

# Corporate Governance Report

SATS Ltd. (“**SATS**” or the “**Company**”) strives to maintain high standards of corporate governance within the Company and its subsidiaries (the “**Group**”) by promoting performance management and accountability to enhance long-term shareholder value, and by constantly reviewing processes, policies and practices. For example, the Company was early in complying with many of the revised guidelines in the 2012 Code of Corporate Governance (“**2012 Code**”) even prior to the commencement of the 2012 Code. This report (“**Report**”) describes SATS’ corporate governance policies and practices with specific reference to the principles and guidelines set out in the 2012 Code.

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

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

The key functions of the Board are to:

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

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

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

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The complete list of each Director's membership in the Board Committees is set out in the table below:

Board Member	Board Membership	Board Executive Committee	Audit Committee	Nominating Committee	Remuneration and Human Resource Committee	Board Risk and Safety Committee
Mr Edmund Cheng	Chairman & Independent Director	Chairman		Member	Chairman	
Mr Alex Hungate	Executive Director	Member				Member
Mr David Baffsky	Independent Director			Chairman	Member	
Ms Euleen Goh	Independent Director	Member	Chairman	Member		
Mr Nihal Kaviratne	Independent Director		Member			Member
Mr Koh Poh Tiong	Independent Director		Member		Member	
Mr Michael Kok	Independent Director	Member				
Mr Yap Chee Meng	Independent Director		Member			Chairman
Mr Thierry Breton <sup>1</sup>	Independent Director					
Mr Tan Soo Nan <sup>2</sup>	Independent Director					

Notes:

- 1 Mr Thierry Breton was appointed as an Independent Non-Executive Director with effect from 1 October 2015.
- 2 Mr Tan Soo Nan was appointed as an Independent Non-Executive Director with effect from 25 April 2016.

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

Board meetings are scheduled in advance. In addition, ad hoc Board meetings are convened if and when there are pressing matters requiring the Board's deliberation and decision in between the scheduled meetings. Since 2003, the Board has also conducted annual Board Strategy meetings in order to have more focused discussions on key strategic issues. The General Counsel, the Chief Financial Officer ("CFO") and the Executive Vice Presidents ("EVP") are usually invited and are present at the meetings of the Board and the Board Executive Committee. The Board and Board Committees may invite any member of the Management team to be present at the meetings.

The Constitution of the Company ("**Constitution**") allows Directors to participate in Board and Board Committee

meetings by way of telephone or video conference or other similar means of communication equipment whereby all persons participating in the meeting are able to hear each other, without requiring their physical presence at the meeting. The Company has set up telephone and video conference facilities to enable alternative means of participation in Board and Board Committee meetings.

To facilitate the effective participation of Directors at Board and Board Committee meetings, papers and materials are made available at least a week prior to the meeting. This enables any Director who is unable to attend a Board or Board Committee meeting to provide input and raise any queries on matters discussed. In FY2015-16, the Board meeting held on 12 February 2016 was held via telephone conference. In addition, during the same period, some Directors did participate in Board Committee meetings via telephone conference.

The Directors' attendance at Board and Board Committee meetings as well as the two-day Board strategy meeting and the Annual General Meeting held in FY2015-16 are set out below.

	No. of Board and Board Committee meetings and Annual General Meeting attended in FY2015-16						
	Board Meetings (including Board Strategy Meeting)	Board Executive Committee ("Exco")	Audit Committee ("AC") (including a joint meeting with the BRSC)	Nominating Committee ("NC")	Remuneration and Human Resource Committee ("RHRC")	Board Risk and Safety Committee ("BRSC")	AGM
No. of meetings held	7	5	5	1	2	4	1
<b>Board Members</b>							
Mr Edmund Cheng	7	5		1	2		1
Mr Alex Hungate	7	5				4	1
Mr David Baffsky	6			1	2		1
Ms Euleen Goh	7	5	5	1			1
Mr Nihal Kaviratne	7		5			4	1
Mr Koh Poh Tiong	6		5		2		1
Mr Michael Kok <sup>1</sup>	6	4/4					1
Mr Yap Chee Meng	7		5			4	1
Mr Thierry Breton <sup>2</sup>	4/5						1
Mr Tan Soo Nan <sup>3</sup>	NA						1

Notes:

- Mr Michael Kok was appointed as a member of Board Executive Committee with effect from 1 May 2015. He attended 4 out of 4 Board Executive Committee meetings held during his term as a member of the Board Executive Committee.
- Mr Thierry Breton was appointed as an Independent Non-Executive Director with effect from 1 October 2015. He attended 4 out of 5 Board meetings held during his term as a Director of the Company.
- Mr Tan Soo Nan was appointed as an Independent Non-Executive Director with effect from 25 April 2016.

All members of the Board participate actively in Board discussions and share their insights on issues and matters tabled. In the event of conflicts of interests, Directors seek appropriate legal advice and abstain from such discussions or decisions. The Board engages with and provides leadership to Management in the development and execution of strategies, stakeholders' engagement as well as a myriad of matters in the areas of business, strategy, operational issues and risk management. Board members meet regularly with and without the presence of Management and review and monitor the performance of Management in meeting the goals and objectives set for them.

The Board has adopted a set of guidelines on matters that require its approval, which include all matters of strategic importance, corporate governance practices, legal and regulatory compliance, risk management, maintenance of performance standards, corporate strategy, approval of business plans, approval of manpower establishment, operating and capital expenditure budgets, and approval and monitoring of major investments and strategic commitments.

### Board Executive Committee

The Board has delegated to the Board Executive Committee the function of reviewing and approving certain matters, which include, inter alia, reviewing and monitoring the Company's key strategic risks, legal risks, financial policy and risk appetite limits, for approval by the Board; guiding Management on business, strategic and operational issues as well as risk management; undertaking an initial review of the three to five year forecast/business plans and annual capital and operating expenditure budgets for the Group; granting initial or final approval (depending on the value) of transactions relating to the acquisition or disposal of businesses, assets or undertakings, joint ventures, mergers, amalgamations or similar corporate transactions; establishing bank accounts; granting powers of attorney; affixation of the Company's common seal; and nominating Board members to the Company's subsidiaries and associated companies. Summary of minutes of the meetings of the Board Executive Committee are forwarded to all Directors for their information.

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The Board Executive Committee comprises the following four members:

- Mr Edmund Cheng, Chairman
- Mr Alex Hungate, Member
- Ms Euleen Goh, Member
- Mr Michael Kok, 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 five times in FY2015-16. Regular reports are presented at each meeting of the Board Executive Committee on the performance of the Group's subsidiaries, associated companies and joint ventures, and the operational performance of the Group. The General Counsel, the CFO and the EVPs are usually invited and are present at the meetings of the Board Executive Committee.

## Orientation and Training for Directors

Newly-appointed Directors undergo a comprehensive and tailored familiarisation programme, which includes visits to major businesses and joint ventures, site visits to the kitchens, apron and cargo terminals, abattoir, etc., as well as presentations by members of Management, to facilitate the Directors' understanding of the Group's objectives, strategic plans, businesses, operations and processes. Each of the newly-appointed Directors is also sent a formal appointment letter setting out directors' duties and obligations, and enclosing the Company's latest Annual Report. Copies of the minutes of immediate past Board and Board Committee meetings are made available on the Director's online Portal accessible by all Board members. They are also provided with other materials relating to the Board and Board Committees, including the terms of reference of the various Board Committees as well as relevant guidelines and policies.

The Directors are provided with continuing education in areas such as directors' duties and responsibilities, corporate governance, changes to the Companies Act, Chapter 50 (the "Companies Act"), Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), Securities and Futures Act, etc. to enable them to carry out their statutory and fiduciary duties as well as to update and refresh them on matters that may affect and/or enhance their performance as Board members. Legal advisors are also invited to brief the Board on any new laws and regulations. In FY2015-16, a presentation was made to the Board on Amendments to the Companies Act Cap 50. During the 2015 Board Strategy meeting, external consultants were invited to speak to the Board on Disruptive Innovations. As part of the Directors' ongoing training programme, Directors are recommended and encouraged to attend conferences, courses and seminars conducted by external organisations on corporate governance, leadership and industry-related subjects. The registration process is facilitated by the Company with course

fees borne by the Company. Mr Yap Chee Meng and Ms Euleen Goh attended a Dialogue Forum – Board at Risk in March 2016.

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

### Independent Directors

There is a strong and independent element on the Board, as nine out of the ten Directors on the Board are currently considered by the Nominating Committee and the Board to be independent.

Mr Alex Hungate is the only Executive Director on the Board and is at the same time the PCEO of the Company. He is thus a non-independent Director. The nature of the Company's business and operations merit the continuity of an Executive Director on the Board to provide Independent Directors with the requisite background and knowledge to facilitate their independent judgment and decision making.

Every year, the Nominating Committee determines the independence of each Director, after taking into account the definition of an independent Director under the 2012 Code and guidance as to relationships that may exist of which would deem a director to be non-independent. The Nominating Committee also takes into account the annual confirmation of independence completed by each Director. Directors are required under the annual confirmation to critically assess their independence.

The Nominating Committee and the Board have determined that with the exception of Mr Alex Hungate, the Executive Director, the remaining nine Non-Executive Directors are considered as independent.

### Board Composition and Size

The Board, through the Nominating Committee, reviews the diversity of skills, experience, gender, knowledge, size and composition of the Board. The Nominating Committee has developed a set of principles to guide it in carrying out its responsibilities of reviewing and determining an appropriate Board size and composition. The Nominating Committee reviews the composition of the Board to ensure that the Board comprises Directors who as a group provide core competencies, in areas such as accounting, finance, legal, business, management (including human capital development and management) experience, industry knowledge, strategic planning experience, and customer-based experience/knowledge, required for the Board to be effective. The Board taking into account the review and recommendation of the Nominating Committee, has determined that knowledge and experience in supply chain logistics, technology and marketing are required to be added to the core competencies

of the Board. Mr Michael Kok, who has extensive regional experience in the retail and food industry, and is also knowledgeable in supply chain management and logistics and Mr Thierry Breton, who has extensive knowledge and experience in the areas of Economics, Finance and Information Technology, were subsequently appointed to the Board on 6 March 2015 and 1 October 2015 respectively. On 25 April 2016, Mr Tan Soo Nan was appointed as a Non-Executive and Independent Director of the Company. Mr Tan has more than 40 years' experience in various sectors including banking, finance and investments. His wealth of experience will enhance and complement the competencies and skills of the Board.

At the conclusion of the Annual General Meeting to be held on 19 July 2016 ("43<sup>rd</sup> AGM"), Mr David Baffsky and Mr Nihal Kaviratne will be retiring from the Board and will not be submitting themselves for re-election. Mr. Edmund Cheng, the Chairman of the Board, has served as Director and Chairman since 22 May 2003. He will be stepping down at the conclusion of the 43<sup>rd</sup> AGM. Ms Euleen Goh was appointed to the Board on 1 August 2013 and is a non-executive and independent Director. She is the Audit Committee Chairman and a member of the Board Executive Committee and the Nominating Committee. Upon Mr Edmund Cheng's stepping down, Ms Euleen Goh will be appointed as the Chairman of the Board.

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

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

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

Mr Edmund Cheng is the non-executive and independent Chairman, and Mr Alex Hungate is the PCEO of the Company.

The roles of the Chairman and the PCEO are clearly separated to ensure appropriate checks and balances, increased accountability and greater capacity of the Board for independent decision-making. The Chairman and the PCEO are not related to each other. Upon Mr Edmund Cheng's stepping down, Ms Euleen Goh will be appointed as the Chairman of the Board. Ms Euleen Goh is a non-executive and independent Director and is not related to the PCEO, Mr Alex Hungate.

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

The PCEO, assisted by the EVPs and senior management, makes strategic proposals to the Board and after robust and constructive Board discussions, executes the agreed strategy, manages and develops the Group's businesses and implements the Board's decisions.

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

**Nominating Committee**

The Board has established a Nominating Committee with written terms of reference clearly setting out its authority and duties. During the financial year under review, the Nominating Committee had revised its Terms of Reference to be in line with the Nominating Committee Guide launched by The Singapore Institute of Directors on 27 October 2015 and it was adopted and approved by the Board of Directors. The duties of the Nominating Committee include the following:

- reviewing and making recommendations to the Board on the diversity of skills, experience, gender, knowledge, size and composition of the Board;
- making recommendations to the Board regarding the process for identification and selection of new Directors, including recommending Directors for appointment to the Board Committees;
- making recommendations to the Board on re-nominations and re-appointments of existing Directors;
- reviewing succession planning of Board and Board Committee members, including for the Chairman of the Board;
- evaluating the independence of Directors on an annual basis, and as and when circumstances require;

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- determining if Directors who hold directorships on other boards are able to and have been adequately carrying out their duties as Directors of the Company;
- developing and carrying out the process for assessing the effectiveness of the Board as a whole and the effectiveness of the Board Committees, and assessing the contributions made by the Chairman of the Board. The assessment of each individual Director's contribution to the effectiveness of the Board is a joint responsibility of the Nominating Committee Chairman and the Board Chairman;
- reviewing the training and professional development programmes for the Board; and
- carrying out such other authorities and duties as provided in the 2012 Code.

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

- Mr David Baffsky, Chairman
- Mr Edmund Cheng, Member
- Ms Euleen Goh, Member

The Nominating Committee met once in FY2015-16, which met the requirement under its terms of reference. The Nominating Committee members met informally on a number of occasions to interview potential candidates to be appointed as Directors on the Board.

### RE-NOMINATION AND RE-APPOINTMENT OF DIRECTORS

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

Name of Director	Position held on the Board	Date of first appointment to the Board	Date of last re-appointment/re-election as a Director
Mr Edmund Cheng	Chairman	22 May 2003 (as Director and Chairman)	21 July 2015
Mr Alex Hungate <sup>1</sup>	Executive Director	27 July 2011	26 July 2013
Mr David Baffsky	Director	15 May 2008	21 July 2015
Ms Euleen Goh	Director	1 August 2013	21 July 2015
Mr Nihal Kaviratne	Director	30 July 2010	21 July 2015
Mr Koh Poh Tiong <sup>2</sup>	Director	1 November 2011	23 July 2014
Mr Michael Kok	Director	6 March 2015	21 July 2015
Mr Yap Chee Meng	Director	1 October 2013	23 July 2014
Mr Thierry Breton <sup>3</sup>	Director	1 October 2015	Not Applicable
Mr Tan Soo Nan <sup>4</sup>	Director	25 April 2016	Not Applicable

Notes:

- 1 Mr Alex Hungate who is also the PCEO of the Company will retire pursuant to Article 83, has indicated his willingness to stand for re-election at the 43<sup>rd</sup> AGM.
- 2 Mr Koh Poh Tiong who will retire pursuant to Article 83, has indicated his willingness to stand for re-election at the 43<sup>rd</sup> AGM.
- 3 Mr Thierry Breton was appointed to the Board on 1 October 2015 and will retire pursuant to Article 90 at the 43<sup>rd</sup> AGM. He has indicated his willingness to stand for re-election at the 43<sup>rd</sup> AGM.
- 4 Mr Tan Soo Nan was appointed to the Board on 25 April 2016 and will retire pursuant to Article 90 at the 43<sup>rd</sup> AGM. He has indicated his willingness to stand for re-election at the 43<sup>rd</sup> AGM.

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

office only until the next AGM, but will be eligible for re-appointment at that AGM.

The Directors standing for re-election pursuant to Article 83 at the 43<sup>rd</sup> AGM are Mr Alex Hungate and Mr Koh Poh Tiong. Mr Thierry Breton and Mr Tan Soo Nan are standing for re-election pursuant to Article 90.

The Nominating Committee (after having taken into consideration the principles for the determination of the Board size and composition adopted by it) and the duration

of their appointments to the Board, recommends their retirement and re-appointment as Directors, after assessing their contribution and performance (including attendance, preparedness, participation and candor) as Directors and the Board has endorsed the recommendation.

With effect from FY2010-11, newly appointed non-executive Directors are appointed to serve an initial term of three years and such initial term of office may be renewed for a subsequent term or terms of up to a total of three years, expiring at the AGM of the Company closest to the 6<sup>th</sup> 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.

Mr David Baffsky and Mr Nihal Kaviratne have served on the Board as non-executive and independent Directors since 15 May 2008 and 30 July 2010 respectively. They have both expressed that they will retire at the conclusion of the 43<sup>rd</sup> AGM. Mr. Edmund Cheng, the Chairman of the Board, has served as Director and Chairman since 22 May 2003. He will be stepping down at the conclusion of the 43<sup>rd</sup> AGM. Ms Euleen Goh who was appointed to the Board on 1 August 2013 will thereafter be appointed as the Chairman of the Board. Ms Euleen Goh is a non-executive and independent Director.

#### Independence Review

The Nominating Committee is tasked to determine on an annual basis, and as and when circumstances require, whether or not a Director is independent by having Directors to complete an annual confirmation of independence, bearing in mind the definition of an "independent Director" and guidance as to the types of relationships which would deem a Director not to be independent, under the 2012 Code. The relationships referred to in the 2012 Code are the relationships with the Company, its related corporations, its 10 percent shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the Company. The Directors are mindful that the relationships identified in the annual confirmation of independence are indicators of possible situations where independent judgement may be impaired, but are not in themselves conclusive. Independence is often only meaningful in the context of each particular relationship considering the business environment, shareholding organisational structure and operating constraints.

#### Selection and Appointment of New Directors

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

The Nominating Committee is in charge of making recommendations to the Board regarding the identification and selection of new Directors. Taking into consideration the desired qualifications, skill sets, competencies and experience which are required to supplement the Board's existing attributes, if need be, the Nominating Committee may seek assistance from external search consultants for the selection of potential candidates. Directors and Management may also put forward names of potential candidates, together with their curriculum vitae, for consideration. The Nominating Committee, together with the Chairman of the Board, then meet with the short-listed candidates to assess their suitability, before submitting the appropriate recommendations as to the appointment of any candidate to the Board for its approval.

#### Review of Directors' Time Commitments

The Nominating Committee determines annually whether a Director has been adequately carrying out his duties as a Director of the Company, taking into consideration the number of that Director's other listed company board representations and other principal commitments. In respect of FY2015-16, the Nominating Committee is of the view that the number of each Director's other directorships was in line with the Company's guideline that the maximum number of listed company board representations which any Director may hold should range from five to seven. The Nominating Committee is of the view that each Director has been able to effectively discharge his duties as a Director of the Company.

#### Key Information Regarding the Directors

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

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

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

The Chairman of the Board meets with the Chairman of the Nominating Committee to discuss the assessment of each individual Director to the effectiveness of the Board.

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Assessment of Board and Board Committees and individual Director's performance is carried out annually. In FY2015-16, the Nominating Committee conducted the Board assessment by way of a questionnaire (the "Questionnaire") developed in conjunction with external consultants, Aon Hewitt and subsequently revised internally in November 2015 to be more robust and open ended to allow Directors the opportunity to provide more comprehensive feedback and comments rather than adopting a rating system. The Questionnaire comprises two sections. Section 1 of the Questionnaire concerns Board and Board Committees assessment and covers areas such as Board composition, information management, Board processes, investor relations and corporate social responsibility, managing the Company's performance, strategic review, individual committee assessments, PCEO performance and succession planning, Directors' development and management, risk management, etc. Section 2 of the Questionnaire requires each Director to assess his/her own performance as well as the performance of his/her peers in areas such as contribution, knowledge, ability, teaming, integrity, personal commitment, etc. with the objective of continuous improvement in the quality of Board discussions.

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

The relevance and effectiveness of each collective Board evaluation exercise is further enhanced by private session held between the Chairman and each Director to discuss and assess the individual performance of the Director when the Chairman deems as necessary. 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 measures for each decision and mandate sought by Management, including, where applicable, relevant budgets, business plans, forecasts

and projections. Directors are entitled to request from Management additional information as needed to make informed decisions. Information papers on material matters and issues being dealt with by Management, and quarterly reports on major operational matters, market updates, business development activities and potential investment opportunities, are also circulated to the Board. In addition, various Board Committees receive minutes and reports from Management relating to their specific areas of oversight, which may contain more detailed and specific information.

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

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

The Board is supported by the Board Secretariat team and has 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 all governance matters, compliance by the Company with its Constitution, laws and regulations, the 2012 Code, and the Listing Manual of the SGX-ST; communicating with relevant regulatory authorities and bodies and Shareholders on behalf of the Company; and performing such other duties of a company secretary, as required under laws and regulations or as specified in the Listing Manual of the SGX-ST or the Constitution, 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.



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

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

The Remuneration and Human Resource Committee is required by its terms of reference to meet at least twice each financial year, with additional meetings to be convened as and when required. The Committee convened two meetings in FY2015-16.

The Remuneration and Human Resource Committee plays an important role in helping to ensure that the Group is able to attract, recruit, motivate and retain the best talents through competitive remuneration and progressive policies such as pay-for-performance so as to achieve the Group's goals and deliver sustainable shareholder value.

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

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

The Remuneration and Human Resource Committee has access to expert advice from external consultants on remuneration. In FY2015-16, the Remuneration and Human Resource Committee sought views on market practices and trends from an external consultant, Aon Hewitt. The Remuneration and Human Resource Committee undertook a review of the independence and objectivity of the external consultants through discussions with them and was satisfied that the external consultant had no relationships with the Company that would affect their independence.

More details of each of the Share Plans can be found in the Annexure to this Report, and also in the "Directors' Statement" 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.

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

Every Director receives a basic fee. In addition, he receives a Chairman's fee if he is the Chairman of the Board, as well as the relevant Board Committee fee (depending on whether he served in the capacity as the Chairman or as a member of the relevant Board Committee) for each position he held on a Board Committee, during FY2015-16. Non-executive Directors, who ceased to be a director during any part of the financial year, are paid pro-rated fees for the term of his office. Each Director also receives an attendance fee for each Board meeting and Board Committee meeting attended by him during the financial year. The attendance fees for Board and Board Committee meetings vary according to whether the meeting is held in the state/country in which the Director is ordinarily resident and whether the Director is attending in person or via teleconference/video conference.

Whilst the Remuneration and Human Resource Committee is mindful that non-executive Directors should not be over-compensated, it opined that competitive and equitable remuneration will attract, motivate and retain Directors with the necessary experience and capabilities and desired attributes who can contribute to the Company's future development and growth. In FY2015-16, the Remuneration and Human Resource Committee had considered whether to pay a portion of the Directors' remuneration in the form of shares. The Board, taking into account the recommendation of the Remuneration and Human Resource Committee, opined that all the non-executive Directors of the Company have continually acted in the best interest of the Company and are aligned to the interests of shareholders, and there is therefore no compelling reason to implement a scheme for Directors to hold shares in the Company.

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

# Corporate Governance Report

The proposed scale of Directors' fees for financial year ending 31 March 2017 remains unchanged from that of FY2015-16, and is set out below.

Types of Appointment	Scale of Directors' fees (FY2015-16)
<b>Board of Directors</b>	<b>S\$</b>
Basic fee	45,000
Board Chairman's fee	40,000
Board Deputy Chairman's fee	30,000
<b>Audit Committee</b>	
Committee Chairman's fee	30,000
Member's fee	20,000
<b>Board Executive Committee</b>	
Committee Chairman's fee	30,000
Member's fee	10,000
<b>Other Board Committees</b>	
Committee Chairman's fee	20,000
Member's fee	10,000
<b>Board Meeting Attendance Fee</b>	
Attendance via teleconference/videoconference	1,000
Attendance in person in home city (up to 4 hours for travel within home city)	2,500
Attendance in person outside home city	5,000
<b>Board Committee Meeting Attendance Fee</b>	
Attendance via teleconference/videoconference	500
Attendance in person in home city (up to 4 hours for travel within home city)	1,200
Attendance in person outside home city	2,500

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

### Directors' Remuneration

The Directors' remuneration paid out for FY2015-16 is as indicated in the table below:

Directors	Total Fees Paid (S\$)
Mr Edmund Cheng <sup>1</sup>	187,644
Mr Alex Hungate <sup>2</sup>	0
Mr David Baffsky <sup>3</sup>	108,500
Ms Euleen Goh	121,981
Mr Nihal Kaviratne	126,500
Mr Koh Poh Tiong	96,900
Mr Michael Kok	72,181
Mr Yap Chee Meng	110,161
Mr Thierry Breton <sup>4</sup>	38,500
Mr Tan Soo Nan <sup>5</sup>	0

Notes:

- 1 Mr Edmund Cheng was, as the Chairman of TFK Corporation ("TFK"), a subsidiary of the Company, paid retainer and attendance fees of S\$17,744 by TFK.
- 2 Mr Alex Hungate's remuneration will be paid based on his service agreement with the Company. The details of his remuneration are disclosed under 'Key Executives Remuneration' of this Corporate Governance Report.
- 3 Mr David Baffsky was paid retainer fees and attendance fees of S\$18,000 as Chairman of Food and Allied Support Services Corporation Pte. Ltd, a subsidiary of the Company.
- 4 Mr Thierry Breton was appointed as a Director of the Company on 1 October 2015.
- 5 Mr Tan Soo Nan was appointed as a Director of the Company with effect from 25 April 2016. He will receive his Director's fee for FY2016-17.

At the 43<sup>rd</sup> AGM of the Company, approval of the shareholders will be sought for Directors’ fees of up to S\$1,300,000 for the financial year ending 31 March 2017. The additional fees sought are to provide for the appointment of additional Directors, additions to the existing composition of the Board Committees, formation of additional Board Committees and/or fees for appointment to the Board of SATS group of companies, if so required. To facilitate timely payment of Directors’ fees, the fees will be paid in arrears on a half-yearly basis in the course of the financial year once the fees have been approved at the 43<sup>rd</sup> AGM.

**Key Executives’ Remuneration**

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

**Remuneration Mix**

The key executives’ remuneration mix includes the fixed and variable components. The remuneration components for key executives are summarized as below:

TOTAL REMUNERATION	Fixed Components		Variable Components (Performance-Related)	
	Base Salary	Benefits & Provident	Variable Bonus	Long-Term Incentive

**Fixed Components**

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

**Variable Components**

Variable Bonus comprises the following two components:

**(a) Performance Bonus**

Performance Bonus (“PB”) is designed to support good balance of both the Group’s financial objectives and the Company’s operating performance. On an individual level, the PB will vary according to the actual achievement against Group, business unit and individual performance objectives.

**(b) Economic Value Added (“EVA”) – based Incentive Plan (“EBIP”)**

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

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

**Long-term Incentive**

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

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

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

## Corporate Governance Report

As part of SG50 celebrations, approval was granted by the Remuneration and Human Resource Committee to award 50 SATS remuneration shares, with no performance condition, to each eligible non-management employee to recognize their contributions. A total of 197,900 shares were awarded to the eligible employees on 17 November 2015.

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

Under the SATS PSP 2015, an initial award is made in the form of rights of shares, provided performance targets are met. Annual awards are made based on the performance of key senior executives. The final award, which can vary between 0-150% of the initial award, depends on stretched performance targets. They are based on absolute and relative Total Shareholder Return (“TSR”), meeting targets over the performance period of three financial years.

In FY2015-16, a total of 1,758,400 shares and 1,810,000 shares have been granted under the SATS RSP and SATS PSP respectively.

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

No termination, retirement or post-employment benefits were granted to Directors, the PCEO or the relevant key management personnel of the Company (who are not Directors or the PCEO) during FY2015-16.

The aggregate compensation paid to or accrued to the PCEO and the relevant key management personnel (who are also not Directors or the PCEO as at the date of this Report) for FY2015-16 is indicated in the table below:

President and Chief Executive Officer (PCEO)		Salary <sup>2</sup> (S\$)	Bonuses <sup>3</sup> (S\$)	Benefits (S\$)	Total (S\$)	Award under SATS RSP <sup>4</sup>	Award under SATS PSP <sup>4</sup>
Alex Hungate		990,000	881,000	67,000	<b>1,938,000</b>	161,000	550,000

Key Management Personnel	Remuneration Band <sup>1</sup> S\$	Salary <sup>2</sup> %	Bonuses <sup>3</sup> %	Benefits %	Total %	Award under SATS RSP <sup>4</sup>	Award under SATS PSP <sup>4</sup>
Tan Chuan Lye	1,000,001 to 1,250,000	78	16	6	<b>100</b>	25,000	70,000
Yacoob Bin Ahmed Piperdi	750,001 to 1,000,000	54	41	5	<b>100</b>	68,000	185,000
Cho Wee Peng	750,001 to 1,000,000	64	32	4	<b>100</b>	51,000	140,000

#### Notes:

- 1 Remuneration bands as indicated do not include the value of any awards granted under the SATS RSP and/or SATS PSP.
- 2 Salary includes AWS and employer’s CPF for the year ended 31 March 2016.
- 3 Variable bonus comprises both actual performance bonus and economic value added (EVA) bonus paid for FY2014-15 company and individual performance.
- 4 Denotes the base awards of shares granted under the SATS RSP and the SATS PSP for FY2015-16 on 3 August 2015 and 2 November 2015 respectively. The final number of RSP award will range from 0% to 120% of the initial grant and is contingent on the achievement of pre-determined target over a one-year performance period and will vest equally over a three-year period. The final number of PSP award will range from 0% to 150% of the initial grant and is contingent on the achievement of pre-determined targets over a three-year performance period.
- 5 The fair value at grant for the SATS RSP and SATS PSP for FY2015-16 is at \$2.87 and \$1.04 respectively.
- 6 The above table reflects the remuneration of the employees who hold the rank of Executive Vice President and above, who are the Relevant Key Management Personnel of the Company.

The aggregate total compensation paid to the relevant key management personnel (who are not also Directors or the PCEO as at the date of this report) was S\$2,713,000.

None of the immediate family members of a Director or of the PCEO was employed by the Company or its related companies during FY2015-16.

Further details regarding each of the Share Plans are provided in the Annexure to this Report, and also in the “**Directors’ Statement**” and “**Notes to Financial Statements**” in the “**Financials**” section of this Annual Report.

### **PRINCIPLE 10: ACCOUNTABILITY**

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

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

### **PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS**

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

The Board through the Audit Committee, oversees and reviews the adequacy and effectiveness of the Group’s internal control functions, as well as assesses financial and compliance risks; through the Board Risk and Safety Committee, it oversees and reviews the Group’s operational

and information technology risks and ensures that a robust risk management system is maintained; and through the Board Executive Committee, oversees the strategic, legal and financial risks faced by the Group.

During the year, the Board reviewed the adequacy and effectiveness of the Company’s risk management and internal control systems, including financial, operational, compliance and information technology controls. Reviews of the key profiles of the Group were conducted internally, assessed against the effectiveness of the respective internal controls and mapped onto the Assurance Reporting Dashboard.

### **SATS Code of Conduct Passion to Delight**

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

### **High Integrity**

The Company builds trust with business partners through integrity. The Company forbids employees to seek work outside of the Company so that they could give full devotion to the work they do at the Company. Integrity is further protected through non-competition and non-solicitation for a period of one year after the employee has ceased employment with the Company.

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

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

### **Safety in the Workplace**

Workplace safety is of paramount importance to the Company’s business. The Company ensures that all employees and contractors are adequately trained to perform their tasks competently and insists on strict adherence to safety rules.

### **Safeguarding Company’s Assets**

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

# Corporate Governance Report

## Board Risk and Safety Committee

The Board Risk and Safety Committee oversees and reviews the adequacy and effectiveness of the Group's risk and safety management systems and programmes.

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

- Mr Yap Chee Meng, Chairman
- Mr Nihal Kaviratne, Member
- Mr Alex Hungate, Member

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

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

The Board Risk and Safety Committee is required by its terms of reference to meet at least four times a year. The Committee met four times in FY2015-16.

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

## PRINCIPLE 12: AUDIT COMMITTEE

### Audit Committee

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

- Ms Euleen Goh, Chairman
- Mr Nihal Kaviratne, Member
- Mr Koh Poh Tiong, Member
- Mr Yap Chee Meng, Member

The Audit Committee's primary role is to assist the Board to ensure the integrity of financial reporting and sound internal control systems. During the year, it reviewed the Group's financial statements before the announcement of the quarterly and full-year results. In the process, it reviewed the key areas of management judgment, critical accounting policies, and any significant changes that would have a material impact on the financial statements.

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

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

The Audit Committee has explicit authority to investigate any matter within its terms of reference, full access to and co-operation of Management, and full discretion to invite any Director or executive officer to attend its meetings. It also has reasonable resources to discharge its functions. The Company's internal audit team, and the external auditors, report their findings and recommendations to the Audit Committee independently.

The Audit Committee is required by its terms of reference to meet at least four times a year. It met five times in FY2015-16, and at least one of these meetings was conducted without the presence of Management. During the year under review, the Audit Committee held a joint discussion with the Board Risk and Safety Committee, whereby both Board Committees endorsed and approved for recommendation to the Board, the SATS Group Key Risks, Assurance Reporting Dashboard, Risk Appetite Statement and Tolerance Limits.

The Audit Committee meets (a) with the external auditors, and (b) with the internal auditors, in each case without the presence of Management, at least annually. The Audit Committee reviews the independence and objectivity of the external auditors annually. It has also reviewed the nature and volume of non-audit services provided by its external auditors to the Group during FY2015-16, and the fees, expenses and emoluments paid or made to the external auditors, and is satisfied that they have no significant impact on the independence and objectivity of the external auditors. For details of fees payable to the auditors in respect of audit and non-audit services, please refer to Note 6 of the Notes to the Financial Statements on page 103.

At the last AGM of the Company, the shareholders approved the appointment of KPMG LLP as Auditors of the Company in place of the retiring Auditors, Ernst & Young LLP.

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

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

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

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

The Audit Committee is also tasked to perform all other functions and responsibilities of an audit committee that may be imposed by the Companies Act, the Listing Manual of the SGX-ST, the 2012 Code and other relevant laws and regulations.

#### Whistle-blowing Policy

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

# Corporate Governance Report

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

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

## Banking Transaction Procedures

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

The Company's Internal Audit Department ("IAD") provides the Audit Committee with reasonable assurance that the Company maintains adequate and effective internal controls, through assessing the design and operating effectiveness of key internal controls and procedures that govern key business processes and risks identified in the overall risk framework of the Group.

IAD is headed by Vice President, Internal Audit, and staffed by suitably qualified executives. Under the Group's Internal Audit Charter, which was approved by the Audit Committee, IAD has unrestricted access to the Audit Committee and unfettered access to all the Group's documents, records, properties and personnel.

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

attention of the Audit Committee. The Audit Committee may authorise such audit work to be carried out by an independent third party as it deems appropriate.

IAD adopts a risk-based approach in formulating the annual internal audit plan that aligns its activities to the key risk areas across the Group. The annual internal audit plan is reviewed and approved by the Audit Committee.

IAD is a corporate member of the Singapore chapter of the Institute of Internal Auditors ("IIA"). It is guided by the Standards for the Professional Practice of Internal Auditing set by the IIA. Training and development opportunities are provided for IAD staff to ensure their technical knowledge and skill sets remain current and relevant.

## PRINCIPLE 14: SHAREHOLDERS RIGHTS AND RESPONSIBILITIES

SATS practices fair and equal dissemination of information. All media releases, announcements and investor presentations are issued via SGXNET and uploaded on the Company's website, providing timely information to Shareholders.

Shareholders are informed of general meetings through notices published in the newspapers, electronic releases via the SGXNET operated by the Singapore Exchanges and reports or circulars sent to all Shareholders. Shareholders are invited at such meetings to put forth any questions they may have on the motions to be debated and decided upon. If any Shareholder is unable to attend, he is allowed under the existing Constitution, to appoint up to two proxies to vote on his behalf at the meeting through proxy forms sent in advance. Following the amendments to the Companies Act, Cap 50 which was effective from 3 January 2016, Institutional Shareholders are allowed to appoint multiple proxies. The Company will be seeking shareholders' approval on the adoption of a new Constitution to include this provision to be in line with the Companies Act, Cap 50.

Shareholders are briefed by independent scrutineers on the rules and voting procedures at the beginning of general meetings. The Company also encourages Shareholders to actively participate in general meetings, which are held in convenient locations.

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

SATS strives to communicate pertinent information to Shareholders and the investment community on a regular and timely basis; in a clear, forthcoming and detailed manner;



and by taking into consideration their views when addressing their concerns.

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

In addition, there is a dedicated Investor Relations section on the Company's website where current and past annual reports, quarterly financial results, webcasts of quarterly earnings briefings, the latest corporate presentations, and other information considered to be of interest to Shareholders and the investment community are readily available.

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

The Company's Public Affairs & Branding department, together with the PCEO, and the Chief Financial Officer actively engage Shareholders and the investment community from Singapore and overseas through investor meetings, conference calls, investment conferences and operational site visits to help them better understand the Company's businesses and growth strategy.

The Company also participated in seminars organised by the Securities Investors Association Singapore in its bid to reach out to retail Shareholders.

To grow and achieve a wider geographical spread in its shareholder base, the Company tracks changes in its share register on a regular basis.

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

The Company has an internal dividend policy which targets to provide sustainable and progressive dividend payouts.

The past four years' and the current year's proposed dividend payout is reflected under the Financial Review of the Annual Report which should give Shareholders sufficient insights into the dividend payout trends of the Company.

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

The Constitution currently does 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 Constitution if the Board is of the view that there is a demand for such alternative methods of voting, and after the Company has evaluated and put in place the necessary security processes to facilitate absentia voting, and prevention measures against errors, fraud and other irregularities.

At general meetings, each distinct issue is proposed as a separate resolution. All resolutions are put to the vote by electronic poll voting. Voting by poll allows for an equitable and transparent voting process. Shareholders will be better able to demonstrate their concerns in a manner more accurately reflective of their shareholdings. Independent scrutineers are appointed to conduct the voting process. Independent scrutineers brief the shareholders on the e-polling voting process and verify and tabulate votes after each resolution. The results of the voting at the general meetings showing the number of votes cast for and against each resolution and the respective percentages are shown to the shareholders at the end of each resolution before the Chairman makes a declaration on the passing of the resolution. In addition, the voting results at the general meetings showing the number of votes cast for and against each resolution and the respective percentages and the name of the independent scrutineer will be announced via SGXNET immediately after each general meeting.

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

### **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

# Corporate Governance Report

to confidential material price-sensitive information, such as the offices of the PCEO, EVPs and Senior Vice Presidents, the Legal and Finance departments, and departments or units of companies in the Group having charge of business development and/or marketing activities) from trading in the Company's securities during the period falling two weeks before the announcement of the Company's quarterly financial statements for each of the first three quarters of its financial year and one month before the announcement of the Company's full-year financial statements.

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

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

## 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 "Directors' Statement" and "Notes to Financial Statements" in the "Financials" section of this Report for more details relating to the ESOP.

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

The SATS RSP and the SATS PSP were approved by Shareholders at the Extraordinary General Meeting of the Company held on 19 July 2005 and were due to expire

on July 2015. A 10-year extension until July 2025 was approved at the 41<sup>st</sup> AGM of the Company. There will be no change to the maximum limit of new shares which may be issued under the SATS RSP and the SATS PSP following the extension of their respective durations. 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, market share and/or market ranking.

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

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

For FY2015-16, the total number of shares in the awards granted under the SATS RSP and SATS PSP did not exceed 0.3 percent of the total number of issued shares (excluding treasury shares). The obligation to deliver the shares is expected to be satisfied out of treasury shares.

# Risk Management and Internal Control Statement

## RESPONSIBILITY

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

- the safeguarding 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 (including requirements under the listing rules of the SGX-ST) and adoption of applicable corporate governance best practices; and
- the identification and management of business risks.

## RISK MANAGEMENT ORGANISATIONAL STRUCTURE

### Board Executive Committee

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

### Audit Committee

The Board, through the Audit Committee ("AC"), oversees and reviews the financial controls and reporting process, ensures the integrity of the Group's financial statements, and any announcements relating to the Group's financial performance. The AC reviews and reports to the Board:

- the adequacy and effectiveness of the Group's internal controls;

- the effectiveness of the internal audit function;
- the scope and results of external audits and the independence and objectivity of the external auditors;
- proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors.

The Group's internal audit provides an independent assessment to the AC on the processes and controls which may have a material financial, operational, compliance and technological impact on the Company. There are formal procedures for both internal and external auditors to report independently their conclusions and recommendations to the AC. On a yearly basis, the AC meets with the external auditors, and the internal auditors, in each case without the presence of Management.

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

### Board Risk and Safety Committee

The Board, through the Board Risk and Safety Committee ("BRSC"), oversees and reviews the Group's operational and information technology risks (including cyber security risks). The BRSC assists the Board in reviewing the adequacy and effectiveness of the systems of safety and risk management. Under its oversight, the safety and risk management programme is executed with an integrated view of the organisation and its needs in mind.

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

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

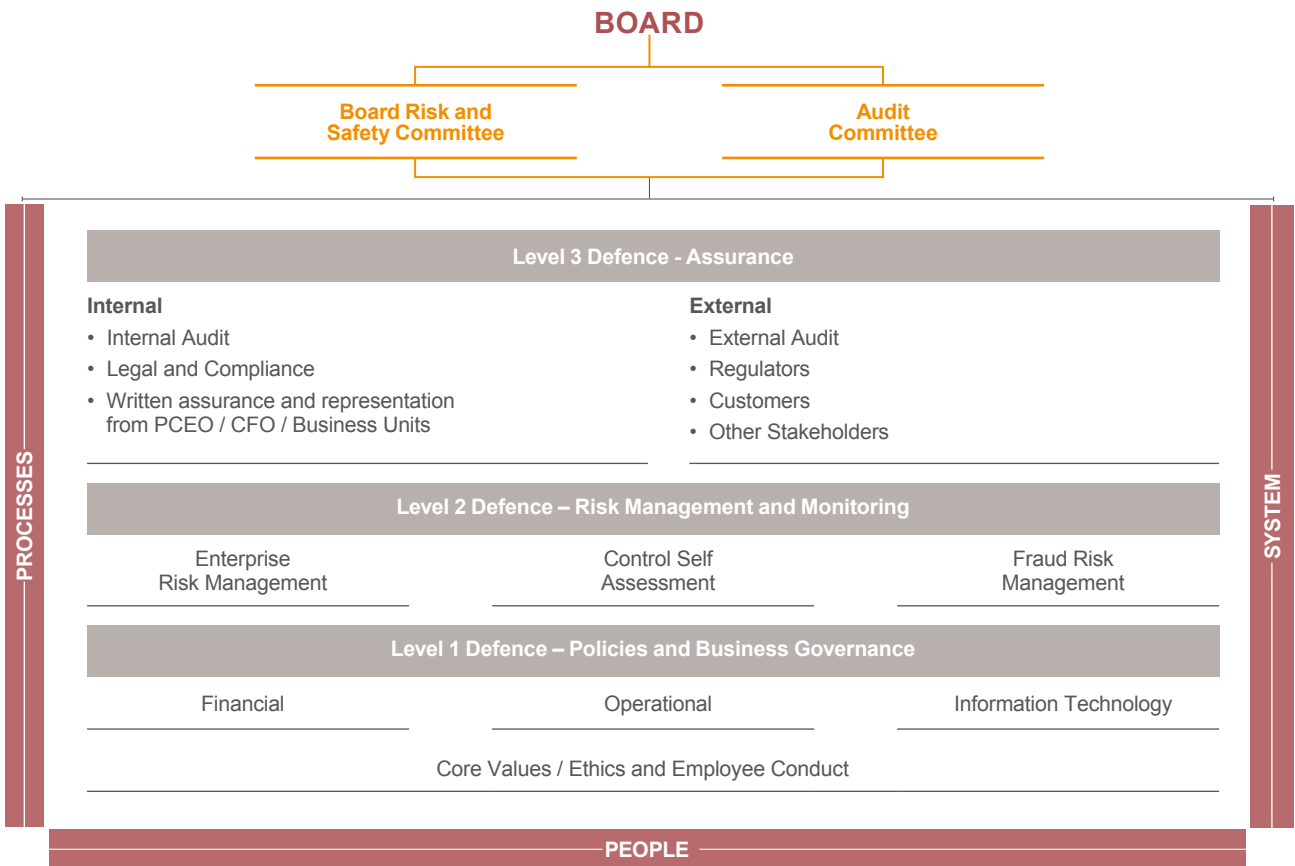
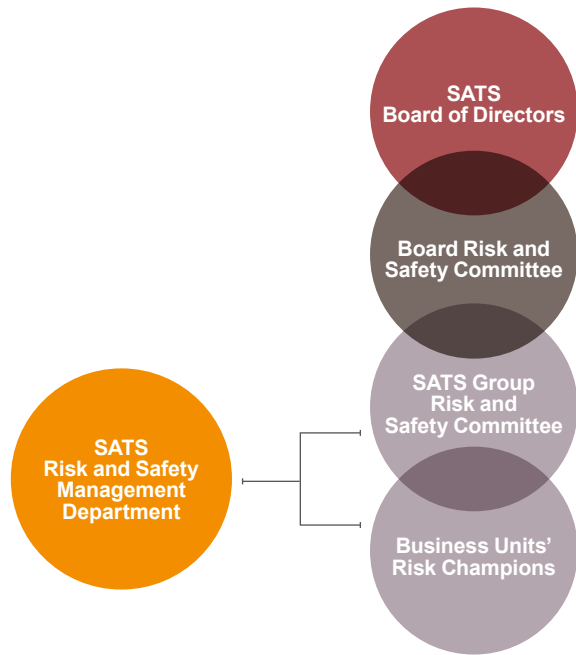
The Group has formalised its risk management reporting structure as depicted in the diagram on the right.

During the year, Management and a third-party consultant completed the review of the Group’s risk management policies and processes against the risk management practices set out in ISO31000:2009 standards. Management has received the consultant’s recommendations and implemented the relevant recommendations.

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

**MANAGEMENT CONTROLS AND ASSURANCE FRAMEWORK**

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



# Risk Management and Internal Control Statement

## LEVEL 1 DEFENCE

### – POLICIES AND BUSINESS GOVERNANCE

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

The Group's key policies and procedures include:

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

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

## LEVEL 2 DEFENCE

### – RISK MANAGEMENT AND MONITORING

The Risk Management system concentrates on those key risks which may have a significant influence on the Group's assets, finances and profits, and those that may potentially

endanger the continued existence of the Group's companies. Procedures used facilitate early detection and control of risks.

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

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

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. An additional parameter has been included during the year to address the time factor in the occurrence, impact and recovery of each risk. This further differentiates the importance of the risks and enables the Group to allocate its resources to deal with the different levels of business risks. The risk management process, which has been put in place throughout the year and up to the date of this statement, is firmly embedded within the Group's business operations and is every employee's responsibility.

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

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

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

### LEVEL 3 DEFENCE – ASSURANCE

Management monitors internal controls through CSAs that have been developed based on the principle of minimum acceptable controls. During the course of the year, a number of the questionnaires used in conducting the CSAs were updated to reflect the changes in the organisation and to increase the strength of the control environment.

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

The Group's Internal Auditors review the effectiveness of the Group's material internal controls (addressing financial, operational, information technology and compliance risks), and risk management system. The external auditors will highlight any material internal control weaknesses which have come to their attention in the course of their statutory audit. Any significant non-compliance or failures in internal controls and recommendations for improvement are reported to the AC.

The details of the Group's independent Internal Audit function are set out in the "**Corporate Governance**" section of this Annual Report.

### BOARD'S OVERSIGHT

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

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

### CONCLUSION

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