Securities Investors Association (Singapore)
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Tel: (65) 6227 2683 Email: admin@sias.org.sg
www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y0Y

Issuer: SATS Ltd.

Stock code: S58

Meeting details:
Date: 21 July 2023
Time: 11.00 a.m.
Venue: Garden Ballroom, Level 1, Parkroyal Collection Marina Bay, 6 Raffles Boulevard, Singapore 039594

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Q1. On 3 April 2023, the group completed the acquisition of global air cargo logistics provider Worldwide Flight Services ("WFS") for €1.3 billion (equivalent to approximately S$1.8 billion) from an affiliate of Cerberus Capital Management.

The group's cargo terminal operations now extend to more than 200 locations in over 20 countries. Management has highlighted that the acquisition will position the group well for the future and strengthen the group's resilience.

The group's focus is now on integrating SATS and WFS to create synergies for the combined business to drive value for customers through the enlarged network coverage.

(i) **With over three months of ownership of WFS, can management elaborate further on the strategies and initiatives aimed at creating synergies between the two entities? Has there been any adjustment made by management to the projections in the investment thesis for WFS?**

(ii) **Could management restate the key priorities, milestones, and the anticipated timeline for the integration of WFS and how much progress has been made in the past three months, other than hosting roadshows together?**

When the acquisition of WFS was initially proposed and subsequently finalised on 3 April 2023, the company announced that Craig Smyth, CEO of WFS, would continue to oversee the operations and report to Kerry Mok, President & Chief Executive Officer of SATS. This decision was seen as crucial by many shareholders, as it aimed to maintain continuity in leadership, considering the significant magnitude of the acquisition.

On 3 May 2023, the company made an announcement regarding the expansion of its global leadership team to incorporate key members from WFS. Simultaneously, it was disclosed that Craig Smyth would be departing due to the new direct reporting lines to Kerry Mok.

(iii) **Could the board or nominating committee (NC) provide further details on the circumstances that led to the change in the management structure and the departure of Craig Smyth?**

(iv) **How does the departure of Craig Smyth affect the timeline for the integration of WFS?**

(v) **How much time, energy and bandwidth will the President & CEO have available to dedicate to effectively oversee both WFS *and* the broader group, considering the group is operating an Americas-Europe-APAC network with a global footprint encompassing 201 cargo and ground handling stations in 23 countries across several time zones?**

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(vi) **Considering IATA's projection of a potential 4% year-on-year decline in global air cargo demand in 2023 due to the challenging macroeconomic environment, what operational strategies can the group employ to sustain or enhance profitability in the event of a softening in global air cargo demand, such as during a recession?**

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Q2. Revenue increased by 49% to $1.76 billion in the financial year as the group continued to benefit from the improvement in the aviation sector with borders reopening. The operating loss for the financial year increased by $5.4 million from $(42.6) million to $(48.0) million mainly due to lower government grants and higher costs.

(i) **What are management's views on the strength of the recovery in China and does management perceive significant challenges in the Chinese economy?**

(ii) **How is the group strategically positioning itself to capitalise on China's recovery in both food solutions and gateway services?**

(iii) **Are there any significant COVID-related challenges that remain in the group's operations in Singapore?**

In particular, Asia Airfreight Terminal Co., Ltd. ("AAT"), now consolidated as a subsidiary, contributed $119 million in revenue and $(19.3) million in losses after tax.

(iv) **What are the underlying reasons for the loss and what steps will management take to address the challenges faced by AAT?**

Excluding exceptional items, the core profit after tax and minority interest (PATMI) was a net loss of $(26.7) million, representing a higher net loss compared to $(8.5) million in the previous financial year. However, when excluding government reliefs, the Group's PATMI would have been a loss of $(77.6) million from a loss of $(112.2) million in the previous financial year. The financial review on page 54 characterised this as a "*marked improvement*".

The operating statistics are summarised in the "Five-year Group Financial and Operational Summary" on pages 52 and 53 (reproduced below).

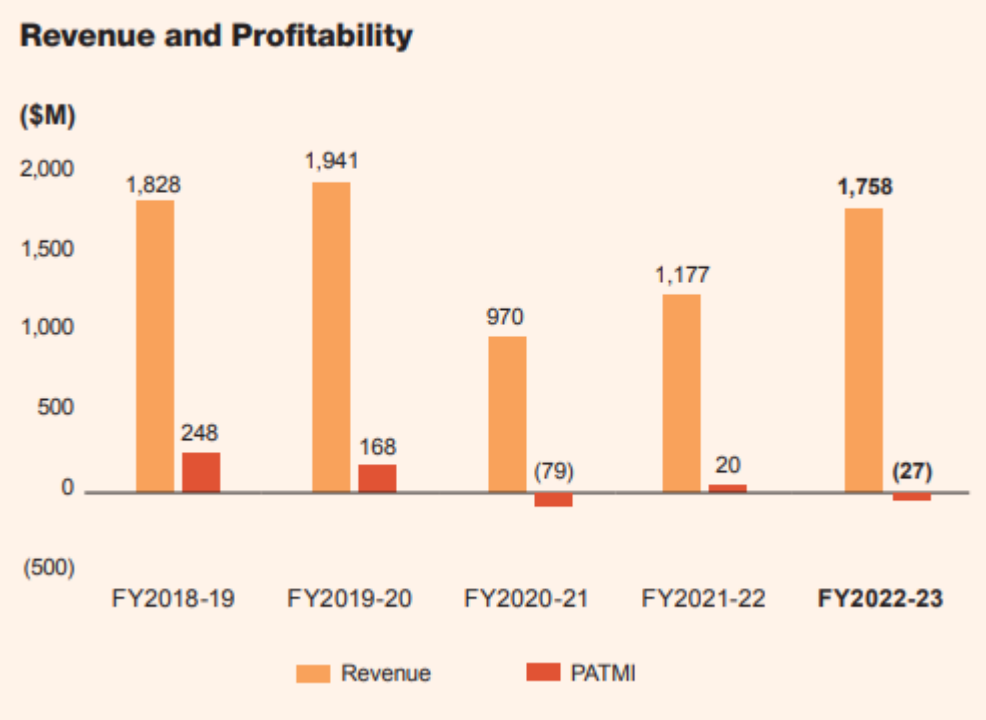
	FY2022-23	FY2021-22	FY2020-21	FY2019-20	FY2018-19
		(Restated)^	(Restated)^	(Restated)*^	(Restated)^
Operating Statistics					
Cargo/mail processed (million tonnes)	**2.24**	1.68	1.15	1.79	1.86
Passengers handled (million)	**52.64**	10.42	4.12	84.62	59.87
Gross meals produced (million)	**68.95**	52.40	43.65	82.46	76.05
Flights handled (thousand)	**230.37**	95.54	55.12	351.44	213.16
Ship calls handled	**254**	254	96	258	312

(Source: company annual report)

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At the end of March 2023, the volumes of flights handled, aviation meals served, and cargo tonnage for SATS and the subsidiaries (excluding consolidation with Asia Airfreight Terminal (AAT)) returned to 76%, 74% and 90% of pre-pandemic levels.

(v) **Considering that the group's business volume has recovered to at least 74% of pre-COVID levels, what are the main factors hindering the group's profitability compared to the pre-pandemic years?**



(Source: company annual report)

(vi) **Can management help shareholders better understand its top priorities in FY2023-24 to return the group to profitability in both food solutions and gateway services?**

(vii) **What are the efficiency gains (for example, from business re-engineering, workflow improvements, automation) achieved in the past three years? Would management be able to quantify such improvements, in terms of manpower, cost savings etc?**

The board has stated in the annual report that it believes it would be prudent not to pay a dividend until SATS is profitable without government reliefs as the group incurred a full-year loss excluding government reliefs. This is the third year that the company has not declared a dividend. The proposed fees for the board of directors' fees for the financial year ending 31 March 2024 have been increased from "up to $1,350,000" to "up to $1,500,000" to cater for additional non-executive directors and the re-shaping of the board.

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In addition, the PCEO and key management personnel received bonuses as high as 50% of the total remuneration package even though the group incurred higher operating losses of $(48.0) million in FY2022-23. Without government reliefs, Group PATMI amounted to a loss of $(77.6) million.

The aggregate compensation paid to or accrued to the PCEO, the Chief Financial Officer and the Business Heads for FY2022-23 is set out below:

President and Chief Executive Officer (PCEO)	Salary[2] (S$)	Bonuses[3] (S$)	Benefits (S$)	Total (S$)
Mok Tee Heong Kerry*	873,495	948,678	74,028	1,896,201

* SATS RSP shares of 288,000 awarded and to be vested equally over a three-year period (such period commencing FY2023-24) provided the terms and conditions of the plan are met. SATS PSP shares of 86,300 were awarded on 24 June 2022 for FY2022-23 and were reported in the Annual Report for FY2021-22. The final number of SATS PSP 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 (%)	Awards under SATS RSP[4]
Seah Kok Khong, Manfred[5]	$1,000,001 to $1,250,000	52%	43%	5%	100%	131,700
Chi Cheng Bock[5]	$750,001 to $1,000,000	60%	32%	8%	100%	131,700
Cheah Chi Choy Donny[5]	$750,001 to $1,000,000	57%	6%	37%	100%	54,000
Goh Yuen Por Stanley[6]	$250,001 to $500,000	76%	16%	8%	100%	0

Notes:

1 Remuneration bands as indicated do not include the value of any awards granted under the SATS RSP and / or the SATS PSP.
2 Salary includes Annual Wage Supplement and employer's CPF for the year ended 31 March 2023.
3 Variable bonus comprises of both actual performance bonus and economic value added (EVA) bonus in respect of Company and individual performance of FY2022-23.
4 SATS RSP shares will vest equally over a three-year period provided the terms and conditions of the plan are met.
5 SATS PSP shares that were awarded to Seah Kok Khong, Manfred (60,000) and Cheah Chi Choy Donny (15,000) on 24 June 2022 for FY2022-23 were reported in the Annual Report for FY2021-22. Chi Cheng Bock was awarded 50,000 shares for the same period. The final number of SATS PSP 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.
6 Mr Goh Yuen Por Stanley's remuneration band for FY2022-23 is reflective of his joining date, being 12 September 2022.
7 The above tables reflect the remuneration of the employees who hold the rank of PCEO, Chief Financial Officer and Business Heads.

(Source: company annual report; emphasis added)

The company had responded to SIAS' queries on the remuneration practices and framework following the review of the annual report in 2021. The company's response can be found at the following link:
https://links.sgx.com/FileOpen/SGXAnn_Responses_to_SIAS_and_Shareholders_Questions_Final.ashx?App=Announcement&FileID=675254

(viii) **Can the board help shareholders better understand the deliberations it has had with regard to declaring dividends for shareholders? Did the board also review management's performance vis-à-vis the bonuses handed out to ensure that management is sufficiently motivated to restore the group's profitability? Did the board consider it prudent to moderate and/or stagger the bonuses over 3-5 years to better align the interests of management with that of shareholders'?**

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Q3. The group has an in-house internal audit function, Group Internal Audit (GIA) Department. As disclosed in the corporate governance report, GIA 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 developed based on a documented risk and control assessment framework, which considers inherent risk and control effectiveness of each auditable entity or process in the group, and includes consideration of inputs and expectations from management and the board. Audit projects are planned based on the results of the assessment, with priority given to auditing higher risk areas.

(i) **What were the scope, key findings and recommendations by the GIA for FY2022-23?**

(ii) **Can the audit committee confirm that all the foreign operating subsidiaries were included in the internal audit? Were the group's associates and joint ventures covered by GIA in the internal audit plans?**

(iii) **What was the scope of the audit plan for AAT following its consolidation?**

(iv) **Is the GIA sufficiently resourced to include WFS in its internal audit?**

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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