



Corporate Governance

THE BOARD IS ACCOUNTABLE TO ITS SHAREHOLDERS FOR EFFECTIVE GOVERNANCE PROCESSES TO CREATE LONG-TERM SHAREHOLDER VALUE.

This report outlines ST Engineering's corporate governance processes and activities in 2008 with specific reference to the guidelines of the Singapore Corporate Governance Code 2005 (Code).

BOARD MATTERS

Board's Conduct of its Affairs (Principle 1)

The Board is responsible to shareholders for overseeing the management of the business in the interest of the Company. 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 specifically performs the following governance roles:

- approves and 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 conduct of the Group's business;
- assesses and approves annual budgets, major funding proposals, investment and divestment proposals; and
- approves the appointment of Chief Executive Officer (CEO), Board changes and appointments on Board committees.

In the discharge of its functions, the Board is supported by Board committees and the Executive Office to which it delegates specific areas of responsibilities 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).

Board members receive monthly consolidated management reports on the financial performance of each business sector, capital commitments and significant operational highlights.

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.

The Board is routinely updated on the relevant laws, continuing listing obligations and accounting 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 to review the Group's performance, and to deliberate on specific issues. To facilitate the Board's decision-making process, the Company's Articles of Association provides for Directors to participate in Board meetings by 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).

Corporate Governance

Type of Meetings	No. of Meetings	Attendance Average (%)
Board	7	79%
Audit Committee	4	100%
Business Investment and Divestment Committee	2	90%
Executive Resource and Compensation Committee	3	89%
Nominating Committee	1	100%
Senior Human Resource Committee	1	75%
Risk Review Committee	3	87%
Budget and Finance Committee	2	88%
Research, Development and Technology Committee	3	89%

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 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.

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 seven meetings during the year, to consider among other things, the approval of the FY2007 results and release of 1Q2008, 2Q2008 and 3Q2008 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, CEO and management, engaging them in constructive discussions over various matters, including strategic issues and business planning processes.

During the year, the NC conducted an informal assessment of the directors' performance by taking into account their collective and individual contributions to the Board and Board committees they were appointed on. The Committee was fully satisfied with the performance of the Board.

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.

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 is also responsible for renewal and succession to ensure Board continuity. At each AGM, one third of the directors with the longest term in office since his last re-election is required to retire. A retiring director may submit himself for re-election. Under this provision, Messrs Peter Seah, Koh Beng Seng, Winston Tan and Quek Poh Huat will retire. The retiring directors, being eligible, have offered themselves for re-election.

The NC has reviewed each of their contributions and recommends that each of the retiring Directors (with Mr Peter Seah abstaining from recommending his own re-election) 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.

Corporate Governance

	Audit Committee (estbd on 15/1/1998)	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)
BOARD MEMBER									
Mr Peter SEAH Lim Huat		C	C	M			C		Rolling list of any three Board Directors
Mr TAN Pheng Hock		M			M	M	M	M	
Mr KOH Beng Seng	C								
LG Desmond KUEK Bak Chye		M					M	M	
Dr TAN Kim Siew					M		M		
Mr QUEK Tong Boon						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	
COL CHIA Choon Hoong*									
NON BOARD MEMBER									
Dr Stanley LAI Tze Chang								CM	

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 may 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 policies and trends.

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

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's role is to assist 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 three times in 2008. 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.

Having started with the senior executives in 2007, the ERCC decided to replace all remaining share option grants with restricted share grants under its Restricted Stock Plan for the other executives of the Group in 2008. The ERCC also reviewed and decided on conditional performance share awards under ST Engineering's approved share plans as well as Economic Value Added-based incentives for senior executives.

Corporate Governance

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

Number of Directors in Remuneration Bands	2008	2007
Remuneration Band		
\$500,000 and above	1	1
\$250,000 to \$499,999	1	-
Below \$250,000	10	10
Total	12	11

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 tabulated 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 table is found on page 30.

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 results 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.

SUMMARY COMPENSATION TABLE FOR THE YEAR ENDED 31 DECEMBER 2008 (GROUP):

Name of Director	Salary * \$	Bonus ** \$	Taxable income from exercise of share options*** \$	Directors' fees \$	Total \$
Peter SEAH Lim Huat	-	-	-	187,000	187,000
TAN Pheng Hock	1,161,485	2,680,091	99,000	#	3,940,576
KOH Beng Seng	-	-	-	105,000	105,000
LG Desmond KUEK Bak Chye	-	-	-	15,000*	15,000
Dr TAN Kim Siew	-	-	-	15,000*	15,000
QUEK Tong Boon	-	-	-	12,500 ^a	12,500
Prof LUI Pao Chuen	-	-	-	57,416 ^{ai}	57,416
Winston TAN Tien Hin	-	-	100,570	156,000 ⁺	256,570
Dr Philip Nalliah PILLAI	-	-	26,970	133,000 ⁺	159,970
QUEK Poh Huat	-	-	30,360	137,000 ⁺	167,360
Venkatachalam KRISHNAKUMAR	-	-	-	121,000	121,000
Davinder SINGH	-	-	-	98,000	98,000
COL CHIA Choon Hoong (Alternate to LG Desmond KUEK Bak Chye)	-	-	-	-	-
	1,161,485	2,680,091	256,900	1,036,916	5,135,392

During the year 2008, contingent awards of shares were also granted. For details, please refer to the Directors' Report found on pages 90 to 103.

* The salary amount shown is inclusive of AWS, allowances and employer CPF.

** The bonus amount is inclusive of employer CPF, EVA bonus, performance target bonus (based on amount accrued in 2008 financial statements) and performance share award released during the year.

*** Taxable income from exercise of share options are gains on exercise of the Company's share options during the year. This amount has not been charged to the income statement.

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

^a Pro-rated. Mr QUEK Tong Boon was appointed Director on 1 March 2008.

^{ai} Pro-rated. Prof LUI Pao Chuen resigned as Director on 1 March 2008.

⁺ Includes fees for directorship in subsidiary/subsidiaries.

[#] Fees payable to Mr TAN Pheng Hock of \$163,750 includes fees for directorships in subsidiaries and are payable to Singapore Technologies Engineering Ltd.

Corporate Governance

REMUNERATION BANDS FOR THE YEAR 2008

Remuneration data for employees earning \$200,000 and above per annum (as at 31 December 2008).

Compensation Band (\$)	No. of Employees	Total Dollar Value (\$)
200,000 to 249,999	182	40,014,974
250,000 to 499,999	150	49,450,674
500,000 to 749,999	32	19,356,386
750,000 to 999,999	8	6,817,560
1,000,000 to 1,249,999	3	3,278,844
1,250,000 to 1,499,999	0	0
1,500,000 to 1,749,999	4	6,248,912
=> 1,750,000	6	16,969,360
Total	385	142,136,710

Note: Total compensation for 2008 comprises staff salaries (including employer CPF and 13th month annual wage supplement for Singapore staff), allowances, bonus including those to be paid in 2009 but earned for 2008 performance, performance share award released and gains from exercise of share options during the year.

2007 remuneration data used in 2007's Annual Report:

a) Excludes gains from exercise of share options.

b) Includes bonuses paid in the year 2007 but earned for 2006 performance.

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 103 of this Report.

Audit Committee (Principle 11)

The AC is supported in its work by the audit committees of the four 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 Board, 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 four meetings during the year. In two of the meetings, in February and November 2008, AC had private sessions with the external and internal auditors, without management, before commencement of the meeting.

During the year, the AC reviewed and recommended to the Board the release of the 2007 full year, 1Q2008, 2Q2008 and 3Q2008 financial statements, and considered and approved the 2008 Audit Plan and the 2008 Internal Audit (IA) Plan. It also reviewed the adequacy of internal control procedures including IT security issues, Interested Person transactions and the issues raised in IA reports.

The AC was updated on the changes to the accounting standards, in particular FRS 1 on Presentation of Financial Statements and FRS 108 on Operating Segments which would come into effect on 1 January 2009.

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 FY2008, after having been satisfied with its standard of audit, independence and objectivity.

Internal Control (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 controls 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.

During the year, IA made periodic visits to overseas subsidiaries to review their operations to ensure compliance with the internal controls framework. An external accounting firm was engaged to assist IA. In accordance with its plan, surprise audits were conducted in the course of the year on selected areas including treasury activities and reviewing of dormant bank accounts against bank mandates, bank statements, balances, etc. There were no material issues highlighted following the surprise audits.

Corporate Governance

There were no significant control issues highlighted by IA in 2008.

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.

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 three times during the year to review updates on the key risks and the measures put in place as well as the key risk indicators of each sector. The Committee reviewed the recommendations to put in place a Fraud Risk Management policy after commissioning an external accounting firm to review the Group's existing anti-fraud practices. This Policy is still work in progress and would be put to the Board for adoption when finalised.

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 FY2008 budget assumptions and 5-year forecast. The Committee also met to review the 2009 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 held two meetings to consider investments by the Group.

COMMUNICATION WITH SHAREHOLDERS (Principles 14 and 15)

The Company enters into regular and timely communication with shareholders as part of the Group's effort to help shareholders better understand its businesses and to obtain feedback on the views and concerns of shareholders.

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 the latest SGX announcements, news releases and highlights of corporate events of each sector and its capabilities.

In 2008, ST Engineering's investor relations team held 312 investor meetings in over 23 major cities, as well as participated in investor roadshows and conferences in Australia, Canada, Europe, Hong Kong, the US and Singapore.

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 2008 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 40 to 41.

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

