Heng Chen Seng ⁴	2	2	Not applicable	Not applicable	Not applicable	0	Not applicable
Mr Khaw Kheng Joo ⁵	6	Not applicable	2 (1 via teleconference)	2	Not applicable	1	Not applicable
Dr Rajiv Behari Lall	5	Not applicable	Not applicable	1 (via teleconference)	Not applicable	Not applicable	Not applicable
Mr Mak Swee Wah ⁶	6	5	Not applicable	Not applicable	6	1	4
Mr Ng Kee Choe	7	4	Not applicable	Not applicable	8	Not applicable	5
Dr Ow Chin Hock ⁷	3	Not applicable	Not applicable	1	Not applicable	Not applicable	Not applicable
Mr Keith Tay Ah Kee	7	Not applicable	5 (1 via teleconference)	2 (1 via teleconference)	Not applicable	Not applicable	5
Mr Yeo Chee Tong	7 (2 via video conference)	Not applicable	5 (1 via teleconference; 1 via video conference)	Not applicable	6 (6 via video conference)	Not applicable	3 (2 via video conference)

Notes:

- Appointed as a Director on 15 October 2009, and as a member of both the Board Executive Committee and Board Risk Committee with effect from 1 November 2009. Mr Heng attended two out of three Board meetings and all meetings of the Board Executive Committee which were held during his term of Directorship in FY2009-10.
- Appointed as a member of the Board Risk Committee with effect from 1 November 2009 and stepped down as a member of the Audit Committee with effect from 1 November 2009. Mr Khaw attended two out of three meetings of the Audit Committee which were held during his term as a member of the Audit Committee in FY2009-10.
- Appointed as the Chairman of the Board Risk Committee with effect from 1 November 2009, and stepped down as a member of the Remuneration and Human Resource Committee with effect from 1 November 2009. Mr Mak attended all meetings of the Remuneration and Human Resource Committee which were held during his term as a member of the Remuneration and Human Resource Committee in FY2009-10.
- Retired as Director at the Company’s 36th Annual General Meeting held on 28 July 2009 and did not stand for re-election. At the time of his retirement, Dr Ow was a member of the Nominating Committee. Dr Ow had attended all Board meetings and all meetings of the Nominating Committee which were held during his term of Directorship in FY2009-10.

Corporate Governance

Principle 1: Company to be headed by an effective board to lead and control the company (Cont'd)

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 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 Mr Edmund Cheng Wai Wing (who is the Chairman of the Committee), Mr David Heng Chen Seng, Mr Mak Swee Wah and Mr Ng Kee Choe. The Chairman of the Board Executive Committee is an independent Director.

The Board Executive Committee is required under its terms of reference to meet at least once in each financial year and met five times in FY2009-10. 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") and Chief Financial Officer ("CFO") 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 organizations, at the Company's cost.

Newly-appointed Directors are each also sent a formal letter setting out directors' duties and obligations. They are also provided with other material relating to the Board and Board Committees (including the 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 nine Directors, six 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 the Board comprises Directors who as a group provide core competencies such as accounting or finance, legal, 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's size and composition, recommended the appointment of Mr David Heng Chen Seng as a Director of the Company in October 2009, to supplement and strengthen the collective competency of the Board.

Corporate Governance

Principle 2: Strong and independent element on the board to exercise objective judgement (Cont'd)

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, and in this regard, with the endorsement of the Board of Directors, is recommending the appointment of Mr Nihal Vijaya Devadas Kaviratne CBE as a Director of the Company for approval by the Company's shareholders at the Company's 37th Annual General Meeting to be held on 30 July 2010 ("AGM").

To facilitate open discussion and review on the effectiveness of 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 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 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 three members, all of whom (including the Chairman), are independent Directors:

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

The Chairman of the Nominating Committee is not associated with Temasek Holdings (Private) Limited ("Temasek"), the substantial shareholder of the Company.

The Nominating Committee is required by its terms of reference to hold meetings twice in each financial year. It held two meetings in FY2009-10.

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Principle 4: Formal and transparent process for appointment of new directors (Cont'd)

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 ⁸	Chairman	22 May 2003 (as Director and Chairman)	24 July 2008
Mr David Zalmon Baffsky	Director	15 May 2008	24 July 2008
Mr David Heng Chen Seng ⁸	Director	15 October 2009	Not applicable
Mr Khaw Kheng Joo ⁸	Director	19 July 2005	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	Director	1 March 2000	28 July 2009
Mr Keith Tay Ah Kee ⁸	Director	26 July 2007 (appointed at the Company's 34th Annual General Meeting)	Not applicable
Mr Yeo Chee Tong	Director	19 May 2006	28 July 2009

Note:

⁸ Mr Edmund Cheng Wai Wing, Mr Khaw Kheng Joo, Mr Keith Tay Ah Kee and Mr David Heng Chen Seng will be retiring and standing for re-election at the AGM. Other than Mr David Heng Chen Seng, who is regarded by the Nominating Committee to be a non-independent Director, Mr Edmund Cheng Wai Wing, Mr Khaw Kheng Joo and Mr Keith Tay Ah Kee are all considered by the Nominating Committee to be independent Directors. Mr Edmund Cheng Wai Wing is the Chairman of the Board and is also the Chairman of both the Board Executive Committee and the Remuneration and Human Resource Committee. Mr Khaw Kheng Joo is the Chairman of the Nominating Committee and a member of the Board Risk Committee. Mr Keith Tay Ah Kee is the Chairman of the Audit Committee and a member of the Nominating Committee. Mr David Heng Chen Seng is a member of both the Board Executive Committee and the Board Risk 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 Keith Tay Ah Kee, Mr Khaw Kheng Joo, Mr Edmund Cheng Wai Wing and Mr David Heng Chen Seng. The Nominating Committee (after having taken the principles for the determination of the Board's 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.

With effect from the financial year ending 31 March 2011 ("FY2010-11"), newly appointed Directors would be appointed to serve an initial term of three years. Based on the principle that regular renewal and rejuvenation of the Board is generally beneficial, the tenure of a Director would be considered at the juncture when he approaches on or about his sixth anniversary on the Board, taking into account the recommendations of the Nominating Committee as to whether any further renewal of the Director's term would be appropriate and in the Company's best interests, and subject to the Board's approval.

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Principle 4: Formal and transparent process for appointment of new directors (Cont'd)

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, in view of his being an executive officer of Temasek, being the single largest substantial shareholder of the Company;
- Mr Mak Swee Wah, in view of his being an executive officer of Singapore Airlines Limited ("SIA"), which was prior to 1 September 2009, the majority shareholder of the Company and which till today remains a major customer of SATS; and
- Mr Ng Kee Choe, with effect from 1 September 2009, the date on which SIA effected a distribution *in specie* of all or substantially all of the Company's shares held by SIA to SIA's shareholders, whereby Temasek became a direct and the single largest substantial shareholder of the Company on such date, in view that he is a member of the Temasek Advisory Panel.

Save for the abovenamed Directors, all the other six 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. 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 (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 specializing 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 utilizes a confidential questionnaire 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.

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).

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Principle 6: Board's access to information

The Board is issued with detailed Board papers by Management giving the background, explanatory information, justification, risks and mitigation 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 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 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 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 Directors. She facilitates orientation and assists with professional development of the Directors 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 three 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 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, as well as any other appointment of equivalent seniority to the PCEO or Chief Operating Officer 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 the responsibilities of the remuneration committee under the provisions of the 2005 Code.

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Principle 7: Formal and transparent procedure for fixing remuneration packages of directors (Cont'd)

Remuneration and Human Resource Committee (Cont'd)

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 the basic fee. In addition, he will receive the Chairman’s fee if he was 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 FY2009-10. If he occupied a position for part of a financial year, the fee payable would be prorated accordingly. Directors would also receive an attendance fee for each Board meeting attended by a Director during the financial year, on account of the time and effort of each of the Directors to avail himself for Board meetings. The attendance fees for Board meetings vary according to whether the Board meeting was held in the state/country in which the Director is ordinarily resident. Prior to FY2009-10, no attendance fees were payable to Directors in respect of their attendance at Board Committee meetings.

The structure for attendance fees is proposed to be revised for FY2009-10, such that attendance fees would be paid in respect of attendances at Board Committee meetings as well as at Board meetings, and to differentiate fees payable in respect of attendances in person or via teleconference/video conference at Board meetings or Board Committee meetings, with a view to having the Directors’ remuneration more equitably commensurate with the amount of time that they spend on the Group’s affairs. 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. With the recent acquisition of SFI resulting in the expansion of the Company’s scale, size and complexities of business operations and staff, internal re-organisation and the re-orientation of the Company’s core businesses as Gateway Services and Food Solutions as well as the recent divestment by SIA of its shareholdings in the Company vide the distribution of the Company’s shares by way of dividend *in specie*, resulting in a doubling of the Company’s shareholders, the nature and scope of responsibilities and accountability of the Directors have materially increased since FY2009-10.

Further, in view of the contributions of the SSIBC in supervising and reviewing the integration efforts of SATS and SFI, it is also proposed for a one-off lump sum payment of S\$25,000 to be paid to each member of the SSIBC for their services in respect of FY2009-10. The SSIBC conducted a total of 7 meetings over FY2008-09 and FY2009-10 and no fees were paid to its members in respect of their services on the SSIBC for FY2008-09. No attendance fees would be payable in respect of attendances at meetings of the SSIBC.

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

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

Other than as stated above, the scale of fees proposed to be paid to the Directors for FY2009-10 remains unchanged from that of the previous financial year and is as follows:

Type of Appointment	Existing scale of Directors' fees S\$	Proposed revised scale of Directors' fees (from FY2009-10) S\$
BOARD OF DIRECTORS		
Basic fee	45,000	45,000
Board Chairman's fee	40,000	40,000
Board Deputy Chairman's fee	30,000	30,000
AUDIT COMMITTEE		
Committee Chairman's fee	30,000	30,000
Member's fee	20,000	20,000
BOARD EXECUTIVE COMMITTEE		
Committee Chairman's fee	30,000	30,000
Member's fee	10,000	10,000
OTHER BOARD COMMITTEES (EXCEPT SSIBC)		
Committee Chairman's fee	20,000	20,000
Member's fee	10,000	10,000
SATS-SFI INTEGRATION BOARD COMMITTEE (SSIBC)		
Committee Chairman/Member's fee	–	25,000 (one-off payment only applicable for FY2009-10)
BOARD MEETING ATTENDANCE FEE⁹		
Attendance via teleconference/video conference	–	1,000
Attendance in person in home city (up to 4 hours for travel within home city)	1,000	2,500
Attendance in person outside home city	2,000	5,000
BOARD COMMITTEE MEETING ATTENDANCE FEE (EXCEPT SSIBC)		
Attendance via teleconference/video conference	–	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

Note:

⁹ In respect of FY2008-09, Board meeting attendance fees were classified according to whether the Board meeting attended was held within or outside the state/country in which the Director was ordinarily resident in.

Corporate Governance

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 FY2009-10 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 FY2009-10 based on the proposed revised scale of Directors' fees (S\$)
Mr Edmund Cheng Wai Wing	194,100
Mr David Zalmon Baffsky	100,500
Mr David Heng Chen Seng ¹⁰	36,386
Mr Khaw Kheng Joo ¹¹	101,163
Dr Rajiv Behari Lall	80,500
Mr Mak Swee Wah ¹²	126,037
Mr Ng Kee Choe	124,400
Dr Ow Chin Hock ¹³	26,632
Mr Keith Tay Ah Kee	137,000
Mr Yeo Chee Tong	124,600
Proposed total fees payable to all Directors in office during FY2009-10	1,051,318

Notes:

- ¹⁰ Appointed as a Director on 15 October 2009, and as a member of both the Board Executive Committee and Board Risk Committee with effect from 1 November 2009. Directors' fees and allowances for Mr David Heng Chen Seng will be paid to Temasek.
- ¹¹ Appointed as a member of the Board Risk Committee with effect from 1 November 2009, and stepped down as a member of the Audit Committee with effect from 1 November 2009.
- ¹² Appointed as the Chairman of the Board Risk Committee with effect from 1 November 2009, and stepped down as a member of the Remuneration and Human Resource Committee with effect from 1 November 2009. Directors' fees and allowances for Mr Mak Swee Wah will be paid to SIA.
- ¹³ Retired as Director at the Company's 36th Annual General Meeting held on 28 July 2009 and did not stand for re-election. At the time of his retirement, Dr Ow was a member of the Nominating Committee.

While the above proposed total fees payable to all Directors in office during the course of FY2009-10 is an increase over that paid for FY2008-09 which was S\$749,357, it is noted that the increase in absolute fees payable is due to: (i) the proposed revised structure for attendance fees as explained in Principle 8 above; (ii) the one-off lump sum payment proposed for the members of the SSIBC for FY2009-10; (iii) the formation of a new Board Committee, being the Board Risk Committee, during FY2009-10; and (iv) a total of 21 Board Committee meetings (other than SSIBC meetings for which no attendance fees are payable) being held in FY2009-10 as compared to a total of 13 Board Committee meetings (other than SSIBC meetings) held in FY2008-09.

Thus far, the Company has been seeking shareholders' approval to pay Directors' fees at the Company's Annual General Meeting held after the end of each financial year. With a view to ensuring that the Company offers more timely remuneration to attract high-calibre Directors, the Company is seeking the approval of shareholders at the AGM to approve the payment of Directors' fees up to a stipulated amount for the current financial year 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 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, and the final grant of share options for all employees other than senior executives under the ESOP was 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 executives' individual performance through their achievement of certain key performance indicators set for them.

Corporate Governance

Principle 9: Disclosure on remuneration policy, level and mix of remuneration, and procedure for setting remuneration (Cont'd)

Key executives' remuneration (Cont'd)

The remuneration of key executives of the Group during FY2009-10 was as follows:

Name of Key Executive	Remuneration Band ¹⁴	Salary (%)	Bonuses		Benefits (%)	Total (%)	Award under SATS RSP ¹⁶	Award under SATS PSP ¹⁶
			Fixed (%)	Variable ¹⁵ (%)				
Clement Woon Hin Yong PCEO	S\$500,001 – 750,000	73	6	12	9	100	52,000	72,000
Lim Chuang ¹⁷ CFO	S\$250,001 – 500,000	70	7	13	10	100	27,000	–
Tan Chuan Lye ¹⁷ Executive Vice President, Food Solutions	S\$250,001 – 500,000	73	7	13	7	100	27,000	–
Ang Lee Nah Senior Vice President, Corporate Development	S\$250,001 – 500,000	60	5	24	11	100	27,000	–
Robert Burnett ¹⁸ Chief Executive Officer, UK	S\$1,000,001 – 1,250,000	45	0	53	2	100	27,000	–
Chang Seow Kuay Chief Executive Officer, Country Foods Pte. Ltd.	Below S\$250,000	74	7	13	6	100	27,000	–
Chi Ping Huey ¹⁹ General Counsel	Below S\$250,000	79	0	13	8	100	–	–
Tony Goh Aik Kwang Senior Vice President, Strategy & Marketing	S\$250,001 – 500,000	75	7	12	6	100	27,000	–
Leong Kok Hong ²⁰ Senior Vice President, Strategic Partnership	S\$250,001 – 500,000	76	7	12	5	100	18,900	–
Andrew Lim Cheng Yueh Senior Vice President, Pearl River Delta Region	S\$250,001 – 500,000	73	6	12	9	100	18,900	–
Denis Suresh Kumar Marie ²¹ Senior Vice President, Passenger Services	Below S\$250,000	75	7	13	5	100	33,000	–
Poon Choon Liang Chief Operating Officer, Singapore Food Industries Pte Ltd	S\$250,001 – 500,000	59	4	28	9	100	27,000	–
Frankie Tan Chiew Kuang Senior Vice President, Special Projects	S\$250,001 – 500,000	72	6	15	7	100	–	–
Yacoob bin Ahmed Piperdi Senior Vice President, Cargo Services	S\$250,001 – 500,000	75	7	12	6	100	18,900	–
Karmjit Singh ²²	Below S\$250,000	65	9	11	15	100	–	–
Rebecca Tan-Loke Won Moi ²³	Below S\$250,000	77	7	10	6	100	–	–

Notes:

¹⁴ Remuneration bands as indicated do not include the value of any awards granted under the SATS RSP and/or the SATS PSP.

¹⁵ Includes profit-sharing bonus paid or determined on an accrual basis for FY2009-10.

¹⁶ Denotes the base awards of shares granted under the SATS RSP and the SATS PSP for FY2009-10 on 12 November 2009. Final number of shares awarded to the recipient could range between 0% and 150% of the base award granted under the SATS RSP, and between 0% to 200% 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.

¹⁷ Promoted to the grade of Executive Vice President with effect from 1 October 2009.

¹⁸ UK-based senior executive whose remuneration has for the purposes of this Report been converted at the exchange rate of £1: S\$2.09.

¹⁹ Joined SATS on 16 March 2010. Remuneration is in respect of her period of service during FY2009-10.

²⁰ Appointed as Senior Vice President, Strategic Partnership with effect from 1 June 2010. He served as Senior Vice President, Apron Services immediately prior to his new appointment.

²¹ Promoted to the grade of Senior Vice President with effect from 1 January 2010.

²² Served as Chief Operating Officer, West Asia during FY2009-10 until his retirement on 11 September 2009. Remuneration is in respect of his period of service during FY2009-10.

²³ Served as Senior Vice President, Human Resource during FY2009-10 up to and including 31 December 2009. Remuneration is in respect of her period of service during FY2009-10.

Corporate Governance

Principle 9: Disclosure on remuneration policy, level and mix of remuneration, and procedure for setting remuneration (Cont'd)

Key executives' remuneration (Cont'd)

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 FY2009-10.

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" 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 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. 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

Following the formation of the Board Risk Committee on 1 November 2009, the Audit and Risk Management Committee was renamed the Audit Committee with effect from 1 November 2009.

The Audit Committee comprises three members, all of whom are independent Directors. The Chairman of the Audit Committee is Mr Keith Tay Ah Kee, and its other members are Mr David Zalmon Baffsky and Mr Yeo Chee Tong.

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 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;
- 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);
- 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;
- 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.

Corporate Governance

Principle 11: Establishment of audit committee with written terms of reference (Cont'd)

Audit Committee (Cont'd)

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, including at least once without the presence of Management. The Audit Committee met five times in the course of FY2009-10, and also had a session without the presence of Management.

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 FY2009-10, 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.

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 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 had on 1 November 2009 established the Board Risk Committee, which presently comprises three members, being Mr Mak Swee Wah (Chairman), Mr David Heng Chen Seng and Mr Khaw Kheng Joo, all of whom are non-executive Directors, to oversee and review the adequacy and effectiveness of the Group's risk management systems as well as its safety systems and programmes. Prior to the establishment of the Board Risk Committee, the oversight and review of the risk management systems of the Company were under the purview of the then Audit and Risk Management Committee.

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 and monitoring implementation of the risk management plans;
- SATS' 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; and
- food safety and accident investigation findings and implementation of recommendations by Management.

The Board Risk Committee is required under its terms of reference to meet at least four times a year.

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.

Corporate Governance

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

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

For FY2009-10, the Company's internal audit function was undertaken by a dedicated section within the Internal Audit department of SIA. 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 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 of SIA meets all the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

The Company established its own Internal Audit department in FY2009-10 which will take over the function of performing internal audit on the Group with effect from FY2010-11. The Company's Internal Audit department meets all the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

The Audit 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, takes 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 (www.sats.com.sg), 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.

Corporate Governance

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 in place a policy and guidelines on dealings in the securities of the Company, which have been disseminated to employees of the Group and directors of the companies within the Group. The policy and guidelines restrict certain employees (including all administrative officers and employees of managerial grade and above, and employees in departments which are likely to be privy to confidential material price-sensitive information, such as the offices of the PCEO, 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 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.

Corporate Governance

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 by 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.

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 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 SATS RSP and the SATS PSP, may not exceed 15 percent of the total number of issued ordinary shares (excluding treasury shares) in the capital of the Company on the day preceding the relevant date of award.

The aggregate number of shares under awards which may be granted pursuant to the SATS RSP and/or the SATS PSP during the period from the date of the AGM to the date of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required to be held, whichever is the earlier, will not exceed 1 percent of the total number of issued ordinary shares (excluding treasury shares) in the capital of the Company from time to time.

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

Effective 1 November 2009, the oversight function on risk management activities was transferred from the Audit and Risk Management Committee ("**ARMC**") to a newly established Board Risk Committee ("**BRC**"), and the ARMC was subsequently renamed the Audit Committee ("**AC**"). More information on the AC's and BRC's authorities and duties can be found in the "**Corporate Governance**" section of this Annual Report.

Audit Committee

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

The AC is made up of three Directors, all of whom are independent, and is chaired by an independent non-executive Director. 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 function continually strives to improve efforts in ensuring the compliance with 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. 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 Control Self 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.

Board Risk Committee

The Board through the BRC generally oversees and reviews the other risks faced by the Group. 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 three Directors, all of whom are non-executive directors. The BRC is scheduled to meet four times a year to exercise oversight of the management of operational risks within the Group.

Internal Controls Statement

Risk Management Organisational Structure (Cont'd)

Board Risk Committee (Cont'd)

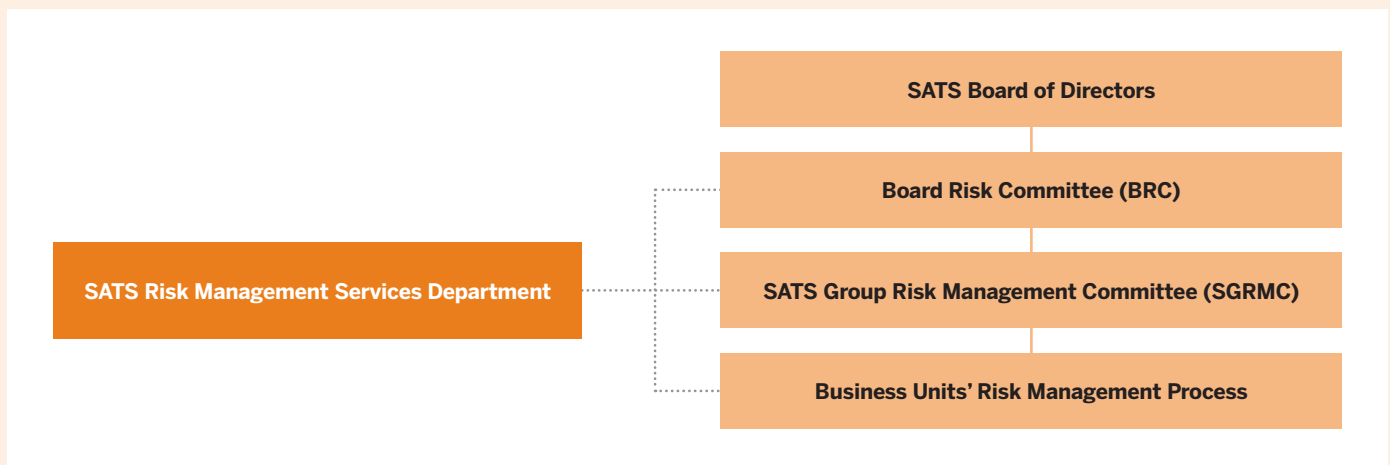
The involvement of the BRC is key to the safety and risk management programme. Under its oversight, the safety and risk management programme is executed with an integrated view of the organisation and its needs in mind.

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, 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 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 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 Group has formalised its risk management reporting structure as depicted in the diagram below. 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 internal control framework encompass 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 meets 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;
- 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.

Internal Controls Statement

Control Environment and Control Activities (Cont'd)

The risk management function 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;
- 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 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 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 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 AC and BRC in the exercise of their responsibilities under their respective Charter and terms of reference, 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 FY2009-10 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.