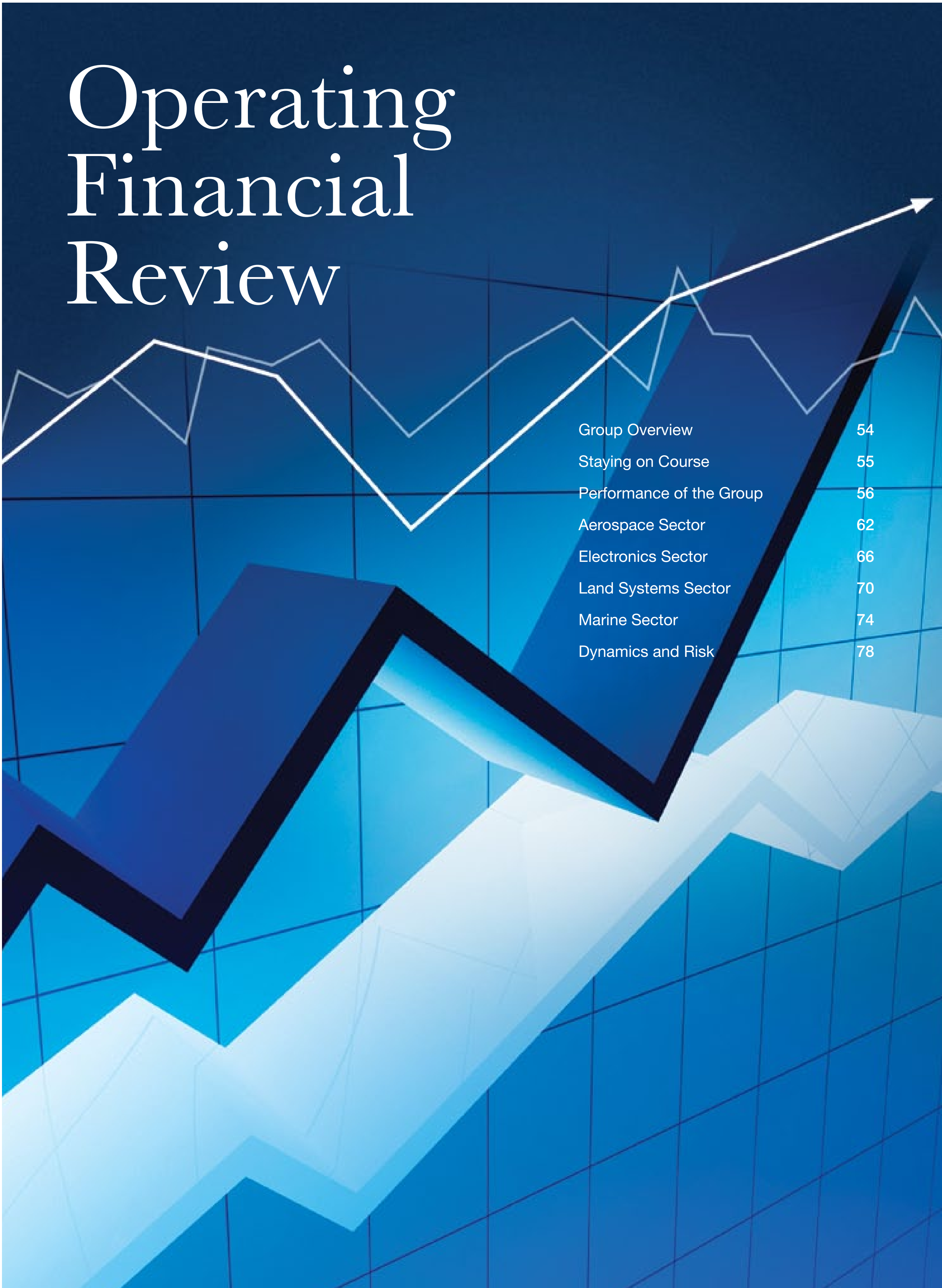


Operating Financial Review

Group Overview

Group Vision, Mission, Objectives & Thrusts

GROUP VISION
Be a global defence and engineering group

GROUP MISSION
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

The ST Engineering Group was established in 1997 with the amalgamation of four public listed companies – ST Aerospace, ST Electronics, ST Automotive and ST Marine. In 2000, with the acquisition of Chartered Industries of Singapore, ST Automotive merged with the acquired group of companies to form ST Kinetics.

Building on the substantial capabilities and experience of each of the four sectors, ST Engineering has since leveraged synergies, critical mass and cross-marketing to expand its presence. Today, ST Engineering is recognised as a significant player in the global marketplace, and provides integrated defence and commercial engineering solutions and services to its extensive international customer base.

Headquartered in Singapore, ST Engineering has grown its staff strength to over 20,000 and has more than 100 companies and associated companies spanning 24 countries and 42 cities.

Staying On Course

Amidst the challenging environment resulting from the global financial crisis, ST Engineering put in a steady performance.

The Group's healthy financial position, multi-market exposure and diversified capabilities allowed it to consolidate its strengths while seizing opportunities along the way.

Visibility from Strong Order Book

The Group continues to build on its order book momentum, which at the end of 2009 stood at $10.3b. Such strong showing signals continuing strength in winning contracts and, with typically 60-70% of each year's revenue derived from its order book, provides good visibility for its stakeholders.

Stability from Government-Related Projects

Significant among the contract wins in 2009 were the multitude and diversity of local and overseas government-related projects, providing added resilience to the Group's performance.

In Singapore, the Electronics sector will provide the Singapore Armed Forces (SAF) with the Advanced Combat Man System, provide the Expressway Monitoring & Advisory System on major arterial roads to the Land Transport Authority (LTA), create and operate the first Virtual World for the inaugural Singapore 2010 Youth Olympic Games for the Infocomm Development Authority (IDA), transform Singapore Civil Defence Force's (SCDF) emergency call-taking system into a new-generation command and control system, and provide the Singapore Police Force (SPF) with a 3rd Generation command and control system. The Marine sector will provide logistics management of Republic of Singapore Navy's (RSN) warehouses at Changi and Tuas Naval Bases, and the Group's subsidiary, ST Synthesis, will provide maintenance services on the electrical and mechanical systems of the Kallang-Paya Lebar Expressway (KPE). During the year, the Land Systems sector delivered the Terrex 8x8 Infantry Carrier Vehicles and Trailblazer Countermine Vehicles to the SAF.

The Group was also successful in winning overseas government-related projects. The Electronics sector strengthened its foothold in the China rail system business, winning contracts to provide an Integrated Supervisory Control System and Platform Screen Doors for China's Guangzhou-Foshan Line. It will also provide a Container Terminal Management System and a Management Information System to the Chittagong Port Authority of Bangladesh, and Security Enhancement Services to the Central Bank of Oman. The Land Systems sector continued to win contracts for its 40mm ammunition, including with the UK Ministry of Defence (MOD) and the Swedish Defence Materiel Administration. The Group's US subsidiary, VT Miltope, won a US$500m contract to supply its MSD-V3 system to the US Army.

The Group's overseas successes also included achieving new market access. The Electronics sector secured a contract to install a Tower Simulator for the Tanzania Civil Aviation Authority, its first project in Tanzania, while the Land System sector's US specialty vehicles subsidiary, VT Leeboy, won a contract to supply its bituminous paver to the US Army, its first ever military contract.

Improving and Readying for the Future

Although certain segments of the Group's business were slightly more affected by the crisis, their continuing innovation and relentless pursuit of new business mitigated the impact.

The Aerospace sector turned in a respectable performance, considering the turmoil in the aviation industry and the initial learning curve for its 87-unit FedEx Passenger-to-Freighter (PTF) contract which impacted results in the first half of the year. The sector continued to expand its suite of offerings that include capability for CFM56-5B engines and signing a 20-year agreement to serve as a GE-approved On-Wing Support provider for the GEnx-1B and GEnx-2B engines. The sector won many new customers during the year, particularly for its Maintenance-By-the-Hour (MBH™) solution. Its growth plans remained on track, with its Pudong hangars in Shanghai ready by early 2010, and the fourth of its Panama hangars to be commissioned in 2010. Its Xiamen engine facility is also expected to be ready by 2010.

The Land System sector's specialty vehicles segment continued to feel the effects of the crisis as the US housing market has yet to recover. It looks to other markets to grow sales, and has formed a joint venture to extend its reach into Latin America. It seized opportunities in non-housing related markets, and its US subsidiary, VT SVC, scored its single largest order of 248 units of its innovative hybrid refrigerated truck bodies. China's specialty vehicles market has continued to show strong demand and the sector strengthened its presence there with the acquisitions of Zhenjiang Huachen Huatong Road Machinery Co., Ltd. and Zhenjiang Huatong Aran Machinery Co., Ltd. Looking to green vehicles for future growth, the sector launched the world's first hybrid hydraulic drive enhanced port prime mover as well as Singapore's first commercial diesel-electric hybrid bus.

The Group made small but strategic acquisitions during the year, further addressing gaps and building capabilities. The Group's US subsidiary, VT iDirect, acquired Parallel Limited and the remaining 51% equity stake in Ximaera Technologies Canada, Inc. The acquisitions provide iDirect additional resources to develop and integrate new technologies. The Aerospace sector acquired Precision Products Singapore Pte Ltd, which manufactures casting and mould toolings, to support ST Aerospace's business. The Group also acquired a 33% interest in Singapore Airshow & Events Pte Ltd and became its single largest shareholder, further aligning the Airshow's interests with that of the Group, the Airshow's anchor exhibitor.

The Group closed the year on a positive note, continuing to prove its resilience and diligently planning for growth ahead.

Performance Of The Group

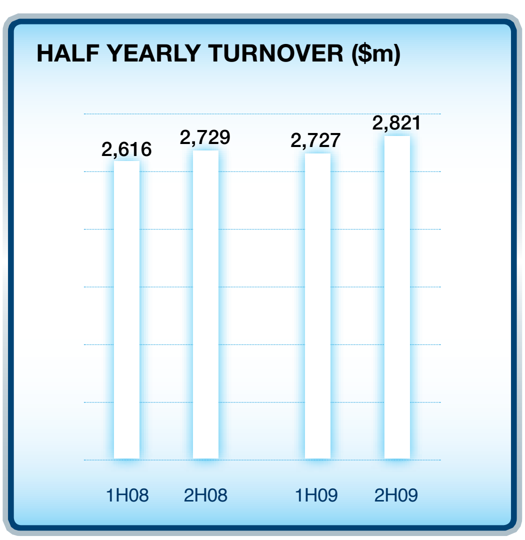
a) Half yearly performance

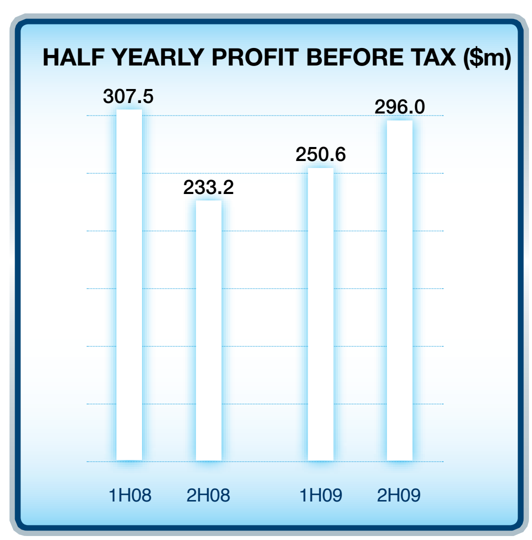
In $m Except Per Share Amounts	2009 1H	2009 2H	2009 FY	2008 1H	2008 2H	2008 FY
Turnover	**2,727**	**2,821**	**5,548**	2,616	2,729	5,345
EBITDA	**292.7**	**356.5**	**649.2**	358.9	309.0	667.9
EBIT	**214.6**	**271.8**	**486.4**	284.0	225.1	509.1
Profit before tax	**250.6**	**296.0**	**546.6**	307.5	233.2	540.7
Profit after tax and minority interests	**193.9**	**250.0**	**443.9**	242.5	231.1	473.6
Basic earnings per share (cents)	**6.46**	**8.32**	**14.78**	8.12	7.70	15.82
Net asset value per share (cents)	**46.69**	**52.09**	**52.09**	47.04	52.71	52.71

Note: The half yearly figures are unaudited

The Group turnover for 2H2009 of $2,821m was comparable to that achieved in the first half. Land Systems sector reported higher turnover, Electronics and Marine sectors had comparable turnover while Aerospace sector had lower turnover vis-à-vis 1H2009.

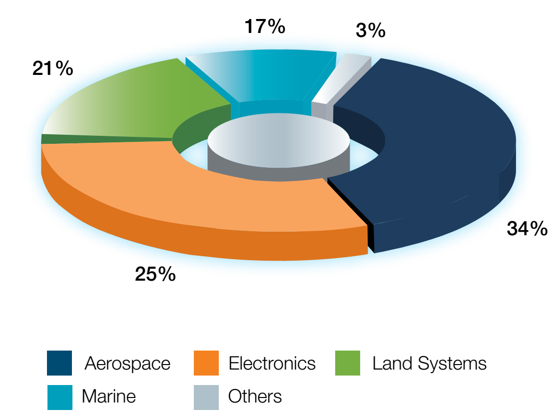
The Group Profit Before Tax (PBT) for 2H2009 increased by 18% or $45.4m over the first half. All sectors recorded higher PBT in 2H2009 compared to 1H2009.



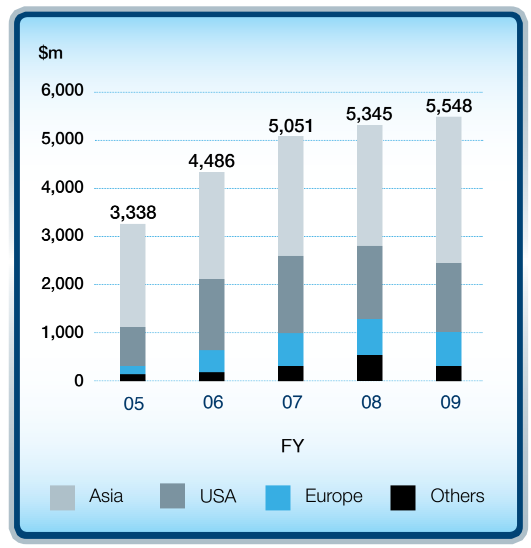


b) Full year performance

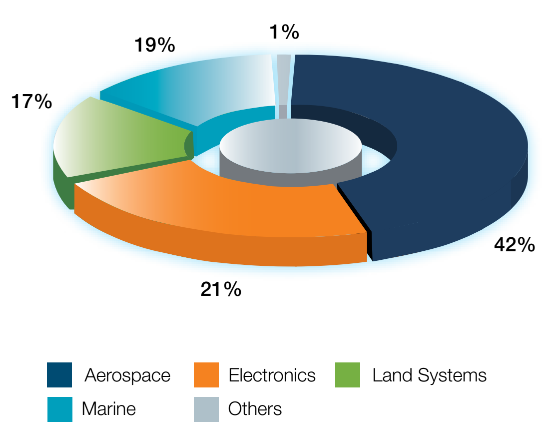
Turnover by Sector
The Group turnover of $5,548m for FY2009 was comparable to that of FY2008. Both Electronics and Marine sectors reported higher turnover, Aerospace sector had comparable turnover, while Land Systems sector had lower turnover vis-à-vis FY2008.



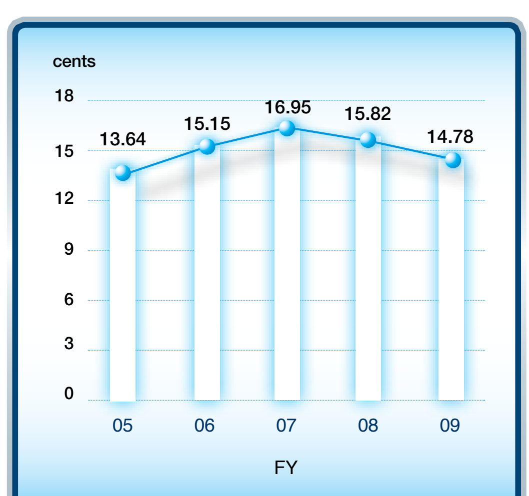
Turnover by Geographical Areas
A review of the Group turnover by geographical areas is as follows:



Profit Before Tax by Sector
Group PBT for FY2009 of $546.6m was comparable to that of FY2008. Except for the Aerospace sector, all sectors recorded higher PBT compared to FY2008.

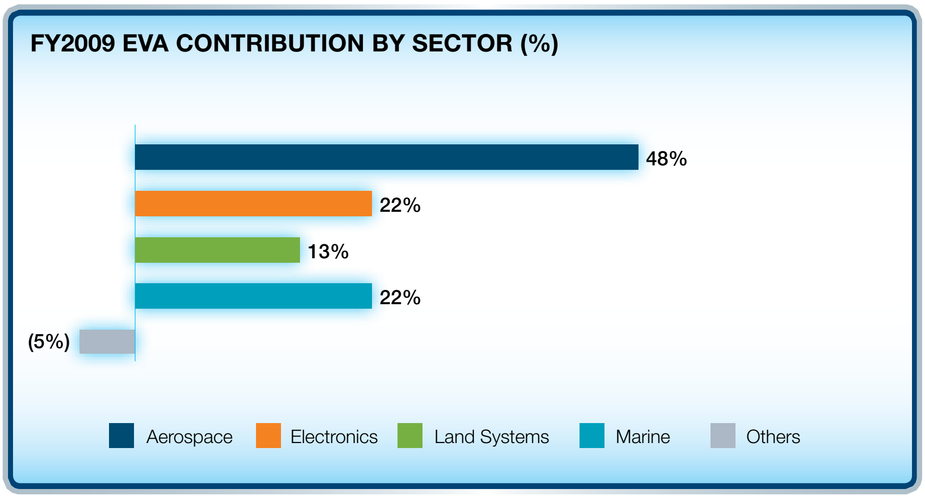


Earnings Per Share (EPS)
The Group's basic and diluted EPS for FY2009 were 14.78 cents and 14.74 cents respectively (FY2008: 15.82 cents and 15.74 cents respectively). The lower EPS was a result of lower profit after tax for FY2009.



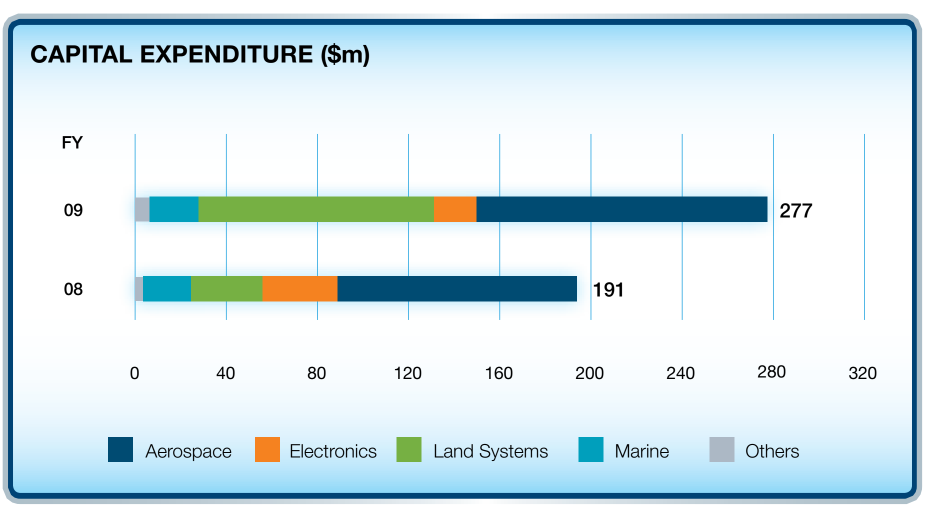
Economic Value Added (EVA)

The Group EVA for FY2009 was $304.8m, a decrease of 15% or $53.1m over FY2008. The Weighted Average Cost of Capital was 6.1% for 2009 (2008: 6.2%).



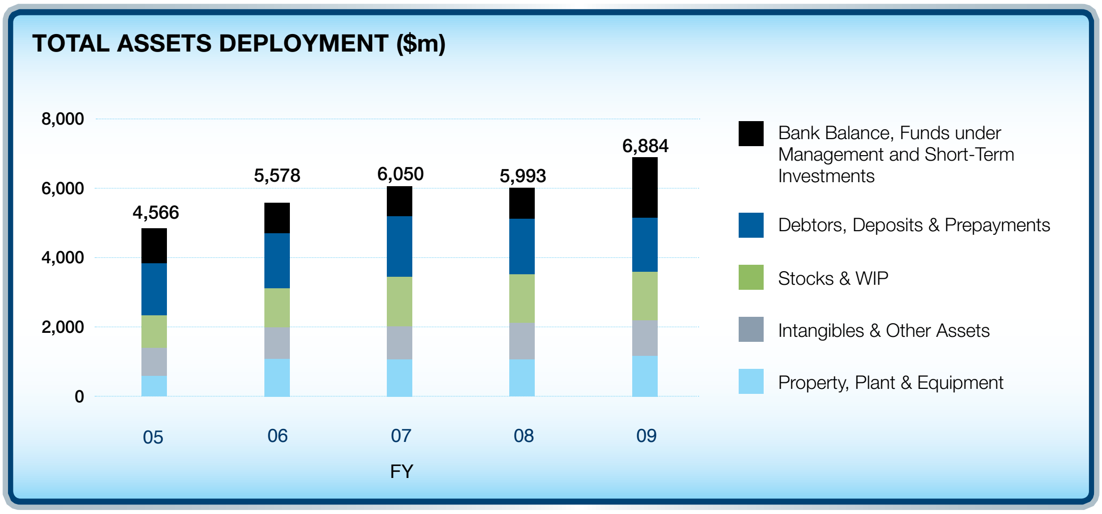
Capital Expenditure

The Group incurred capital expenditure of $277m in FY2009 (FY2008: $191m). The bulk of the capital expenditure incurred was on the Jalan Boon Lay facilities redevelopment in the Land Systems sector, as well as build up of Xiamen facility, purchase of spare engines and programme-related purchases, including rotable components to support existing and new customers for MBH™ programmes in the Aerospace sector. The details are shown in Note 12 to the Financial Statements.



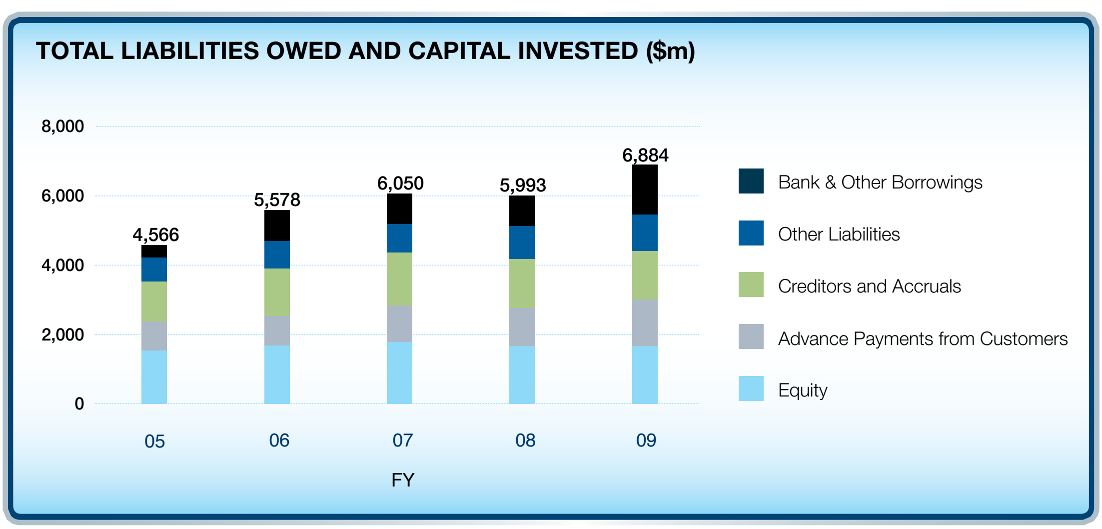
Total Assets

As at end December 2009, total assets of the Group grew 15% to $6.89b compared to $5.99b as at end December 2008. The deployment of assets is as follows:



Total Liabilities and Shareholders' Funds (Capital Employed)

Capital employed as at the end of 2009 was $6.89b, an increase of $892m over 2008. Details of capital employed are as follows:



Shareholder Return

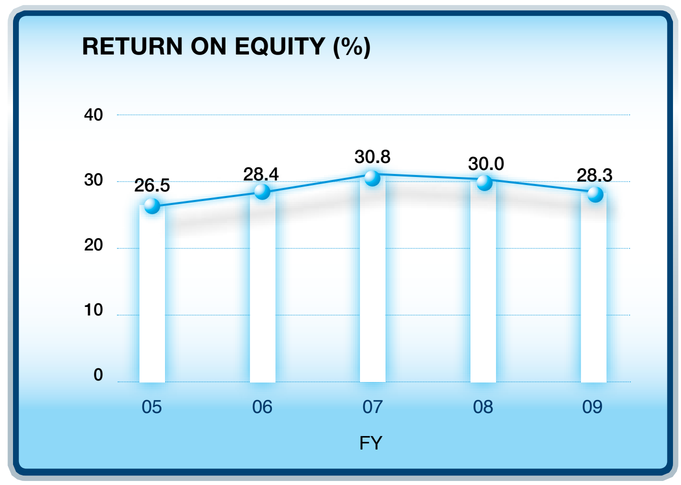
Return On Equity
Compared to 2008, the Return On Equity was lower by 1.7 percentage point to 28.3% in FY2009, as a result of lower profit after tax and minority interests.

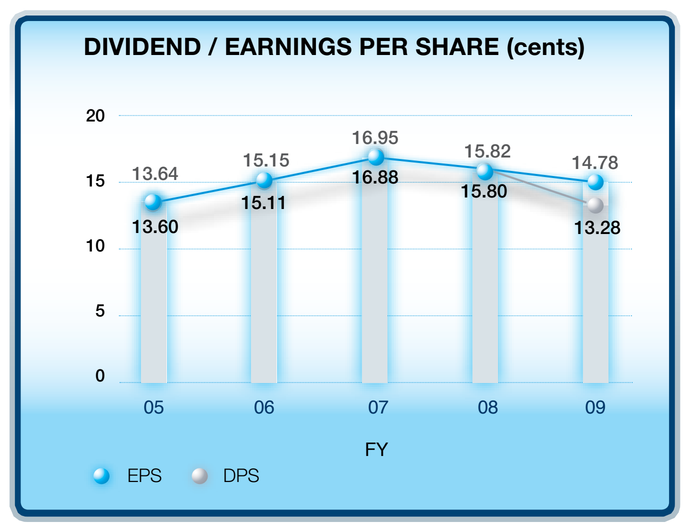
Dividend, Dividend Per Share (DPS) and Earnings Per Share (EPS)
The proposed dividend for FY2009 of $399.5m (which includes the interim dividend of $90.1m paid in September 2009) is lower than the FY2008 dividend of $474.3m. The recommended FY2009 dividend took into consideration the Group's present 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 2009 dividend of $399.5m represents 90% of the earnings for FY2009.

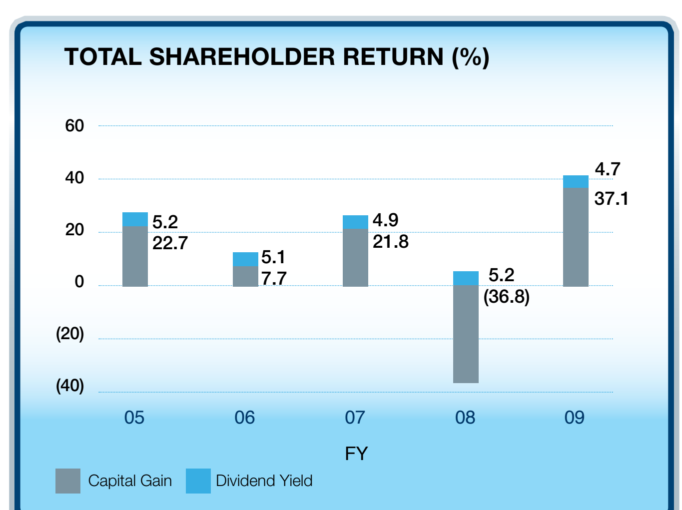
Total Shareholder Return for ST Engineering Shares
ST Engineering paid an interim ordinary dividend of 3.00 cents per share to shareholders in September 2009 and declared a FY2009 final dividend of 10.28 cents per share. The dividend per share amounts to 13.28 cents.

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.

ST Engineering share price ended the year at $3.25, 37.1% above the share price a year ago. Over the same period, the STI Index surged 64.5%. For 2009, ST Engineering shares generated a total shareholder return of 41.8% for its shareholders. This consists of 4.7% of dividend yield and 37.1% of capital gain.







Prospects For 2010

Following the most severe global economic downturn in recent history, the global economy staged a gradual recovery from the second half of 2009, resulting in a global economic contraction of -0.8% for 2009 (Source: International Monetary Fund [IMF]). In its 26 January 2010 World Economic Outlook Update, the IMF revised its 2010 world growth forecast to 3.9%, up from its forecast of 3.1% made in October 2009. However, the IMF cautioned that recovery is still very much based on government stimulus policies and that countries risk a return to recession if anti-crisis measures are withdrawn too soon. We believe that there are other factors that may potentially derail the economic recovery, including the flaring up of geo-political tensions in the Middle East, terrorism and the level of oil prices, which in 2009 climbed from USD40's to USD70's per barrel.

The Group continued to secure contracts and ended 2009 with an order book of $10.3b, reflecting its operational resilience supported by its diversity in business, geographies as well as the customer base of both government agencies and commercial companies. A healthy order book affords the Group the operating leverage to weather uncertainties. Although many countries were out of the recession by the end of 2009, downside risk remains as most governments are expected to remove stimulus packages and tighten monetary policies in 2010. Barring unforeseen circumstances, the Group expects to achieve a higher turnover and comparable PBT for FY2010 compared to FY2009.

The lower fuel prices in 2009 compared to 2008 gave a life-line to many of the airlines that were on the verge of bankruptcies, and reports point to expectations of a recovery of the industry in 2010. We believe that Low Cost Carriers' business model of low capital expenditure, as well as increasing cost pressures experienced by the legacy airlines, will continue to drive the MRO outsourcing trend. In 2010, the Aerospace sector will continue to focus on airframe heavy maintenance and modification work, delivering the Passenger-To-Freighter conversion and military contracts, commencing airframe MRO operations at Pudong International Airport in Shanghai, developing an engine facility in Xiamen, China to expand its MRO capacity in CFM56 engines, developing GEnx On-Wing Support services utilising GE material and GE-approved repair processes for its global customers from its facilities in Singapore and the US for the Boeing 787 aircraft, and continuing to extend its Total Aviation Support offerings to airlines globally. The capabilities and capacities build up is a continuing process to strengthen the foundation for growth of the Aerospace sector.

In 2010, the Electronics sector will focus on delivering the various projects in its order book. Key contracts include the Circle Line MRT project in Singapore, Taiwan and China MRT projects, a software system project, and a managed services project. The sector will continue to sharpen its core capabilities, focus on growing its 'Services' revenue, and tap the new market opportunities in e-Government, satellite communications and interactive digital media.

The Land Systems sector will continue deliveries of the Warthog to the UK MOD, the Terrex to the Singapore Army, as well as other munitions, weapons and specialty vehicles in 2010. The Warthog project is significant in positioning the Land Systems sector as a key player in the global defence marketplace. Building on its success in markets like the UK and Gulf States, the sector will continue to develop and pursue new opportunities. For its non-defence business, the sector will continue to review its commercial specialty vehicles business operations, diversify into new markets and product segments while leveraging global sources of supplies to lower its cost.

The Marine sector continued to secure various newbuilding contracts in 2009. The healthy order book will keep the yards in Singapore and the US busy in 2010. The sector will continue to pursue business opportunities in the naval and government industries and concurrently focus on delivering its commitments to the customers. For shiprepair in Singapore yards, we expect the subdued shiprepair market to continue into 2010 following the softening of the global shipping market in 2009.

In 2010, the Group will intensify its efforts in search of suitable acquisition opportunities and seek collaborations with partners and OEMs to better position the Group to take advantage of the current gradual recovery and expected future growth in the global economy. Concurrently, the Group will work closely with customers to address their changing needs in order to stay relevant in the current economic climate.