

Summary Directors' Report

as at 31 December 2008

PRINCIPAL ACTIVITIES (continued)

(iv) Marine

Provides turnkey building, repair and conversion services for a wide spectrum of naval and commercial vessels. In shipbuilding, it has the proven capabilities to provide turnkey solutions from concept definition to detailed design, construction, on-board system installation and integration, testing, commissioning to through-life support. It has also established a track record in providing high engineering content shiprepair and ship conversion services for a worldwide clientele.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Except for the Singapore Technologies Engineering Executives' Share Option Scheme, Singapore Technologies Engineering Share Option Plan, Singapore Technologies Engineering Performance Share Plan and Singapore Technologies Engineering Restricted Stock Plan (collectively the "ST Engineering Share Plans"), neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares or debentures of the Company either at the beginning (or date of appointment, if later) or at the end of the financial year or between the end of the financial year and on 21 January 2009.

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50, particulars of interests of directors who held office at the end of the financial year in shares or debentures in the Company were as follows:

Holdings in the name of the director, spouse or infant children

	1 January 2008 or date of appointment if later	31 December 2008
The Company		
Ordinary Shares		
Peter Seah Lim Huat	307,500	307,500
Tan Pheng Hock	578,364	868,689
Winston Tan Tien Hin	420,000 ^{*1}	476,500 ^{*1}
Dr Philip Nalliah Pillai	137,000	166,000
Quek Poh Huat	841,228	874,228
COL Chia Choon Hoong	7,000	7,000

Summary Directors' Report

as at 31 December 2008

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

	1 January 2008 or date of appointment if later	31 December 2008	Exercise price (\$)	Exercisable period	
The Company					
<i>Options to Subscribe for Ordinary Shares</i>					
Peter Seah Lim Huat	11,125	11,125	2.09	10.2.2005	to 9.2.2009
	11,125	11,125	2.12	11.8.2005	to 10.8.2009
	22,250	22,250	2.37	8.2.2006	to 7.2.2010
	22,250	22,250	2.57	11.8.2006	to 10.8.2010
	33,375	33,375	3.01	10.2.2007	to 9.2.2011
	33,375	33,375	2.84	11.8.2007	to 10.8.2011
	44,500	44,500	3.23	16.3.2008	to 15.3.2012
	44,500	44,500	3.61	11.8.2008	to 10.8.2012
Tan Pheng Hock	5,000	5,000	2.00	11.8.2001	to 10.8.2009
	400,000	300,000	2.26	10.2.2002	to 9.2.2010
	225,000	225,000	2.72	20.2.2002	to 19.2.2011
	227,500	227,500	2.68	11.8.2002	to 10.8.2011
	175,000	175,000	2.29	8.2.2003	to 7.2.2012
	175,000	175,000	1.92	13.8.2003	to 12.8.2012
	200,000	200,000	1.79	7.2.2004	to 6.2.2013
	200,000	200,000	1.86	12.8.2004	to 11.8.2013
	200,000	200,000	2.09	10.2.2005	to 9.2.2014
	200,000	200,000	2.12	11.8.2005	to 10.8.2014
	200,000	200,000	2.37	8.2.2006	to 7.2.2015
	200,000	200,000	2.57	11.8.2006	to 10.8.2015
	200,000	200,000	3.01	10.2.2007	to 9.2.2016
200,000	200,000	2.84	11.8.2007	to 10.8.2016	
200,000	200,000	3.23	16.3.2008	to 15.3.2017	
Koh Beng Seng	19,500	19,500	2.09	10.2.2005	to 9.2.2009
	19,500	19,500	2.12	11.8.2005	to 10.8.2009
	27,500	27,500	2.37	8.2.2006	to 7.2.2010
	27,500	27,500	2.57	11.8.2006	to 10.8.2010
	27,500	27,500	3.01	10.2.2007	to 9.2.2011
	27,500	27,500	2.84	11.8.2007	to 10.8.2011
	27,500	27,500	3.23	16.3.2008	to 15.3.2012
	27,500	27,500	3.61	11.8.2008	to 10.8.2012
Winston Tan Tien Hin	56,500	-	1.79	7.2.2004	to 6.2.2008
	46,500	-	1.86	12.8.2004	to 11.8.2008
	48,500	48,500	2.09	10.2.2005	to 9.2.2009
	37,000	37,000	2.37	8.2.2006	to 7.2.2010
	37,000	37,000	2.57	11.8.2006	to 10.8.2010
	37,000	37,000	3.01	10.2.2007	to 9.2.2011
	37,000	37,000	2.84	11.8.2007	to 10.8.2011
	37,000	37,000	3.23	16.3.2008	to 15.3.2012
	37,000	37,000	3.61	11.8.2008	to 10.8.2012

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

	1 January 2008 or date of appointment if later	31 December 2008	Exercise price (\$)	Exercisable period
The Company				
<i>Options to Subscribe for Ordinary Shares</i>				
Dr Philip Nalliah Pillai	31,000	–	1.79	7.2.2004 to 6.2.2008
	29,000	–	1.86	12.8.2004 to 11.8.2008
	31,000	31,000	2.09	10.2.2005 to 9.2.2009
	31,000	31,000	2.12	11.8.2005 to 10.8.2009
	31,000	31,000	2.37	8.2.2006 to 7.2.2010
	31,000	31,000	2.57	11.8.2006 to 10.8.2010
	33,000	33,000	3.01	10.2.2007 to 9.2.2011
	33,000	33,000	2.84	11.8.2007 to 10.8.2011
	33,000	33,000	3.23	16.3.2008 to 15.3.2012
	33,000	33,000	3.61	11.8.2008 to 10.8.2012
Quek Poh Huat	33,000	–	1.86	12.8.2004 to 11.8.2008
	33,000	33,000	2.09	10.2.2005 to 9.2.2009
	33,000	33,000	2.12	11.8.2005 to 10.8.2009
	33,000	33,000	2.37	8.2.2006 to 7.2.2010
	33,000	33,000	2.57	11.8.2006 to 10.8.2010
	33,000	33,000	3.01	10.2.2007 to 9.2.2011
	33,000	33,000	2.84	11.8.2007 to 10.8.2011
	33,000	33,000	3.23	16.3.2008 to 15.3.2012
	33,000	33,000	3.61	11.8.2008 to 10.8.2012
Venkatachalam Krishnakumar	25,250	25,250	2.37	8.2.2006 to 7.2.2010
	25,250	25,250	2.57	11.8.2006 to 10.8.2010
	25,500	25,500	3.01	10.2.2007 to 9.2.2011
	25,500	25,500	2.84	11.8.2007 to 10.8.2011
	25,500	25,500	3.23	16.3.2008 to 15.3.2012
	25,500	25,500	3.61	11.8.2008 to 10.8.2012

Holdings in the name of the director, spouse or infant children

	1 January 2008 or date of appointment if later	31 December 2008
The Company		
<i>Conditional Award of 250,000 Performance Shares to be delivered after 2007</i>		
Tan Pheng Hock	0 to 375,000 ^{#1}	–
<i>Conditional Award of 250,000 Performance Shares to be delivered after 2008</i>		
Tan Pheng Hock	0 to 375,000 ^{#2}	0 to 375,000 ^{#2}
<i>Conditional Award of 200,000 Performance Shares to be delivered after 2009</i>		
Tan Pheng Hock	0 to 300,000 ^{#3}	0 to 300,000 ^{#3}
<i>Conditional Award of 250,000 Performance Shares to be delivered after 2010</i>		
Tan Pheng Hock	–	0 to 375,000 ^{#4}

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

Holdings in the name of the director, spouse or infant children

1 January 2008
or date of appointment if later

31 December 2008

The Company

Conditional Award of 30,500 Restricted

Shares to be delivered after 2008

Peter Seah Lim Huat – 0 to 45,750 ^{#5}

Conditional Award of 15,500 Restricted

Shares to be delivered after 2008

Koh Beng Seng – 0 to 23,250 ^{#5}

Conditional Award of 22,000 Restricted

Shares to be delivered after 2008

Winston Tan Tien Hin – 0 to 33,000 ^{#5}

Conditional Award of 21,000 Restricted

Shares to be delivered after 2008

Dr Philip Nalliah Pillai – 0 to 31,500 ^{#5}

Conditional Award of 18,500 Restricted

Shares to be delivered after 2008

Quek Poh Huat – 0 to 27,750 ^{#5}

Venkatachalam Krishnakumar – 0 to 27,750 ^{#5}

Conditional Award of 14,500 Restricted

Shares to be delivered after 2008

Davinder Singh s/o Amar Singh – 0 to 21,750 ^{#5}

Conditional Award of 45,000 Restricted

Shares to be delivered after 2008

Tan Pheng Hock 0 to 67,500 ^{#6} 0 to 67,500 ^{#6}

Conditional Award of 96,000 Restricted

Shares to be delivered after 2009

Tan Pheng Hock – 0 to 144,000 ^{#7}

^{#1} Includes deemed interest in 200,000 shares in Singapore Technologies Engineering Ltd ("ST Engineering"), held by Winmark Investments Pte Ltd, a company in which Winston Tan Tien Hin has a 50% interest.

^{#1} The actual number of shares to be delivered will depend on the achievement of set targets over a three-year period from 2005 to 2007. Achievement of targets below 30% target level will mean no performance shares will be delivered, while achievement up to 150% will mean up to 1.5 times the number of performance shares can be delivered. For this period, Mr Tan Pheng Hock was awarded 120,325 new shares on 17 March 2008 upon partial achievement of targets set. The balance of the conditional award covering the period from 2005 to 2007 has thus lapsed.

^{#2} A minimum threshold performance over a three-year period from 2006 to 2008 is required for any performance shares to be released and the actual number of performance shares to be released is capped at 150% of the conditional award.

^{#3} A minimum threshold performance over a three-year period from 2007 to 2009 is required for any performance shares to be released and the actual number of performance shares to be released is capped at 150% of the conditional award.

^{#4} A minimum threshold performance over a three-year period from 2008 to 2010 is required for any performance shares to be released and the actual number of performance shares to be released is capped at 150% of the conditional award.

^{#5} A minimum threshold performance over the period from 1 January 2008 to 31 December 2008 is required for any restricted shares to be released. A specified number of restricted shares to be released will depend on the extent of achievement of all performance conditions and will be delivered in phases according to the stipulated vesting periods.

^{#6} A minimum threshold performance over a two-year period from 2007 to 2008 is required for any restricted shares to be released. A specified number of restricted shares to be released will depend on the extent of achievement of all performance conditions and will be delivered in phases according to the stipulated vesting periods.

^{#7} A minimum threshold performance over a two-year period from 2008 to 2009 is required for any restricted shares to be released. A specified number of restricted shares to be released will depend on the extent of achievement of all performance conditions and will be delivered in phases according to the stipulated vesting periods.

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

Between the end of the financial year and 21 January 2009, Mr Winston Tan Tien Hin's and Dr Philip Nalliah Pillai's interests in the Company increased to 525,000 and 197,000 respectively.

DIRECTORS' INTERESTS IN CONTRACTS

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than a benefit or any fixed salary of a full-time employee of the Company included in the aggregate amount of emoluments shown in the financial statements, or any emoluments received from related corporations and share options granted pursuant to the ST Engineering Share Plans) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except for professional fees paid to a firm of which a director is a member as shown in the financial statements.

SHARE PLANS

The Executive Resource and Compensation Committee ("ERCC") is responsible for administering the Singapore Technologies Engineering Share Option Plan ("ESOP"), the Singapore Technologies Engineering Performance Share Plan ("PSP") and the Singapore Technologies Engineering Restricted Stock Plan ("RSP") (collectively "Share Plans").

The Committee members are Mr Peter Seah Lim Huat (Chairman), Mr Venkatachalam Krishnakumar and Dr Philip Nalliah Pillai.

Following approval of the new Share Plans by shareholders at the Extraordinary General Meeting held on 23 November 2000, the Singapore Technologies Engineering Executives' Share Option Scheme ("ESOS"), the predecessor to the ESOP, was terminated.

As at 31 December 2008, no options and conditional awards have been granted to controlling shareholders of the Company or associates of the Company and no employees have received 5% or more of the total options and conditional awards available under the Share Plans.

The aggregate number of new shares issued pursuant to the Share Plans did not exceed 15% of the issued share capital of the Company.

During the financial year, except as disclosed below, there were no options granted and no shares awarded by the Company to any person to take up unissued shares of the Company.

(a) ESOS/ESOP

(i) The options granted under the ESOS/ESOP are as follows:

Name of participant	Options granted and accepted during the financial year under review	Aggregate options granted and accepted since commencement of ESOS/ESOP to end of financial year	Aggregate options exercised/lapsed since commencement of ESOS/ESOP to end of financial year	Aggregate options outstanding as at end of financial year
Director of the Company				
ESOS				
Tan Pheng Hock	-	1,699,864	1,394,864	305,000
ESOP				
Peter Seah Lim Huat	-	530,000	307,500	222,500
Tan Pheng Hock	-	2,602,500	-	2,602,500

Summary Directors' Report

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SHARE PLANS (continued)

(a) ESOS/ESOP (continued)

Name of participant	Options granted and accepted during the financial year under review	Aggregate options granted and accepted since commencement of ESOS/ESOP to end of financial year	Aggregate options exercised/lapsed since commencement of ESOS/ESOP to end of financial year	Aggregate options outstanding as at end of financial year
Director of the Company				
<i>ESOP</i>				
Koh Beng Seng	-	204,000	-	204,000
Winston Tan Tien Hin	-	593,500	323,000	270,500
Dr Philip Nalliah Pillai	-	453,000	197,000	256,000
Quek Poh Huat	-	375,000	111,000	264,000
Venkatachalam Krishnakumar	-	152,500	-	152,500
Non-Executive Directors of subsidiaries (including former directors)	-	3,294,566	2,221,648	1,072,918
Group Executives (excluding Tan Pheng Hock)	-	193,717,858	86,636,505	107,081,353
Parent Group Executives and others	-	187,320	107,890	79,430

(ii) The options granted by the Company do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.

(iii) During the financial year, 14,075,736 ordinary shares in the Company were issued pursuant to the exercise of options to take up unissued shares of the Company.

(b) PSP

The PSP is established with the objective of motivating senior executives to strive for sustained long-term growth and performance in ST Engineering and its subsidiaries ("ST Engineering Group"). Awards of performance shares are granted conditional on performance targets set based on the ST Engineering Group corporate objectives.

Pursuant to the PSP, the ERCC has decided to grant awards on an annual basis, conditional on targets set for a performance period, currently prescribed to be a three-year performance period. The performance shares will only be released to the recipient at the end of the performance qualifying period. A specified number of performance shares shall be released by the ERCC to the recipient and the actual number of performance shares will depend on the achievement of set targets over the respective performance period. A minimum threshold performance is required for any performance share to be released and the actual number of performance shares to be released is capped at 150% of the conditional award.

The medium-term stretched targets measured over a three-year performance period are set based on ST Engineering Group corporate objectives. The performance measures used in PSP grant for financial years 2005 and 2006 are ST Engineering Group TSR against the MSCI Asia Pacific ex Japan Industrial Index, EVA Spread and EPS Growth.

With effect from financial year 2007, the performance measures are Wealth Added and ST Engineering Group TSR against the MSCI Asia Pacific ex Japan Industrial Index.

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SHARE PLANS (continued)

(b) PSP (continued)

The awards granted under the PSP are as follows:

Name of participant	Conditional awards granted during the financial year under review	Awards released during the financial year under review	Aggregate conditional awards granted since commencement of PSP to end of financial year	Aggregate awards released/lapsed since commencement of PSP to end of financial year	Aggregate awards outstanding as at end of financial year
Director of the Company					
Tan Pheng Hock	0 to 375,000	120,325	0 to 3,345,000	2,295,000 ^{a1}	0 to 1,050,000
Group Executives (excluding Tan Pheng Hock)					
	0 to 2,073,000	856,714	0 to 24,355,500	17,356,500 ^{a2}	0 to 6,999,000

^{a1} A total of 228,825 awards have been released.

^{a2} A total of 1,786,494 awards have been released.

(c) RSP

The RSP is established with the objective of motivating managers and above to strive for sustained long-term growth and superior performance in ST Engineering Group. It also aims to foster a share ownership culture among staff within the ST Engineering Group and to better align staff's incentive scheme with shareholders' interest.

Pursuant to the RSP, the ERCC has decided to grant awards on an annual basis, conditional on targets set for a performance period, currently prescribed to be a two-year performance period. The actual number of restricted shares delivered will depend on the achievement of set targets over the respective performance period. This will be determined by the ERCC at the end of the qualifying performance period and released to the recipient over a three-year vesting period in the ratio of 50%, 25% and 25% consecutively.

A minimum threshold performance is required for any restricted share to be released while the maximum number of restricted shares to be delivered is capped at 150% of the conditional award.

The medium-term stretched targets measured over a two-year performance period are set based on ST Engineering Group corporate objectives. The performance measures used for the two-year performance period are ST Engineering Group EVA Spread and EBITDA Margin.

The ERCC has decided to discontinue the grant of options under ESOP to non-executive directors. During the year, conditional share awards were granted to non-executive directors (excluding those from the public sector) of ST Engineering, ST Aerospace, ST Electronics, ST Kinetics and ST Marine for the first time in replacement of ESOP. Although the performance measures, namely, ST Engineering Group EVA Spread and EBITDA Margin, used are the same as those for key executives and managerial staff, the performance period is limited to one year. Depending on the actual performance, the total release of awards will range from zero to a maximum capped at 150% of the conditional award, over a three-year vesting period at 33 $\frac{1}{3}$ % per year.

Summary Directors' Report

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SHARE PLANS (continued)

(c) RSP (continued)

The awards granted under the RSP are as follows:

Name of participant	Conditional awards granted during the financial year under review	Awards released during the financial year under review	Aggregate conditional awards granted since commencement of RSP to end of financial year	Aggregate awards released/lapsed since commencement of RSP to end of financial year	Aggregate awards outstanding as at end of financial year
Director of the Company					
Peter Seah Lim Huat	0 to 45,750	–	0 to 45,750	–	0 to 45,750
Tan Pheng Hock	0 to 144,000	–	0 to 211,500	–	0 to 211,500
Koh Beng Seng	0 to 23,250	–	0 to 23,250	–	0 to 23,250
Winston Tan Tien Hin	0 to 33,000	–	0 to 33,000	–	0 to 33,000
Dr Philip Nalliah Pillai	0 to 31,500	–	0 to 31,500	–	0 to 31,500
Quek Poh Huat	0 to 27,750	–	0 to 27,750	–	0 to 27,750
Venkatachalam Krishnakumar	0 to 27,750	–	0 to 27,750	–	0 to 27,750
Davinder Singh s/o Amar Singh	0 to 21,750	–	0 to 21,750	–	0 to 21,750
Non-Executive Directors of subsidiaries	0 to 101,250	–	0 to 101,250	–	0 to 101,250
Group Executives (excluding Tan Pheng Hock)	0 to 11,260,775	–	0 to 12,538,775	484,625	0 to 12,054,150

Summary Directors' Report

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AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, one of whom is also the Chairman of the Committee. The members of the Audit Committee at the date of this report are as follows:

Koh Beng Seng (Chairman)
Dr Philip Nalliah Pillai
Venkatachalam Krishnakumar

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Chapter 50. The Audit Committee met during the year to review the scope of the internal audit functions and the scope of work of the statutory auditors, and the results arising therefrom, including their evaluation of the system of internal controls. The Audit Committee also reviewed the assistance given by the Company's officers to the auditors. The consolidated financial statements of the Group and the financial statements of the Company were reviewed by the Audit Committee prior to their submission to the directors of the Company for adoption.

In addition, the Audit Committee has reviewed the requirements for approval and disclosure of interested person transactions, reviewed the procedures set up by the Group and the Company to identify and report and where necessary, seek approval for interested person transactions and, with the assistance of the internal auditors, reviewed interested person transactions.

The Audit Committee has recommended to the Board of Directors that the auditors, Ernst & Young LLP, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

OTHER CIRCUMSTANCES AFFECTING THE FINANCIAL STATEMENTS

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen during the financial year or in the interval between the end of the financial year and the date of this report which would substantially affect the results of the operations of the Group for the financial year in which this report is made or render any item in the financial statements of the Group and the Company for the current financial year misleading, and/or affect the ability of the Group and the Company in meeting the obligations as and when they fall due.

The Summary Financial Statement set out on pages 11 to 30 was approved by the Board of Directors and was signed on its behalf by:



Peter Seah Lim Huat
Director



Tan Pheng Hock
Director

Singapore
17 February 2009