



**ANNUAL GENERAL MEETING TO BE HELD ON 22 JULY 2021
RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS**

Singapore, 20 July 2021 – SATS Ltd. (“**SATS**” or the “**Company**”) would like to thank shareholders and the Securities Investors Association (Singapore) for taking the time to send their questions in advance of our 48th Annual General Meeting (“**AGM**”) which will be conducted by electronic means on 22 July 2021 at 10.00 am (Singapore time).

It is important for us to hear your feedback, questions and suggestions even though we are unable to meet in person this year due to the current situation.

As some of the questions that we have received are similar, we have set out our responses to them according to the following themes:

- (i) Financials
- (ii) Business Strategy & Outlook
- (iii) Dividends
- (iv) Key Management Personnels’ Compensation

Please refer to **Appendix 1** for the list of substantial and relevant questions, and the Company’s responses to these questions. Where questions overlap or are closely related, they have been merged and rephrased for clarity.

BY ORDER OF THE BOARD

S. Prema
Company Secretary



Appendix 1

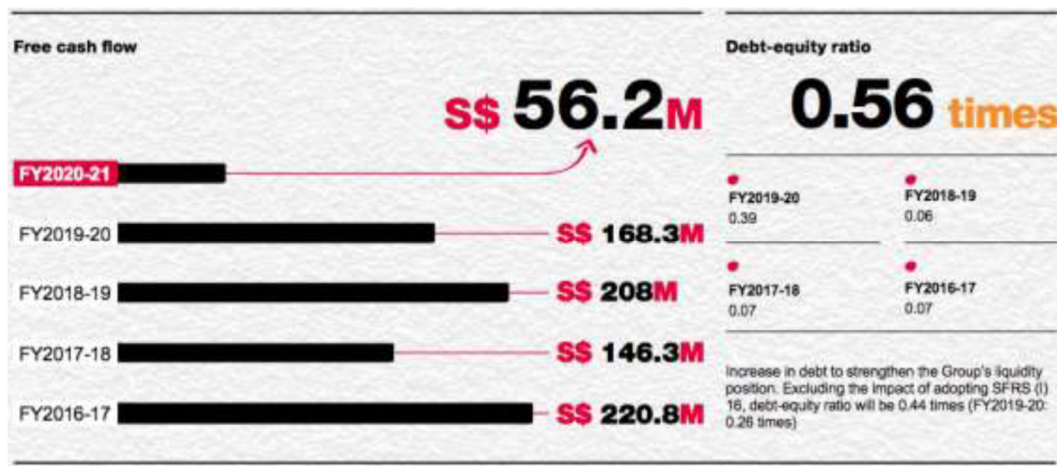
RESPONSE TO QUESTIONS RECEIVED FROM SIAS AND SHAREHOLDERS

We want to thank SIAS and our shareholders for submitting the following questions. FY20-21 was one of the most challenging years in the history of SATS. Despite the challenges, we saw sequential quarterly improvement in our financial performance due to the stringent measures taken urgently by the management as the pandemic unfolded. As a result of these actions, SATS returned to profitability in the fourth quarter of the last financial year, albeit with necessary government support. We strive to achieve profitability before government support in the new financial year.

Please find our response to your questions below. At the AGM, our PCEO, Alex Hungate, will be presenting the results of SATS' performance in the past year and sharing the strategic directions for the new financial year. In his presentation, you will hear how SATS has accelerated the transformation that started before COVID-19 to bring about the quarterly improvement in revenue, profitability, and cash flows. He will also discuss how SATS is gearing up to support the rebound of aviation and fast-track the company's growth into new segments.

Financials

The key business metrics for FY20-21 can be found on pages 6 and 7 of the annual report. Due to the pandemic, most, if not all, operating metrics showed declines from prior year(s). In particular, the group's free cash flow and debt-equity ratio levels are reproduced below for reference:



1. How is management reprioritising the group's capital expenditure to balance the need to maintain a healthy level of liquidity/cash flow and the need to develop capabilities and increase productivity?



Reprioritise Group's Capital Expenditures (CAPEX)

At the onset of the pandemic outbreak, management took swift action and proactive steps to cut back on non-essential spending that significantly reduced operating expenditures and CAPEX in tandem with the reduction in operational volume. However, management has continued to invest in CAPEX for transformative projects such as digitalisation, business automation and streamlining of systems and processes targeted at enhancing business efficiency and productivity. As disclosed in the Annual Report, CAPEX spent for FY21 and FY20 was S\$61.5 million and S\$75.6 million, respectively.

Maintain Healthy Liquidity/Cash Flow

As a result of the above actions to conserve liquidity, SATS is in a net cash position of ca. S\$200 million as at end FY20-21. SATS was EBITDA positive from the second quarter and our debt-equity ratio of 0.56 times is the lowest amongst peers in the industry.

Develop Capabilities and Increase Productivity

In the past year, management has continued to focus on transforming SATS to develop and strengthen our capabilities across the region. We were able to continue our strategic investments and have successfully integrated our central kitchen operation in Nanjing which is currently profitable despite the pandemic. Monty's Bakehouse has enabled SATS to set up an innovation centre to develop innovative products and sustainable packaging for our customers.

2. What is the planned capital expenditure for the next 12-18 months?

We have been guiding the market analysts covering SATS that our annual maintenance CAPEX ranges between S\$60 million to S\$80 million. This excludes construction of new cargo terminals and central kitchens. For the next 18 months, we expect additional CAPEX of up to S\$100 million to fund the building of new cargo and security facilities required to support business growth and enable our strategic ambitions.

The group's debt-equity ratio increased in FY19-20 to 0.39 times and further increased to 0.56 times in FY20-21 as the group strengthened its liquidity position with increased borrowings. The increase (which started in the last financial year) was partly due to the adoption of SFRS (I) 16. Excluding the change in accounting standards, the group's debt equity ratio will be 0.44 times in FY20-21 (FY2019-20: 0.26 times). As at 31 March 2021, total term loans and notes payable amounted to \$378.1 million and \$300 million respectively and the group paid interest expenses of \$20.5 million in FY20-21, up from \$7.6 million.

3. Has the board evaluated the group's financial position and set a limit to the group's leverage?

At different committees and full board meetings, the financial position of the company is scrutinised against target financial ratios including implied target credit rating and is closely monitored. As at the end of the financial year, SATS had a net cash balance of S\$200 million. SATS' debt-equity ratio was 0.56 inclusive of SFRS (I) 16 Lease Liabilities. Excluding that, debt-equity ratio was 0.44. At the beginning of this new financial year,



SATS' debt-equity ratio was reduced from 0.44 to 0.34 (excluding SFRS (I) 16 Lease Liabilities) as a result of a loan repayment in April 2021.

4. What is the available debt headroom should the group require to further bolster its liquidity in the event that the recovery is delayed/slower than expected?

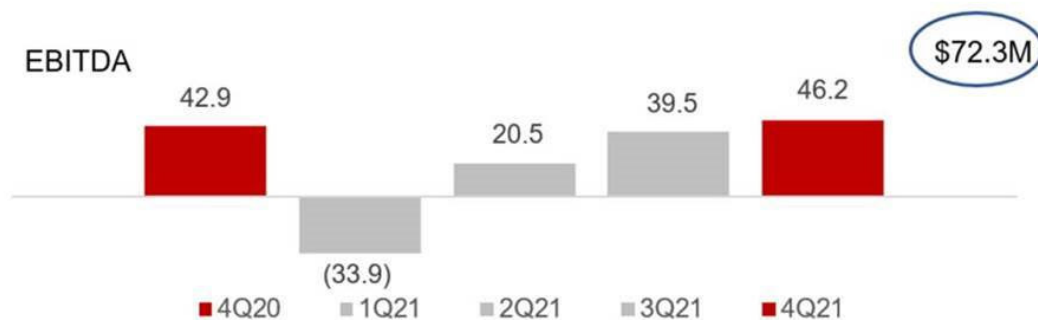
At the start of the pandemic, as part of liquidity management, the group took immediate steps to build up adequate cash reserves and sufficient banking facilities and capital market programmes to cater for the uncertainties of the pandemic and protect core capabilities. SATS uses a mixture of short-term money market borrowings, bank loans and medium/long term bonds to fund working capital requirements and capital expenditures.

The group maintains a prudent capital structure and actively reviews its cash flow, debt maturity profile and overall liquidity position on an ongoing basis. SATS has developed an active and extensive relationship with many banks, enabling the group to tap into its network banks to pursue growth and funding needs. For example, to date, SATS has used only S\$300 million of the group's S\$2 billion MTN programme.

5. Should government support schemes be substantially reduced or removed, would the group have the necessary working capital to tide it over this challenging period?

The support grants and relief received from the government have helped SATS to retain core capabilities, while we continue with productivity initiatives and prepare for rebound of the aviation segment. The management of SATS has also taken swift action to reshape the company's cost base and accessed the debt market to strengthen its liquidity position to cater for any contingency as well as provide SATS with the necessary funding resource to seize business opportunities as they arise during this period of uncertainty. As at 31 March 2021, SATS' total cash recorded on its balance sheet amounted to S\$880 million with total bank borrowings of S\$678 million. This placed SATS in a net cash position of S\$200 million at the end of the financial year.

SATS' EBITDA, a measure of operating cash flow, amounted to positive \$39.5 million and \$46.2 million for the last two quarters. Without government relief, the EBITDAs and Free Cash Flow for the two quarters would average around negative \$15 million and \$28 million per quarter, respectively; this is a manageable level as our operating cash flow continues to improve. With this net cash position of S\$200 million, we believe SATS is in a good financial position to weather the challenging pandemic period.



6. Has the board considered a rights issue to strengthen the group’s financial position? Doing so can better position the group to seize opportunities as the industry recovers from the COVID-19 pandemic.

In addition to SATS’ ability to generate operating cash flow (EBITDA improving QoQ), we have options in our capital structure and channels of liquidity to seize appropriate opportunities.

Business Strategy & Outlook

As noted in the chairman and PCEO’s statement, the past financial year has been one of the most challenging years in the group’s history as the global COVID-19 pandemic restricted international travel for the entire twelve months. The group was able to focus on non-travel segments and delivered improving performance over the quarters. Cargo remained relatively resilient (notwithstanding a 35.5% decline), supported by the demand for essential food, medical supplies and the growth in eCommerce. The group also continued its foray beyond aviation, expanding into foodservice and retail distribution.

7. Given the disruptions caused by COVID-19 and the uncertainties over the pace of recovery, how has the group fine-tuned its investment criteria and the pace of investments going forward?

In the past year, SATS has continued to enhance our capability and productivity. We have sharpened our strategic focus to access new investments that are in line with our strategic fit. These relate for example to whether investments reinforce resilient parts of the business such as cargo, and whether they position SATS for future growth. The general uncertainty in the macro outlook means that it would be inappropriate to fix the pace of our investments upfront, however SATS is proactively assessing potential targets and remains disciplined in terms of valuation. With respect to our recent investments, we have successfully integrated our central kitchen operation in Nanjing that is currently profitable despite the pandemic. Monty’s Bakehouse has enabled SATS to set up an innovation centre to develop consumer trending products and sustainable packaging for our customers.



8. Can management (re)state the group's capital allocation framework between food solutions and gateway services going forward?

Capital allocation between Food and Gateway will remain balanced in line with our stated strategic investment priorities.

9. Is management still actively exploring options to establish/enlarge the group's presence in large airports and/or major hubs, potentially extending beyond the group's current network? Did the group also have opportunities to evaluate distressed assets for acquisition?

SATS continues to consider investment and acquisition opportunities internationally to expand its network and service offerings such as in the areas of (i) cargo handling and related terminal operations and (ii) central kitchens; an example being the recent purchase of Food City (frozen food producer in Thailand). This includes opportunities to consider distressed assets from time to time in aviation-related sectors.

10. Has the board set a target for the group's non-travel related revenue as it continues its diversification to balance its revenue streams?

With the reduction in aviation volumes and the growth of non-travel related businesses, the latter currently contributes to 48.7% of SATS' total revenue. The group strives to accelerate the growth of its non-travel related revenue and intends to grow the share of non-travel related revenue proportionately over time.

As disclosed in the financial review (page 39), the group recognised \$574 million of revenue from the food solutions segment in FY20-21. This comprises of revenue from inflight catering, institutional catering, food processing, distribution and *airline linen and laundry services* [emphasis added].

11. For clarity, can the group provide further breakdown of revenue from the food solutions segment into travel and non-travel related revenue?

For the Food Solutions business, travel share of revenue is 30% while non-travel related is 70%. For non-travel related food, institutional catering and sourcing & distribution are the two main revenue streams contributing collectively to 99% of the revenue for non-travel related food. Airline linen and laundry services are ancillary services, offered as part of a comprehensive suite of services for our airline customers.

12. I would also like to know if the decrease in headcount was due to any restructuring or retrenchment.

In line with the dramatic fall in aviation volumes during the year, we have had to undergo painful cost reductions at SATS and our overseas operations to right-size our operations in line with the operating environment. Some of these reductions were fairly significant. However, we did not undertake these actions lightly. We ensured the retention of valuable core competencies and capabilities and tried our best to treat all those impacted fairly and respectfully. We are particularly grateful to our unions for their cooperation and the board and management for volunteering to lead from the top by taking pay cuts. As a result of all these actions, SATS reduced headcount from 17,000 the year before to 11,000 as of end-



March 2021. Operating expenses were also reduced by 42.9% to \$980.1 million for the year.

13. What is the progress of the non-travel related businesses, and what are the plans moving forward? How is SATS positioning itself for the reopening of aviation and continued covid-19 travel restrictions?

SATS has managed to grow non-travel related revenue by 38% this year over the prior year. We were already on the pathway of diversification before the pandemic. Now, with the impact of pandemic-related travel restrictions on the aviation volumes, we have increased the pace of our transformation. We adapted to the changes, managed our cost base and built capabilities to grow businesses in line with our strategic direction – air cargo, non-travel related food and security services. In the year, we have successfully integrated our central kitchen operation in Nanjing that is currently profitable despite the pandemic. Monty's Bakehouse has enabled SATS to set up an innovation centre to develop sustainable packaging for our customers. Recently, we have also acquired an 85% shareholding of a frozen food producer, Food City, in Thailand that will enable us to lower cost of production serving a broad base of customers from aviation to foodservice and retail.

Dividends

14. Did SATS declare dividends for 2021?

In light of the significant uncertainties in our operating environment, the Board of Directors believes that it would be prudent not to pay a final dividend for FY20-21. This will allow the company to preserve more jobs and capabilities to support our customers as aviation volumes resume and to pursue opportunities outside of aviation.

Key Management Personnel Compensation

The company had announced on 9 March 2020 that the board and management of the company would receive cut in pay or fees in the following quantum:

- 15% cut in non-executive directors' fees
- 15% pay cut for the PCEO
- 12% pay cut for executive vice presidents and senior vice presidents
- 10% pay cut for vice presidents

With effect from 1 April 2020, all managers to assistant vice presidents also took a 5% pay cut. The voluntary 15% reduction of directors' fees and salary cuts of the PCEO and management ended on 1 April 2021.

15. Has the board evaluated if the pace of recovery in the operating environment (especially air travel) necessitate continued prudence, including cost management and cutting? After all, the board has stated that, in light of the significant uncertainties in the operating environment, the directors believe that it would be prudent not to pay dividends with respect to FY2020-21 (page 91).

SATS has demonstrated prudence and judicious cost management throughout the pandemic. We were one of the first companies in Singapore to reduce our cost base at



the start of the pandemic. Leading by example, the management and board volunteered to take a pay and fee cut. We will continue to be prudent in our cost management to optimise profitability and long-term sustainability of the business.

The company disclosed the aggregate compensation paid to or accrued to the PCEO, the chief financial officer and the business heads for FY2020-21 on page 77 of the annual report. The senior management team received bonuses of between 10% and 44% of their remuneration while the bonus for the PCEO was 58%. The overall variable bonus component for the senior management team (including PCEO) averaged 34%.

The aggregate compensation paid to or accrued to the PCEO, the Chief Financial Officer and the Business Heads for FY2020-21 is set out below:

President and Chief Executive Officer (PCEO)	Salary ² (S\$)	Bonuses ² (S\$)	Benefits (S\$)	Total (S\$)
Alex Hungate	926,368	1,373,090	80,460	2,379,918

- Total SATS RSP shares of 180,000 awarded and to be vested equally over a three-year period provided terms and conditions of the plan are met.
- Total SATS PSP shares of 340,000 granted and shares to be vested 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.

Relevant Key Management Personnel	Remuneration Band ¹	Salary ² (S\$) %	Bonuses ² (S\$) %	Benefits (S\$) %	Total (S\$) %	Award under SATS RSP ¹	Award under SATS PSP ¹
Mok Tee Heong Kerry	\$1,000,001 to \$1,250,000	61	33	6	100	72,500	85,000
Yacoob Bin Ahmed Piperdi	\$1,000,001 to \$1,250,000	50	44	6	100	72,500	85,000
Seah Kok Khong, Manfred	\$750,001 to \$1,000,000	62	31	7	100	72,500	60,000
Denis Suresh Kumar Marie	\$750,001 to \$1,000,000	45	29	26	100	50,000	60,000
Cheah Chi Choy Donny	\$750,001 to \$1,000,000	55	10	35	100	50,000	60,000

16. Can the board consider including the value of the SATS RSP shares and SATS PSP shares awarded/granted to better reflect the total/maximum remuneration of the PCEO and of the key management personnel? For instance, the PCEO had a remuneration of \$2,379,918 and was also awarded 180,000 SATS RSP shares and granted 340,000 SATS PSP shares while the key management personnel received between 110,000 shares and 157,500 shares each. With the estimated weighted average fair value at date of grant for each PSP share at \$1.35 (2020: \$3.52), the total remuneration of the PCEO and KMPs would be substantially higher than the amount/bands disclosed in the remuneration table. As disclosed in Note 12 (page 154 - Share Capital and Treasury Shares), the share-based payment expenses in FY2020 and FY2021 were \$10.8 million and \$8.8 million respectively. (iii) Footnote 3 further stated that the variable bonus comprises both actual performance bonus and economic value added (EVA) bonus which were paid out in respect of company and individual performance of FY2020-21.

The overall compensation structure of KMPs is weighed significantly towards variable components to link compensation to performance. The variable components include short-term operational performance and long-term strategy achievements. This is in line with market practice.

For FY19-20, we took an early lead in reducing total compensation of senior management. Over the past three years from FY18-19 to FY20-21, compensation has been significantly reduced as a result of the pandemic on the financial performance of the company. Please see tables below.



FY20-21

The aggregate compensation paid to or accrued to the PCEO, the Chief Financial Officer and the Business Heads for FY2020-21 is set out below:

President and Chief Executive Officer (PCEO)	Salary ² (\$)	Bonuses ³ (\$)	Benefits (\$)	Total (\$)
Alex Hungate	926,368	1,373,090	80,460	2,379,918

- Total SATS RSP shares of 180,000 awarded and to be vested equally over a three-year period provided terms and conditions of the plan are met.
- Total SATS PSP shares of 340,000 granted and shares to be vested 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.

Relevant Key Management Personnel	Remuneration Band ¹	Salary ² (\$) %	Bonuses ³ (\$) %	Benefits (\$) %	Total (\$) %	Award under SATS RSP ⁴	Award under SATS PSP ⁵
Mok Tee Heong Kerry	\$1,000,001 to \$1,250,000	61	33	6	100	72,500	85,000
Yacoo Bin Ahmed Piperdi	\$1,000,001 to \$1,250,000	50	44	6	100	72,500	85,000
Seah Kok Khong, Manfred	\$750,001 to \$1,000,000	62	31	7	100	72,500	60,000
Denis Suresh Kumar Marie	\$750,001 to \$1,000,000	45	29	26	100	50,000	60,000
Cheah Chi Choy Donny	\$750,001 to \$1,000,000	55	10	35	100	50,000	60,000

FY19-20

President and Chief Executive Officer (PCEO)	Salary ² (\$)	Bonuses ³ (\$)	Benefits (\$)	Total (\$)	Award under SATS RSP ⁴	Award under SATS PSP ⁵
Alex Hungate	1,060,639	1,765,961	128,468	2,955,068	139,500	375,000

Relevant Key Management Personnel	Remuneration Band ¹	Salary ² (\$) %	Bonuses ³ (\$) %	Benefits (\$) %	Total (\$) %	Award under SATS RSP ⁴	Award under SATS PSP ⁵
Yacoo Bin Ahmed Piperdi	\$1,000,001 to \$1,250,000	47%	47%	6%	100%	50,000	92,500
Mok Tee Heong Kerry	\$1,000,001 to \$1,250,000	67%	27%	6%	100%	50,000	92,500
Seah Kok Khong, Manfred	\$750,001 to \$1,000,000	61%	33%	6%	100%	50,000	92,500
Denis Suresh Kumar Marie	\$750,001 to \$1,000,000	44%	32%	24%	100%	40,000	75,000
Cheah Chi Choy Donny ¹	\$250,001 to \$500,000	54%	5%	41%	100%	0	75,000

FY18-19

President and Chief Executive Officer (PCEO)	Salary ² (\$)	Bonuses ³ (\$)	Benefits (\$)	Total (\$)	Award under SATS RSP ⁴	Award under SATS PSP ⁵
Alex Hungate	1,073,020	2,195,932	84,470	3,353,422	–	340,000

Relevant Key Management Personnel	Remuneration Band ¹	Salary ² (\$) %	Bonuses ³ (\$) %	Benefits (\$) %	Total (\$) %	Award under SATS RSP ⁴	Award under SATS PSP ⁵
Yacoo Bin Ahmed Piperdi	\$1,000,001 to \$1,250,000	43	52	5	100	–	85,000
Tan Chuan Lye	\$1,000,001 to \$1,250,000	76	18	6	100	–	–
Seah Kok Khong, Manfred	\$1,000,001 to \$1,250,000	46	49	5	100	–	50,000
Mok Tee Heong Kerry ⁴	\$750,001 to \$1,000,000	67	27	6	100	–	50,000
Denis Suresh Kumar Marie ⁴	\$500,001 to \$750,000	54	40	6	100	–	50,000

The value of SATS RSP and PSP shares is disclosed in the annual report. The PSP awards are contingent grants, subject to performance conditions. In this FY, the PSP lapsed and was not vested to management.

The share-based payment expenses included shares granted to all employees, not only management. Performance bonus and EVA bonus are subsumed in the disclosure under Bonuses.

17. Can the board help shareholders understand how it had accounted for the \$210.7 million in government grants (under the Jobs Support Scheme) in determining the variable bonus? What was the impact from JSS, if any, on the variable bonus of the KMPs (including PCEO)?

JSS was excluded in the determination of the variable bonus.



In addition, the group received COVID-19 related government grants and reliefs totalling \$271.8 million (page 148). Without government reliefs, PATMI would have been a net loss of \$(320.8) million (page 38). As it is, the group reported a loss of \$(109.3) million, with \$(78.9) million in loss attributable to owners of the company. The core/underlying net loss for the year was \$(23.9) million (page 36). The average number of employees has also been reduced from 17,155 (FY19-20) to 12,977(FY20-21).Further in the corporate governance report, the company also disclosed how the remuneration framework for key executives is designed to link a significant and appropriate proportion of rewards to the company and individual performance (page 74). The overall remuneration components and types are summarised below:

Total Remuneration	Total Direct Compensation	Remuneration Components	Remuneration Vehicle
		Fixed Pay	Basic Salary
Variable Bonus	Performance Bonus		Economic Value Added (with claw back mechanism)
	Restricted Share Plan		Performance Share Plan
Long-Term Incentive	Benefits & Provident		

The variable bonus comprises performance bonus (PB) and economic value added (EVA). To determine the PB of key senior management, an individual Performance Scorecard comprising quantitative and qualitative targets such as Financial and Business, Customer, People and Strategic Transformation Objectives is used. The EVA component is directly tied to the EVA achieved by the group in the year. For the year, EVA was \$(185.4) million, a drop of \$258.1 million from the preceding financial year due to lower net operating profit after tax. The aggregate EVA in the past three financial years was \$(1.6) million.

18. Can the board help shareholders better understand how the variable bonuses of KMPs (including PCEO) were determined given that EVA in the financial year was \$(185.4) million and the aggregate EVA in the past three financial years was \$(1.6) million?

EVA is one of the elements of the annual bonus consideration. Other metrics in the compensation framework include other financial, non-financial, and strategic goals of the company.

In addition, on page 76, it was stated that the group’s performance conditions were impacted by COVID-19, resulting in lower RSP awards granted in FY2020-21. However, the RSP grants to PCEO and KMPs were 180,000 and 267,500 (top 4 KMPs, excluding a KMP who only joined in September 2019) respectively in FY20-21. This appears to be higher than the RSP grants of 139,500 and 190,000 respectively in FY19-20.



19. Can the board help shareholders understand if the group had granted less RSP awards in the year and if so, was the reduction in RSP grants targeted at the less senior levels of the group's top management team?

The fair value of the RSP grants for this year is lower as compared to the previous year. The reduction impacted the senior levels of the management team most.