

# operating financial review

56	Group Overview
57	Entering a New Phase of Globalisation
58	Performance of the Group
62	ST Engineering at a Glance
66	Aerospace Sector
70	Electronics Sector
74	Land Systems Sector
78	Marine Sector
81	Dynamics and Risk Factors of the Business
81	Industry Review
82	Risk Management
85	Sensitivity Analysis
85	Shareholder Return
86	Financial Review
87	Accounting Policies
88	Prospects for 2008

## GROUP OVERVIEW

December 1997 marked the establishment of the ST Engineering Group, with the historic amalgamation of four public listed companies – ST Aerospace, ST Electronics, ST Automotive and ST Marine. ST Kinetics was formed in 2000 when the Group acquired the Chartered Industries of Singapore group of companies and merged it with ST Automotive.

Individually, each entity is a leader in its own industry, with over 30 years of operating history. The strengths and synergy offered by each company contribute to ST Engineering's reputation as one of the world's foremost providers of integrated defence and engineering capabilities and solutions, with an extensive global customer base.

Headquartered in Singapore, ST Engineering has a staff strength of over 18,000, located in more than 21 countries across the globe. It has established a strong international presence, offering a comprehensive range of solutions through its Aerospace, Electronics, Land Systems and Marine sectors.

### GROUP VISION, MISSION, OBJECTIVES & THRUSTS

#### GROUP VISION

To be a global defence and engineering group

#### GROUP MISSION

To bring value to our customers and partners by delivering total integrated quality solutions and support

#### 4 STRATEGIC OBJECTIVES

- Enlarge Strategic Capabilities
- Expand Global Networks
- Embrace Partnerships
- Enhance Business Excellence

#### 6 STRATEGIC THRUSTS

- Customer Focus
- Safety & Quality First
- People Excellence
- Technology Edge
- Operational Excellence
- Financial Strength

#### Key Performance Indicators

- Customer Satisfaction
- Customer Acceptance Rate
- Turnaround Time
- Compliance
- Employee Satisfaction
- Innovations / New Products, Services or Capabilities
- Sales and Profit Growth
- Return on Equity
- Economic Value Added

## ENTERING A NEW PHASE OF GLOBALISATION

### US Billion Dollar Mark

2007 was a landmark year for ST Engineering's US operations, as VT Systems' revenue reached US\$1b. This constituted about 28% of the Group's turnover, a significant increase of more than four times compared to 2001 when VT Systems was first incorporated.

Today, the US is the single largest market for the Group outside Asia. 2007 saw unprecedented success through both organic growth within the US operating units as well as the reaping of benefits from the cross business and cross geographical synergies.

Despite the challenges posed by the US economic environment following the US sub-prime issue and the weakening of the US dollar, several VT Systems companies maintained their leadership positions in the marketplace. VT LeeBoy, ST Mobile Aerospace Engineering (MAE), San Antonio Aerospace (SAA) and iDirect remained key players in the US market as well as the global arena.

MAE and SAA, along with their sister companies in the Aerospace sector in Asia and Europe, has established a firm position as the world's largest third party Maintenance, Repair and Overhaul (MRO) provider, recording 8.1m airframe manhours in 2006 in the biennial study by the *Overhaul & Maintenance* magazine. The newly formed Panama Aerospace Engineering (PAE) was awarded certification by the Federal Aviation Administration (FAA) in September 2007, and is now capable of servicing US registered aircraft.

iDirect continues to be among the top three global players in end-to-end broadband satellite communications, and is leveraging ST Engineering's network to make inroads into new markets such as China, India, the Middle East, North Africa and Southeast Asia. VT Miltope consistently delivers on the US military programmes, and to blue chip customers such as Airbus, Boeing and Lockheed Martin, adding to the topline of the US group of companies. In 2007, MÄK signed a contract to further develop and field a simulation supported training capability at six US Air Force Air Support Operations Center (ASOC) squadrons.

The specialty vehicles strategy is making steady progress in the US and China, creating and customising designs, products and solutions for specific market segments. The group continues to implement strategies aimed at improving margins and market share for vehicles intended for disaster relief, homeland security and infrastructure development. VT Halter Marine delivered another year of profits, building up a strong order book with new and repeat customers.

Developing opportunities with the US government was also a key growth strategy, with the VT Systems group of companies further building on relationships with US government agencies.

Looking ahead, the US will continue to be an important and growing market for ST Engineering. The VT Systems group will continue to play both a dominant role in the US as well as a complementary role to ST Engineering's business areas.

The evolving alignment and synergistic working partnerships with sister companies, not just in the US but worldwide, will ensure continued revenue growth and sustainable business development.

### Leveraging Opportunities in China

In terms of revenue, China is the second largest market outside Singapore for ST Engineering. With a staff strength of over 3,500, the Group's Aerospace, Electronics and Land Systems sectors are represented in 16 cities including Beijing, Chengdu, Hong Kong, Guangzhou, Shanghai, Shenyang, Shenzhen and Yi Chun.

In 2007, the Group further invested into China. This included building a second hangar complex at Shanghai's Pudong International Airport to complement STARCO's hangar facility at Hongqiao. When completed in 2009, the new complex will add another three narrow-body and two wide-body bays, with a capacity for the A380 aircraft, to its global aerospace MRO network.

With China's rising demand for infrastructure and equipment, ST Engineering's Land Systems and Electronics sectors envisage opportunities for new sales. Construction and maintenance vehicles and equipment, rail systems and solutions and integrated traffic command systems are some of the areas in which the Group has made substantial headway.

ST Engineering remains focused on China, expanding its presence and market reach while leveraging local resources to propel further growth in the market.

PERFORMANCE  
OF THE GROUP

## a) Half yearly performance

In \$m Except Per Share Amounts	2007			2006		
	1H	2H	FY	1H	2H	FY
Turnover	2,518	2,533	5,051	2,070	2,416	4,486
EBITDA	337.2	347.2	684.4	259.5	333.9	593.4
EBIT	272.3	278.0	550.3	205.3	252.3	457.6
Profit before tax	307.0	331.1	638.1	259.4	304.9	564.3
Profit after tax after minority interests	231.6	271.9	503.5	198.3	246.8	445.1
Basic earnings per share (cents)	7.84	9.11	16.95	6.78	8.37	15.15
Net asset value per share (cents)	47.9	54.7	54.7	45.4	53.1	53.1

Note: The half yearly figures are unaudited

The Group's turnover for 2H2007 of \$2,533m was comparable to that achieved in the first half. Marine sector reported higher turnover, Electronics and Land Systems sectors had comparable turnover, while Aerospace sector had lower turnover in the second half vis-à-vis the first half.

The Group's Profit Before Tax (PBT) for 2H2007 increased by 8% or \$24.1m over the first half. Both Electronics and Marine sectors reported higher PBT, Aerospace sector had comparable PBT, while Land Systems sector recorded lower PBT in the second half versus the first half.

## HALF YEARLY TURNOVER (\$m)



## HALF YEARLY PROFIT BEFORE TAX (\$m)



**b) Full year performance**

**Turnover**

The Group's turnover of \$5,051m for FY2007 was higher than that of FY2006 by 13% or \$565m. All sectors reported higher turnover.



<span style="color: #00AEEF;">■</span> Aerospace	<b>36%</b>
<span style="color: #FFC000;">■</span> Electronics	<b>20%</b>
<span style="color: #FF7F0E;">■</span> Land Systems	<b>23%</b>
<span style="color: #2CA02C;">■</span> Marine	<b>17%</b>
<span style="color: #808080;">■</span> Others	<b>4%</b>

**Profit Before Tax**

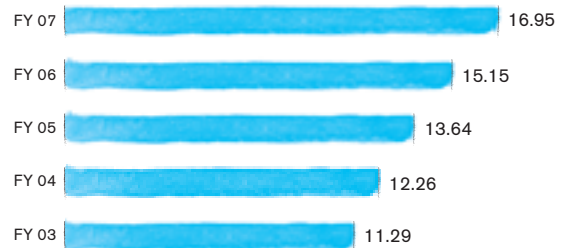
Group PBT for FY2007 of \$638.1m was higher than that achieved in FY2006 by 13% or \$73.8m. All sectors recorded higher PBT.



<span style="color: #00AEEF;">■</span> Aerospace	<b>53%</b>
<span style="color: #FFC000;">■</span> Electronics	<b>18%</b>
<span style="color: #FF7F0E;">■</span> Land Systems	<b>13%</b>
<span style="color: #2CA02C;">■</span> Marine	<b>15%</b>
<span style="color: #808080;">■</span> Others	<b>1%</b>

**Earnings Per Share (EPS)**

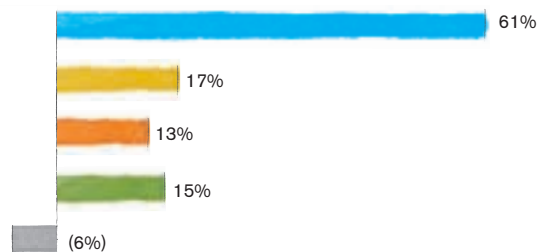
The Group's basic and diluted EPS for FY2007 were 16.95 cents and 16.91 cents respectively (FY2006: 15.15 cents and 15.00 cents respectively). The higher EPS was a result of higher profit after tax for FY2007.



**EARNINGS PER SHARE (CENTS)**

**Economic Value Added (EVA)**

The Group's EVA for FY2007 was \$388.8m, an increase of 19% or \$61.0m over FY2006. The Weighted Average Cost of Capital was 6.5% for 2007 (2006: 6.6%).



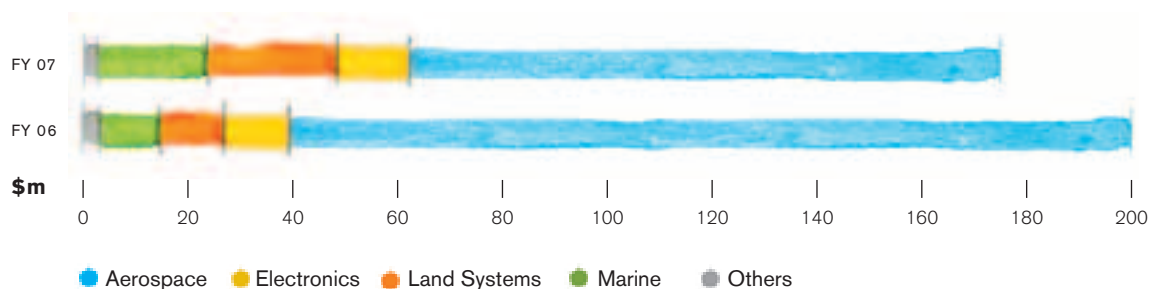
**FY2007 EVA CONTRIBUTION BY SECTOR (%)**

<span style="color: #00AEEF;">■</span> Aerospace	<span style="color: #FFC000;">■</span> Electronics	<span style="color: #FF7F0E;">■</span> Land Systems
<span style="color: #2CA02C;">■</span> Marine	<span style="color: #808080;">■</span> Others	

# operating financial review

## Capital Expenditure

The Group incurred capital expenditure of \$172m in FY2007. The addition of a new engine test cell, new hangars and related equipment and programme-related purchases, including components to support existing and new customers in the Aerospace sector accounted for the bulk of the capital expenditure for the year. The details are shown in Note 7 to the Financial Statements.



## Total Assets

As at end December 2007, total assets of the Group amounted to \$6.04b compared to \$5.58b as at end December 2006.

The deployment of assets is as follows:

### DEPLOYMENT OF ASSETS - 2007



Property, Plant and Equipment	17%
Associated Companies & Investments	5%
Intangible Assets	11%
Deferred Tax Assets	2%
Stocks & WIP	20%
Debtors, Deposits & Prepayments	32%
Amounts under Fund Management	3%
Bank Balances & Other Liquid Funds	10%

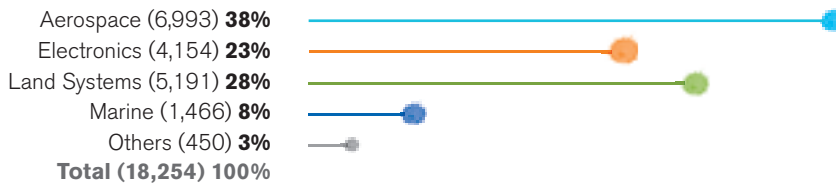
### DEPLOYMENT OF ASSETS - 2006



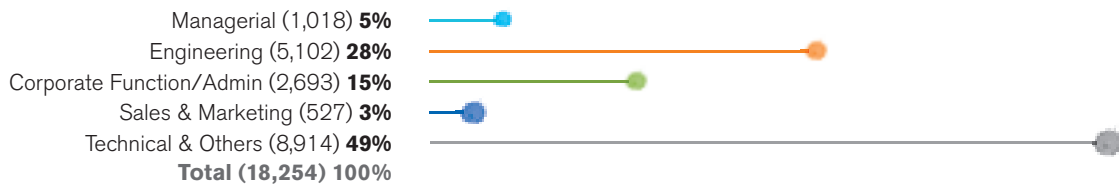
Property, Plant and Equipment	17%
Associated Companies & Investments	6%
Intangible Assets	10%
Deferred Tax Assets	3%
Stocks & WIP	20%
Debtors, Deposits & Prepayments	29%
Amounts under Fund Management	4%
Bank Balances & Other Liquid Funds	11%

**Human Resource Statistics**  
(as at 31 December 2007)

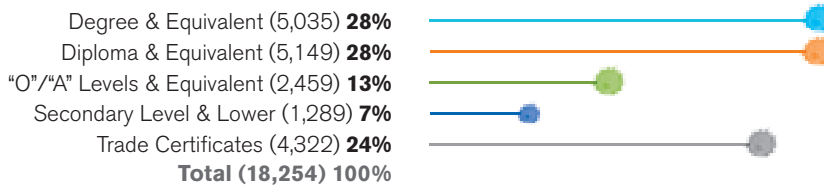
**SECTOR**



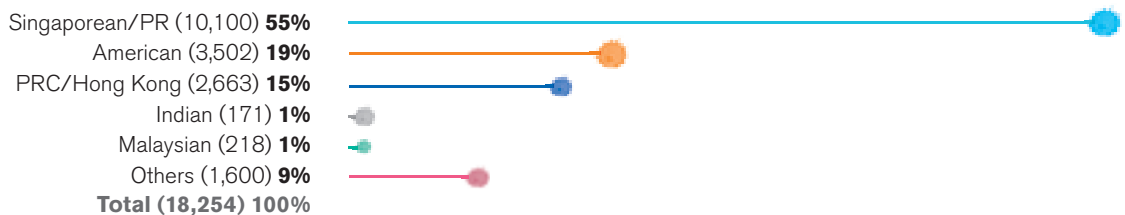
**JOB GROUP**



**EDUCATIONAL QUALIFICATION**



**NATIONALITY**



# ST ENGINEERING

## FACTS

- One of the largest companies listed in Singapore and one of Asia's largest defence and engineering groups, with an order book of \$9.5b and total assets of \$6.0b as at end 2007
- Global footprint in 21 countries and 35 cities, with over 100 subsidiaries, joint ventures and associated companies
- VT Systems, ST Engineering's US headquarters in Virginia, has extensive US operations across the Group's core businesses
- Component stock of the FTSE/ASEAN 40, MSCI Singapore Free Index, S&P Asia Pacific 100 and Straits Times Index
- 126 patents granted to date, with 292 patents filed
- Global workforce of 18,254 with 5,102 engineering staff

## CORE CAPABILITIES

- A global engineering group providing integrated solutions for the aerospace, electronics, land systems and marine industries
- Specialises in dual use technologies, with both military and commercial applications traversing traditional industry lines
- Provides customised solutions through a network-centric and systems approach that leverages the strengths of the Electronics sector
- Spearheads the search for new and emerging technologies

## MAJOR DEVELOPMENTS IN 2007

- Winner of inaugural Singapore Quality Award (SQA) 2007 with Special Commendation – the highest accolade awarded by Singapore Quality Council in recognition of business excellence
- Celebrated 40th Anniversary – commemorating four decades of achievements
- Launched 4th Safety@Work Creative Awards
- Organised inaugural analyst and media familiarisation trips to the Group's US operations
- US operations revenue reached the US billion dollar mark

## REVENUE IN \$m



## PROFIT BEFORE TAX IN \$m





# AEROSPACE SECTOR

## CORE CAPABILITIES

- **Aircraft Maintenance & Modification**
  - Line and base maintenance
  - Technical services and maintenance planning
  - Modification, conversions and refurbishment
  - Design, development and technology integration
- **Component & Engine Total Support**
  - Engine maintenance, repair and overhaul
  - Aircraft mechanical and avionics component repair
  - Materials and spares support and management

## FACTS

- Ranked in an Overhaul & Maintenance 2007 survey as the world's largest third party maintenance provider for the third consecutive time, with 8.1m commercial airframe manhours in 2006
- Leverages a wide range of services – airframe, engine and component maintenance; engineering design and technical services; and aviation materials and management services – to offer Total Aviation Support
- Worldwide network of facilities with diverse global customer base that includes many of the world's leading airlines, airfreight operators and military aircraft operators
- 70 patents filed of which 25 have been granted
- 6,993 staff

## MAJOR DEVELOPMENTS IN 2007

- Award by Boeing to perform freighter conversions under its 767-300 Boeing Converted Freighter programme
- Won contract with FedEx Express for the freighter conversion of its 87 Boeing 757 aircraft
- Won two contracts (\$393m) from the RSAF for the modernisation of its fleet of ten C-130 transport aircraft and a TAS™ programme for its fleet of 16 A-4SU/TA-4SU Skyhawk aircraft
- Secured a 15-year MBH™ contract (\$248m) with Xiamen Airlines for 22 of its CFM56-7B engines
- Continued gaining component support business through contracts with AirAsia, Juneyao Airlines and Martinair
- Expanded its global capacity with new hangars in Singapore and started new hangar construction in Shanghai
- Signed a joint venture agreement with Xiamen Aviation Industry Co to set up an engine MRO facility, ST Aerospace Technologies (Xiamen) Co (STATCO)
- Commenced operations at Panama Aerospace Engineering (PAE)
- Received Design Organisation Approval by EASA which expands ST Aerospace's engineering capability in aircraft modifications

## REVENUE IN \$m



## PROFIT BEFORE TAX IN \$m



# ELECTRONICS SECTOR

## CORE CAPABILITIES

- **Large-Scale Systems Group**
  - Intelligent transportation systems
  - Intelligent building management systems
  - Combat systems integration
- **Communication & Sensor Systems Group**
  - e-Government communications & Information Communications Technologies (ICT) solutions
  - Satellite communication systems
  - Communications, microwave, radar and sensor systems
  - Intelligent traffic and fleet management systems
  - Info-security solutions
  - Electro-optics systems
- **Software Systems Group**
  - e-Government solutions and managed services
  - Interactive digital media
  - Mobile realtime and homeland security systems
  - Training and simulation systems and education solutions

## FACTS

- Singapore's largest ICT solutions provider and systems integrator
- Only provider of 3-in-1 rail solutions for command, control and communications, automatic fare collection and platform screen doors, with projects in China, the Philippines, Singapore, Taiwan, Thailand and Turkey
- One of the world's leading providers of multi-channel multipoint distribution systems and satellite communications systems and solutions
- 53 patents filed of which 28 have been granted
- 4,154 staff

## MAJOR DEVELOPMENTS IN 2007

- First Singapore ICT system company to cross the billion dollar mark in revenues
- Secured \$104.5m rail contracts for Taiwan's Taoyuan International Airport, Songshan and Xinyi lines and a \$123m Marmaray Commuter Rail project in Istanbul, Turkey
- Strengthened presence in the Middle East with contracts in Saudi Arabia to provide a \$60m integrated traffic management solution and an integrated security system for the Dubai Festival City in UAE
- Renamed subsidiaries to strengthen market branding – ST Electronics (Digital Media), ST Electronics (Software Services) and ST Electronics (Info-Security)
- iDirect opened a Dubai office and made headway in Asia with contracts in China, Indonesia and Pakistan. Set up iDirect Government Technologies, Inc. to focus on government markets
- Entered into an agreement to acquire about 94% of Telematics Wireless Ltd, a key player in the high growth Machine-to-Machine Industry

## REVENUE IN \$m



## PROFIT BEFORE TAX IN \$m





# LAND SYSTEMS SECTOR

## CORE CAPABILITIES

- **Land Systems & Solutions**
  - Design, development and production of integrated weapon and munitions systems
  - Design, development, production and upgrade of wheeled and tracked mobility systems
  - Integration of third party solutions for military and homeland security applications
- **Specialty Vehicles & Services**
  - Design, development and production of vehicles and equipment for use in construction, goods distribution and urban services
- **Total Support & Services**
  - Maintenance, repair and overhaul of military platforms, weapons systems and ground support equipment
  - Inspection and accident repair of private and commercial vehicles
  - Through-life support of automotive assets including preservation and spares management
  - Industrial test services

## FACTS

- Leading 40mm payload solutions provider in the world
- Market leader in commercial class asphalt pavers in North America
- International clientele from more than 30 countries
- 34 patents filed of which 24 have been granted
- 5,191 staff

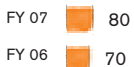
## MAJOR DEVELOPMENTS IN 2007

- Secured \$78m weapon maintenance contract from the SAF
- Secured hybrid electric tow tractor contract of over 70 units with Singapore Airport Terminal Services
- Increased shareholding in STAR Automotive Center Guangzhou Co., Ltd. to 100% in line with business growth in the expanding automotive repair market in China
- Increased investment in Guizhou Jonyang Kinetics Co., Ltd. to grow the specialty vehicle business in China
- Received approval from the US Government Supply Administration for VT SVC and VT LeeBoy to list products for direct sales to US government entities
- Launched mobile command vehicle for the law enforcement market in North America
- Unveiled articulated dump truck and new excavators including a hybrid version to complement its family of offerings in China
- Launched Commercial Articulated Vehicle, a track-based platform designed for disaster relief operations

## REVENUE IN \$m



## PROFIT BEFORE TAX IN \$m



# MARINE SECTOR

## CORE CAPABILITIES

- **Project Management**
  - Turnkey shipbuilding
  - Ship upgrading and conversion
  - Weapon systems integration and installation
- **Inhouse Design Expertise**
  - Custom designed naval and commercial vessels using inhouse CAD/CAM facilities and CAE software
  - Lightweight ship design
  - Stealth technology
- **Shipbuilding**
  - Extensive water jet expertise
  - Thin gauge steel and aluminium construction for naval vessels
- **Maintenance**
  - Overhaul and maintenance of high performance marine engines
- **Shiprepair**
  - Upgrading and retrofitting
  - Conversion of commercial vessels

## FACTS

- Five shipyard facilities – two in Singapore and three in the US
- Track record in the design and construction of sophisticated naval and commercial vessels as well as high engineering content shiprepair services, including ship conversions
- Designs and develops a variety of vessels including landing ship tanks, stealth frigates, patrol vessels, feeder container vessels, RoRo vessels, platform supply vessels, LPG tankers, high speed passenger ferries, fisheries survey vessels, articulated tug barges and pure car truck carriers
- 31 patents filed of which 16 have been granted
- 1,466 staff

## MAJOR DEVELOPMENTS IN 2007

- Singapore operations secured contracts worth about \$568m to provide ship and submarine system and maintenance services to the RSN, and to build a Ropax ferry for LDA
- US operations secured contracts worth US\$319m (about \$480.6m) including a contract modification for the Egyptian Fast Missile Craft project as well as the building of a platform supply vessel and three 330,000-barrel tank barges
- Delivered third and fourth locally-built stealth frigates, *RSS Tenacious* and *RSN Stalwart*, to the RSN
- Delivered the first and second of four 1030 TEU feeder container vessels and launched the last two
- Completed conversions of fishing trawler and platform supply vessels to seismic research vessels

## REVENUE IN \$m



## PROFIT BEFORE TAX IN \$m



# ST Engineering at a glance



# aerospace

## KEEPING AIRCRAFT FLYING SAFELY

In 2007, ST Aerospace was once again recognised as the world's largest third party airframe MRO provider with more than eight million commercial airframe manhours. Through the global expansion of airframe MRO operations, broadening of aircraft engines and components maintenance capabilities and businesses, and Total Aviation Support (TAS™) solutions, ST Aerospace continued to deliver a sterling performance.

### **Growing Customer Base**

ST Aerospace continued to build upon its relationship with existing customers while adding new ones. New customers such as Copa Airlines, Delta Airlines and Lionair were added to the established customer base of leading airlines as well as smaller and new airlines.

In engines and components support, ST Aerospace won an \$8.3m contract from the Brazilian Air Force for the overhaul of 12 Rolls Royce T56-A-15 engines that power its C-130 fleet. Other new engine customers included those from Brazil, Ukraine and Asia. New total support programmes in engines and components MRO were awarded by existing and new customers like AirAsia, JetX, Juneyao Airlines, Lionair, Martinair and Xiamen Airlines.

ST Aerospace secured a contract from the Republic of Singapore Air Force (RSAF) for the TAS™ of its fleet of 16 A-4SU/TA-4SU Skyhawk aircraft (also known as RSAF's Advanced Jet Training), operating in Cazaux, France.

In engineering development and modification, ST Aerospace was awarded a programme to upgrade the avionic systems for RSAF's fleet of ten C-130 transport aircraft, including the aircraft's navigation, communications and flight management systems. Both contracts have a total value of about \$393m.

On the commercial front, ST Aerospace launched the operations of its major TAS™ programme for Skybus in the US.

It also won two contracts involving the merging of an operational flight programme that provides growth in the central processing unit and memory of the aircraft, as well as the design and development of a new mini Unmanned Aerial Vehicle (UAV) system that consists of camera payloads, a ground control station and a man-portable-receive-only station.

### **Extending Range of Capabilities Around the World**

ST Aerospace continued to invest in and extend its range of capabilities to improve its service support for

customers worldwide. The Aircraft Maintenance & Modification (AMM) group added new capabilities to provide a broader range of support for customers. Fledgling STARCO obtained certifications from Australia's Civil Aviation Safety Authority (CASA), European Aviation Safety Agency (EASA), India's Directorate General of Civil Aviation and Japan Civil Airworthiness Board (JCAB), as well as an AS9100 quality standard, in addition to its certifications by Civil Aviation Administration of China (CAAC) and FAA.

In 2007, third party work continued to grow, and STARCO won a three-year contract to support All Nippon Airways (ANA) on its A320 fleet. In October, STARCO broke ground for its new hangar facility at Shanghai's Pudong International Airport.

The year also saw PAE commence operations with two hangars, capable of housing six narrow-body aircraft. This Panama startup promptly redelivered five aircraft to Copa Airlines and won a contract from Transaero within its inaugural year.

In Singapore, ST Aerospace added two new hangars at the Seletar airport to meet the demands of its growing clientele, including many low cost carriers in Asia.

## aerospace

ST Aerospace broke ground for STARCO's new hangar complex at Pudong Airport.

(following page, from left to right)  
ST Aerospace signed a significant B757 PTF conversion contract with FedEx Express.

ST Aerospace selected by Boeing for the 767-300 BCF programme.



The Component & Engine Total Support (CETS) group added some 400 new component MRO capabilities for the A320, B737CG/NG, B757, Q400 as well as the Apache, Chinook and F-16. These included expansion of existing landing gear capabilities and build up of a pneumatic shop in Stockholm.

ST Aerospace Solutions (Europe) (STA Solutions), formerly known as SAS Component Group, continued to enhance its operations and integration with the rest of the group in providing Component Total Support solutions to customers.

ST Aerospace also added an import and export facility, Guangzhou Aerospace Technologies and Engineering (GATE). It would serve as a logistics centre for aircraft components maintenance and material support services in China.

On engines MRO, new capabilities for military and commercial engines were added to the group. This included a high speed grinder for the CFM56 engines. ST Aerospace invested in a new engine test cell to support the testing of the CFM56-5B engines that power the A320 family of aircraft and F110 engines on F-16 and F-15 aircraft.

In addition, the group signed a joint venture with Xiamen Aviation Industry Co to set up an engine MRO facility in Xiamen, China. The joint venture company will be named ST Aerospace Technologies (Xiamen) Co (STATCO).

Through its Engineering Development Centre, ST Aerospace became the first company in Southeast Asia to receive EASA's Design Organisation Approval (DOA). This expanded ST Aerospace's ability to provide engineering and modification services on EU registered aircraft. Together with its ability to perform similar work under Supplemental Type Certificates (STC) for FAA registered aircraft, ST Aerospace now has the ability to serve the US and European markets better through engineering developments.

### PERFORMANCE OF THE AEROSPACE SECTOR

#### Half Yearly Performance

Turnover of the Aerospace sector in 2H2007 of \$889m was \$57m lower compared to 1H2007. The turnover decrease came from AMM and Component/Engine Repair & Overhaul (CERO). This was partially offset by higher turnover in the Engineering & Materials Services (EMS). In 1H2007,

AMM had very high turnover in ST Aviation Services Co (SASCO) and San Antonio Aerospace due to timing of redeliveries. In CERO, the engines division experienced very high turnover in 1H2007 due to high inputs of engines. In EMS, the turnover increase was due to more project milestone completions and higher material sales.

PBT for 2H2007 at \$171.8m was comparable to that achieved in 1H2007 despite lower turnover. CERO registered higher PBT due to improved profitability, while EMS achieved higher PBT on the back of higher turnover. The PBT increase in both business groups was partially offset by lower contributions from AMM as a result of lower turnover in 2H2007.

#### Full Year Performance

Aerospace sector's FY2007 turnover of \$1,835m was higher than that achieved in FY2006 by 10% or \$162m. The higher turnover was contributed by CERO and EMS. Higher sales in the engines and components divisions as well as the inclusion of a full year's sales from STA Solutions vis-à-vis ten-month sales in FY2006 accounted for the higher turnover in CERO. The higher turnover



in EMS was the result of more project milestone completions and higher material sales.

Compared to FY2006, Aerospace sector's FY2007 PBT of \$341.2m was higher by 12% or \$35.9m. All three business groups recorded higher PBT in the current financial year. The higher PBT in AMM was due to improved performance in SASCO and ST Aerospace Engineering (STA Engineering) as well as lower losses from Bournemouth Aviation Services Company (ceased operations in December 2006). The performance of CERO improved as the FY2006's performance was impacted by the post-acquisition business alignment initiatives and the closure of Stavanger facility at STA Solutions. For EMS, the higher PBT was in line with the higher turnover.

#### Acquisitions

In 2007, ST Aerospace made a A\$550,000 acquisition of PFS Australia in New South Wales.

#### Major Projects

ST Aerospace continued to perform Passenger-To-Freighter (PTF) conversions in 2007. Seven conversions for the MD-11 were

completed in 2007, and the Aerospace sector had, to date, redelivered 52 converted MD-11 aircraft.

2007 saw the award of a large PTF conversion programme of 87 B757-200 aircraft by FedEx Express. This would be performed under an STC developed by ST Aerospace with data from Boeing. Conversion work commenced at MAE in the US and STA Engineering in Singapore.

In addition, ST Aerospace was awarded a contract by Boeing for the conversion of the B767-300 aircraft. The launch customer for this programme is ANA, and the door cutting (an activity that signifies the start of a major milestone in the PTF) was completed in November.

In Singapore, ST Aerospace embarked on commercial pilot training through the set up of an academy, ST Aviation Training Academy (STATA). A Singapore-based joint venture company with a 70% stake owned by ST Aerospace, STATA would initially provide traditional pilot training under the existing Commercial Pilot Licence (CPL) and Air Transport Pilot Licence (ATPL) curricula, and eventually develop a Multi-crew Pilot Licence

(MPL) programme upon endorsements from relevant airworthiness authorities. The MPL programme would offer advances in teaching methodologies and simulation technologies in a multi-crew cooperation environment over the traditional pilot training programme. This would allow pilots to be trained in half the time compared to traditional training.



# electronics

## PIONEERING NEW GENERATION TECHNOLOGIES FOR GLOBAL MARKETS

ST Electronics identifies three key areas for growth – interactive digital media, satellite communications (satcom) and e-Government solutions. It markets its Information Communications Technology (ICT) and e-Government solutions to more than 70 countries worldwide and the number is set to grow.

2007 marked a major milestone for ST Electronics as it became the first ICT system company in Singapore to cross the billion dollar revenue threshold.

In 2007, it gained foothold in new territories including Africa, Central Asia, Europe, India and the Middle East, while targeting markets in Africa, India, Qatar, Saudi Arabia, Turkey and UAE for expansion. ST Electronics' core business activities are organised into three key business groups.

### **Large-Scale Systems Group (LSG)**

ST Electronics continued to enhance its capabilities in intelligent building solutions, carving a niche in carpark guidance systems in India, Indonesia, Singapore and UAE. Its security access solutions are now being used at Changi Airport terminals and by the Port of Singapore Authority. ST Electronics provides operations and support services for the airport systems of the Civil Aviation Authority

of Singapore and set up Singapore's largest electro-magnetic compatibility chamber at the Nanyang Technological University.

ST Electronics continued to build up its maintenance capabilities to support the Republic of Singapore Navy (RSN) New Frigate Programme. The company also provided the RSN with a skilled workforce and an experienced and competent management team to undertake and operate maintenance, management and engineering services.

In 2007, it strengthened its market presence for rail electronics solutions in Taiwan and secured a foothold in Turkey. Its access control and ticketing system for Singapore's Sentosa Light Rail Transit (LRT) was opened in January 2007, and the Guangzhou Metro Line 4 in China and Bangkok's Mass Transit System were commissioned during the year.

### **Communication & Sensor Systems Group (CSG)**

ST Electronics' Harbour Craft Identification and Monitoring System now enhances the security of Singapore's port waters through GPS and GPRS technologies. ST Electronics was also awarded contracts by the Singapore Ministry of Defence (MINDEF) for its electro-optic

(EO) solutions which include thermal weapons sights and EO maintenance. ST Electronics is pursuing the Next Generation National Infocomm Infrastructure project, Singapore's new digital super highway for super connectivity.

A maritime broadband service was launched with SingTel using the Agilis 1.2m C-Band maritime Very Small Aperture Terminals (VSAT), currently the smallest of its class in the world. Ghana and Slovakia were added to the growing list of customers for satcom solutions which are currently sold to 74 countries.

iDirect made headway into new markets in China, Indonesia, the Middle East and Pakistan for its satellite networking and remote communications solutions. It was also awarded a contract by Intelsat for its Network Broadband Global Maritime services.

### **Software Systems Group (SSG)**

ST Electronics has made inroads with its e-Government solutions and managed services in China, Kazakhstan, the Middle East and Singapore. It set up ST Electronics (e-Services) Pte Ltd to meet the rising demand for these services as companies realise the benefits of outsourcing non key functions.

# electronics

Digital animation projects fuel ST Electronics' interactive digital media initiatives.

(following page, from left to right)

The 1.2m C-Band Maritime VSAT system boosts communications for small vessels.

Managed services is set to grow as companies outsource their non core activities.



A second software development centre was set up in Yichun, China to meet increasing demand for software solutions. ST Electronics is one of the shortlisted participants in the Singapore Ministry of Education's Call for Collaboration for the FutureSchools@Singapore project. It also signed a Memorandum of Understanding (MOU) with the Institute of Automation, Chinese Academy of Science to conduct joint research and develop new technologies in interactive media.

Together with Nelvana Studios of Canada, it co-produced *The Future is Wild*, a 26-episode half-hour television series. This is part of a partnership with Nelvana to co-produce multiple projects and is aired on Discovery Kids in the US and Teletoons in Canada. *The Ten Commandments*, co-produced with Promenade Pictures and Huhu Studios for the DVD market, was screened in over 700 theatres in the US and in Singapore. This makes ST Electronics the first Singapore company to launch a 3D digital animation movie in US cinemas. It plans for a total of 12 movies, ten DVDs and three TV series in its production pipeline.

Marking its first contract for Air Traffic Control Systems in Africa, ST Electronics is to upgrate

Botswana's mobile aeronautical services and Very High Frequency (VHF) voice communications. India's Airports Authority will implement ST Electronics' Air Traffic Control Digital Voice Recording Systems.

Working with MÄK of the US, ST Electronics has expanded its simulation and visualisation capabilities and modelling and simulation solutions to include VR-Forces. MÄK was awarded a contract to further develop and field a simulation supported training capability at six US Air Force Air Support Operations Centre squadrons. The backbone of this system is MÄK's QuickStrike tactical desktop simulation.

## PERFORMANCE OF THE ELECTRONICS SECTOR

### Half Yearly Performance

Turnover of the Electronics sector of \$522m recorded in 2H2007 was comparable to the \$501m achieved in 1H2007. The increase was contributed by LSG and CSG.

PBT of \$67.2m for 2H2007 was higher than that of 1H2007 by 40% or \$19.1m. All three business groups recorded higher PBT. CSG's PBT was higher mainly due to higher sales and higher profit contribution from satcom

product sales. SSG and LSG recorded higher PBT largely due to higher investment income.

### Full Year Performance

FY2007 turnover of \$1,023m for the Electronics sector was higher than that of FY2006 by 8% or \$72m. The higher turnover was mainly contributed by SSG with milestone completions of command and control system projects, a managed services project, data centre infrastructure projects and simulator projects. CSG also recorded higher turnover with sales of satcom products and electro-optics equipment, and milestone completions of various intelligent transport system and communication projects.

PBT of the Electronics sector in FY2007 of \$115.3m was higher than that of FY2006 by 10% or \$10.7m. Both LSG and SSG had higher PBT, but these were partially offset by lower PBT in CSG. The higher PBT in LSG was due to better overall performance of overseas subsidiaries and higher investment income, while the higher PBT in SSG was in line with higher turnover as well as higher investment income. In respect of CSG, the lower PBT was mainly due to lower profit contribution from satcom product sales and lower investment income. Overall, the sector recorded a higher investment income in FY2007.



### Acquisitions and Divestments

To rationalise and streamline its portfolio of associated companies, and to re-allocate management attention and resources to new growth initiatives, ST Electronics diluted its stake in Polarsat Holdings Inc and divested its entire stake in InfoWave Pte Ltd, Sandz Solutions (Singapore) Pte Ltd and ECS Holdings Limited. Ripple Systems Pty Limited and INFA Systems Limited became wholly-owned subsidiaries during the year.

ST Electronics sold its entire ordinary shareholding in Sino Stride Technology (Holdings) Limited for shares in Shougang Concord Technology Holdings.

ST Electronics entered into an agreement to acquire Telematics Wireless Ltd and this was completed in January 2008. Telematics is a key player in the high growth Machine-to-Machine industry and is currently among the largest terrestrial and urban asset location system suppliers worldwide with customers from Argentina, Brazil, China and Korea.

iDirect appointed Yoel Gat to its Board of Directors and Mary Cotton as its new Chief Executive Officer. It set up a wholly-owned subsidiary, iDirect Government Technologies, Inc., to focus its business on

driving the broader adoption of its Internet Protocol (IP)-based satellite networking solutions in the government market.

### Major Projects

In the Middle East, ST Electronics won a contract from the General Traffic Directorate/Ministry of Interior of Saudi Arabia to provide Integrated Traffic Management and Security Systems for the Automated Traffic Violations Administering and Monitoring project. ST Electronics will also implement an Integrated Security System for the Dubai Festival City. It signed an MOU with Albacomp Computers Company of Budapest to jointly pursue and implement ICT-based infrastructure projects for the public and private sectors in Hungary.

Taiwan Taoyuan International Airport Access Mass Rapid Transit Construction Project will install communications, supervisory control and data acquisition, platform screen doors and maintenance management systems from ST Electronics. The company won a contract for turnkey integrated solutions for the Marmaray Commuter Rail CR1 project in Istanbul, Turkey. It ended the year with a rail contract for Taipei's Songshan and Xinyi MRT Lines.

iDirect made its maiden entry into the Chinese market when it was awarded a contract by CrossSat Telecom Technology to provide a satellite hub and remote satellite routers to create a global IP network.

Back home, ST Electronics competed successfully against international players from Norway, UK and Singapore to win a contract to provide and maintain Vessel Traffic Radars to replace the Maritime Port Authority's existing radars.

It will also be providing customised Forward Command Vehicles with state-of-the-art communication and electronics systems to the Singapore Police Force, a contract won against stiff competition from international and local players.

ST Electronics' managed services received a boost when it was awarded a ten-year contract worth some \$250m by MINDEF to provide shared services to more than 350,000 active personnel, regulars and NSmen from the Singapore Armed Forces.

ST Electronics will implement a local and wide area network to connect ten locations of the Bangladesh Bank. This is part of the bank's Central Bank Strengthening Project with financial assistance from the World Bank.



# land systems

## DELIVERING EXCELLENCE IN LAND SYSTEMS

ST Kinetics, the land systems arm of ST Engineering, offers an integrated suite of innovative solutions for the defence, homeland security and commercial markets. With customers in more than 30 countries, ST Kinetics' capabilities span the entire value chain from systems centric design and development to lean manufacturing and comprehensive through-life support.

In 2007, ST Kinetics reorganised its core activities under three business groups to enhance the integration of its operations.

### **Land Systems & Solutions**

As an original equipment manufacturer for a wide range of mobility, weapon and munitions systems, 2007 saw ST Kinetics continue to help maintain the peace of nations by delivering creative and versatile solutions for the defence and homeland security markets.

In March, ST Kinetics unveiled its new Commercial Articulated Vehicle, a track-based platform designed for disaster relief operations, at Global Security Asia. With a four-tonne payload, the vehicle provides great versatility in a wide range of rescue missions, from fire fighting and the recovery of trapped vehicles during

massive floods to the transportation of relief cargo.

During the year, ST Kinetics also showcased its defence products at major exhibitions, including the Association of the United States Army Annual Meeting and Exposition 2007 in Washington D.C., and the inaugural Brunei International Defence Exhibition 2007.

Recognising robotics as a key growth area, ST Kinetics sponsored and participated with the team from Cornell University in the prestigious US Defense Advanced Research Projects Agency (DARPA) Urban Challenge. The race required a vehicle to interact autonomously with traffic signals, pedestrians and other vehicles. The Cornell team emerged as one of six teams, out of an initial group of 35, to successfully complete the race. ST Kinetics will continue to invest in and develop such types of dual use technologies for both commercial and defence applications.

### **Specialty Vehicles & Services**

Working to raise end users' productivity, ST Kinetics continued to develop new specialty vehicles and equipment with reliable product performance, low cost of ownership and ease of maintenance for use in

construction, goods distribution and urban services.

In North America, ST Kinetics launched a mobile command vehicle for the law enforcement market. During the year, ST Kinetics also received approval from the US Government Supply Administration (GSA) for VT Specialized Vehicles Corporation (VT SVC) and VT LeeBoy to list products for direct sales to US government entities.

In China, ST Kinetics unveiled an articulated dump truck and new excavators, including a hybrid version, expanding its family of offerings. In addition, ST Kinetics injected US\$16.9m (about \$25.6m) into Guizhou Jonyang Kinetics Co., Ltd. (GJK) to increase production capacity and enhance product lines, bringing its total investment in GJK to US\$28.9m (about \$43.8m).

ST Kinetics also appointed new dealers throughout Asia, including India, Indonesia, the Philippines, as well as Australia, to market and support its range of specialty vehicles and equipment.

# land systems

ST Kinetics launched the hybrid electric excavator at BICES 2007.

(following page, from left to right)

The mobile command vehicle was developed specially for the law enforcement market.

ST Kinetics successfully developed a range of environmentally friendly specialty vehicles, including a hybrid electric luggage tow tractor.



## Total Support & Services

In 2007, ST Kinetics continued to maximise the uptime of its customers' specialised equipment, specialty vehicles and automotives through its comprehensive through-life support services.

STAR Automotive Centre in Singapore secured a two-year renewal contract for taxi fleet maintenance from SMART Automobile.

Singapore Test Services, which is one of the largest test services houses in Singapore, signed an agreement with RHE Asia Pacific to provide repair, maintenance, testing and certification services of aircraft jacks and associated ground support equipment exclusively in the Asia Pacific.

## PERFORMANCE OF THE LAND SYSTEMS SECTOR

### Half Yearly Performance

Turnover of the Land Systems sector in 2H2007 of \$594m was comparable to the \$584m achieved in 1H2007.

Compared to 1H2007, 2H2007 PBT decreased by 47% or \$24.4m to \$27.8m. The lower PBT was mainly attributable to loss on disposal of

a subsidiary, impairment in value of a long term investment and higher operating expenses.

### Full Year Performance

Land Systems sector's FY2007 turnover of \$1,178m was higher than that achieved in FY2006 by 18% or \$176m. Higher turnover was recorded in Automotive (Auto) with higher specialty vehicles sales, Bionix II and Bronco deliveries, but this was partially offset by lower turnover in Munitions & Weapon (M&W). The lower turnover in M&W was mainly due to the absence of Primus and SAR 21 deliveries as well as lower weapon export sales, but these were partially offset by higher munitions sales.

Compared to FY2006, Land Systems sector's PBT of \$80.0m for FY2007 was higher by 14% or \$10.0m. Both Auto and Services, Trading and Others (S&T) recorded higher PBT, but these were partially offset by lower PBT in M&W. The higher PBT of Auto was attributable to higher contribution from higher turnover, but this was partially offset by loss on disposal of a subsidiary and the impairment in value of a long term investment. For S&T, the higher PBT was mainly due to the share of higher profits from CityCab,

an associated company, as well as higher trading sales. M&W's PBT was impacted by lower turnover and product mix.

### Acquisitions

ST Kinetics increased its shareholding in STAR Automotive Center (Guangzhou) Co., Ltd. making it a wholly-owned subsidiary. The capital injection of an additional RMB11.36m (about \$2.27m) was in line with business growth in the expanding automotive repair market in China.

### Major Projects

ST Kinetics won a \$78m six-year contract, with an option for another six years, to provide weapon maintenance and related services to the Singapore Armed Forces (SAF). The contract enabled SAF, whose weapon maintenance was previously handled by various agencies and third parties, to consolidate and streamline various weapon maintenance activities for greater efficiency and cost effectiveness.

In the clean and green technology arena, ST Kinetics successfully developed a range of environmentally friendly and commercially viable specialty vehicles. This included an



innovatively designed hybrid electric luggage tow tractor, over 70 units of which had been ordered by Singapore Airport Terminal Services Ltd (SATS) for use at Changi Airport Terminal 3. ST Kinetics also unveiled a new hybrid electric excavator with significantly lower fuel consumption at the Beijing International Construction Machinery Exhibition and Seminar (BICES) 2007.

Using similar technologies, VT SVC launched UltraTemp – a hybrid system for refrigerated distribution that combines the benefits of both cold plate and mechanical refrigeration. The state-of-the-art system offers low operating costs, high reliability and long life expectations associated with cold plates while providing unlimited route capability, automatic defrost and lower weight advantages of a mechanical refrigeration system.

As part of its efforts to further protect the environment and contribute to the realisation of a sustainable society, ST Kinetics became a founding partner of the Fuel Cell Community in Singapore to help spearhead the drive towards the maturity and greater usage of fuel cell technology.



# marine

## PROVIDING CUSTOMISED SOLUTIONS IN SHIPBUILDING AND SHIPREPAIR

ST Marine is a turnkey provider of shipbuilding, ship conversion and shiprepair services, serving a global clientele that spans America, Europe, Asia and the Middle East. ST Marine's operations in Singapore are complemented by its US shipbuilding facilities in Pascagoula, Mississippi, under VT Halter Marine.

The year for the Marine sector was highlighted by new products, product deliveries and launches, and expanding business from existing customers requiring higher engineering expertise. Some of these customers included the Republic of Singapore Navy (RSN), the US Navy, Crowley Maritime Corporation, Louis Dreyfus Armateurs S.A.S. (LDA), and Shreyas World Navigation.

### Shipbuilding

Leveraging on its strength in designing and building customised and sophisticated vessels, ST Marine continued to secure high value added contracts and break new ground.

ST Marine successfully entered the Roll-on/Roll-off Passenger (Ropax) ferry newbuilding market, by securing a contract to design and build a Ropax ferry for LDA – the first in Singapore's

shipbuilding history. The shipyard, in collaboration with James Fisher Defence Limited (JFD), also clinched the first public-private partnership (PPP) project from the RSN. VT Halter Marine received repeat orders from existing customers, most significantly, from Crowley Maritime Corporation's subsidiary, Vessel Management Services Inc.

### Shiprepair

ST Marine continued to extend its reliable expertise and consistent service quality in shiprepair, modification and conversion to a wide variety of vessels, maintaining its strong presence in the regional market.

The year's shiprepair business was marked by the completion of several notable conversion projects. Of noteworthy mention was the conversion of *Rubicon Intrepid's* Floating Storage and Offloading (FSO) system to the Floating Production Storage and Offloading (FPSO) system for Rubicon Offshore. ST Marine also converted the *BGP Pioneer* from a fishing trawler to a seismic research vessel for China National Petroleum Corporation's BGP Inc., one of the world's leading onshore geo-physical exploration company.

### PERFORMANCE OF THE MARINE SECTOR

#### Half Yearly Performance

The Marine sector's turnover for 2H2007 at \$446m increased by 7% or \$29m over 1H2007 turnover of \$417m, following higher shipbuilding activities.

PBT for 2H2007 at \$60.5m increased by 67% or \$24.4m over 1H2007, as a result of better shiprepair performance and higher investment income from the maturity of a fund under management.

#### Full Year Performance

FY2007 turnover of \$863m for the Marine sector was higher than that of FY2006 by 23% or \$161m and this was largely contributed by the shipbuilding and shiprepair businesses. The higher shipbuilding turnover was mainly contributed by the US operation, while the higher shiprepair turnover was the result of a more active shiprepair market.

PBT of the Marine sector in FY2007 of \$96.6m was higher than that achieved in FY2006 by 21% or \$17.1m. The higher PBT was mainly attributable to higher gross profit contribution from higher turnover as well as higher investment income from the maturity of a fund under management.

# marine

(from left to right)  
Delivery of third ATB unit to  
Crowley Maritime.

ST Marine signing the Ropax  
contract with LDA.



## Major Projects

In shipbuilding, ST Marine secured a contract worth about \$400m to deliver submarine rescue and other related services to the RSN over 20 years. ST Marine will design and construct the Submarine Support and Rescue Vessel (SSRV) necessary for the Submarine Rescue Vehicle (SRV), which will be designed and built by JFD. On top of this contract, ST Marine delivered the third and fourth of five locally-built stealth frigates, *RSS Tenacious* and *RSS Stalwart*, to the RSN.

ST Marine was awarded a \$168m contract to build a Ropax ferry for renowned French shipowner LDA, for day and night crossing in the English Channel. The Ropax ferry is the third newbuilding order awarded by LDA to ST Marine, following the order of two Roll-on/Roll-off (RoRo) vessels in association with Norway's Leif Hoegh & Co. AS (LH) for the transportation of Airbus A380 aircraft components in 2006. This brings the total value of contracts awarded by LDA to ST Marine to \$288m.

ST Marine delivered the first and second of four 1030 TEU feeder container vessels, *OEL Singapore* and *OEL Blessing*, to Shreyas World Navigation of Transworld Group. The last two vessels, *OEL Dubai* and *OEL India*, were also launched at the shipyard.

VT Halter Marine, clinched a contract valued at US\$254m (about \$381m) to build three 330,000-barrel tank barges for Crowley Maritime's subsidiary, Vessel Management Services Inc. VT Halter Marine currently has three contracts with Vessel Management Services Inc. to build the tugs and 185,000-barrel barges for ten articulated tug barge (ATB) units. The third ATB unit and the tug for the fourth unit were launched in 2007. The tank barge project will bring the total contractual value with Vessel Management Services to about US\$769m (\$1.2b). The shipyard also secured a contract worth US\$23.5m (about \$35.6m) to build a platform supply vessel.

VT Halter Marine was awarded a contract modification worth US\$41.5m (about \$64m) from the US Navy for the Egyptian Navy's Fast Missile Craft (FMC) project under the Foreign Military Sales (FMS) programme. The contract modification will enable the US shipyard to procure long lead time material for the command and control system. This is in addition to the earlier Phase I functional design contract for US\$28.8m (approximately \$49m) and the first contract modification valued at US\$165m (about \$263m). This second contract modification brings the total amount awarded on the FMC project to approximately US\$235m (about \$376m).

VT Halter Marine delivered a double-ended passenger/vehicle ferry to the Nantucket Steamship Authority (SSA), and a catamaran lift barge to the Washington Group International (WGI) and the Alberici Group for the Olmsted Dam construction project on the Ohio River.

In shiprepair, ST Marine has accomplished several significant conversions and modifications worth more than \$100m. The *BGP Pioneer* was successfully converted from a fishing trawler to a seismic research vessel for BGP Inc. Also completed was the extensive repair and modification of *Phoenix*, a cutter suction dredger from Boskalis B.V., of The Netherlands. The extensive modification work also saw the upgrading of its dredging capacity, fitting of new engines, generators, dredging equipment, and the addition of new accommodation spaces. The *Aquila Explorer*, from Seabird Exploration Norway AS, was converted from a platform supply vessel to a seismic research vessel. A second conversion contract was also awarded to ST Marine by Rubicon Offshore, following the successful conversion of *Rubicon Intrepid* from an FSO to an FPSO this year. With these projects successfully completed, the shipyard continued to maintain its dominance in the market for shiprepair, modification and conversion for a wide variety of vessels.

## DYNAMICS AND RISK FACTORS OF THE BUSINESS

### Industry Review

The well diversified business portfolio of the ST Engineering Group provides a mechanism for the Group to leverage the dynamic economies of growing markets while at the same time buffer the ones with weaker market performance.

Not unlike other large MNCs, the Group's operations and performance are subject to changes in the economic and business environments, external factors such as natural and man-made disasters, as well as other operating risks. The Group takes cognizance of these risk factors through its risk management framework. Some of the key risk factors are discussed below.

### Oil Prices

Surging oil prices, approaching the US\$100 level in the final month of 2007, will continue to pose significant challenges to the aviation sector and add to the global economic uncertainties amidst the US sub-prime issue in 2007 and continuing into 2008.

With oil prices staying high, many major airlines are led to continually restructure, which could result in more outsourcing as part of cost containment efforts. However, such

oil price induced cost pressure on the airlines could also lead to a lower manhour selling rate for MRO work.

### The US Economy

The sub-prime issue, rising prices of raw materials, oil price increase, rising unemployment, falling consumer consumption and the financial market problems could push the US economy into a recession. Should this happen, the economic downturn would affect industries ranging from retail sales to infrastructure and property development, and from banking to aviation. Naturally, ST Engineering's US operations would not be spared the effects of an impending slowdown.

### Interest Rates

The Fed rates ended the year at 4.25% and are expected to be further adjusted downwards during 2008. A lower interest rate environment will reduce the cost of doing business in the US. Given the Group's net cash position and the lower borrowing rates, ST Engineering is well placed to consider viable acquisitions and brownfield projects that might complement or add to its capabilities.

### Raw Materials

The escalation of raw materials prices, in part attributable to the significant rise in crude oil prices, could impact

margins in relation to businesses in the Marine and Land Systems sectors. To mitigate the impact, the Group will continue its strategy of locking in raw materials prices ahead of schedule, capping price offers based on a range of commodity prices and hedging as well as shortening the validity of the proposals to customers, where possible.

### Currency Fluctuations

With substantive business operations in the US and some in Europe, the Group is most concerned with fluctuations in the USD and the Euro. Any continued weakening USD against the SGD would translate into a possibility of lowered revenue and earnings from the US as well as from sales denominated in USD for our companies that are outside the US. This negative impact would be partially cushioned by the lower cost of importing materials and parts denominated in USD.

As the Euro strengthens against other currencies, demand for components services from STA Solutions, which is located in the Euro zone, may slow down. However, the stronger Euro could also contribute to higher Group revenue and earnings when the Euro is translated into SGD.

The Group's diversified business portfolio provides some room for balance and offsets. With operating units located in different countries, currency fluctuation risk is partially mitigated.

### Labour Supply

Shortage of skilled labour remains a concern as the Group continues to expand. To address the need for skilled labour and talents in our operations located in different parts of the world, the Group has embarked on a series of initiatives, including training, manpower retention schemes and looking at alternative sources of supply. For instance, the Group engages the local communities and offers scholarships to hone skills in areas such as aerospace and animation for specific job needs.

### Defence Spending and Government Budgets

Defence spending in Singapore continues to increase year on year in line with the growth in Gross Domestic Product. Defence spending in Singapore forms over a quarter of total government spending budget today. It is expected that the Singapore government will continue to focus on building a strong defence force and homeland security for the country. ST Engineering Group looks forward to providing the SAF with the necessary maintenance services, upgrades, and the development of integrated technological solutions for a 3rd Generation SAF.

With increased focus by the Singapore government to enhance Information Communications Technologies (ICT) applications, ST Electronics is well poised to participate in initiatives

related to e-Government, education, transport and subway systems, and the public sector.

In the US, the defence budget is expected to be maintained at the same level for 2008 in view of the continued geo-political unrest and tension, and the need for enhanced homeland security. The Group, via its US operations, will continue to work closely with local partners to identify opportunities for partnerships and contracts for the US military and local authorities.

### Emerging Markets

New and emerging markets continue to feature on the Group's radar screen. Having made further inroads into Central America via PAE, the Group will tap on the relationships and market knowledge to gain a stronger foothold in the market. Africa, Central Asia and the Middle East form the new markets which the Group identifies as presenting gaps and opportunities. Diversification into these new markets will help the Group better enlarge the revenue streams and manage costs. The new markets very often serve as lower cost manufacturing or procurement bases for the Group.

The Group conscientiously leverages the Free Trade Agreements (FTAs) signed by the Singapore government with various countries. FTAs help with collaboration efforts and economic negotiations when establishing operations in the overseas markets.

### Disasters

Having experienced the effects of Hurricane Katrina along the Gulf Coast of the US, the Group's readiness in disaster preparedness and business

continuity planning is enhanced. The experience has enabled the Group to develop equipment and products that help with disaster recovery. These products are marketed to global prospects in both the defence and commercial sectors. They help with emergency services and the rebuilding of infrastructure.

### Risk Management

The Group's risk appetite and strategies are regularly reviewed to ensure alignment with its objectives as well as to respond to the constantly changing business landscape, both locally and globally. With a robust risk management framework, the Group seeks to minimise any negative surprises and losses while at the same time enhance performance and competitiveness when faced with opportunities. The Group will continue to build a robust risk management culture as well as strengthen its existing risk management practices.

- **Risk Management Governance:**

The Group's Risk Review Committee maintains risk oversight and works with the management to ensure that the Group has adequately prioritised and addressed the risk management issues within the Group.

- **Risk Reporting Dashboard:**

The structured dashboard provides an overview of risk profile as well as key risk indicators and risk incidents to management and the Risk Review Committee. It enables the monitoring of key risks and appropriate mitigating actions to be taken on a timely basis.

• **Risk Management**

**Infrastructure:** Various enabling policies, methodologies, guides, checklists and IT applications are constantly being developed and improved in order to support the practice of risk management at both Group and business unit level.

**a) Strategic and Operational Risk**

The Group operates in 21 countries across the globe. As part of the Group's plan to grow its business internationally, it will continue to focus on increasing its operating activities and presence in Europe, Greater China and the US. In 2007, 21% of the Group's assets were in the US (2002: 10%). Revenue from customers located outside Asia increased from 28% of the Group's revenue in 2002 to 51% in 2007.

As part of its business strategy, the Group seeks to increase the proportion of its international business and customers, thereby achieving greater geographical diversification. Likewise, the Group takes the initiative to raise the proportion of its commercial business while maintaining strong support towards the local defence business. The commercial business helps to bring commercially available technology and practices into the defence business, thereby allowing for more cost effective systems and solutions. A more diversified base of commercial and military customers will reduce the risk of customer concentration.

**b) Investment Risk**

The Group seeks to grow its businesses on three fronts, through: organic growth of its existing capabilities and capacities; development of new capabilities; and acquisitions of business entities and operating assets or joint ventures.

Investment activities, ranging from the identification of targets to conducting due diligence, are supported by a dedicated team of investment professionals and augmented by external professionals for specialised services. The business proposals are guided by a given set of internal investment criteria, evaluated by senior management and endorsed by a Business Investment and Divestment Committee before seeking final Board of Directors' approval.

**c) Financial Risks and Derivative Financial Instrument Risk**

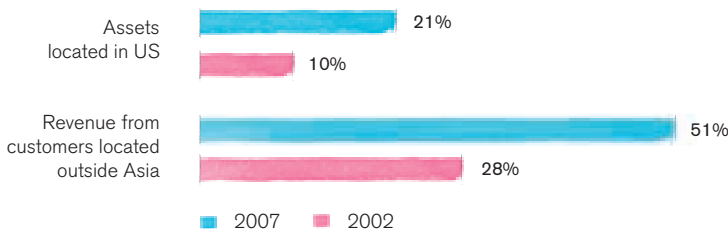
The Group is exposed to financial risks arising from its operations and the use of financial instruments. The Group's principal financial instruments, other than foreign exchange (FX) contracts and derivatives, comprise bankers' guarantees, performance bonds, bank loans and overdrafts, finance leases and hire purchase contracts, investments, funds under management, and cash and short term deposits. All financial transactions with the banks are governed by banking facilities duly accepted with Board of Directors' resolutions, with banking mandates, which define the permitted financial instruments and facilities limits, approved by the Board of Directors. All financial transactions

require dual signatories. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is the Group's policy not to engage in FX and/or derivatives speculation or trading. It is not in the interest of the Group to speculate or trade in treasury instruments. The purpose of engaging in treasury transactions is solely for hedging.

The Group's treasury policy allows only FX spot and forward contracts, non-deliverable forward contracts, FX call and put options, forward rate agreements, interest rate swap and interest rate cap and floor options ("Permitted Transactions"); sale of options are expressly prohibited. These instruments are generic in nature with no embedded or leverage features and any deviation from these instruments would require specific approval from the Board of Directors. Any complex FX or derivatives transactions involving any combination of the Permitted Transactions or any combination of the Permitted Transactions and other derivatives transactions are prohibited.

The main financial risks arising from the Group's operations and the use of financial instruments are interest rate, FX, market, liquidity and credit risks. The policies for managing each of these risks are summarised below.



# operating financial review

## i) Interest Rate Risk

The Group has cash balances placed with reputable banks, financial institutions and a related corporation. The Group manages its interest rate risks on its interest income by placing the cash balances in varying maturities and interest rate terms.

The Group's debt includes bank borrowings and lease commitments. The Group seeks to minimise its interest expense exposure through options to refinance the debt instruments and/or enter into interest rate swaps, where appropriate, over the duration of its borrowings.

## ii) Foreign Exchange Risk

The Group's FX risk arises both from its subsidiaries operating in foreign countries, generating revenue and incurring costs denominated in foreign currencies, and from operations of its local subsidiaries which are transacted in foreign currencies. The Group's FX exposures are primarily from USD and Euro, and the Group enters into forward currency contracts to hedge against its FX risk resulting

from anticipated sale and purchase transactions denominated in foreign currencies.

The Company's centralised Treasury Unit facilitates intra-group FX transactions to net-off the FX exposures within the Group. The remaining FX exposures are then hedged via the banks.

The treasury transactions are executed by the Company's centralised Treasury Unit, within which there is segregation of duties between back office and dealers. Only authorised dealers can transact with the banks on behalf of the Group, with back office confirming the deals. The dealers' limits and permitted treasury instruments in the form of an authorisation matrix and mandates are communicated to the banks for compliance.

## iii) Market Risk

The Group has strategic investments in quoted equity shares and placed funds with fund management companies. The market value of these investments will fluctuate with market conditions.

To mitigate market risk, the Group's funds placed with fund managers are guaranteed 95% to 100% of their principal values at the end of the fund management period. Also, before a fund manager is allocated funds for management, its management capability and financial strength are carefully considered.

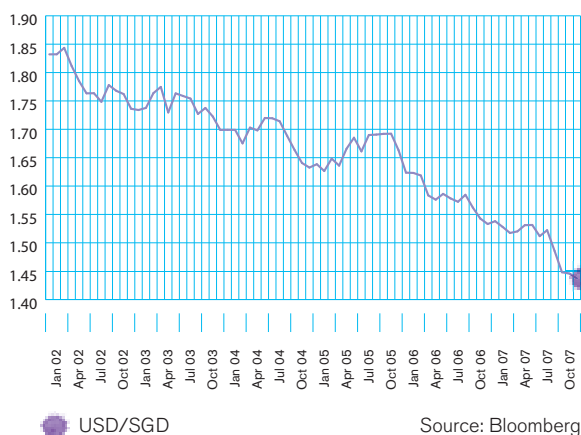
## iv) Liquidity Risk

To manage liquidity risk, the Group monitors its net operating cash flow and maintains an adequate level of cash and cash equivalents and has secured committed funding facilities from financial institutions. In assessing the adequacy of these funding facilities, management reviews its working capital requirements regularly.

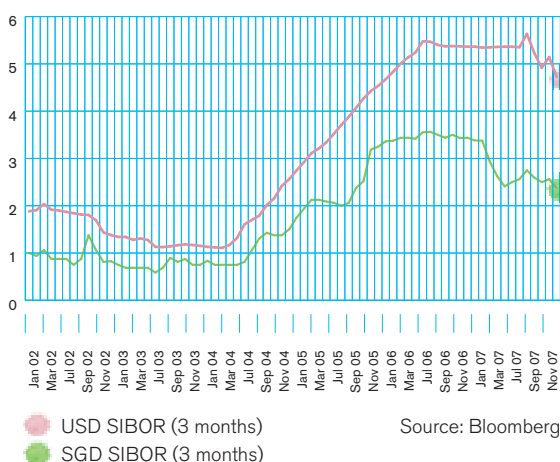
## v) Credit Risk

Credit risk, or the risk of counterparties defaulting, is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Company or its subsidiaries obtain collateral from customers or arrange master netting

## FOREIGN EXCHANGE



## INTEREST RATE (%)



agreements. Cash terms, advance payments and letters of credit or bank guarantees are required for customers of lower credit standing.

**d) Acts of God and/or War Risk**

The Group manages this risk through the development of business continuity plans so as to ensure quick recovery and resumption of critical business functions after a disruption. These plans have been communicated and the management has participated in simulated exercises of these plans. Regular reviews of these plans ensure that they stay relevant. Force majeure clauses are included in contracts to mitigate risk from Acts of God.

**e) Legal and/or Political Risk**

Legal risk is, as far as commercially acceptable, managed through standardised contracts with terms and conditions that are pre-approved. Any deviation will be vetted and approved by the appropriate level of management. In instances where the contract terms and conditions are stipulated by the customer, deviations from our standard checklist template will likewise require review and approval by the appropriate level of management. The management also vigilantly monitors its operating units business practices, environmental issues, political impact on the projects and overall business in the respective countries.

**f) Reputation Risk**

Recognising the importance of providing timely and key information to our stakeholders, the Group put in place a communications programme to ensure effective communication with our stakeholders at all times.

**SENSITIVITY ANALYSIS**

**a) Interest Rate**

The Group's cash and cash equivalents as well as funds under management are largely invested in fixed deposits and fixed income securities. Movements in interest rates will therefore have an impact on the interest and investment income for the Group. Likewise, movements in the effective borrowing rate will also have an impact on the interest expense for the Group. The impact on the Group's annual interest income and interest expense based on a one percentage point movement in the effective fixed deposit rate and borrowing rate are estimated at \$10m and \$7m respectively. Details of sensitivity analysis on the interest rate movements can be found in Note 50 in the Notes to the Financial Statements.

**b) Gross Profit Margin**

At the 2007 turnover of \$5.05b, a one percentage point movement in the gross profit margin of the Group will lead to a \$50.5m change in gross profit for the Group. The many different programmes undertaken

across the Group, with their accompanying variations in margin, have the effect of reducing the Group-wide impact of specific project margin fluctuations.

**c) Others**

Other risk factors that have an impact on turnover and net profits tend to be sector or project specific. Hence, it is not practical to perform a sensitivity analysis in such instances.

**SHAREHOLDER RETURN**

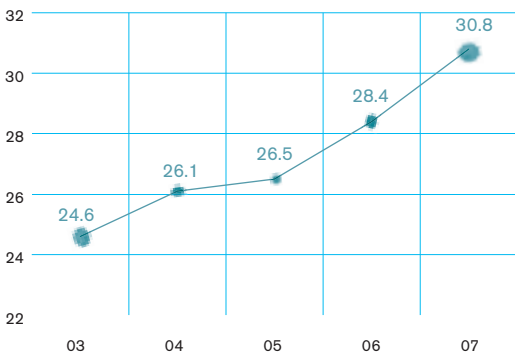
**Return On Equity**

The Return On Equity improved 2.4 percentage points to 30.8% in 2007, as a result of higher profit after tax and minority interests.

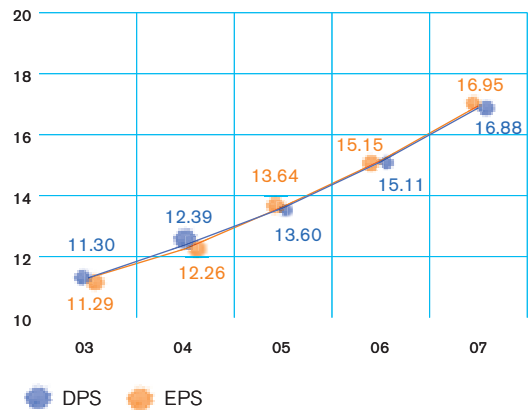
**Dividend Per Share (DPS) and Earnings Per Share (EPS)**

The proposed dividend for 2007 of \$503.5m (including interim dividend of \$59.6m paid in September 2007) is higher than the 2006 dividend of \$448.6m paid in May 2007. The recommended 2007 dividend took into consideration the Group's present cash position, positive cash flow generated from operations, and projected capital requirements. Payment of the dividend is subject to the approval of the shareholders of the Company at the coming AGM. The proposed 2007 dividend of \$503.5m represents 100% of the earnings for FY2007.

**RETURN ON EQUITY (%)**



**DIVIDEND/EARNINGS PER SHARE (cents)**



## **Total Shareholder Return for ST Engineering Shares**

ST Engineering had paid its maiden 2007 interim ordinary dividend of two cents per share to shareholders in September 2007 and declared a 2007 final dividend of 14.88 cents per share. The dividend per share amounts to 16.88 cents. The total 2007 dividend, for the fifth consecutive year, amounts to 100% of the Group's earnings.

To maximise shareholder value, management will continue its policy of paying a high level of dividend to return excess cash generated from its operations, provided the cash is not required for major investments in the future. These investments may include potential mergers and acquisitions and the building of new facilities and capabilities to expand the existing operations.

For 2007, ST Engineering shares generated a total shareholder return of 26.7% for its shareholders. This consists of 4.9% of dividend yield and 21.8% of capital gain.

## **Share Purchase Mandate**

In the coming EGM, the Company will again seek shareholders' approval to renew the Share Purchase Mandate for the purchase of up to 10% of the number of ordinary shares in the capital of the Company. The share purchase can be effected either through market purchases or off market purchases. The financial impacts of various share purchase scenarios will be presented in a circular to members.

The purpose of the Share Purchase Mandate is to give the Company the flexibility to undertake the share

purchase exercise expeditiously. The Share Purchase Mandate provides the Company an alternate avenue to reward shareholders apart from the traditional dividend payment route.

## **FINANCIAL REVIEW**

### **Treasury Policy and Capital Structure**

The Company's centralised Treasury Unit seeks to minimise the Group's financial risk, to ensure sufficient liquidity to meet day-to-day operational needs, and to invest the cash and cash equivalents within the guidelines approved by the Board of Directors.

### **Cash and Foreign Exchange Management**

The Group adopts the strategy of centralised cash management, where the excess cash of its business entities are swept to the centralised Treasury Unit, which manages the investment of the funds. Similarly, the FX requirements of the business entities are managed centrally. The business entities hedge their material FX exposures arising from sales and/or purchases in currencies other than the functional currencies. Their FX requirements are matched internally by the centralised Treasury Unit where feasible and this procedure enables the Group to offset and minimise FX risk within the Group. The centralised Treasury Unit then hedges unmatched FX requirements with external counterparties.

The aim of the centralised Treasury Unit's cash management and FX management strategies is to maximise the returns of the Group's cash resources and to minimise FX exposures and associated costs. The

most common financial instruments used to manage the FX exposures are spot and forward FX contracts.

### **Insurance**

Where appropriate, the Group manages its insurance risks on a Group basis to leverage its position with the general insurance market.

The Group reviews its insurable risk profile continually and makes the necessary adjustments on risk retention to optimise the coverage and cost. This is done with advice and support from selected insurance brokers. Major group insurance policies include Industrial Special Risk, Liabilities and Workmen Compensation, designed to protect the Group against properties risk, liabilities for its products and services, and workplace accidents respectively. The aviation and marine businesses have specialised insurance programmes.

The Group adopts a proactive strategy with advice and recommendations from insurance brokers to manage the insurance risk with specific risk management programmes covering the prevention of fire and the adoption of behaviour based safety practices, among others.

### **Funding and Borrowings**

The Group funds its investments and operations through a mixture of shareholders' funds, advance payments from customers, and some borrowings. Its borrowings amounted to \$869m, about 53% of its shareholders' funds.

Long term borrowings amounted to \$291m and the balance is of a

short term nature. The long term borrowings comprise mainly term loans taken by STA Solutions and an Industrial Revenue Bond, issued by MAE; both entities are subsidiaries of the Aerospace sector. The short term loans are denominated in USD at a floating rate that commensurates with the Group's Aaa credit rating from Moody's. The rationale of borrowing in USD is to create a natural currency hedge position for the Group's investments denominated in the currency.

The Group's interest cover stays at a healthy 13 times, with a gross debt-to-equity ratio of 48.8%. The Group is in a net cash position (see details in Note 53 in the Notes to the Financial Statements).

**CASH FLOWS AND LIQUIDITY**

**Operating Activities**

In 2007, the net cash generated from operating activities amounted to \$662m, \$201m higher than the \$461m in FY2006. The improvement in FY2007 net cash from operating activities was largely due to higher operating profits and favourable working capital movements, with positive variances in stocks and work-in-progress, and advance payments from customers, but these were partially offset by the negative

variances in advance payments to suppliers, and other debtors, deposits and prepayments.

**Investing Activities**

In 2007, a net cash of \$6m was generated from investing activities as compared to a net cash used in investing activities of \$362m in FY2006. The higher cash inflow mainly came from proceeds from the sale of associated companies and the absence of cash outflow for the acquisition of subsidiaries, but these were partially offset by lower cash inflow from the sale and maturity of investments.

**Financing Activities**

The \$513m net cash used in financing activities in FY2007 was higher than the \$143m in FY2006 by \$370m. This was largely due to the absence of proceeds from bank loans in FY2007, as well as a higher cash outflow for the payments of FY2006 dividend and FY2007 interim dividend to shareholders.

**Cash and Cash Equivalents**

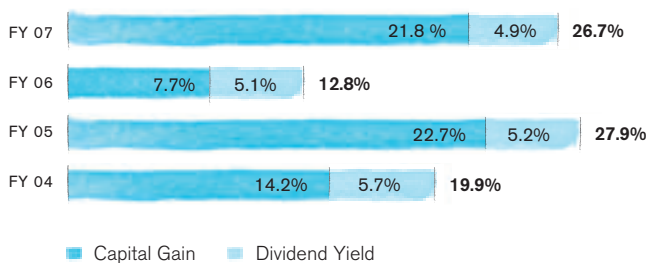
As at 31 December 2007, the Group's cash and cash equivalents stood at \$1.28b, \$141m higher than that of FY2006. The cash and cash equivalents are managed by the centralised Treasury Unit and the majority of the funds were

invested in liquid assets such as fixed deposits and placements with a related corporation. The cash and cash equivalents as at yearend is adequate to fund the committed and planned capital expenditure, as well as to service the Group's borrowings. Notwithstanding the Group's current positive cash and cash equivalents position, it has established short term financing facilities with various financial institutions for bridging finance. Such liquidity facilities can be tapped into when the requirements arise, in particular, for financing significant merger and acquisition deals.

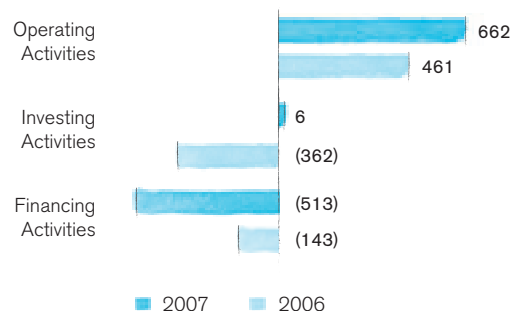
**ACCOUNTING POLICIES**

The Group's significant accounting policies are presented in Notes to the Financial Statements, Note 2 (pg 113 to 129). The Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 31 December 2006, except for the adoption of all the new and revised Financial Reporting Standards (FRS), that are mandatory for financial years beginning on or after 1 January 2007. The adoption of these FRS has no significant impact to the Group.

**TOTAL SHAREHOLDER RETURN**



**CASH FLOW (\$m)**



## PROSPECTS FOR 2008

The world economy started promisingly in 2007, with many stock market indices reaching record highs until the US sub-prime mortgage crisis emerged and clouded the second half of 2007. The Fed has cut interest rate down to 3% on 30 January 2008 in its efforts to stave off the possibility of a recession in the US. The geo-political tensions in the Middle East remain and the high oil prices are likely to persist and continue to be volatile, which coupled with the increasing food prices are adding to global inflationary pressure. With the US experiencing an economic slowdown, and the potential spillover effects on her major trading partners, the world economy in 2008 is shrouded in uncertainty. We are cognizant of these developments and stand ready to manage the challenges ahead to maintain our market and competitive positions and to seize opportunities that come along. Barring unforeseen circumstances, the Group expects to achieve a modestly higher turnover and PBT for FY2008.

In the Aerospace sector, high fuel prices and keen competition from the LCCs will continue to exert pressure on the cost structure of the traditional airlines. Cost pressure is likely to facilitate the MRO outsourcing trend,

as traditional airlines are under immense pressure from high fuel prices to improve operating cost efficiency. Several US airlines had reported losses in the fourth quarter of 2007. The sector will continue to focus on airframe heavy maintenance and modification work, implement the various PTF conversion contracts, and offer Total Aviation Support to airlines. It will set up an engine facility in Xiamen, China to expand its MRO capacity in CFM56 engine. The sector will continue its efforts to grow its presence in the global components and material services market spearheaded by STA Solutions.

The Electronics sector completed the strategic acquisition of Telematics Wireless Ltd., which enables the Group to enter the growing markets of M2M applications and wireless telemetry around the world. In 2007, the sector set up an e-Services subsidiary to implement the shared services contract from MINDEF. This new entity will focus on the emerging e-Government Managed Services market in Singapore and e-Enterprise, which includes e-Supply Chain Management. The sector will continue to tap into new market opportunities in satcom and interactive digital media.

The Land Systems sector will continue its growth strategy for its defence and specialty vehicles business, by broadening its sales and distribution network in targeted markets, developing niche products and fostering local partnerships in the global market. It will also develop new market opportunities for both defence and specialty vehicles leveraging on its success in markets like UK and the Middle East for the defence business. In the light of market uncertainty, the sector will continue to rationalise its operations, create synergies and improve operating efficiencies for the commercial specialty vehicles business in the US and China.

The Marine sector won a few large contracts in Singapore and US in 2007. Coupled with ongoing projects, these will keep the yards in Singapore and the US well utilised in 2008. The sector will continue to pursue business opportunities in the naval and government industries, and niche segments of the commercial market, and concurrently focus on delivering its commitments to the customers. It will also continue to pursue high value added conversion projects, which was one of the key drivers in the profit growth in 2007.