



corporate governance

The Board is committed to high standards of corporate governance and provides the leadership and guidance to management to develop and drive corporate strategy, business directions, acquisitions and divestments and risk policies for ST Engineering.

This Corporate Governance Report outlines ST Engineering's corporate governance processes and activities in 2007 in accordance with the principles of the Singapore Corporate Governance Code 2005 (Code).

BOARD MATTERS

Board's Conduct of Its Affairs (Principle 1)

The fundamental responsibility of a director is to act in the best interests of the Company and its shareholders. To this end, the Board relies on the integrity and due diligence of its senior management and its external advisors and auditors. In addition to its statutory responsibilities, the Board performs the following governance roles:

- guides the Group's overall long term strategic objectives;
- establishes a proper risk management system to ensure that key potential risks faced by the Group are properly identified and managed;
- provides oversight in the proper conduct of the Group's business;

- assesses and approves annual budgets, major funding proposals, investment and divestment proposals; and
- approves Board changes and appointments on Board committees.

The Board meets on a quarterly basis and when required to review the Group's performance, and to deliberate on specific issues including major acquisitions and investments, shareholder matters, policies relating to corporate governance, Chief Executive Officer (CEO) appointment, approval of budgets, Board changes and appointments on Board committees. Board members receive monthly consolidated management reports on the financial performance of each business sector, capital commitments and significant operational highlights.

Other matters are delegated to Board committees and the Executive Office for review and decision making. The Executive Office comprises the President and CEO; Deputy CEO, Electronics and Land Systems/ President, International Business; Deputy CEO, Aerospace and Marine/ President, Defence Business; and Chief Financial Officer (CFO).

A formal letter is sent to a director upon his appointment setting out his duties and responsibilities. A new director is also given a briefing by the President and CEO on the strategic direction and performance of the Company and its key subsidiaries as well as an introduction to the senior management team.

From time to time, the Board is updated on the relevant laws, continuing listing obligations and standards requiring compliance, and their implications for the Group.

The Board convenes scheduled meetings on a quarterly basis to coincide with the announcement of the Group's quarterly results. Ad-hoc meetings are convened as and when necessary. The Company's Articles of Association allows Board meetings to be conducted by way of teleconference or video conference. The Chairman has a second or casting vote. Decisions of the Board and Board committees may also be obtained via circulation.

The Board monitors the performance of the Group through its Board committees.

The number of Board and Board committee meetings held during the year is tabulated on the following page:

Type of Meeting	No. of Meetings	Attendance (Average %)
Board	5	84%
Audit Committee	6	94%
Business Investment and Divestment Committee	1	60%
Executive Resource and Compensation Committee	4	83%
Nominating Committee	1	67%
Senior Human Resource Committee	1	100%
Risk Review Committee	4	75%
Budget and Finance Committee	2	100%
Research, Development and Technology Committee	2	83%

Minutes of the Board Committee meetings are made available to all Board members.

Board Composition and Guidance (Principle 2)

The Board comprises 11 directors and an alternate director. The Board consists of members with established track record in finance, banking, technology, legal and management skills. Each non executive director brings to the Board an independent and objective perspective based on his training and expertise to make balanced and well considered decisions.

The Chairman of the Board is Mr Peter Seah, a non executive director. Mr Seah was appointed to the Board on 15 April 2002 as Chairman.

As a non executive director, Mr Seah is free from any relationship with the executive management of the Company that could materially interfere with the exercise of his independent judgment. He is a Member of the Temasek Advisory Panel in Temasek Holdings, the Company's major shareholder.

The President and CEO is Mr Tan Pheng Hock, who is an executive director. Save for Mr Tan Pheng Hock, the remaining ten directors are non executive directors.

The Board has five independent directors. According to the Code, an independent director is one who has no relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere with the exercise of the director's independent business judgment. The independence of each director is reviewed annually by the Nominating Committee (NC). The independent directors are Mr Koh Beng Seng, Mr Venkatachalam Krishnakumar, Dr Philip Pillai, Mr Winston Tan and Mr Davinder Singh.

Relationship tests aside, it is the quality of the governance that counts and that distinguishes an independent and effective board. While not all the non executive directors are considered independent based on relationship tests, the Board has, at all times exercised independent judgment in decision making using its collective wisdom and experience to act in the best interests of the Company.

The Board held a total of five meetings during the year, in accordance with its planning cycle, for the approval of the FY2006 results and release of 1Q2007, 2Q2007 and 3Q2007 results.

Chairman and Chief Executive Officer (Principle 3)

The Chairman and CEO roles and responsibilities are kept separate in order to maintain effective oversight. No individual or small group of individuals dominates the Board's decision making process. The CEO and senior management regularly consult with individual Board members and seek the advice of members of the Board committees through meetings, telephone calls as well as by electronic mail.

The Chairman, who is non executive, is responsible for the proper functioning of the Board and acts independently in the best interests of the Company and its shareholders. The Chairman facilitates the relationship between the Board and the CEO and management, engaging them in constructive discussions over various matters, including strategic issues and business planning processes.

The CEO is accountable to the Board for the conduct and performance of the Group. The CEO is also responsible for reporting to the Board and the various board committees set up to assist the Board in its oversight function.

Board Membership and Evaluation of Performance (Principles 4 and 5)

The NC is responsible for reviewing the composition of the Board and identifying and selecting suitable candidates to the Board. The Committee also reviews the retirement and re-election of directors.

The NC comprises three directors. Dr Philip Pillai is the Chairman of the NC. The other members are Mr Peter Seah and Mr Venkatachalam Krishnakumar. Both Dr Pillai and Mr Krishnakumar are independent non executive directors.

The NC is charged with the responsibility of ensuring that the Company's Board and its subsidiaries comprise individuals who are able to discharge their responsibilities as directors. The NC identifies suitable candidates for appointment to the boards of the Group, in particular, candidates who can value add to the management through contribution of their skills, knowledge and experience to the various businesses.

During the year, the NC reviewed and affirmed the independence of the Company's independent directors and the composition of the Board and the profile of Board members in relation to the needs of the ST Engineering Board. The NC recommended to the Board the appointment of Mr Davinder Singh as non-executive independent Director, LG Desmond Kuek Bak Chye and Mr Quek Tong Boon as non executive Directors.

At each AGM, one third of the directors with the longest term in office is required to retire and submit themselves for re-election. Under this provision, Mr Tan Pheng Hock, Dr Philip Pillai, and Mr Venkatachalam Krishnakumar will retire. The newly appointed directors, LG Desmond Kuek Bak Chye, Mr Davinder Singh and Mr Quek Tong Boon will also retire. The retiring directors, being eligible, have offered themselves for re-election. The NC has reviewed their contributions and recommended that each of the retiring Directors be re-elected at the Company's forthcoming AGM.

Supporting the Board are the following Board Committees:

- Audit Committee
- Business Investment and Divestment Committee
- Executive Resource and Compensation Committee
- Nominating Committee
- Budget and Finance Committee
- Research, Development and Technology Committee
- Senior Human Resource Committee
- Risk Review Committee
- Tenders Committee

The composition of the Board committees is found on the next page.

BOARD MEMBER	Audit Committee (estbd on 5/1/1998)	Business Investment and Divestment Committee (estbd on 8/9/1997)	Executive Resource and Compensation Committee (estbd on 6/12/1997)	Nominating Committee (estbd on 4/12/2002)	Budget and Finance Committee (estbd on 5/1/1998)	Research, Development and Technology Committee (estbd on 1/8/2003)	Senior Human Resource Committee (estbd on 16/1/1998)	Risk Review Committee (estbd on 7/12/1998)	Tenders Committee (estbd on 5/1/1998)
Mr Peter SEAH Lim Huat		C	C	M			C		Rolling list of any 3 Board Directors
Mr TAN Pheng Hock		M			M	M	M	M	
Mr KOH Beng Seng	C								
Lieutenant-General Desmond KUEK Bak Chye		M					M	M	
Dr TAN Kim Siew					M		M		
Professor LUI Pao Chuen						C			
Mr Winston TAN Tien Hin		M				M		C	
Dr Philip Nalliah PILLAI	M		M	C					
Mr QUEK Poh Huat		M			M				
Mr Venkatachalam KRISHNAKUMAR	M		M	M				M	
Mr Davinder SINGH					C			M	
LTC CHIA Choon Hoong ⁺									

NON BOARD MEMBER

Dr Stanley LAI Tze Chang								CM	
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DENOTES:

C – Chairman**M** – Member**CM** – Co-opted Member⁺ Alternate director to LG Desmond Kuek Bak Chye

Access to Information (Principle 6)

The management furnishes Board members with monthly management reports, providing updates on key operational activities and financial analysis. The Board also has unrestricted access to the President and CEO, the CFO, management and the Company Secretary as well as the internal and external auditors and the risk management team. The Board can also seek independent professional advice if necessary.

As a general rule, board papers are sent to directors at least three days prior to meetings in order for directors to be adequately prepared for the meeting.

REMUNERATION MATTERS**Procedures for Developing Remuneration Policies (Principle 7) Level and Mix of Remuneration (Principle 8)****Disclosure on Remuneration (Principle 9)**

The Executive Resource & Compensation Committee (ERCC) performs the role of the remuneration committee. The Committee comprises Mr Peter Seah as Chairman, Dr Philip Pillai and Mr Venkatachalam

Krishnakumar. The majority of members of the ERCC have held senior positions in large organisations and are experienced in the area of executive remuneration.

All the ERCC members are non executive directors. Apart from Mr Peter Seah, the other members of the ERCC are independent directors.

The ERCC has access to professional advice from appropriate external advisors where necessary. The ERCC may meet with these external advisors without the presence of management. All decisions at any meeting of the ERCC shall be decided by a majority of votes of the ERCC members present and voting (the decision of the ERCC shall at all times exclude the vote, approval or recommendation of any member who has a conflict of interest in the subject matter under consideration).

The ERCC has been authorised by the Board to carry out the following key duties and responsibilities:

- Review and establish executive remuneration policy
- Approve the remuneration package and service terms for senior executives

- Set targets for senior executives and approve equity based incentive share plans and the granting of stock options, performance share awards and restricted stock awards
- Approve non executive director remuneration structure

The ERCC met four times in 2007. Its key activities were centred on the assessment and development of the management team, target setting, and the determination of their compensation and incentive awards. In determining the overall remuneration package, the ERCC assesses executives' contributions to the Group relative to preset targets, the performance of the Group, and the compensation and employment conditions of various industries, including global remuneration benchmarking.

During the year, the ERCC reviewed and decided to gradually replace share options with restricted shares under its Restricted Stock Plan. The ERCC also decided on conditional performance share awards and restricted stock awards under ST Engineering's approved share plans as well as Economic Value Added-based incentives for senior executives.

The following information relates to remuneration of directors of ST Engineering:

Number of Directors in Remuneration Bands	2007	2006
Remuneration Band		
\$500,000 and above	1	1
\$250,000 to \$499,999	–	–
Below \$250,000	10	10
Total	11	11

Summary compensation table for the year ended 31 December 2007 (Group):

Name of director	Salary * \$	Bonus * \$	Directors' fees \$	Total \$	Stock options granted in 2007	Exercise price \$	Exercisable period
Peter Seah Lim Huat	–	–	187,000	187,000	44,500 44,500	3.23 3.61	16.3.2008 to 15.3.2012 11.8.2008 to 10.8.2012
Tan Pheng Hock	993,181	1,886,178	#	2,879,359	200,000	3.23	16.3.2008 to 15.3.2017
Koh Beng Seng	–	–	99,000	99,000	27,500 27,500	3.23 3.61	16.3.2008 to 15.3.2012 11.8.2008 to 10.8.2012
LG Desmond Kuek Bak Chye	–	–	13,125• ^{@†}	13,125	–	–	–
LG (NS) Ng Yat Chung	–	–	3,750• ^{@†}	3,750	–	–	–
Dr Tan Kim Siew	–	–	13,750•	13,750	–	–	–
Professor Lui Pao Chuen	–	–	118,000 [†]	118,000	–	–	–
Winston Tan Tien Hin	–	–	147,000 [†]	147,000	37,000 37,000	3.23 3.61	16.3.2008 to 15.3.2012 11.8.2008 to 10.8.2012
Lucien Wong Yuen Kuai	–	–	48,000 ^{@2}	48,000	21,500	3.23	16.3.2008 to 15.3.2012
Dr Philip Nalliah Pillai	–	–	129,000 [†]	129,000	33,000 33,000	3.23 3.61	16.3.2008 to 15.3.2012 11.8.2008 to 10.8.2012
Quek Poh Huat	–	–	128,000 [†]	128,000	33,000 33,000	3.23 3.61	16.3.2008 to 15.3.2012 11.8.2008 to 10.8.2012
Venkatachalam Krishnakumar	–	–	116,000	116,000	25,500 25,500	3.23 3.61	16.3.2008 to 15.3.2012 11.8.2008 to 10.8.2012
Davinder Singh	–	–	37,333 ^{@3}	37,333	–	–	–
LTC Chia Choon Hoong (Alternate to LG Desmond Kuek Bak Chye)	–	–	–	–	–	–	–
	993,181	1,886,178	1,039,958	3,919,317	622,500		

* The salary and bonus amount shown is inclusive of allowances and CPF.

@ Pro-rated. LG Desmond Kuek Bak Chye was appointed Director on 27 April 2007.

@† Pro-rated. LG (NS) Ng Yat Chung retired as Director on 25 April 2007.

@2 Pro-rated. Mr Lucien Wong Yuen Kuai resigned as Director on 1 July 2007.

@3 Pro-rated. Mr Davinder Singh was appointed Director on 1 August 2007.

• Fees for public sector Directors are payable to a government agency.

† Includes fees for directorship in subsidiary/subsidiaries.

Fees payable to Mr Tan Pheng Hock of \$167,825 include fees for directorships in subsidiaries and are payable to Singapore Technologies Engineering Ltd.

Remuneration Bands for Year 2007

Remuneration data for employees earning \$200,000 and above per annum (as at 31 December 2007).

Compensation Band (\$)	No. of Employees	Total Dollar Value (\$)
200,000 to 249,999	123	27,092,300
250,000 to 499,999	120	39,522,931
500,000 to 749,999	15	8,690,684
750,000 to 999,999	5	4,353,109
1,000,000 to 1,249,999	2	2,252,785
1,250,000 to 1,499,999	3	4,079,135
1,500,000 to 1,749,999	1	1,720,305
=> 1,750,000	3	6,569,626
Total	272	94,280,875

Note: Total compensation comprises all staff salaries (including CPF for Singapore staff), overtime pay, variable bonuses, special bonuses, annual wage supplement (13th month), benefits-in-kind plus overseas postees' cost of living allowance.

The Board has delegated authority to the ERCC to determine the remuneration of the President and CEO and the senior management. The remuneration package for non executive directors is reviewed by the Board annually and the fees to be paid to Board members are subject to approval at the AGM.

The Group has set out a group-wide cross section of executives' remuneration by number of employees from \$200,000 upwards in bands of \$50,000 and \$250,000.

The Senior Human Resource Committee, chaired by Mr Peter Seah, comprises Mr Tan Pheng Hock, LG Desmond Kuek Bak Chye and Dr Tan Kim Siew. The Committee reviewed the talent management and leadership development initiatives to build a leadership pipeline for the

Group. By supporting and directing the Group's talent management and leadership initiatives, the Committee has helped to enhance the process of identification and development of talents to be groomed for senior positions. The Committee has also reviewed the succession plans for key management positions in the Group.

ACCOUNTABILITY AND AUDIT

Accountability (Principle 10)

The Board is responsible for providing a balanced assessment of the Company's performance, position and prospects. In presenting the annual financial statements and quarterly announcements to shareholders promptly, it is the aim of the Board to provide the shareholders with a detailed analysis, explanation and assessment of the Group's performance, position and prospects.

Following SGX's introduction in September 2006 of a new requirement for directors to issue a Negative Assurance Statement to accompany its interim financial results announcement, certain internal procedures have been put in place to enable each member of the Board reviewing the interim financial statements to immediately raise any material information known to him which may render the interim financial results to be false or misleading prior to their release to SGX. Should there be any significant adverse issue(s) raised by the Audit Committee (AC) or Board member which may affect the results in a material way, the scheduled date of the results announcement will be postponed to allow time for investigation or further review.

The re-appointment of auditors is subject to approval at each AGM. In making its recommendations to shareholders on the appointment and re-appointment of auditors, the Board relies on the review and recommendations of the AC.

Directors and key senior executives of the Group are prohibited from dealing in ST Engineering shares two weeks before the announcement of ST Engineering's first quarter, second quarter, third quarter and full year results up to the date of the announcement of the results. Additionally, all directors of the Group and employees are reminded not to trade in situations where the insider trading laws and rules would prohibit trading.

The directors' interests in shares of ST Engineering and its related companies during the year are found on pages 90 to 98 of this Report.

Audit Committee (Principle 11)

The AC is supported in its work by the audit committees of the four main business sectors. The respective chairmen of the audit committees of the four business sectors are invited to attend the AC meetings of ST Engineering so as to have a clear understanding of policies made at the holding company level and to share any feedback or raise any issue that the sectors' audit committees may have.

The AC has full authority to commission and review findings of internal investigations into matters where it is alerted of any suspected fraud or irregularity or failure of internal controls or infringement of any law likely to have a material impact on the Group's operating results. It can investigate any matter within its terms of reference and with the full cooperation of management.

The Company has put in place a Whistle-Blowing framework, endorsed by the AC, where staff may, in confidence and without fear of retaliation, raise concerns of incidents of possible wrongdoing or breach of applicable laws, regulations or policies to the respective chairmen of the audit committees in the Group. As ST Engineering has become a global company with a presence in many countries, it is aware of the need to apply international corporate governance standards wherever it operates. It takes a serious view of all reports of violations received by initiating thorough investigations into each matter.

The AC comprises Mr Koh Beng Seng as Chairman, Dr Philip Pillai and Mr Venkatachalam Krishnakumar. All the members of the AC are independent directors. The AC held six meetings during the year, including a February 2007 session with the external and internal auditors, without management.

During the year, the AC reviewed and recommended to the Board the release of the 2006 full year, 1Q2007, 2Q2007 and 3Q2007 financial statements, and considered and approved the 2007 Audit Plan and the 2007 Internal Audit (IA) Plan. It also reviewed the adequacy of internal control procedures, Interested Person transactions and the issues raised in IA reports with IA being given the authority to rate risk issues according to different risk levels, and to follow up with remedial actions by the management.

The AC reviewed the level of non audit services performed by its external auditors to satisfy itself that non audit services performed by the auditors did not compromise their independence under regulatory requirements.

The AC also reviewed the performance of the external auditors. It recommended to the Board the re-appointment of Ernst & Young as auditors for FY2007, after having been satisfied with its standard of audit, independence and objectivity.

The AC reviewed the Group's procurement framework and the measures that had been put in place by the respective sectors' managements both locally and overseas to provide for checks and balances.

Internal Controls (Principle 12) Internal Audit (Principle 13)

The AC oversees and appraises the quality of the audit effort of the Company's IA function.

The Board is ultimately responsible for ensuring that a sound system of internal controls to safeguard shareholders' investment and the Group's assets is in place. The Board, through the AC, the President and CEO and the CFO, considers that the Group's framework of internal controls and procedures is adequate to provide reasonable assurance of the integrity, confidentiality and availability of critical information, and the effectiveness and efficiency of operations, safeguarding of assets and compliance with applicable rules and regulations. It is also satisfied that problems are identified on a timely basis and there is in place a process for best practices and follow up actions to be taken promptly to minimise unnecessary lapses and for the identification and containment of business risks.

The IA supports the AC in reviewing the adequacy of the Company's internal control system.

Staffed by qualified auditors, IA has unrestricted direct access to the AC. The Head of IA's primary line of reporting is to the Chairman of the AC, although she reports administratively to the CFO of the Company.

IA plans its internal audit schedules in consultation with, but independently of,

management. Its IA Plan is submitted to the AC for approval at the beginning of each year. The AC also meets with IA at least once a year without the presence of management to gather feedback on management's level of cooperation and other matters that warrant AC's attention. All audit reports are submitted to the AC for deliberation with copies of these reports extended to the relevant senior management, for prompt corrective actions, as recommended. Furthermore, IA's summary of findings, recommendations and updates on management's actions taken are discussed at the quarterly AC meetings. There were no significant control issues highlighted by IA in 2007.

During the year, IA briefed the AC on its plan to carry out surprise audits across the Group. The IA continued with its system of rating a company at the end of an internal audit for the purpose of differentiating the high risk issues which require immediate attention.

On an ongoing basis, IA ensures that good practices are shared within the Group.

Risk Review Committee

The Risk Review Committee, chaired by Mr Winston Tan, comprises LG Desmond Kuek Bak Chye, Mr Davinder Singh, Mr Venkatachalam Krishnakumar, Mr Tan Pheng Hock and Dr Stanley Lai, a co-opted member and Board Director of ST Aerospace. The Committee oversees the risk management framework and reviews key risk exposures, including business continuity management.

The Committee met four times during the year to review the key risks and the measures put in place as well as the key risk indicators of each sector. Emerging risk perspectives facing the Group were also discussed.

Budget and Finance Committee

Chaired by Mr Davinder Singh, the Budget and Finance Committee members include Mr Tan Pheng Hock, Mr Quek Poh Huat and Dr Tan Kim Siew.

Budgets prepared by the respective subsidiaries are consolidated at the ST Engineering level and presented to the Budget and Finance Committee for review and recommendation to the Board for approval.

During the year, the Budget and Finance Committee held two meetings to review the FY2007 budget assumptions and forecast. The Committee also met to review the 2008 Plan and recommended to the Board for approval.

Business Investment and Divestment Committee

The Business Investment and Divestment Committee comprises Mr Peter Seah as Chairman, Mr Tan Pheng Hock, LG Desmond Kuek Bak Chye, Mr Winston Tan and Mr Quek Poh Huat.

During the year, the Business Investment and Divestment Committee met to consider an investment by the Group.

**COMMUNICATION WITH
SHAREHOLDERS**

(Principles 14 and 15)

The Company believes in regular and timely communication with shareholders as part of the Group's effort to help shareholders better understand its businesses.

The Group has a comprehensive investor relations programme aimed at providing existing and potential investors with comprehensive and prompt information, to enable them to have a better understanding of the Group's businesses, direction and performance. ST Engineering maintains a regularly updated website which provides a chronology of the latest press releases and highlights of corporate events of each sector and its capabilities.

In 2007, ST Engineering's investor relations team held over 350 investor meetings in over 25 major cities, participating in 13 investor roadshows and conferences in Australia, Canada, Europe, Hong Kong, Japan and the US.

ST Engineering is committed to timely disclosures to ensure that the investing community receives a balanced and updated view of the Group's performance and businesses.

Board members attended the AGM and EGM in 2007 where shareholders present were given an opportunity to seek clarification or question the Board on issues pertaining to the resolutions proposed before they were voted on. The external auditors were also present at the AGM to assist the directors in answering questions on audit related matters from shareholders. The Group fully supports the Code's principle to encourage active shareholder participation. More on Investor Relations can be found on pages 50 to 51.

Financial and other information are made available on the Company's website at <http://www.stengg.com> and these are regularly updated.