



Corporate Governance

The Board is accountable to shareholders for ST Engineering's performance. It is committed to ensuring that a transparent system is in place where good governance is not only practised at the Board level of the holding company but is embraced throughout the organisation as part of its culture.

This report sets out ST Engineering's corporate governance processes, practices and activities in 2009 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;
- monitors the Group's performance;
- assesses and approves annual budgets, major funding proposals, investment and divestment proposals;
- approves the appointment of the Chief Executive Officer, Board changes and appointments on Board committees; and
- approves the unaudited quarterly, half-yearly and full year audited results prior to their release.

In the discharge of its functions, the Board is supported by nine Board committees to which it delegates specific areas of responsibilities for review and decision making, and the Executive Office. The Executive Office comprises the President & Chief Executive Officer; Deputy Chief Executive Officer; and the 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 & Chief Executive Officer 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.

Type of Meeting	No. of Meetings	Attendance Average (%)
Board	7	82%
Audit Committee	7	95%
Business Investment and Divestment Committee	1	80%
Executive Resource and Compensation Committee	3	100%
Nominating Committee	3	100%
Senior Human Resource Committee	1	75%
Risk Review Committee	4	75%
Budget and Finance Committee	2	100%
Research, Development and Technology Committee	3	67%
Tenders Committee	*	*

* Decisions were made via circular resolution.

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 & Chief Executive Officer (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, Mr Winston Tan, Mr Davinder Singh and Dr Stanley Lai.

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 FY2008 results and release of 1Q2009, 2Q2009 and 3Q2009 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 supported in his work by the Deputy CEO, Mr Seah Moon Ming and the CFO, Ms Eleana Tan Ai Ching in the Executive Office. During the year, Mr Wee Siew Kim, who was one of 2 Deputy CEOs resigned to pursue other career opportunities. Mr Wee was in charge of the Aerospace and Marine sectors. Mr Seah now oversees all the 4 business sectors comprising Aerospace, Electronics, Land Systems and Marine.

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. Mr Venkatachalam Krishnakumar is the Chairman of the NC. He was appointed Chairman of the NC on 1 October 2009 following the resignation of Dr Philip Pillai who has been appointed Judicial Commissioner of the Supreme Court. The other members are Mr Peter Seah and Dr Stanley Lai. Dr Lai was appointed NC member upon joining the Board on 8 October 2009. Both Mr Krishnakumar and Dr Lai 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.

The NC reviewed and affirmed the independence of the Company's independent directors and the composition of the Board and the profile of Board members in relation to the needs of the ST Engineering Board. The NC recommended to the Board the appointment of Dr Stanley Lai as non executive independent Director. Dr Stanley Lai was appointed Director on 8 October 2009.

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, Mr Tan Pheng Hock, Dr Tan Kim Siew and Mr Venkatachalam Krishnakumar will retire.

Dr Stanley Lai, who is newly appointed, will hold office until the forthcoming AGM of the Company. In addition, MG Neo Kian Hong, who will be appointed as non-executive director of the Company on 31 March 2010, will also hold office until the forthcoming AGM of the Company. The retiring directors, being eligible, have offered themselves for re-election.

The NC recommends that each of the retiring Directors be re-elected at the Company's forthcoming AGM.

Supporting the Board are the following Board Committees:

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

The composition of the Board committees as at 31 December 2009 is tabulated below:

Board Member	Audit Committee (established on 15/1/1998)	Business Investment and Divestment Committee (established on 8/9/1997)	Executive Resource and Compensation Committee (established on 6/12/1997)	Nominating Committee (established on 4/12/2002)	Budget and Finance Committee (established on 5/1/1998)	Research, Development and Technology Committee (established on 1/8/2003)	Senior Human Resource Committee (established on 16/1/1998)	Risk Review Committee (established on 7/12/1998)	Tenders Committee (established on 5/1/1998)
Mr Peter SEAH Lim Huat		C	C	M			C		Rolling list of any 3 Board Directors
Mr TAN Pheng Hock		M			M	M	M	M	
Mr KOH Beng Seng	C								
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	
Mr QUEK Poh Huat		M			M				
Mr Venkatachalam KRISHNAKUMAR	M		M	C				M	
Mr Davinder SINGH					C			M	
Dr Stanley LAI Tze Chang	M		M	M					
COL CHIA Choon Hoong*									

DENOTES:

C – Chairman

M – 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 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 and Compensation Committee (ERCC) performs the role of the remuneration committee. The Committee comprises Mr Peter Seah as Chairman, Mr Venkatachalam Krishnakumar and Dr Stanley Lai. 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 awards
- Approve non-executive director remuneration structure

The ERCC met three times in 2009. Its key activities were centred on the assessment and development of the senior 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.

The ERCC 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. The ERCC also made a determination of the achievement factor for the final award of shares to participants under the approved Performance Share Plan (PSP) and Restricted Stock Plan (RSP).

The existing share plans expire in November 2010. During the year, the ERCC recommended to the Board the adoption of new PSP and RSP share incentive plans, on the same terms as the existing share plans but with a lower cap of 8% over the 10-year life of the share plans (existing Plan has a cap of 15%). The cap of 8% applies to both the PSP and RSP awards as a consolidated limit. The Board has accepted the ERCC's recommendations. The Board will not be seeking a new mandate for the Company's share option plan. The grant of share options was discontinued in 2007. The new share incentive plans will be proposed to shareholders for approval at the forthcoming Extraordinary General Meeting of the Company.

The Board has delegated authority to the ERCC to determine the remuneration of the 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 Directors' Fee policy is tabulated in the following page.

For FY2009, non-executive directors have volunteered to accept a reduction in directors' retainer fees for 2009 in tandem with the senior executives' pay cuts.

The Group has tabulated a summary compensation table for key executives for the year ended 31 December 2009. This table is found on page 40.

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.

DIRECTORS' FEE POLICY

The Directors' fees payable in respect of financial year 2009 amounts to \$847,158 (financial year 2008 : \$893,166) and are based on the following rates:

Basic Retainer	From Private Sector \$	From Public Sector[^] \$
Director	50,000	7,500

Additional/Committee Fees	From Private Sector	From Public Sector
Board Chairman	50,000	30,000
Board Deputy Chairman / Audit Committee Chairman / Executive Committee Chairman	35,000	22,500
Other Committee Chairman / Audit Committee Member / Executive Committee Member	20,000	15,000
Other Committee Member	10,000	7,500

Attendance Fees		
Per Board Meeting	2,000	–
Per Board Committee Meeting	1,000	–

[^] Fees to directors from the public sector follow the Directorship & Consultancy Appointments Council (DCAC)'s guidelines. For services rendered by a public sector director on the Board and concurrently on Board committees, only one set of fee based on the highest rate shall be payable to the DCAC.

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

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

The directors' interests in shares of ST Engineering and its related companies during the year are found on pages 86 to 98 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.

SUMMARY COMPENSATION TABLE FOR THE YEAR ENDED 31 DECEMBER 2009 (GROUP):

Name of Director	1. Salary \$	2. Variable \$	3. Benefits \$	4. Directors' Fees \$	5. Share-based Compensation \$	Total \$	6. Taxable Income from exercise of share options in 2009 \$
Peter SEAH Lim Huat	–	–	–	187,000	57,550	239,550	7,231
TAN Pheng Hock	838,676	828,500	164,566	(a)	576,579	2,408,321	1,500
KOH Beng Seng	–	–	–	99,000	29,247	128,247	13,065
LG Desmond KUEK Bak Chye	–	–	–	15,000 ^(b)	–	15,000	–
Dr TAN Kim Siew	–	–	–	15,000 ^(b)	–	15,000	–
QUEK Tong Boon	–	–	–	19,167 ^{(b)(c)}	–	19,167	–
Winston TAN Tien Hin	–	–	–	147,000 ^(c)	41,512	188,512	13,095
Dr Philip Nalliah PILLAI	–	–	–	102,750 ^{(c)(d)}	29,638 ^(d)	132,388	23,250
QUEK Poh Huat	–	–	–	132,000 ^(c)	34,908	166,908	22,440
Venkatachalam KRISHNAKUMAR	–	–	–	127,500	34,908	162,408	37,875
Davinder SINGH s/o Amar Singh	–	–	–	82,000	27,360	109,360	–
Dr Stanley LAI Tze Chang	–	–	–	52,408 ^{(c)(e)}	9,435	61,843	–
COL CHIA Choon Hoong (Alternate to LG Desmond KUEK Bak Chye)	–	–	–	–	–	–	–
	838,676	828,500	164,566	978,825	841,137	3,646,704	118,456

- Salary includes base salary and employer CPF for the financial year ended 31 December 2009.
 - Variable includes AWS, Performance Target Bonus paid & EVA earned* for the financial year ended 31 December 2009.
* The EVA earned for the year is added to the balance brought forward in each of the executive's EVA Bank. 1/3 of the total is paid out, with the balance 2/3 carried forward to the next year. A negative EVA earned will result in a claw back of EVA earned in previous years. Key executives in the Group have had individual EVA Bank since the late 1990s. See next page for Individual EVA Bank as at 31 December 2009.
 - Benefits provided for employees are comparable with local market practices. These include medical, insurances, car, transport, etc.
 - In February 2009, ST Engineering Board endorsed the recommendation of the Executive Resource and Compensation Committee to accept a 10% reduction in the retainer portion of the Directors' fees for FY2009 for private sector directors.
 - Based on the fair values of PSP and RSP Contingent shares granted in 2009, using Monte Carlo simulation model. Contingent shares granted are subject to key performance indicators (KPIs) being met over the performance period. The performance period for PSP is 2009-2011 and for RSP, it is 2009-2010 for TAN Pheng Hock and FY2009 for the Directors. The final number of shares awarded will depend on the extent the KPIs are achieved at the end of the respective performance periods and can range from 0% to 170% of the contingent grants for PSP and 0% to 150% of the contingent grants for RSP.
 - Taxable income from exercise of share options are gains on exercise of the Company's share options during the year. The amount has not been charged to the income statement.
- (a) Fees payable to TAN Pheng Hock of \$163,750 includes fees for directorships in subsidiaries and are payable to Singapore Technologies Engineering Ltd.
(b) Fees for public sector directors are payable to a government agency, the DCAC.
(c) Includes fees for directorship in subsidiary(ies).
(d) Pro-rated. Dr Philip Nalliah PILLAI resigned as Director on 30 September 2009.
(e) Pro-rated. Dr Stanley LAI Tze Chang was appointed Director on 8 October 2009.

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

Number of Directors in Remuneration Bands	2009	2008
Remuneration Band		
\$500,000 and above	1	1
\$250,000 to \$499,999	–	1
Below \$250,000	11	10
Total	12	12

**SUMMARY COMPENSATION TABLE FOR KEY EXECUTIVES FOR THE YEAR ENDED
31 DECEMBER 2009 (GROUP)**

Fee \$	1. Salary %	2. Variable %	3. Benefits %	4. Share-based Compensation %	Total %	5. Taxable Income from exercise of share options in 2009 \$
Between \$2,000,000 and \$2,250,000						
Seah Moon Ming	30%	45%	7%	18%	100%	0.00
Between \$1,750,000 and \$2,000,000						
Chang Cheow Teck	25%	59%	4%	12%	100%	0.00
Between \$1,000,000 and \$1,250,000						
Lee Fook Sun	32%	49%	6%	13%	100%	8,625
Tay Kok Khiang	54%	15%	8%	23%	100%	0.00
Between \$750,000 and \$1,000,000						
Sew Chee Jhuen	44%	15%	12%	29%	100%	0.00

1. Salary includes base salary and employer CPF for the financial year ended 31 December 2009.
2. Variable includes AWS, Performance Target Bonus paid & EVA earned* for the financial year ended 31 December 2009.
 - * The EVA earned for the year is added to the balance brought forward in each of the executive's EVA Bank. 1/3 of the total is paid out, with the balance 2/3 carried forward to the next year. A negative EVA earned will result in a claw back of EVA earned in previous years. Key executives in the Group have had individual EVA Bank since the late 1990s. Details of Individual EVA Banks as at 31 December 2008 and 2009 are as follows:

Individual EVA Banks as at 31 December 2008**Individual EVA Banks as at 31 December 2009****Between \$4,000,000 and \$4,250,000****Between \$3,000,000 and \$3,250,000**

Tan Pheng Hock

Tan Pheng Hock

Between \$2,500,000 and \$2,750,000**Between \$2,000,000 and \$2,250,000**

Seah Moon Ming

Seah Moon Ming

Between \$2,250,000 and \$2,500,000**Between \$1,500,000 and \$1,750,000**

Tay Kok Khiang

Tay Kok Khiang

Between \$1,750,000 and \$2,000,000**Between \$1,250,000 and \$1,500,000**

Sew Chee Jhuen

Sew Chee Jhuen

Between \$1,500,000 and \$1,750,000**Between \$1,750,000 and \$2,000,000**

Chang Cheow Teck

Chang Cheow Teck

Between \$1,000,000 and \$1,250,000**Between \$750,000 and \$1,000,000**

Lee Fook Sun

Lee Fook Sun

3. Benefits provided for employees are comparable with local market practices. These include medical, insurances, car, transport, etc.
4. Based on the fair values of PSP and RSP Contingent shares granted in 2009, using the Monte Carlo simulation model. Contingent shares granted are subject to key performance indicators (KPIs) being met over the performance period of 2009-2011 for PSP and 2009-2010 for RSP. The final number of shares awarded will depend on the extent the KPIs are achieved at the end of the respective performance periods and can range from 0% to 170% of the contingent grants for PSP and 0% to 150% of the contingent grants for RSP.
5. Taxable income from exercise of share options are gains on exercise of the Company's share options during the year. The amount has not been charged to the income statement.

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, Mr Venkatachalam Krishnakumar and Dr Stanley Lai (from 8 October 2009). All the members of the AC are independent directors.

The AC held seven meetings during the year. In the meeting in February 2009, 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 2008 full year, 1Q2009, 2Q2009 and 3Q2009 financial statements, and considered and approved the 2009 Audit Plan and the 2009 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 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 incumbent external auditors. The AC had expressed satisfaction with the standard of audit, independence and objectivity of the incumbent auditors. As the external audit firm has been engaged with the Group for 8 years since 2002, in the spirit of good corporate governance, the AC with the agreement of the Board, embarked on

an audit review exercise. A request for proposal exercise was carried out with all the major auditing firms including the incumbent external auditors. After due evaluation by the AC, the Board accepted the AC's recommendations for a change of auditors for FY2010 which will be proposed to shareholders for approval at the forthcoming AGM.

Internal Control (Principle 12) Internal Audit (Principle 13)

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

The Board is ultimately responsible for ensuring that a sound system of internal controls 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. The 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 worked with Management to align newly acquired companies to the Group's internal control environment and compliance standards in order to strengthen the self-regulating checks and balances. IA also 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.

There were no significant control issues highlighted by IA in 2009.

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 and Mr Tan Pheng Hock.

The Committee maintains oversight of the Enterprise Risk Management Framework.

The Committee met four times during the year to review key business risks, sector level trends, major events and emerging issues and worked with the management to ensure that the Group had adequately prioritised and addressed risk management issues within the Group.

During the year, the Board adopted a Fraud Risk Management policy to provide guidance to employees on managing the risk of fraud.

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 FY2009 budget assumptions and 5-year forecast. The Committee also met to review the 2010 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 one meeting to consider an investment by the Group.

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 2009, ST Engineering's investor relations team held more than 300 face-to-face investor meetings and conference calls, and participated in investor conferences in Singapore and Hong Kong.

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 2009 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 48 to 49.

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

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.