



(Incorporated in the Republic of Singapore)

## **Annual General Meeting to be held on 23 July 2021 Responses to Substantial and Relevant Questions**

SIA Engineering Company Limited ("SIAEC" or "the Company") would like to thank shareholders who submitted their questions in advance of our Annual General Meeting ("AGM") to be convened and held by way of electronic means on 23 July 2021, at 11.00 am (Singapore time). In addition, we received a list of questions from the Securities Investors Association (Singapore) ("SIAS") with reference to the Company's Annual Report FY2020/21.

We have grouped all the questions received into the following key topics:

- A. Impact of COVID-19
- B. Business Strategy
- C. Joint Ventures and Associated Companies
- D. Financials
- E. Corporate Governance

Please refer to the Appendix which sets out our responses to the questions received from shareholders that are relevant to the AGM resolutions and the business of the Company. We have also provided additional information which we believe would be of interest to shareholders and answers to questions we have received from SIAS.

Mr Ng Chin Hwee, Chief Executive Officer of SIAEC, will deliver a presentation to Shareholders at the AGM where he will touch on some of the above-mentioned topics. The presentation slides are also uploaded on SGXNet and made available on our website.

**SIA Engineering Company Limited 39<sup>th</sup> Annual General Meeting  
Responses to Questions from Shareholders and SIAS**

<b>A</b>	<b>Impact of COVID-19</b>
1.	<p><b>Can the Company elaborate on the structural changes and technological trends in the aviation industry?</b></p> <p>Prior to the COVID-19 pandemic, the aircraft maintenance, repair and overhaul (“MRO”) industry has seen less maintenance requirements in the hangars with the introduction of new-generation aircraft, due to longer maintenance intervals and lighter work content. Light checks have been increasingly performed at the airport apron to provide more efficient use of ground time for airline customers. The MRO industry has also been facing increasing competition from original equipment manufacturers (“OEM”) seeking to capture a larger share of the aftermarket.</p> <p>COVID-19 has resulted in a prolonged grounding of aircraft and lower flight activities globally as passenger demand for air travel fell sharply. As a result, the aerospace industry has experienced reduced MRO spending due to the deferment of checks and extension of maintenance intervals for aircraft. The extended downturn has also led to the early retirement of older generation aircraft fleets. At the same time, aircraft deliveries in 2020 also declined by over 40% compared to 2019, which will impact the demand for MRO services in the aftermarket going forward. These structural trends are expected to impact the recovery of the global MRO market.</p> <p>To emerge stronger in a post-pandemic landscape, we continue to invest for future growth; reshape our portfolio of joint ventures and subsidiaries; and build new capabilities (including innovation and technology). This was also shared by our Chairman in his Chairman’s Statement and in the Innovation and Technology section on page 26 to 27 of our FY2020/21 Annual Report.</p>
2.	<p><b>What are the key growth drivers for the Group in a post pandemic landscape? What changes to the strategic direction and the business model has been made to position the Group for long-term, sustainable growth?</b></p> <p>The narrow-body airframe is expected to recover earlier, whereas the wide-body fleets are likely to follow later when international borders start to open. With near term recovery expected on the fast-growing narrow-body aircraft fleet in Asia, we acquired full ownership of SIA Engineering Philippines (“SIAEP”) in Clark to serve as a lower cost base to compete for more narrow-body airframe work and to cater more effectively to the needs of customers in Asia.</p>

	<p>Engine services will continue to be a high-growth segment in the post-pandemic MRO market. We restructured our Base Maintenance unit and set up a separate Engine Services Division ("ESD") to place greater focus on developing and expanding our suite of engine services to enhance our value proposition. ESD will tap on synergies with our joint ventures and OEM partners to strengthen our engine services eco-system. We are positioning ourselves for the eventual return of air travel, and the resultant increase in demand for quick turn maintenance and shorter engine turnaround, particularly those on narrow-body aircraft.</p> <p>To position the Group for long-term, sustainable growth, we continue to invest in new capabilities, technologies and services to expand our market reach. We are also accelerating the pace of our digitalisation, automation and adoption of Lean frameworks under our ongoing Transformation Phase 2 programme.</p>
<b>B</b>	<b>Business Strategy</b>
3.	<p><b>Are you actively exploring opportunities to extend the Group's geographical footprint?</b></p> <p>We explore such opportunities on an ongoing basis. We have grown our footprint overseas through our line maintenance network as well as our now wholly-owned base maintenance hangar in Philippines. More recently, we announced a Memorandum of Understanding for an acquisition in SR Technics Malaysia, a component repair facility. Both acquisitions in the Philippines and Malaysia will serve the narrow body market well. We will continue to explore investment opportunities within and outside Singapore that meet our strategic growth needs.</p>
4.	<p><b>Are there significant opportunities in aircraft preservation and Return to service checks? If so, can you quantify the addressable market?</b></p> <p>We do not have quantitative information on the Aircraft Preservation and Return to Service checks market. However, all aircraft, active or parked, require some level of maintenance work and this will provide opportunities for us.</p>
5.	<p><b>Given that technology lifecycle appears to be more compressed, are you reshaping the Group's partnerships to keep up with the latest technology advances? How does the Group ensure that it achieves an appropriate return for its investments and that it maintains a sustainable competitive edge given the shorter technology lifecycle?</b></p> <p>We believe that the technology lifecycle is not the fulcrum of the Group's partnerships as the technology lifecycle for aircraft engineering and the MRO business is hardly compressed.</p>

	<p>The Group considers a broader set of factors for return on investments. SIAEC forms strategic partnerships with airlines, aerospace OEMs and other relevant companies, to gain long-term access to key markets, technologies, and capabilities. We take into consideration the fit of our partnerships with our strategic growth needs. We have been rationalising our investments and tapping into new opportunities in the changing environment to build new capabilities for existing and new generation aircraft and components. We will continue to reshape our portfolio of partnerships and invest in new capabilities and services to emerge stronger and more competitive in a post-pandemic landscape.</p> <p>At the same time, we have embarked on Phase 2 of our Transformation Journey. In Phase 2, we will invest \$40 million over the next three years to accelerate our planned investments in digitalisation and automation, the development of new technology-enabled products and services, and Lean frameworks to enhance efficiency, create value for customers and sharpen our competitive edge.</p> <p>These investments include strengthening the digital infrastructure, digital transformation by rolling out integrated solutions through agile methodology, training of staff in digital and lean, building in-house specialists and applying design thinking techniques for process improvement.</p> <p>Already, the adoption of Lean methodology to optimise certain operational processes has achieved significant improvements in productivity in the pilot phases at the Line Maintenance and Base Maintenance units.</p> <p>For technology-enabled products and services, a digital joint planning platform will be rolled out in FY2021/22 to enhance customer experience and deepen collaboration. Optimisation engines and other functionalities for our operations control centre are in various stages of development. We have also developed the Cognitive Advisor, a natural language processing digital product for aircraft reliability improvement. As we broaden the capabilities of this product, we aim to widen the user base beyond our existing customers.</p>
<b>C</b>	<b>Joint Ventures and Associated Companies</b>
6.	<p><b>Please provide the reasons for the rationalisation of the joint ventures with Cebu Pacific and share on how that impacted the Group’s strategic growth plans.</b></p> <p>We restructured our investments in the Philippines in a joint review with our JV partner, Cebu Pacific. That facilitated our acquisition of Cebu Pacific’s stake in SIA Engineering Philippines Corporation (“SIAEP”) and divestment of Aviation Partnership (Philippines) Corporation (“APPC”). This restructuring brought about strategic benefits for the Group including without limitation full control and flexibility</p>

	to tap the huge market for narrow-body work in the Asia-Pacific region. It also enhances our network proposition through the integration of SIAEP as SIAEC Group's Centre of Excellence and low-cost base for narrow-body aircraft MRO offerings.
<b>D</b>	<b>Financials</b>
7.	<p><b>Will dividends be affected if the COVID-19 situation does not improve?</b></p> <p>The Board and Management are conscious of shareholders' wishes for dividends. The decision as to the amount of dividends to pay is dependent on what we think is sustainable for the Company. No interim and final dividends were declared for FY20/21 due to the losses incurred and the need to conserve cash and maintain liquidity in light of an expected, prolonged and uncertain recovery. The cash balance will also provide financial flexibility to pursue business and growth opportunities.</p>
<b>E</b>	<b>Corporate Governance</b>
8.	<p><b>What are the key performance indicators used to measure the performance of the key executives and how strong was the linkage of executive remuneration to the performance of the Group and the Company in FY2020/21?</b></p> <p>The performance of each key executive is assessed on the same principles across the following five broad categories of targets:</p> <ul style="list-style-type: none"> <li>• Financial and Business</li> <li>• Investment and Operations</li> <li>• People and Organisational Development</li> <li>• Safety and Quality</li> <li>• Strategic and Transformational Initiatives</li> </ul> <p>The key executive remuneration is linked to both financial and non-financial performance measures set out below:</p> <p><u>Financials including:</u></p> <ul style="list-style-type: none"> <li>• SIAEC Group's Return on Shareholder's Funds</li> <li>• SIAEC Group's Net Profit Margin</li> <li>• Company and Subsidiaries' Operating Profit</li> <li>• Share of Profits of JVCs/Assoc</li> <li>• SIAEC Group Profit After Tax</li> <li>• Performance Improvement Plan to reduce costs and increase third party revenue</li> <li>• SIAEC Group's Return on Equity</li> </ul>

	<p><u>Non-Financials including:</u></p> <ul style="list-style-type: none"> <li>• Despatch Reliability</li> <li>• On Time Delivery</li> <li>• Customer Satisfaction</li> <li>• Workplace Safety</li> <li>• Aviation Safety</li> <li>• Succession Planning</li> <li>• Employee Engagement</li> <li>• Audit Report Findings</li> <li>• Staff Resignation Rate</li> </ul> <p>With regard to the bonus component, the CEO's bonus consists of EBIP<sup>(i)</sup>, STIP<sup>(ii)</sup> (Cash Component) and PSB<sup>(iii)</sup>. As there was no EBIP and PSB declared in FY20/21, the STIP payout accounted for 12% of his total compensation. The STIP is an incentive scheme established with the objective of rewarding, motivating and retaining Key Executives who shoulder the responsibility for divisional-focused strategic and transformational initiatives and future-oriented growth.</p> <p>The CHRC is of the view that there is a linkage between remuneration and performance, taking into account all the stakeholders as well as short- and long-term interests of the Company.</p> <p>Notes:</p> <p>(i) EBIP – Economic Value Added-Based Incentive Plan  (ii) STIP - Strategic Transformational Incentive Plan  (iii) PSB – Profit Sharing Bonus</p>
9.	<p><b>Given that the Group's financial performance was boosted by over \$151.9 million of government jobs support programs (including \$143.8 million under the Jobs Support Scheme (JSS) implemented by the Singapore Government), has the Compensation &amp; HR Committee considered it prudent to exclude the government grants in the calculation of the bonus for the Senior Management team?</b></p> <p>While the Group's financial performance was boosted by the government job support programs including JSS, the financial targets have been adjusted in computing the variable components of the Senior Management team's remuneration to exclude the impact of government job support grants. With the Senior Management pay cuts of between 20% and 30%, the suspension of new EVA-Based Incentive Plan (EBIP) funding and no Profit-Sharing Bonus (PSB) declared in FY20/21, their total compensation is significantly reduced.</p>

10.	<p><b>The Economic Value Added (EVA) in FY20/21 dropped by 68% from \$770.1 million to \$247.5 million. Please clarify if the EVA of \$247.5 million achieved in FY2020/21 was calculated after the Company factored in all the government grants.</b></p> <p>The figures refer to Value Added and not Economic Value Added (EVA). With reference to page 95 of the Annual Report, Value Added available for distribution of \$247.5 million for FY2020/21 was applied as follows:</p> <ul style="list-style-type: none"> <li>• to employees: +\$352.8 million. This comprised of salaries (net of pay cuts and compulsory no-pay leave), allowances and other staff costs but excluded wage support provided by the government;</li> <li>• to the government: -\$141.6 million. This included taxes and levies paid, less grants received on government support schemes. Due to the significant wage support provided by the government during the year, the value was negative, reflecting net receipt from the government;</li> <li>• to suppliers of capital: -\$5.5 million. The negative value was due to non-controlling interests of subsidiaries' losses; and</li> <li>• retained for future capital requirements: +\$41.8 million.</li> </ul>
11.	<p><b>What deliberations did the Compensation &amp; HR Committee have on replacing the EVA with NOPAT "for the COVID recovery period until end FY22/23 (page 55)? What is the impact of this change from EVA to NOPAT on the remuneration of key executives and the CEO?</b></p> <p>Given the uncertainty and the prolonged recovery to pre-COVID-19 business levels, the objective is to incentivise the Senior Management to restore SIAEC to profitability by improving the Group NOPAT which is also a key driver of EVA. As for the impact on the remuneration of key executives and CEO, a positive Group NOPAT is required for future payout. CHRC has the discretion to fund payouts if positive Group NOPAT is not achieved but Management performance was stellar for motivational and retention purposes with the backdrop of COVID-19 in mind. The Board has approved the recommendation by the Compensation &amp; HR Committee to suspend new EVA-Based Incentive Plan (EBIP) funding for FY2020/21 to FY2022/23 due to the impact of COVID-19. The remaining balance in each Key Executive's EBIP account at the end of FY2022/23 will be nullified.</p>

12.	<p><b>The Board has acknowledged that the pandemic has adversely impacted the Group's performance and after taking into consideration the losses incurred, inter alia, the Board will not be recommending a dividend for FY2020/21. In addition, has the Board considered if all stakeholders (including employees, directors and shareholders) should share the burden from the COVID-19 pandemic?</b></p> <p>The Board had considered the sharing of the burden by all stakeholders. The Board of Directors took a reduction of 25% in their fees. Management took pay cuts ranging from 12% to 30%. Remaining staff took compulsory no-pay leave and re-employed staff were put on furlough. There was no profit-sharing bonus for FY2020/21. In view of the loss position for FY2020/21, the Board will not be recommending a dividend for shareholders. The Board considered the imperative to sustain the business through the continuing uncertainties, and the need to retain financial flexibility to pursue business opportunities.</p>
13.	<p><b>Can the Company help shareholders better understand how to interpret the Directors' Expertise and Experience chart set out on page 46 of the Annual Report?</b></p> <p>The chart denotes each of our Directors' very diverse skillset and broad experience that are relevant to the Company's activities and was derived from a Skills Matrix that was developed in conjunction with external consultants. For more details on the core competencies and professional experience of each Director, please refer to individual Director's profiles on pages 7-13 of the Annual Report.</p>
14.	<p><b>Do the Independent Directors have the appropriate balance and mix of skills, knowledge, experience, especially in aviation/MRO, to engage in effective and constructive debate with Management/other Directors?</b></p> <p>The majority of our Directors have substantial aerospace experience. The Directors' profiles can be found on pages 7 to 13 of the Annual Report.</p> <p>New appointees to the Board, including our Independent Directors, were carefully selected based on their merits to augment core experiences of the Board relevant to the evolving needs of the Group's businesses to ensure overall effectiveness and informed decision-making.</p> <p>Our Independent Directors have a wealth of experience and expertise across a broad range of sectors and functional or technical areas. In the course of their tenure, most of the independent Directors have also accumulated substantial knowledge of aviation, and the dynamic structure of the MRO business and operations. Therefore, each of them is able to participate constructively and effectively engage with</p>

	<p>Management and other directors at Board discussions. Apart from playing a crucial independent supervisory function, our Independent Directors also bring with them a myriad of strengths and expertise, and the ability to provide Management a wider and enriched perspective on corporate strategy, corporate governance, general policy and overall supervision of the Company.</p>
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