A **MINDSET** FOR INNOVATION,
THE **DRIVE** TO EXCEL,
AND THE **HEART** TO MAKE
A DIFFERENCE

ENGINEERING WITH PASSION

ANNUAL REPORT 2016

ST Engineering

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50 ENGINEERING WITH PASSION

In 2017, ST Engineering celebrates our 50th anniversary.

Since ST Engineering began 50 years ago, we have been passionate about wanting to make a difference, to have an impact. We have been doing this by harnessing our hard-won experience, our leading edge expertise and the latest technology to develop creative solutions that assist our customers and leave a better world for our children to inherit. We believe that this passion, coupled with a drive to excel and a deep and abiding desire to make a difference, will create a better future for our customers, our stakeholders and our employees.

HIGHLIGHTS OF THE YEAR

A MINDSET FOR INNOVATION

THAT SHAPES OUR PLANET

BUILDING NEW CAPABILITIES

Littoral Mission Vessels by ST Marine are designed to be smarter, faster and sharper.

COOL INVENTION

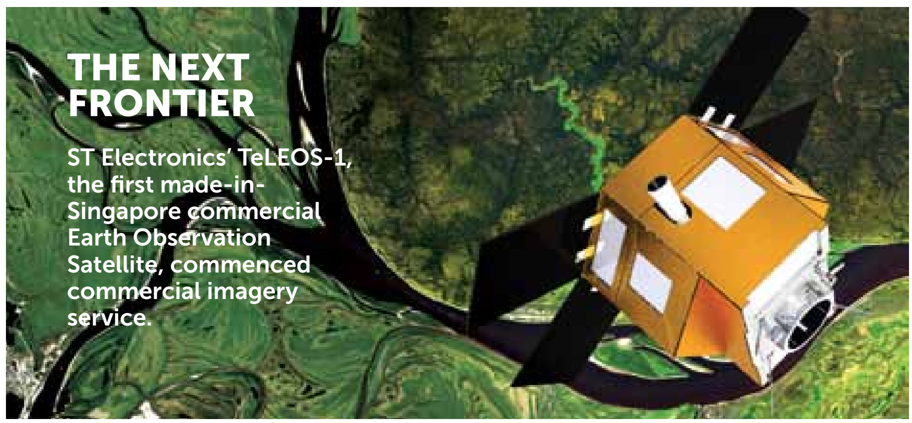
ST Engineering's subsidiary, Innosparks launched Airbitat, the world's first evaporative cooler designed for high humidity tropical climates.

THE DRIVE TO EXCEL

TOWARDS A BETTER TOMORROW

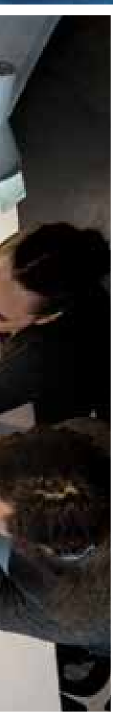
CONTINUOUS INNOVATION

ST Kinetics launched Terrex 3, the latest iteration of its 8X8 infantry fighting vehicles.



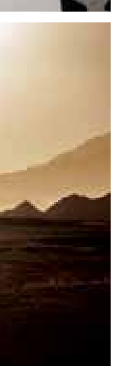
THE NEXT FRONTIER

ST Electronics' TeLEOS-1, the first made-in-Singapore commercial Earth Observation Satellite, commenced commercial imagery service.



NURTURING TALENT, SUPPORTING LIFELONG LEARNING

We awarded 12 scholarships to outstanding students, and sponsored nine employees for undergraduate and graduate studies.



THE HEART TO MAKE A DIFFERENCE

IN ALL
THAT WE DO

SUSTAINABILITY

We believe in doing business in a responsible and sustainable manner.

FINANCIAL HIGHLIGHTS

REVENUE

$6.68b

+ 5.5%

NET PROFIT

$484.5m

− 8.4%

EARNINGS PER SHARE

15.60¢

− 8.5%

DIVIDEND PER SHARE

15.0¢

OPERATING CASH FLOW

$0.76b

+ 63.0%

ORDER BOOK

$11.6b

− 1.3%

RETURN ON EQUITY

22.2%

− 2.6% PTS

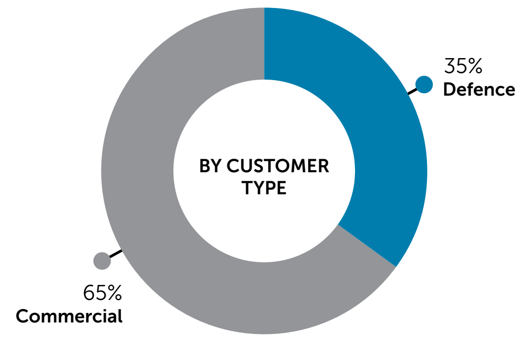
RETURN ON SALES

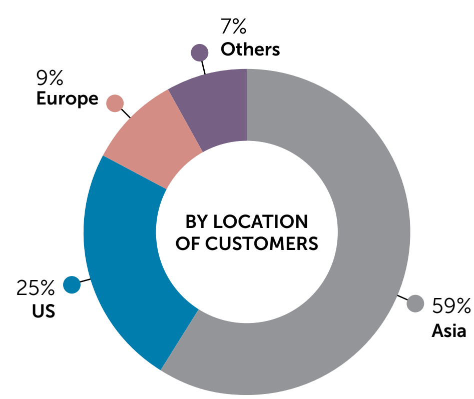
7.4%

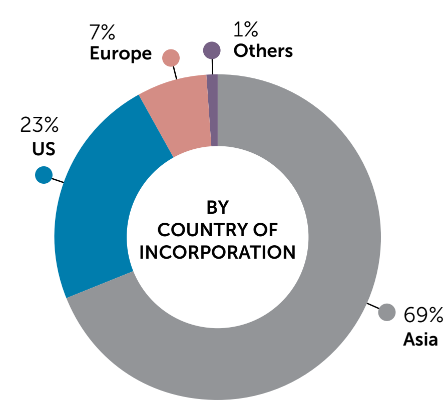
− 1.0% PTS

+ / − : FY2016 vs FY2015

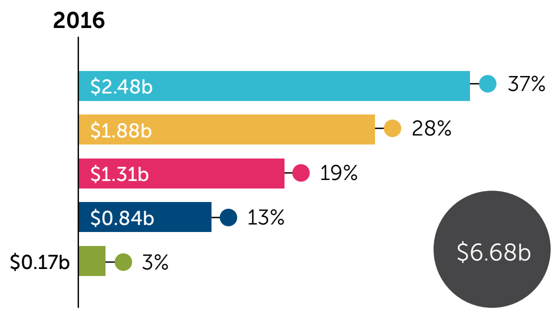
REVENUE BREAKDOWN

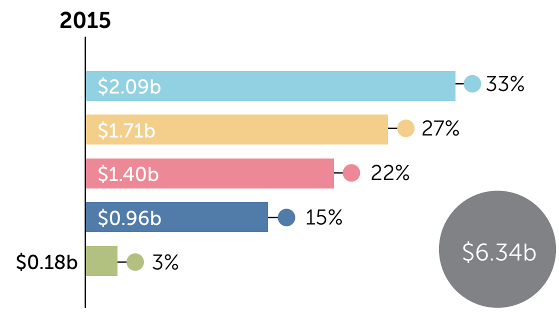




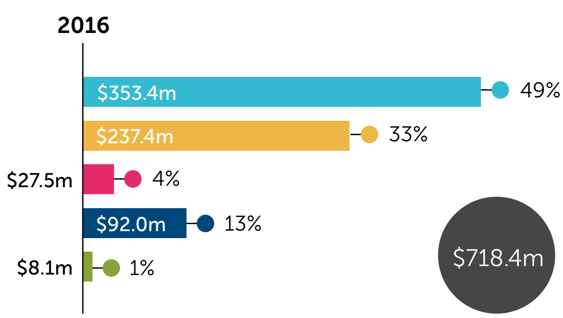


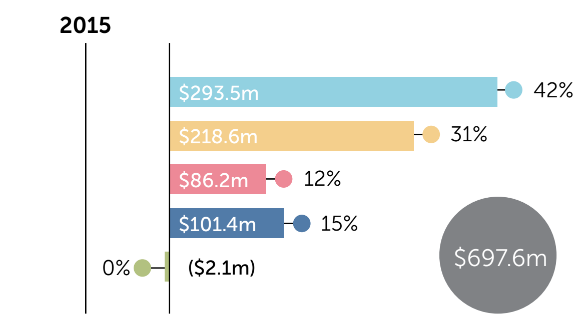
REVENUE BY SECTOR



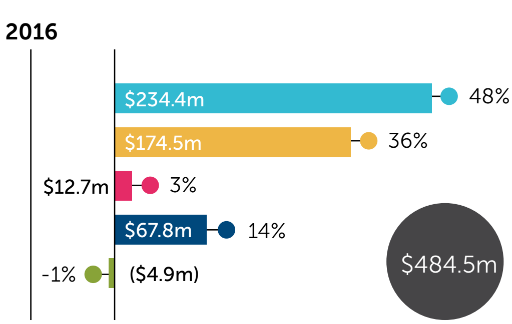


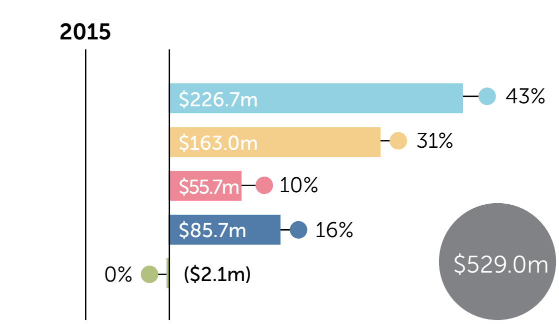
EBITDA BY SECTOR





NET PROFIT BY SECTOR





Aerospace Electronics Land Systems Marine Others

LETTER TO SHAREHOLDERS

(L) **Mr Kwa Chong Seng**
Chairman
(R) **Mr Vincent Chong**
President & CEO

DEAR SHAREHOLDERS,

2016 was a year when the global economy lacked the tailwinds to support and sustain strong growth. It was also a year of continued technology advances, bringing in its wake more digitisation and business disruptions. It was certainly not a year for complacency. Fortunately, for ST Engineering, we are pleased to report that despite these challenges, we have achieved a commendable performance. As an engineering and technology Group, we are also well positioned to tap into the many opportunities that come with the new digital economy.

The Group closed 2016 with a revenue of $6.68b, up 6% from $6.34b in 2015. Profit before tax (PBT) was $590.6m, down 6% from $630.3m the previous year. Net profit attributable to shareholders (net profit) was 8% lower at $484.5m compared to $529.0m in 2015. The lower profits were mainly a result of a one-off charge consisting of an impairment of asset carrying values and provision for closure costs for JHK*, the Land Systems sector's road construction equipment business in China.

At the business sector level, revenue for the Aerospace sector was 19% higher at $2.48b from $2.09b a year ago, mainly driven by the contribution of EFW*, our joint venture with Airbus which became a subsidiary after the increase in our shareholding from 35% to 55%. Its PBT was $300.3m compared with $290.6m the year before. The Electronics sector posted higher revenue of $1.88b, up 10% from $1.71b, and a 9% increase in PBT to $207.8m from $191.0m a year ago. Revenue for the Land Systems sector was down 7% year-on-year to $1.31b from $1.40b, and its PBT declined 66% to $22.2m from $65.0m the year before, mainly a result of the one-off charge for JHK. Weaker shipbuilding performance in our Singapore and US operations led to lower revenue and PBT for the Marine sector, with its revenue down 12% to $841m from

"We continue to take a long-term view of our business performance unencumbered by short-term aberrations. We have stayed the course despite uncertain times in the global economy."

$958m and its PBT down 15% to $75.1m from $88.3m a year ago.

Group revenue in 2016 continued to show a healthy diversification across business sectors, geographical regions and customer type. The spread of Group revenue by sector was 37% from the Aerospace sector, 28% from the Electronics sector, 19% from the Land Systems sector and 13% from the Marine sector.

In terms of geographic distribution, 69% of Group revenue was accrued from business units in Asia (including Singapore), 23% from the US, and 7% from Europe. Revenue split between commercial and defence remained steady at 65%:35%.

The Group's return on equity was 22.2% and our earnings per share amounted to 15.60 cents.

The Group's revenue pipeline remains healthy, with an order book of $11.6b, broadly comparable to the 2015 close of $11.7b. We expect to realise $3.7b of this order book into revenue in 2017.

Our strong balance sheet allowed us to continue to invest across business cycles. Capital expenditure for 2016 was $252m (2015: $293m). A significant amount was invested into the Aerospace and Electronics sectors for capacity expansion across its various business segments, which included a new EFW facility to grow the component manufacturing business; and a new ST Electronics facility, its fifth in Singapore, to house its expanding operations.

We ended the year with $1.4b in cash and cash equivalents including funds under management.

Your Board of Directors proposes a Final Dividend of 10 cents per share for this year. Moving forward, Special Dividends will be proposed only when there are one-off events, unlike past practices when they were paid out yearly. Together with the Interim Dividend of 5 cents per share paid in August 2016, the total dividend for the full year will be 15 cents per share representing a total payout of $467.6m to our shareholders. The dividend yield for 2016 would be 4.81% compared to 4.68% for 2015.

CONTINUOUS FOCUS ON NEW GROWTH AREAS

Our core businesses in the air, land, sea and electronics segments are fundamentally sound. To further strengthen these core businesses, we will continue to invest in them and at the same time, devote additional resources to other new high growth areas such as robotics and cyber security. As an update to last year's report, our autonomous vehicles are now deployed in Gardens by the Bay, and we are making good progress with the development of a fleet of autonomous vehicles for trial in Sentosa, Singapore.

As organisations adapt to the digital world, we have been enhancing our cyber security solutions and technologies to meet their need for greater cyber intelligence and insights. In May, ST Electronics set up a $44.3m Cyber Security Laboratory with the Singapore University of Technology and Design. The Lab has since begun research into solutions for insider threat detection. Other focus areas of the Lab include Big Data analytics, as well as monitoring and mitigating techniques. The company has also broadened its cyber security offerings. These include its Advanced Security Operations Centre, cyber security analytics solutions, and cyber security for industrial control systems to protect critical infrastructure such as utilities and metro rail.

ENHANCING CAPABILITIES, MOVING UP THE VALUE CHAIN

At the **Aerospace sector**, its A330 and A320/321 passenger-to-freighter (P2F) conversion programmes are on track. Securing DHL Express, a world class express and logistics company, as a launch customer for its A330-300 P2F conversion programme speaks volumes of the confidence the industry places in our aerospace business and freighter conversion capability. This winning partnership will attract more customers to our conversion programmes. What makes us stand out in these conversion programmes is that we have the support of Airbus at every step of our programme development, including data and certification support, resulting in better understanding of the intricacies of the aircraft's design. Our customers are thus ensured an integrated, optimised and reliable solution.

* EFW: Elbe Flugzeugwerke

* JHK: Jiangsu Huatong Kinetics Co., Ltd and Jiangsu Huaran Kinetics Co., Ltd (collectively known as JHK)

LETTER TO SHAREHOLDERS

We have been delivering the same best-in-class standards to our Boeing 757 conversion programme customers. This sector opened a new VIP aircraft interiors centre at the Seletar Aerospace Park in Singapore. New skills and capabilities were imparted from our successful setup in San Antonio, US, to ensure that the team here offers the same level of aesthetics, engineering and on-time delivery for our VIP aircraft completions and refurbishment business. This is another example of us moving up the value chain to offer a complete suite of services from aircraft engineering to design and craftsmanship.

At the **Electronics sector**, its space-based efforts are continuing to reach new milestones. The TeLEOS-1 Earth Observation Satellite is now orbiting the equator with very encouraging commercial satellite imagery sales in the early months of its operation. To add to its established suite of rail electronics solutions, it launched a new generation Automatic Fare Collection (AFC) which comprises an Interactive Traveller Terminal and the Advance Fare Gate, the latter featuring facial recognition technology. Like many of its products and offerings, the new AFC was developed to help operators optimise operational efficiency and resource utilisation. Apart from intelligent transportation solutions, the sector continued to scale up its other offerings to help cities better manage their environment and resources.

It gained traction for its Galaxy Machine-to-Machine communications system globally, which provides a single platform for multiple smart city applications including streetlight management, water resource management, and smart metering. Our Smart Street Lighting Control and Management was implemented in Canada, New Zealand, the UK, and the US.

At the **Land Systems sector**, its family of Infantry Fighting Vehicles (IFV) continues to make headway in the global defence market. Together with its partner SAIC, ST Kinetics started the Engineering, Manufacturing and Development phase of the US Marine Corps' Amphibious Combat Vehicle (ACV) 1.1 programme, with a 2017 delivery target for the 16 ACV (Terrex 2) to be tested. It launched Terrex 3, adapted from the Terrex 2 platform to be an expeditionary vehicle able to fight as an independent force away from base. With this, the sector now offers a family of IFVs to modern fighting forces looking for the best balance of mobility, firepower and survivability to meet their full spectrum operational requirements. In addition, together with Singapore's Defence Science and Technology Agency, it also developed a prototype next-generation Armoured Fighting Vehicle (AFV) for the Singapore Armed Forces to replace the ageing ULTRA M113 AFV that has been in service since the 1970s.

While the **Marine sector** faced a challenging operating environment due to persistent low oil prices affecting its commercial shipbuilding business, its naval business remained healthy and provided stability to the sector. Our US yard delivered its final oceanographic survey ship to the US Navy, while in Singapore, the Littoral Mission Vessel programme progressed in line with its construction and testing schedules. The sector also focused on R&D, developing new hull designs for commercial and defence segments, unmanned platforms as well as subsystems in ship management systems and sense-making systems, positioning the business for future growth.

You can read more about the milestones and advances we achieved in the Operational & Financial Review from page 26.

OVERCOMING CHALLENGES

Our achievements notwithstanding, there have been challenges. While the overall Land Systems business remains solid, an area of weakness has been its Specialty Vehicle business segment in China. We undertook a strategic review of these businesses and their long-term commercial fundamentals, which led to the divestment of its excavator joint venture business in mid-2016, and in the later part of the year, a write-down of its road construction equipment joint venture business. The Specialty Vehicle businesses in the US are performing to expectation, in line with the business cycle of the segments.

While ST Kinetics rebalances its business interests in China, we stress that the China market remains important to the Group especially for our Aerospace and Electronics sectors which have built up successful networks and track records over the past decades.

INVESTING WITH A LONG-TERM VIEW

We continue to take a long-term view of our business performance unencumbered by short-term aberrations. We have stayed the course despite uncertain times in the global economy.

We will continue to make prudent decisions in our investments across business cycles, and take appropriate steps to strengthen our long-term financial performance, growth potential and value of our businesses, while ensuring that the necessary safeguards are in place.

Going beyond measures of revenue and profit is our steadfast commitment to governance and sustainability which remains key to enabling our long-term business growth. As in previous years, our sustainability targets, initiatives and performance are found in the Sustainability section of this report. This year, we have included the sustainability efforts relating to our operations in the US, providing more insights into our overseas operations to our shareholders.

LEADERSHIP CHANGES TO STRENGTHEN MANAGEMENT BENCH

On 1 October, Tan Pheng Hock stepped down after 35 years with the Group, with his last 14 years as our President & CEO and Executive Director. We thank him for his outstanding contributions and leadership. On 31 December, Lee Fook Sun relinquished his appointment as President of ST Electronics to focus on his other roles as Deputy CEO and President of Defence Business of the Group.

Ravinder Singh, the President of ST Kinetics, took over as President of ST Electronics on 1 January 2017 on a concurrent basis. He will hand over his ST Kinetics role to Lee Shiang Long, who has been designated to take over the role around April 2017.

At the corporate office, we have strengthened our corporate functions, with the Mergers and Acquisitions (M&A) team subsumed within a new Strategic Planning department. We view M&A as a strategic function to support our growth plan, commensurate with our strategy. We have started implementing group shared services for corporate functions such as Finance, IT, Human Resource, and Procurement. In consolidating these corporate services into the Group, we aim to achieve greater productivity and deeper functional expertise, while leveraging group scale and synergies.

BOARD RENEWAL A CONTINUOUS PROCESS

Building a board with the right diversified skillsets remains a primary focus, and board renewal is an ongoing process. In August, Quek Gim Pew, Chief Defence Scientist of the Ministry of Defence, joined as a non-independent non-executive Director. Venkatachalam Krishnakumar and Quek Tong Boon, who served on the Board for 14 years and eight years respectively, stepped down. Koh Beng Seng and Davinder Singh, who have each served more than nine years, have decided not to seek re-election at the coming AGM. We thank them for their valuable contribution over the years.

ST ENGINEERING AT 50

While ST Engineering was formed through the amalgamation of engineering-related companies under the Singapore Technologies group in 1997, we trace our roots all the way back to 50 years ago, in the course of which, we have built ourselves a rich history of delivering innovative and game changing engineering solutions. We are proud to say that we have come a long way since 1967 when Chartered Industries of Singapore was formed as an ammunition manufacturer and military platforms service provider. We have achieved much on this journey. ST Engineering is now a leading defence and engineering provider of air, land, sea and electronics solutions, trusted and respected around the world.

At 50, we have benefited from the successes of our pioneers and the astute stewardship by previous leadership and management teams. At 50, we have overcome challenges and nurtured successes. At 50, we are willing to embrace disruption, drive innovation and continually challenge our thinking and practices to ensure that we stay ahead of our competitors.

We thank our customers and business partners for always pushing and challenging us, so that we can, in turn, provide the best solutions to help meet their needs. We also thank you, our shareholders, for your steadfast support.

As a Group that has thrived despite multiple global events and challenges in the past 50 years, we are committed and determined to achieve excellence in whatever we do. As we move forward, our 22,000 employees will continue to embody a passion for innovation and a passion for distinction, as we have done for the last five decades. We thank each and every one of them.

Sincerely,

Kwa Chong Seng
Chairman

Vincent Chong
President & CEO

致股东的信

尊敬的股东：

2016 年，全球经济缺乏了支撑及维持强劲增长的助力。随着科技日新月异，数码化转型对传统业务的运作模式造成不小的冲击。这显然不是可以自满自足的一年。然而，尽管新科工程面临诸多挑战，我们仍在艰困的环境中达成了值得赞扬的绩效表现。同时，作为一间工程科技集团，我们也具备优越条件，可充分把握新兴数字经济所带来的各种机会。

集团 2016 年营收收报为 $66.8 亿，比 2015 年的 $63.4 亿增长 6%。集团税前利润为 $5.906 亿，较去年的 $6.303 亿减少 6%。股东应占净利（净利）为 $4.845 亿，与 2015 年的 $5.290 亿相比，减少 8%。利润减少主因是陆路系统部门在中国的道路建设设备业务JHK* 的资产减记以及关闭成本提备所产生的一次性费用。

就业务领域而言，宇航业务录得 $24.8 亿的营收，与去年的 $20.9 亿营收相比，增长 19%，这主要得益于 EFW* 的贡献。 EFW 是我们与 Airbus 合资成立的公司，并在我们的持股比例从 35% 增加至 55% 后成为本集团的子公司。宇航业务的税前利润为 $3.003 亿，与去年的 $2.906 亿相若。电子业务今年录得较高营收，为 $18.8 亿，与去年的 $17.1 亿相比，增长 10%；其税前利润为 $2.078 亿，与去年的 $1.910 亿相比，增长 9%。陆路系统业务的营收为 $13.1 亿，与去年的 $14.0 亿相比，减少 7%；其税前利润为 $0.222 亿，与去年的 $0.650 亿相比，减少 66%，减少的主因是 JHK 的一次性费用。新加坡及美国造船业绩的疲弱表现导致海事业务的营收和税前利润不佳，今年录得的营收为 $8.41 亿，与去年的 $9.58 亿相比，减少 12%，税前利润为 $0.751 亿，与去年的 $0.883 亿相比，减少 15%。

集团营收在 2016 年继续呈现跨业务类别、地理区域及客户类型的稳健多元分布。以业务类别划分营收，其中 37% 来自宇航业务， 28% 来自电子业务， 19% 来自陆路系统业务，13% 来自海事业务。以地域分布而言，集团营收中 69% 来自亚洲（包括新加坡）；23% 来自美国；7% 来自欧洲。商业与国防业务营业额稳定保持于65%:35% 的比例。

集团的股本回报率为 22.2%，每股盈余为 15.60 分。

集团的收入流依然稳健。年末订单达 $116 亿，与 2015 年收报的 $117 亿基本持平，其中 $37 亿元将在 2017 年交付。

强劲的资产负债表使我们得以持续进行跨经济周期的投资。2016 年的资本支出为 $2.52 亿（2015 年为 $2.93 亿）。其中有大量资金投入宇航及电子业务，用以推动其各业务部门的产能扩张，包括建造一个用于扩展组件制造业务的 EFW 新设施，以及为新科电子建造一个专门用于容纳其扩张业务的新设施。

我们 2016 年收报的现金和现金等价物（包括委托管理资金）为 $14 亿。

董事会建议今年派发每股 10 分的年终股息，并只会在特殊的情况下派发特别股息。加上 2016 年 8 月所派发的每股 5 分的中期股息，2016 全年派发的总股息为每股 15 分，派息总额为 $4.676 亿。2016 年的股息收益率为 4.81%，较 2015 年的 4.68% 略高。

持续专注于新增长领域

我们的核心业务如宇航、陆路、海事及电子等均有稳健基础。为进一步强化这些核心业务，我们将持续对其进行投资，同时还会对如机器人系统及网络安全等新兴高增长领域投入额外的资源。继去年的报告，我们的无人驾驶电动车已在滨海湾花园启用，而在新加坡的圣淘沙岛的无人驾驶电动车队测试计划也进展顺利。

由于各类组织都在适应数字化的世界，我们已着手强化网络安全解决方案及技术，以满足客户对网络情报及见解的更高需求。今年五月，新科电子与新加坡科技设计大学共同耗资 $4,430 万元设立网络安全研发实验室。该实验室已着手研发内部威胁侦测的解决方案。该实验室的其他重点研究领域还包括网络安全大数据分析以及监测和风险化解技术。我们也拓展了旗下的网络安全产品线，包括其高级安全运营中心、网络安全分析解决方案及用于保护重要基础设施（如水电煤气设施及地铁）的工业控制系统相关的网络安全产品。

增强实力，提升在价值链中的位置

宇航业务的 A330 及 A320/321 客货机改装工程已步上轨道。我们成功争取到世界级快递物流公司 DHL 快递成为 A330-300 客货机改装业务的首批客户，充分显示业界对我们宇航业务及客货机改装实力的信心。这项共赢的业务合作将吸引更多客户使用此项服务。Airbus 在我们的每一个开发环节包括数据及认证均有提供支持，使我们能全面了解飞机的设计特点，因而能够为客户提供整合、优化和可靠的解决方案。这是我们在客货机改装业务上能占有市场优势的主要原因之一。我们 Boeing 757 客货机改装的客户们也享有一致标准的服务。

此外，宇航业务在新加坡实里达航空园成立了一个新的贵宾飞机内饰中心，运用我们在美国圣安东尼奥的成功经验中得到的新技能，确保为贵宾飞机总装及翻新业务在装饰美学、工程质量及按时交付等方面提供相同水平的服务。这是我们致力透过为客户提供从飞机工程到设计及工艺的完整服务来提升在价值链中位置的另一个范例。

电子业务的航天项目继续开创新的里程碑。 TeLEOS-1 地球观测卫星正绕着赤道轨道运行，其拍摄的商用卫星影像的初步销售业绩表现不俗。为了强化现有铁路电子解决方案的产品阵容，我们推出了新一代的自动售检票系统。该系统由一个互动式客运站及一个具备人脸识别技术的收费闸门组成。这套全新的自动售检票系统的设计宗旨与我们旗下的许多产品相同，是为了帮助运营商提高运营效率及资源利用率。除了智能运输解决方案外，我们也持续扩充相关类别的产品项目，以帮助城市更有效地管理它们的环境及资源。

* EFW: Elbe Flugzeugwerke

* JHK: Jiangsu Huatong Kinetics Co., Ltd 和 Jiangsu Huaran Kinetics Co., Ltd (统称为JHK)

Galaxy 机器对机器通信系统在全球市场得到了落实。该系统通过单一平台提供多种智能城市应用，其中包括街灯管理、水资源管理及智能电表等。其智能街灯控管系统已经在加拿大、新西兰、英国及美国得到采用。

陆路系统业务方面，步兵战车系列持续在全球国防市场取得销售佳绩。新科动力与合作伙伴 SAIC 共同展开美国海军陆战队 ACV 1.1 项目的工程、制造和开发项目，志在 2017 年交付 16 辆两栖战车（Terrex 2）用于测试。我们还通过改良 Terrex 2 推出了 Terrex 3，即一款能够离开基地独力作战的远征战车。加上这款战车，陆路系统业务可以提供现代作战部队所需的机动性、火力及生存力达到最佳平衡从而满足其全方位操作需求的步兵战车系列。

此外，我们还与新加坡国防科学与科技局合作，为新加坡武装部队研发新一代装甲车的原型，以取代自 1970 年代服役至今的老款 ULTRA M113 装甲车。

尽管海事业务因造船业务深受持续低油价的负面影响而面对不甚乐观的运营环境，其军舰业务仍保持稳健发展，为海事业务提供了稳定收益。我们的美国子公司向美国海军交付了最后一艘海洋测量船。新加坡的巡海护卫舰项目则按照进度顺利进行。在 2016 年，我们投入资源从事相关领域的研发工作，包括开发商用与军舰船只的新船体设计、无人平台及船舶管理与感应系统，从而为未来的业务增长做好准备。

有关我们取得的业务佳绩与进展详情，请参阅第 26 页起的《运营及财务回顾》。

克服挑战

尽管我们的成就斐然，我们仍面对了不少挑战。虽然陆路系统的整体业务表现强劲，但其中国特种车辆业务表现则较弱。我们在对该项业务及其长期商业发展基础进行了战略考量后，于 2016 年中期从挖掘机合资公司撤资，并于下半年对道路建设设备合资公司的账面价值进行减记。相比之下，我们在美国的特种车辆业务表现则符合预期，与行业周期一致。

尽管新科动力已重新调整在中国的业务，我们需要强调的是，中国市场对我们集团仍很重要，特别是对于宇航及电子业务。这两个业务部门在过去数十年里，成功地在中国建立了业务网络并取得了良好业绩。

以长远观点进行投资

我们持续从长远的观点评量我们的业绩表现，不受短期失衡的影响。在全球经济环境不明确的情况下，我们依然坚持既有的投资思路。

我们将继续在各个业务周期做出谨慎的投资决策，并采取适当的措施强化我们的长期财务表现、增长潜力与业务价值，同时确保必要的保障措施也已到位。

除重视营收及利润增长外，我们一直致力于加强管治架构和可持续发展机制，这是我们实现业务长期发展的关键。与往年一样，我们已将可持续发展目标、措施及表现列于此报告书的《可持续发展》章节。今年我们还收录了我们在美国推动的可持续发展行动，以供股东进一步了解我们在海外的运营情况。

为强化管理团队而进行的领导层人事变动

在集团服务长达 35 年的陈平福已于 10 月 1 日卸下任职长达 14 年总裁兼首席执行长暨执行董事的职位。我们很感谢他在位期间的杰出贡献与领导。李福燊已于 12 月 31 日卸下新科电子总裁的职务，以专注于担任集团副总执行长兼国防业务总裁的职位。

新科动力总裁拉文德辛格已于 2017 年 1 月 1 日同时接任新科电子总裁职位。他会将其所担任的新科动力总裁职位移交给李香龙，后者将于 2017 年 4 月正式上任。

在公司组织方面，我们已强化了我们的公司职能部门，将合并及收购团队划入新成立的战略规划部门旗下，以便更有效地支持和配合集团的增长及发展战略。我们也已开始在如财务、IT、人力资源及采购等公司职能方面实施资源共享服务。通过将这些公司职能服务整合到集团进行管理，我们致力于提升生产力及职能专长，并充分发挥集团的规模优势及经营综效。

董事会成员更新是持续的过程

建立一个由多元人才组成的董事会依然是我们的重点要务，董事会成员更新是持续的过程。新加坡国防部首席国防科学家郭锦彪已于 8 月加入董事会，成为非独立的非执行董事。在董事会分别任职 14 年及 8 年的 Venkatachalam Krishnakumar 与 郭忠文已卸任。在董事会任职各超过 9 年的高铭胜与文达星已决定不在即将举行的常年股东大会上寻求连任。我们感谢他们多年来对集团的宝贵贡献。

新科工程成立 50 周年

新科工程虽然是在 1997 年经由新加坡科技集团旗下的相关单位合并而成立的公司，但其根源却可追溯至 50 年前，而随着时间的推移，我们已建立了具有各种创新且具颠覆性的工程解决方案的丰富历史。我们从弹药制造商与军用平台服务供应商做起，如今可以很自豪地说，自 1967 年成立新加坡特许工业公司以来，我们已取得了长足的进展。我们在这段过程中取得了许多成就。新科工程如今已成为宇航、陆路、海事及电子领域的领先国防工程供应商，在全球各地均备受信任与推崇。

在过去 50 年里，我们受益于前辈所取得的成就及以往领导和管理团队的睿智领导，我们不断缔造成功并努力克服挑战。在 50 周年之际，我们愿意迎向变局、驱策创新并持续挑战自我，以确保我们能持续领先于竞争对手。

我们要感谢我们的客户与业务合作伙伴，在他们持续不断的推动和挑战下，我们才能突破自我，并为其提供符合业务需求的最佳解决方案。我们也感谢股东们的坚定支持。

作为一间即使 50 年来经历各种全球事件与危机却蓬勃发展的集团，我们将持续以坚韧不拔的精神在各个方面追求卓越。我们的 22,000 名员工未来将一直秉持对创新及卓越的热诚，延续过去 50 年来的成功故事。我们在此对每一位员工表示感谢 。

此致，

柯宗盛
主席

钟思峰
总裁兼首席执行长

INTERVIEW WITH CEO

VINCENT CHONG, President & CEO of ST Engineering since 1 October 2016, joined the Group in April 2014 and was appointed President & CEO (Designate) the following year. In this interview, Vincent reveals his plans for preparing ST Engineering for its next stage of growth.

> "My international experience has given me insight into the intricacies of running a successful global corporation that is sensitive to local needs and concerns."

Q. *Tell us a bit about yourself.*

A. I am Singaporean, 47 years old and I graduated with a degree in Mechanical Engineering from the National University of Singapore.

I used to work for an engineering-focused MNC in the energy sector and I have spent much

"We will increase cross-sector collaboration and enhance the integration of the strengths and capabilities within the ST Engineering Group. I firmly believe that our whole is much greater than the sum of our parts."

of my career working in various countries around the world. My international experience has given me insight into the intricacies of running a successful global corporation that is sensitive to local needs and concerns. My international postings have also sharpened my awareness of the accelerated speed of change and how disruption is now the norm, particularly for technology companies like ST Engineering.

Outside of work, my main priority is my family. I make it a point to spend as much time as I can with my wife and two daughters. I try to have meals together with them whenever possible and I also make sure I set aside individual time for each of them.

Q. ***What attracted you to ST Engineering?***

A. After spending so many years abroad, I wanted to return to my roots and contribute to Singapore. What better way than joining ST Engineering? It is a home-grown engineering group with a global reputation. As an engineer, I was impressed and inspired by the engineering capabilities and talents within the organisation. I believe I have something to contribute to the organisation.

Q. ***What do you think of ST Engineering's track record?***

A. Since going public, our record has been nothing short of stellar. In terms of revenue and earnings, we are more than four times larger today than we were in 1997. We have also consistently delivered ROE of over 20%.

My predecessors established a rock-solid foundation and Pheng Hock, in his 14 years as President & CEO, brought the Group to great heights. Our success has been the result of the hard work, creativity and commitment of our people.

Q. ***What are your plans for the Group?***

A. Our goal for the Group is long-term sustainable growth and value creation.

Key to ensuring this is having good people. Because we are only as strong as the people we have, developing ST Engineering's human capital is top of my agenda.

With a strong, capable and motivated workforce in place, we will be able to strengthen our core business, leveraging the unique strengths of our four main sectors – aerospace, electronics, land systems and marine – to pursue growth.

At the same time, we will increase cross-sector collaboration and enhance the integration of the strengths and capabilities within the ST Engineering Group. I firmly believe that our whole is much greater than the sum of our parts.

The defence business will remain core to us, and we continue to invest in building strategic capabilities to further strengthen our ability to support our long standing customers.

As a Group that makes a profitable business out of technology and innovation, R&D is a crucial component of our future success and I intend to ensure that we continue to focus on this area.

Thanks to our strong balance sheet, we will invest across business cycles, but as we do so, we will ensure that these investments track closely with clearly defined group and business sector strategies.

INTERVIEW WITH CEO

Apart from organic growth, we will also be looking at making long-term investments and acquisitions where these make economic sense. At the same time, we will divest outdated solutions and business lines that are no longer aligned with the Group's overall strategy and direction.

Q. *Are we looking at a renewal phase?*

A. Over the last 50 years, the ST Engineering story has unfolded over several phases. As we embark on our next growth journey, we are taking a fresh look at ourselves.

The current and future environment demand that we do not merely continue with business as usual. We need to think differently and change the way we do some things so as to keep ahead of global competition. Our focus is not short-term gain but sustainable results over the long term.

In the last few years, with the exception of some businesses, our growth has been flat. The macroeconomic environment has partly contributed to this but that is not the only reason. Some of our businesses are facing fundamental challenges, due in part to the pace of change in technology or structural changes in the industries they serve.

Having said that, there are many growth areas which we are already participating in and the longer-term outlook of our business remains positive.

Q. *What do you see are reasons for optimism?*

A. I think our track record over the last 50 years speaks for itself. Over the last five decades, we have proved repeatedly that we are innovative, resilient and future-oriented.

Our many recent achievements bear this out as well – we are the largest commercial airframe maintenance, repair and overhaul provider in the world and we also developed Singapore's first commercial Earth Observation Satellite. The US Marine Corps is now evaluating our Terrex 2 wheeled armoured vehicle for deployment in combat after we edged out a number of well-known world class competitors to end up as one of two finalists. I am proud to say that all of our four business arms have impressive lists of achievements and award-winning solutions like these that they can point to.

All these accomplishments demonstrate that we are still an advanced, creative and competitive group.

In addition, I also believe that we are well placed to seize the many opportunities that lie ahead. In a world impacted by the fast pace of technological change, the Group sees numerous opportunities

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The current and future environment demand that we do not merely continue with business as usual. I believe that we need to think differently and change the way we do some things so as to keep ahead of global competition.

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brought about by digitalisation, the proliferation of robotics and the rise of autonomous solutions. We also see great opportunities in the Smart City concept, where technology is leveraged to improve the urban environment in areas such as sustainability, connectivity, mobility as well as public safety and security.

The ability to recognise and harness disruptive technologies is what will separate the winners from the losers in the new economy. We have already developed significant domain expertise in strategically important areas such as cyber security, intelligent buildings, intelligent transportation, satellite communications, autonomous and robotics solutions as well as machine-to-machine communications.

Our investments in corporate laboratories are an example of the value we place on strengthening our capability to innovate. We have set up the ST Engineering-NTU Corporate Lab to develop advanced robotics and autonomous systems, while the ST Electronics-SUTD Cyber Security Lab will work to enhance cyber security solutions and technologies.

With our deep engineering and technological capabilities, as well as data analytics and complex solution capabilities, the Group is well positioned for the future.

"

We will invest across business cycles, we will leverage our group synergies, we will invest more in our people and we will enhance our culture of innovation. This will lead us on a path of long-term sustainable growth.

"

Q. ***What should investors expect from ST Engineering?***

A. We will continue to be a well-governed Group, capable of thriving in a challenging business environment; we have delivered steady results, our order book is robust and we have excellent revenue visibility. We continue to win new contracts and our balance sheet is healthy. In addition, we have ready access to capital if needed.

We also have the management team, the vision, the capabilities, the business assets, the human and financial capital necessary, and importantly, the will to make the changes needed to overcome current challenges and to retool for the future.

We will invest across business cycles, we will leverage our group synergies, we will invest more in our people and we will enhance our culture of innovation. This will lead us on a path of long-term sustainable growth.

Growth will necessarily require us to take carefully calibrated risks, but we are prepared. And while we are geared for growth, we are also committed to returning excess cash to shareholders as we have done historically.

For all these reasons, I am very confident in ST Engineering's future prospects and I firmly believe that investors who join us in taking a long-term view will be rewarded.

BOARD OF DIRECTORS

PROFILES OF DIRECTORS

THE NAMES OF THE DIRECTORS HOLDING OFFICE AT THE DATE OF THIS REPORT ARE SET OUT BELOW TOGETHER WITH DETAILS OF THEIR ACADEMIC AND PROFESSIONAL QUALIFICATIONS, AGE, DATE OF FIRST APPOINTMENT AS DIRECTOR, DATE OF LAST RE-ELECTION AS DIRECTOR, AS WELL AS OTHER DIRECTORSHIPS AND PRINCIPAL COMMITMENTS.

KWA CHONG SENG

Chairman
Non-Executive & Independent Director

Date of first appointment as a director:
1 September 2012

Date of appointment as Chairman:
25 April 2013

Date of last re-election as a director:
21 April 2016

Kwa Chong Seng, 70, is Chairman of ST Engineering. He has more than 40 years' experience in the petroleum industry having served as Chairman and Managing Director of ExxonMobil Asia Pacific Pte. Ltd. before retiring in 2011. Chong Seng is currently the Chairman of Singapore Exchange Limited* and Deputy Chairman of Public Service Commission, Singapore. He also serves on the board of SeaTown Holdings Pte. Ltd. and is a member of the Defence Science & Technology Agency (DSTA). Chong Seng is also the Chairman of the Advisory Committee of Dymon Asia Capital Ltd. He graduated from the former University of Singapore with a Mechanical Engineering degree. Chong Seng was awarded the Distinguished Engineering Alumni Award by the National University of Singapore (NUS) in 1994 and is a Fellow of the Academy of Engineering Singapore. In 1999, he was conferred the Honorary Ningbo Citizenship. Chong Seng was awarded the Singapore Public Service Star in 2005 and the Singapore Public Service Star (Bar) in 2016.

VINCENT CHONG

President & CEO
Executive Director

Date of first appointment as a director:
1 October 2016

Due for re-election at the 2017 AGM under Article 106 of the Company's Constitution

Vincent Chong, 47, is the President & Chief Executive Officer (CEO) of ST Engineering and an executive Director. Vincent joined ST Engineering Group in April 2014, first as President of Strategic Plans & Business Development at ST Aerospace and later as the Group's Deputy CEO (Corporate Development) before his appointment as President & CEO (Designate) of ST Engineering. Vincent had a 20-year career in the petroleum industry holding a variety of technical, operations and senior management positions from refining and supply, product marketing, to strategic planning. His professional experience has been global with postings in Hong Kong, Japan, the United Kingdom and the United States. Before joining the ST Engineering Group in April 2014, he was Director of Asia Pacific Lubricants Sales at ExxonMobil Asia Pacific Pte. Ltd., responsible for the automotive and industrial lubricants business in more than 20 countries. He had also been Global Director for ExxonMobil's worldwide marine fuels business. Vincent sits on the Singapore Government-convened Committee on the Future Economy and is also a Member of the Singapore Quality Award Governing Council. He graduated with First Class Honours in Mechanical Engineering from NUS. Vincent has also attended executive leadership programmes at the Thunderbird School of Global Management and the Columbia Business School.

* Listed on the SGX-ST

KOH BENG SENG

Non-Executive & Independent Director

Date of first appointment as a director:
15 September 2003

Retiring at the 2017 AGM

Koh Beng Seng, 66, is the CEO of Octagon Advisors Pte. Ltd. Beng Seng was Deputy President of United Overseas Bank Limited from June 2000 to 31 January 2005. Prior to this, he was Senior Advisor to Asia Pulp & Paper Company Ltd, and Advisor to Bank of China and the International Monetary Fund from 1998 to 2000. Beng Seng has extensive experience in the financial services sector. He was with the Monetary Authority of Singapore from 1973 to 1998, where he served as Deputy Managing Director from 1988 to 1998. Beng Seng is Chairman of Great Eastern Holdings Limited* and Director of Bank of China (Hong Kong) Limited^, BOC Hong Kong (Holdings) Limited, Hon Sui Sen Endowment CLG Limited and United Engineers Limited*. Beng Seng holds a Bachelor of Commerce (First Class Honours) from the former Nanyang University, Singapore, and a Master of Business Administration from Columbia University, USA.

LIEUTENANT-GENERAL PERRY LIM

Non-Executive Director

Date of first appointment as a director:
20 October 2015

Date of last re-election as a director:
21 April 2016

LG Perry Lim, 44, is the Chief of Defence Force in Singapore's Ministry of Defence (MINDEF). LG Lim joined the Singapore Armed Forces (SAF) in 1990 and has held various command and staff positions in the SAF, including the Chief of Army and Commander, Headquarters 3rd Singapore Division. LG Lim holds a Bachelor of Engineering (First Class Honours) (Mechanical Engineering) from the University of Cambridge, UK and a Master of Business Administration from INSEAD, Singapore.

NG CHEE KHERN

Non-Executive Director

Date of first appointment as a director:
20 May 2014

Date of last re-election as a director:
23 April 2015

Ng Chee Khern, 51, is the Permanent Secretary (Defence Development) in MINDEF. Prior to this, Chee Khern had held various senior positions in the SAF, including that of Chief of Air Force and Director of Joint Operations and Planning Directorate. He is Chairman of DSTA, DSO National Laboratories (DSO), Government Technology Agency, Saver-Premium Fund Board of Trustees (Singapore) and the SAF Fund Care. Chee Khern is a Director of CapitaMall Trust Management Ltd*, and a member of the National Research Foundation, Prime Minister's Office. He holds a Bachelor of Arts (Second Class Honours (Upper) (Arts & Social Sciences) and Master of Arts (Arts & Social Sciences) from the University of Oxford, UK; and a Master of Public Administration (Humanities & Social Sciences) from Harvard University, USA.

* Listed on the SGX-ST | ^ Listed on the Stock Exchange of Hong Kong

BOARD OF DIRECTORS

QUEK GIM PEW

Non-Executive Director

Date of first appointment as a director:
15 August 2016

Due for re-election at the 2017 AGM under Article 106 of the Company's Constitution

Quek Gim Pew, 59, is the Chief Defence Scientist of MINDEF. Prior to this, he was Chief Executive Officer of DSO. He joined DSO in 1986 and had held several key appointments before joining DSTA in 2000 for a period of four years. Gim Pew is the Chairman of ATREC Pte Ltd, Cap Vista Pte Ltd, National Cybersecurity R&D Laboratory Governance Board, Energetics Research Institute Supervisory Board, Governing Board for the Centre for Quantum Technologies, Temasek Defence Systems Institute Management Board (NUS), Temasek Laboratories@NUS Management Board, Temasek Laboratories@NTU Management Board and Temasek Laboratories@SUTD Management Board. He is also a member of DSO, the Agency for Science, Technology & Research Board and DSTA. Gim Pew holds a Bachelor of Engineering (First Class Honours) (Electrical Engineering) from NUS and a Master of Science (Distinction) in Electronical Engineering from the Naval Postgraduate School, USA. He is a Fellow of The Academy of Engineering Singapore.

DAVINDER SINGH

Non-Executive & Independent Director

Date of first appointment as a director:
1 August 2007

Retiring at the 2017 AGM

Davinder Singh, 59, is the CEO of Drew & Napier LLC. Davinder has been in legal practice for more than 30 years. He was in the first batch of Senior Counsel appointed in 1997. Davinder is the Chairman of the Singapore International Arbitration Centre and also a Director of Delfi Limited* and PSA International Pte Ltd. He holds an LLB (Honours) from NUS.

DR STANLEY LAI TZE CHANG

Non-Executive & Independent Director

Date of first appointment as a director:
8 October 2009

Date of last re-election as a director:
21 April 2016

Dr Stanley Lai Tze Chang, 49, is Head of Intellectual Property & Technology Practice at Allen and Gledhill LLP. Stanley was appointed Senior Counsel at the Opening of the Legal Year 2010. He is an independent Director of the Singapore Shipping Corporation Limited* and Stamford Land Corporation Limited. Stanley currently serves as Chairman of the Intellectual Property Office of Singapore. He obtained his law degree from the University of Leicester (UK) in 1992 and qualified to practise as a Barrister in England and Wales in 1993. Stanley is a member of Lincoln's Inn. He was called to the Singapore bar in 1995. Stanley also holds a Masters in Law (LLM) and Doctorate (PhD) in law from the University of Cambridge, UK.

* Listed on the SGX-ST

KHOO BOON HUI

Non-Executive & Independent Director

Date of first appointment as a director:
1 September 2010

Due for re-election at the 2017 AGM under
Article 100 of the Company's Constitution

Khoo Boon Hui, 62, is a Senior Fellow of the Home Team Academy and the Civil Service College. Prior to this, he was Senior Fellow of the Ministry of Home Affairs (MHA) and Senior Advisor, MHA until 30 November 2016 and 20 January 2016 respectively. Boon Hui was appointed Commissioner of the Singapore Police Force (SPF) in July 1997, and relinquished this post in January 2010 after serving 32 years in the SPF to become Senior Deputy Secretary, MHA till January 2015. He was also the President of INTERPOL from 2008 to 2012. Boon Hui is currently Chairman of Singapore Island Country Club and a board member of Singapore Health Services Pte Ltd, Ministry of Health Holdings, the Casino Regulatory Authority, Certis CISCO and Temasek Foundation International CLG Limited. He is a member of the Palo Alto Networks Public Sector Advisory Council and the Board Financial Crime Risk Committee of Standard Chartered Bank. He holds a Bachelor of Arts (Engineering Science & Economics) degree from Oxford University and a Master in Public Administration from the Harvard Kennedy School of Government. Boon Hui also attended the Advanced Management Program at the Wharton School.

QUEK SEE TIAT

Non-Executive & Independent Director

Date of first appointment as a director:
1 July 2013

Due for re-election at the 2017 AGM under
Article 100 of the Company's Constitution

Quek See Tiat, 62, is President of the Council for Estate Agencies. Prior to this, he was Chairman of the Building and Construction Authority, Singapore until 31 March 2016. He retired as Deputy Chairman of PricewaterhouseCoopers Singapore in 2012, after a career in the firm that spanned 31 years. See Tiat is a board member of Singapore Press Holdings Ltd*, Temasek Foundation Connects CLG Limited, the Energy Market Authority and the Monetary Authority of Singapore. He was conferred the Public Service Medal in 2009 and the Public Service Star in 2014. See Tiat holds a Bachelor of Science (Economics) Honours from the London School of Economics and Political Science, and is a Fellow of the Institute of Chartered Accountants in England and Wales.

OLIVIA LUM OOI LIN

Non-Executive & Independent Director

Date of first appointment as a director:
20 May 2014

Date of last re-election as a director:
23 April 2015

Olivia Lum, 56, is Founder, Executive Chairman & Group CEO of Hyflux Ltd* (Hyflux). Olivia started her corporate life as a chemist in GlaxoSmithKline plc. She is a board member of International Enterprise Singapore, Singapore Mediation Centre, a Trustee Member of the Chinese Development Assistance Council and a Council Member of the Singapore Business Federation. Olivia is the first woman to win the Ernst & Young World Entrepreneur Of The Year 2011 award in recognition of her pioneering work in the Singapore-based water-treatment company, Hyflux. Olivia holds an Honours degree in Chemistry from NUS.

* Listed on the SGX-ST

BOARD OF DIRECTORS

DR BEH SWAN GIN

Non-Executive & Independent Director

Date of first appointment as a director:
1 September 2014

Date of last re-election as a director:
23 April 2015

Dr Beh Swan Gin, 49, is Chairman of the Singapore Economic Development Board (EDB). Prior to this, he was Permanent Secretary of the Ministry of Law from 1 July 2012 to 30 November 2014. Swan Gin also serves as Chairman of EDBI Pte Ltd, EDB Investments Pte Ltd and ST Electronics, and is also a Director of Ascendas-Singbridge Pte. Ltd. and Temasek Foundation Connects CLG Limited. He is a medical doctor by training and graduated from NUS. Swan Gin is also a Sloan Fellow with a Master of Science in Management from Stanford University's Graduate School of Business, and completed the Advanced Management Program at the Harvard Business School in 2012.

LIM SIM SENG

Non-Executive & Independent Director

Date of first appointment as a director:
15 May 2015

Date of last re-election as a director:
21 April 2016

Lim Sim Seng, 58, is currently the Group Executive, Country Head, DBS Singapore and Chairman of DBS Vickers Securities Holdings Pte Ltd. Sim Seng was a senior banker for 26 years with Citibank before joining DBS in 2010 as Country Head, DBS Singapore. With Citigroup/Citibank, he served Citigroup in various senior appointments in Kuala Lumpur, Tokyo, New York, Saudi Arabia, Singapore and Hong Kong. Sim Seng is the Chairman of ST Aerospace, Singapore Land Authority and Nanyang Polytechnic Business Management Advisory Committee, and the Vice Chairman of ASEAN Business Group, Singapore Business Federation. He is a Director of DBS Securities (Japan) Company Limited, ASEAN Finance Corporation Limited, Asfinco Singapore Limited and Nikko Asset Management Co., Ltd., and sits on the Board of Governors of Nanyang Polytechnic. Sim Seng was a Japanese Government Monbusho scholar and graduated with a Bachelor's in Business Administration from Yokohama National University, Japan.

LIM AH DOO

Non-Executive & Independent Director

Date of first appointment as a director:
10 November 2015

Date of last re-election as a director:
21 April 2016

Lim Ah Doo, 67, was formerly the President and subsequently the non-executive Vice Chairman of RGE Pte Ltd (formerly known as RGM International Pte Ltd). Ah Doo's past working experience includes an 18-year banking career in Morgan Grenfell from 1977 to 1995, during which he held several key positions including that of Chairman of Morgan Grenfell (Asia) Limited. He is the Chairman of Olam International Limited*, ST Marine and also an independent director of SembCorp Marine Limited*, ARA-CWT Trust Management (Cache) Limited, GP Industries Ltd*, SM Investments Corporation, U Mobile Sdn Bhd and GDS Holdings Ltd#. Ah Doo graduated with an honours degree in Engineering from the Queen Mary College, University of London and a Master in Business Administration from the Cranfield School of Management.

* Listed on the SGX-ST | # Listed on the Nasdaq Stock Market

COLONEL ALAN GOH KIM HUA

Alternate Director to
LG Lim Cheng Yeow Perry

Date of appointment as alternate director:
20 October 2015

COL Alan Goh Kim Hua, 40, is Commander of the Maritime Security Task Force of the Republic of Singapore Navy (RSN). COL Goh joined the SAF in 1995 and has held various command and staff positions in MINDEF/SAF since 1999, including that of Deputy Director in Defence Policy Office, Head Naval Plans, Head Naval Personnel and Commanding Officer of the RSN's Missile Corvette Squadron. He was awarded the SAF Overseas Scholarship in 1995, the SAF Overseas Postgraduate Scholarship (General Development) in 2011 and the Public Administration Medal (Bronze) (Military) in 2013. COL Goh holds a Bachelor of Arts (Honours) (Mathematics) from the University of Cambridge, UK, and a Master of Business Administration (Sloan Fellow) from the Sloan School of Management, Massachusetts Institute of Technology, USA.

PAST DIRECTORSHIPS IN THE LAST THREE YEARS

Kwa Chong Seng
APL (Bermuda) Ltd.
APL Co. Pte Ltd
APL Limited
APL Logistics Ltd
Automar (Bermuda) Ltd.
Delta Topco Limited
Fullerton Fund Management Company Ltd
Neptune Orient Lines Limited
NOL Liner (Pte.) Ltd
Olam International Limited*
Singapore Technologies Holdings Pte Ltd

Vincent Chong Sy Feng
ExxonMobil Asia Holdings Pte. Ltd.
ExxonMobil Asia Pacific Pte. Ltd.
ExxonMobil India Inc.
ExxonMobil International Corporation
ExxonMobil Lubricants Private Limited
Mobil Korea Lube Oil, Inc.
P.T. ExxonMobil Lubricants Indonesia

Koh Beng Seng
Sing-Han International Financial Services Limited

Lieutenant-General Perry Lim
Singapore Technologies Electronics Limited
Singapore Technologies Kinetics Ltd

Ng Chee Khern
Public Utilities Board
MOH Holdings Pte Ltd

Quek Gim Pew
ST Electronics (Satellite Systems) Pte. Ltd.

Davinder Singh
Singapore Exchange Limited*

Khoo Boon Hui
Home Team Academy Board of Governors
Institute of Leadership and Organisation Development, Civil Service College
International Centre for Sport Security

Quek See Tiat
Building and Construction Authority
Neptune Orient Lines Limited

Dr Beh Swan Gin
Esplanade Co. Ltd
Maxwell Arbitration Holdings Ltd

Lim Sim Seng
Enactus Singapore Institute

Lim Ah Doo
Bracell Limited
Linc Energy Limited

* Listed on the SGX-ST

SENIOR MANAGEMENT

Front Row, From Left:
Eleana Tan Ai Ching / Vincent Chong Sy Feng / Lee Fook Sun

Back Row From Left:
Ravinder Singh / General John G Coburn / Ng Sing Chan
Lee Shiang Long / Lim Serh Ghee

VINCENT CHONG SY FENG

Vincent Chong Sy Feng is President & CEO of ST Engineering and a Director of the ST Engineering Board. (Vincent's profile is on page 16.

LEE FOOK SUN

Lee Fook Sun, 60, first joined ST Electronics in 2000 as President of Defence Business and International Business and was appointed Deputy President (Operations) in 2005. He has helmed ST Electronics as its President from August 2009. He was appointed President of Defence Business and Deputy CEO of ST Engineering in March 2013 and December 2014 respectively, while concurrently running ST Electronics as its President. He relinquished his position as President of ST Electronics in January 2017 to focus on his responsibilities in ST Engineering. Fook Sun is also the Chairman of the Building and Construction Authority, a Director of DSO and a Fellow of The Institution of Engineers, Singapore. He was conferred the esteemed Honorary Fellowship by the ASEAN Federation of Engineering Organisations (AFEO) for his contribution to the engineering profession in November 2016. He holds a Bachelor of Arts (Honours) and a Master of Arts (Engineering Science) from the University of Oxford, UK and attended the Stanford University's Executive Program.

LIM SERH GHEE

Lim Serh Ghee, 57, was appointed President of ST Aerospace in December 2014. Prior to this, he was Chief Operating Officer from 2010 and President, Defence Business, where he was responsible for forging strategic relationships with the Group's core defence customers. Serh Ghee also served as Executive Vice President of Aircraft Maintenance & Modification (AMM), a business segment of ST Aerospace. He began his career with

ST Aerospace as a mechanical engineer in 1984 and has held many senior management appointments within the Group. Serh Ghee holds a Second Class Upper Honours degree in Mechanical Engineering from NUS. He obtained his Master of Science in Aerospace Engineering from the University of Michigan and attended the Program for Management Development at Harvard Business School.

RAVINDER SINGH

Ravinder Singh, 52, was appointed President of ST Kinetics in March 2015. Concurrently, he is President of ST Electronics since January 2017. He joined the Group in August 2014 as Deputy President, Corporate and Market Development at ST Electronics. He joined the Group after a 30-year career with MINDEF and the SAF where he held various senior command and staff appointments. In his last appointment in the SAF, he served as Chief of Army. Before that, he was Deputy Secretary (Technology) in MINDEF. He graduated with a Bachelor of Arts in Engineering Science (First Class Honours) in 1986 and a Master of Arts in Engineering Science in 1992, both from the University of Oxford, UK. Ravinder also completed his Master of Science in Management from the Massachusetts Institute of Technology, USA in 1996 and attended the Wharton Advanced Management Program in 2014.

DR LEE SHIANG LONG

Dr Lee Shiang Long, 51, was appointed President Designate of ST Kinetics in November 2016 and will take over from Ravinder as President around April 2017. He is concurrently the President of Defence Business at ST Kinetics and Deputy Chief Technology Officer of ST Engineering. Shiang Long joined ST Kinetics in March 2016 after leaving the Institute of Infocomm Research at A*STAR, where he was responsible for providing research and innovation to meet Singapore's Smart Nation Initiative. Prior to that, Shiang Long served in the SAF for 23 years and his last appointment was Head of Joint Communications and Information Systems Department, and Chief Information Officer. Shiang Long holds a Master in Business Administration from Cambridge University and PhD in Mechanical Engineering from Nanyang Technological University, as well as a Master in Science (IT) from NUS.

NG SING CHAN

Ng Sing Chan, 56, was appointed President, ST Marine in May 2010. Prior to this, Sing Chan was Deputy President and President, Defence Business of ST Marine. He joined ST Marine in 1987 as an engineer. Sing Chan left in 1991 and later became the Deputy General Manager of Pan-United Shipyard Pte Ltd. He subsequently took on the positions of President of Changshu Xinghua Changjiang Dev Co and Executive Director of Pan-United Marine Ltd (now known as DDW-PaxOcean Shipyard Pte. Ltd.). Sing Chan re-joined the Group in March 2008 as Executive Vice President, Special Projects, ST Engineering and moved to ST Marine as Deputy President in April 2009. Sing Chan holds a Master of Business Administration (Finance & Banking) from the NTU, Singapore and a Masters in Engineering from the University of Hamburg, Germany.

GENERAL (RETIRED) JOHN G COBURN

General (Retired) John G Coburn, 75, was appointed Chairman and CEO of ST Engineering's US subsidiary, VT Systems, in December 2001. Gen (Ret) Coburn joined the Group after an illustrious 39-year career with the US Department of Defense, where he commanded at all levels. Prior to assuming this position, he was Commanding General of the US Army Materiel Command, one of the largest commands in the US Army with 60,000 employees and an annual budget of more than US$50b with activities in 42 states and 28 foreign countries. Gen (Ret) Coburn is the recipient of many medals, and is a noted author and speaker. He holds a Juris Doctor from the University of Missouri, and a Doctor's Degree from Eastern Michigan University and many other degrees. He is also a member of the Supreme Court, State of Kentucky; Supreme Court, State of Michigan and the Supreme Court of the United States.

ELEANA TAN AI CHING

Eleana Tan Ai Ching, 54, was appointed Chief Financial Officer of ST Engineering in March 2008. Eleana was previously Managing Director, Finance, Temasek Holdings (Private) Limited (Temasek). Prior to that, she was Director Finance at Singapore Technologies Pte Ltd (STPL) from August 2003 until December 2004, when STPL was restructured, and its assets transferred to Temasek. Prior to 2003, Eleana had held various key finance positions in the ST Engineering Group over a period of 13 years and last held the position of Group Financial Controller of ST Engineering. Eleana holds a Bachelor of Accountancy (Honours) from NUS and attended the Harvard Business School's Advanced Management Program in 2013. She is a member of the Institute of Singapore Chartered Accountants.

GROUP OVERVIEW

ST Engineering is an integrated defence and engineering group specialising in the Aerospace, Electronics, Land Systems and Marine sectors. Headquartered in Singapore, we rank among the largest companies listed on the Singapore Exchange, and we are one of Asia's leading engineering groups.

Our network of over 100 subsidiaries and associated companies, supported by a workforce of about 22,000, allows us to serve customers globally. A leader in each of our core businesses, ST Engineering leverages multi-sector capabilities to develop advanced solutions for commercial and defence customers across industries.

Our Aerospace sector offers a wide spectrum of aircraft maintenance, engineering and training services for both military and commercial aircraft operators. These services include airframe, components and engine maintenance, repair and overhaul, engineering design and development, materials support, asset management and pilot training.

Our Electronics sector specialises in the design, development and integration of advanced electronics and communications systems for government, defence, commercial and industrial customers worldwide.

Our Land Systems sector delivers integrated land systems, specialty vehicles and their related through-life support for defence, homeland security and commercial applications.

Our Marine sector provides customised shipbuilding, repair and conversion services to both naval and commercial vessels at our yards in Singapore and the US. We also provide a host of environmental solutions through our environmental engineering subsidiary.

22,000 employees in over 100 subsidiaries and associated companies across the world

For complete Group structure, please refer to www.stengg.com

OPERATING REVIEW & OUTLOOK

AEROSPACE

2016 REVIEW

The aerospace MRO business faced a volatile landscape and subdued global economic conditions in 2016. Despite the challenging conditions, our Aerospace sector remained resilient. We secured $2.57b of new orders, increased our passenger-to-freighter conversion capability and we are progressing strongly with our cabin retrofit solutions. With a targeted focus on various long-term business investments, innovation and productivity improvements, we are positioned for growth.

Groundbreaking of ST Aerospace's aircraft hangar complex at the Pensacola International Airport, Florida.

AIRCRAFT MAINTENANCE & MODIFICATION (AMM)

Expanding Presence In Key Markets

In 2016, we continued to expand our capacity and range of capabilities. Our AMM business redelivered 2,984 aircraft for airframe maintenance and modification work and we now support over 300 weekly flights into Singapore's Changi Airport. We welcomed our newest line maintenance customer, Japan Airlines, and have started supporting our existing customers on Boeing 787 base maintenance at our Singapore airframe facilities.

In October, we broke ground at Pensacola International Airport in Florida to construct an aircraft hangar complex for airframe related maintenance, repair and overhaul. The hangar complex is expected to be ready for operations in 2018.

In China, our airframe facility in Guangzhou made 50 aircraft redeliveries to AirAsia within 78 weeks. Building on this milestone achievement, AirAsia signed a Memorandum of Understanding with our Guangzhou facility for base maintenance of AirAsia's fleet of 22 Airbus A320 aircraft for the second half of 2016. There are plans for us

ST Aerospace's aircraft seats received the Production Organisation Approval as well as the Singapore Technical Standard Order Certificate of Approval from the CAAS.

to provide more support in 2017, and line maintenance in Guangdong, as AirAsia expands its route in Guangzhou and Guangdong province. Our second hangar in Guangzhou started operations in 2017.

The global VIP aircraft market had been somewhat impacted by the weakened economy. Despite the soft market, we secured five maintenance and refurbishment contracts for three Boeing Business Jets, an Airbus Corporate Jet and a Boeing 757, from VIP customers in Asia Pacific and the US. On the back of the successful build up of the VIP interiors business in San Antonio, we expanded our footprint with the establishment of the VIP aircraft interiors centre in Singapore in February 2016. This newly added Centre of Excellence for VIP aircraft interiors will design, upholster and fabricate cabin interiors, as well as provide maintenance for narrow-body VIP aircraft. Conceptual design and certification continue to be supported by our San Antonio interiors team.

We secured a number of training contracts during the year, including a three-year ab-initio pilot training with China Airlines; a 15-month ab-initio pilot training with Hainan Airlines; two one-year extension contracts with Qatar Aeronautical College to train three more batches of cadets for the multi-crew pilot licence programme, and two 15-month extension contracts with Xiamen Airlines. Our US-based flight school also graduated its first batch of student cadets in Hondo, Texas.

COMPONENT/ENGINE REPAIR & OVERHAUL (CERO)

Enhanced Solution Offerings

ST Aerospace continued to leverage existing OEM relationships to grow our CERO business. During the year, we added new capabilities for electrical systems and nacelle components to support Boeing 787 operators. We also built up our inhouse engine accessory testing capabilities in Xiamen to support our customers' growing requirements.

While our component repair and overhaul facilities delivered 43,943 components and 142 landing gears, our engine repair and overhaul businesses completed 134 engines and 9,166 EcoPower® engine washes in 2016.

During the year, we signed a general trade agreement with a European airline for the Boeing 787 nacelle component exchange and repairs, and secured landing gear work for a military operator. We also secured several ATR landing gear contracts from customers in Asia

KEY DEVELOPMENTS IN 2016:

1. Completion of second hangar in Guangzhou and groundbreaking of our new hangar facility at Pensacola International Airport
2. Secured DHL Express as launch customer for the A330-300P2F, and inducted the first of four aircraft under this contract for conversion
3. The first seat design and development company to receive the Singapore Technical Standard Order Certificate of Approval from the CAAS

Pacific and sealed a long- term contract to support a European customer's Q400 components.

In addition, we signed a five-year exclusive agreement with Alaska Airlines for the heavy maintenance of its CFM56-7B engines in its fleet of Boeing 737-700 and 737-900 aircraft.

ENGINEERING & MATERIALS SERVICES (EMS)

A Showcase Of Our Technological Capabilities

The EMS business continued to provide a wide spectrum of engineering and design development services, as well as aviation material support to customers worldwide.

Passenger-To-Freighter Conversions

In July, we secured a contract with DHL Express for the conversion of their A330-300 aircraft. The first of the four aircraft was inducted into our Dresden facility that same month for conversion to a 26-pallet cargo configuration.

OPERATING REVIEW & OUTLOOK

Redelivery of the first freighter is scheduled for the end of 2017. This is on top of the launch contract with EgyptAir Cargo for the A330-200P2F that was secured in December 2014.

On the Airbus A320/A321P2F programme, the preliminary design review for the A321P2F was completed during the year. We are expecting to complete the critical design review in the first quarter of 2017.

Our 757-200SF freighter conversion programme is doing well. Since 2001, we have redelivered 141 757-200SF converted freighters which are now in service around the world. We have established ourselves as a Centre of Excellence for freighter conversions and we now offer 14/14.5-pallet, 15-pallet and an 8-pallet combi cargo configuration for the 757-200SF converted freighters.

During the year, we received the Supplemental Type Certificates from both the Civil Aviation Administration of China and the European Aviation Safety Agency for the 15-pallet 757-200SF freighter conversion.

A total of 20 converted freighters were redelivered in 2016.

Cabin Interiors

We continued to grow our cabin interiors business, developing cabin products and offering a full suite of turnkey cabin retrofit solutions from design conceptualisation and engineering, to implementation and certification.

We secured DHL Express as our launch customer for the A330-300P2F.

We showcased our new range of lightweight economy class seats at Singapore Airshow 2016. During the year, ST Aerospace also became the first company to receive the Production Organisation Approval from the Civil Aviation Authority of Singapore (CAAS). We were also the first seat design and development company to receive the Singapore Technical Standard Order Certificate of Approval from the CAAS.

Aircraft Leasing

We are committed to building a portfolio of mid-life aircraft assets for aircraft leasing to complement our core maintenance, repair and overhaul (MRO) business. To achieve scale, we collaborated with Japanese partner Sojitz Corporation, an established market leader in financing activities, to tap on opportunities presented by global aircraft fleet expansion and renewal. At the end of 2016, the new partnership had a total of three aircraft in its portfolio – an Airbus A321, an Airbus A320 and a Boeing B737NG.

Unmanned Aerial Systems

ST Aerospace continued to invest in the development of innovative unmanned aerial systems. We demonstrated our suite of vertical-take-off-and-landing (VTOL) multi-rotor unmanned aerial vehicle USTAR at Singapore Airshow 2016 and it was well received. We also showcased for the first time a novel proof of concept of our unmanned hybrid vehicle that flies to an area of interest prior to entering the water for search-and-locate missions.

INDUSTRY OUTLOOK

Well Positioned For The Future

The global airline industry expects improved margins in 2017 as airlines collectively anticipate turning in a record profit of US$39.4b, resulting from disciplined cost control, internal restructuring and process re-engineering.

Long-term confidence in air traffic growth remains as aircraft manufacturers expect the global commercial aircraft fleet to increase by an average of 4.1% annually. Nonetheless, the global landscape remains challenging, arising from concerns over aviation safety, terrorism, health scares, geopolitical conflicts, territorial disputes and global economic uncertainty.

With global fleet expansion, the industry should see increased maintenance and outsourcing, with commercial aircraft maintenance work maintaining a 3.9% Compounded Annual Growth Rate (CAGR) to US$98.9b over the next two decades.

The bulk of the global MRO spending will continue to flow from Asia Pacific and the Middle East. Asia Pacific will become the largest MRO market by 2025 and it is expected to grow to US$34.8b, representing about 35% of total MRO spend.

Airlines are seeking a trusted service provider that can offer dependable integrated maintenance support as they grow their fleet. Given ST Aerospace's strong foothold in this region and our diverse capabilities, we are well placed to address this market.

With air travel evolving into a lifestyle, airlines have been refreshing their cabins more frequently to compete for travelling passengers' attention. This has created a growing demand for more elaborate cabin interior upgrades and modifications.

Seizing the opportunity, the Aerospace sector has been leveraging existing expertise in aircraft maintenance and continued to build capabilities in higher value modification activities such as cabin retrofits, cabin product development, VIP completions and freighter conversions.

ST Aerospace continues to build capabilities in VIP aircraft completions, from design to interior installation and maintenance.

While the air cargo market remains subdued, industry watchers expect demand to grow at a CAGR of 4.2% over the next 20 years. The market is confident that about 1,440 aircraft will be converted to freighters during this period as operators seek cargo fleet renewal and expansion.

Given ST Aerospace's standing in this market segment and our recent investments in the A320/A321P2F and A330P2F conversion programmes, we are confident of taking a meaningful share of the market once these aircraft enter the market.

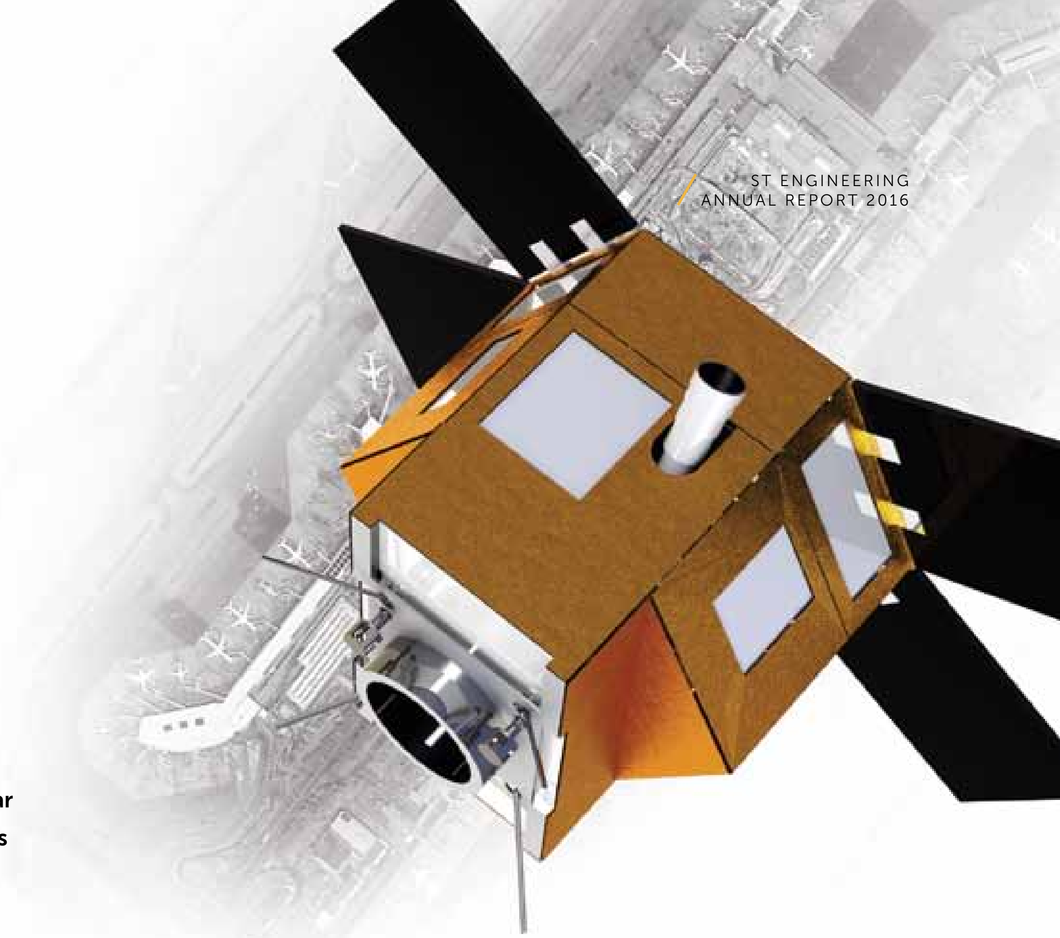
The airframe maintenance sector as well as the engine and component MRO sectors are expected to grow at a CAGR of 5.3% and 3.5% respectively. We will continue to develop our repair capabilities and tap on these growing segments.

KEY BUSINESS FOCUSES FOR 2017:

1. Stay focused on disciplined investing for the future as we position ourselves to capture long-term growth
2. Continue to invest in freighter conversions to capture the faster growing modifications market
3. Strengthen our core through investment in data analytics and automation

Operating in a highly competitive MRO market that continues to be impacted by a weak economy, the Aerospace sector recognises the importance of disciplined investment to remain relevant. We will continue to review our operations and invest for the future, with the confidence that ST Aerospace is well positioned to offer dependable integrated solutions to our customers.

OPERATING REVIEW & OUTLOOK



2016 REVIEW

The Electronics sector had a good year with healthy demand for our solutions and orders across all our business segments. This is because of our core expertise in the key areas of Intelligent Transportation Systems, Satellite Communications and Information Communications Technologies.

Our competitive advantage lies in our ability to develop industry-leading high-tech products, underpinned by research and development, that sees demand locally and overseas. Our hallmark is delivering innovative and smart quality products that are reliable and competitively priced that meet the immediate and future needs of customers.

ELECTRONICS

LARGE-SCALE SYSTEMS GROUP

Increasing Traction In Key Markets

Rapid urbanisation continues to place pressure on transportation infrastructure in cities around the world, which creates strong demand for our Intelligent Rail Transportation solutions. In 2016, we expanded our presence in Thailand with new projects such as supplying Communications, Platform Screen Doors and Automatic Fare Collection (AFC) systems for the Bangkok Green Line Extension. In Saudi Arabia, we secured a contract to deliver Platform Screen Doors for Riyadh's Metro Lines 4, 5 and 6, on top of a contract to supply the same for Metro Lines 1 and 2 in 2014. We have also secured a contract to supply the Passenger Information System to CRRC Qingdao Sifang Ltd for Hong Kong's MTR by 2023.

Completed rail projects in 2016 include the Bangkok Purple Line, the Klang Valley MRT Line 1 Stage 1 in Malaysia, as well as Singapore's Downtown Line Stage 2.

At Singapore International Transport Congress and Exhibition 2016, ST Electronics debuted the AFC solution which comprises an Interactive Traveller Terminal (ITT) and the Advance Fare Gate (AFG). Both were designed to help operators optimise operational efficiency and resource utilisation while enabling commuters to enjoy a time-efficient, seamless and dynamic experience. A unique feature of the AFG is the facial recognition technology which allows a registered commuter to walk through entry and exit points without the need for farecards.

Homefront security is another area of growth, given the heightened security awareness around the world. In 2016, we were awarded projects from the Ministry of Home Affairs, including the SMS-based public alert system and an In-Vehicle Video Recording System. Other notable projects we secured include the Automated Passenger In-Car Clearance Systems for the Immigration & Checkpoints Authority of Singapore, and an extra low voltage system, part of

TeLEOS-1, Singapore's first commercial Earth Observation Satellite

our Intelligent Building Solutions, for the National Centre for Infectious Diseases in Singapore.

We continue to see much potential in the Unmanned Surface Vehicles (USVs) market and have invested in developing our USVs for different mission applications such as the detection of piracy operations and using high-power microwaves for stopping vessels.

Our expanding portfolio of environmental solutions is also making headway. Besides implementing the weather radar, low-level wind shear and automatic weather observation station in Seletar Airport, we deployed a wind and aerosol lidar system for a customer in Singapore. We also built on our capabilities in the Green Building initiative by partnering Temasek Polytechnic, United World College and the Building and Construction Authority to develop CEMVS. CEMVS will benchmark different buildings based on energy usage and provide data on irregular and abnormal behaviour for fault prediction.

COMMUNICATION & SENSOR SYSTEMS GROUP

New Frontiers Of Growth

The successful completion of the in-orbit test and commercial imagery service launch of TeLEOS-1, Singapore's first commercial Earth Observation Satellite, in July was a significant milestone for us. We signed agreements with Korean distributor, SI Imaging Services, Russian reseller, SOVZOND Company Ltd and South African reseller, Broadstone Technologies to promote and sell TeLEOS-1 imagery and value-added applications globally. We also launched GeoPortal, a one-stop imagery hub for customers to easily make online purchases of satellite imagery and tasking services requests.

KEY DEVELOPMENTS IN 2016:

1. Successful completion of in-orbit test and launch of commercial imagery services for Singapore's first commercial earth observation satellite – TeLEOS-1
2. Increased traction in the Middle East & Asia for Intelligent Rail and Public Security businesses
3. Expanded M2M communications offerings into North America, Europe and Australasia

The satellite communications market is in a state of transition and at an inflection point. Our Agilis brand is in the centre of this transition and we will continue to build end-to-end backbone communication solutions by leveraging our Radio Frequency experience and expertise. Key customers for these end-to-end solutions include GlobeComm and SpeedCast. In addition, the Agilis High Altitude Pseudo Satellite Communication Solution (HAPS), a fully integrated, highly efficient, low latency ground infrastructure, was introduced for unmanned aerial vehicles (UAV) that can deliver connectivity around the globe.

The AFC solution comprising the AFG and ITT is ergonomically designed and engineered in-house.

OPERATING REVIEW & OUTLOOK

The EC135 Helicopter Simulator trains pilots in avionics familiarisation and basic flight navigation.

We were also awarded a contract to design and develop a Very High Frequency Data Exchange System as a technology in augmenting the international maritime e-Navigation efforts, supported by the Maritime and Port Authority of Singapore.

Our subsidiary OrisTel Systems is gaining traction overseas as it secured several multi-year contracts from PT Bali Towerindo Sentra to supply Aggregation Switches for mobile backhaul application and passive optics equipment to the Gigabit Passive Optical Network (GPON) home broadband network used to connect 1.2m homes in Jakarta, Indonesia.

To expand our global engineering innovation footprint, VT iDirect (iDirect) established an Engineering and Innovation Centre in Killarney, Ireland. iDirect also formed a joint R&D partnership with Inmarsat to develop next-generation solutions to support the growing integration of satcom and terrestrial networks, after having worked together over the last four years on the Global Xpress programme.

As the threat of terrorism becomes more prevalent, solutions to enhance public safety and security become more important. Our advanced Electro-Optics sensors provide end-to-end solutions for counter terrorism applications and we showcased the Coris-Grande HD – a high definition handheld uncooled thermal imaging device during Singapore Airshow 2016. Our Infrared Fever Screening System was one of the projects that received the prestigious IES-SG50 Award from the Institution of Engineers, Singapore. We also launched the Sky Archer Counter Micro-UAV System which utilises a visual detection module and an electronic device to detect, track, classify and electronically disable threats posed by UAVs and drones. Its potential applications include protection of key installations, aviation safety and public safety, border security and surveillance.

To meet the growing demand for cyber security solutions locally and overseas, we stepped up development of trusted cyber security products and services. Our ST Electronics Cyber Security Centre was accredited by the former Singapore Workforce Development Agency to be an Approved Training Organisation for cyber security training. On 9 May, ST Electronics (Info-Security) was awarded a grant by the Cyber Security Agency of Singapore and the Infocomm Media Development Authority under the Cyber Security Associates & Technologists Programme as a training partner to host on-the-job training in cyber security for IT professionals. Finally, our indigenous DigiSAFE Data Diode received Singapore's National IT Evaluation Scheme (NITES) certification.

We also made major investments in cyber security R&D. In May, we set up the $44.3m ST Electronics and Singapore University of Technology and Design Cyber Security Laboratory with support from the National Research Foundation. The aim of the laboratory is to build next-generation cyber security solutions and products. ST Electronics also signed a Memorandum of Understanding with Motorola Solutions during CommunicAsia 2016 to accelerate the development of specialised technologies for high-security mission-critical broadband, cyber security solutions and purpose-built applications.

Investments in Smart Infrastructure by governments and enterprises are also on the increase. Our Machine-to-Machine (M2M) communications provide a single platform for multiple smart city applications including streetlight management, water resource management, smart metering and other applications. Our subsidiary Telematics Wireless enjoyed much success in 2016 with several Smart Street Lighting Control and Management projects awarded by customers in the UK, Canada, the US and New Zealand.

SOFTWARE SYSTEMS GROUP

Strategic Partnerships

ST Electronics has been delivering Modelling & Simulation solutions for over 30 years and last year, we showcased some of our latest products at various events around the world. At Singapore Airshow 2016, we featured the EC135 Helicopter Simulator with Flight Safety International and the Virtual Maintenance Trainer while at Eurosatory 2016, we showcased the HIGUARD Driving Simulator together with Renault Trucks Defense.

US-based MÄK was awarded a contract with RUAG to provide MÄK's full simulation suite for a new armoured vehicle simulator. MÄK's integration software was also used to link more than 400 workstations at the National Aeronautics and Space Administration's (NASA) Air Traffic Operations Laboratory. The US Air Force's Test Pilot School adopted MÄK's 3D visualisation engine in its Flight Sciences Simulator to train the next generation of test pilots. MÄK also released new versions of its products, continuing its innovation in 3D visualisation and web technologies.

Antycip Simulation sold MÄK software to DCNS, the French naval construction company, for naval gunnery training simulations; provided a Virtual Reality suite and TechViz software to Airbus at its Filton offices in the UK and delivered a four-projector blended display for construction vehicle manufacturer JCB at its Uptime Centre.

Our Software Systems Group also continued to support the efforts of government agencies both in Singapore and abroad. In Singapore, we are collaborating with SkillsFuture Singapore (SSG) through a Shared Services Partnership that provides business process outsourcing services in areas such as Corporate Finance and Human Resource Administration, as well as Grant and Training Administration, and Customer Services. This partnership enables SSG to optimise its service delivery and resources, and to focus on its core mission.

In Botswana, our projects included a facility upgrade for a new Air Traffic Control Tower at Maun Airport as well as a three-year maintenance contract for the Crime and Criminal Recording Systems from the Botswana Police Service.

As part of its ongoing business review, ST Electronics (Info-Software Systems) divested its 40% equity interest in NEC STEE Cloud Services Pte Ltd to its joint venture partner, NEC Asia Pacific Pte Ltd.

INDUSTRY OUTLOOK

Ready To Benefit From Global Trends

The business outlook for the Electronics sector is positive. Our core competencies in Intelligent Transportation Systems, Satellite Communications and Information Communications Technologies (ICT) are very much in demand thanks to trends such as the global demand for Internet Everywhere, the growing rise of M2M communications and rapid urbanisation in Asia and the Middle East. Being able to provide cutting-edge, innovative solutions to meet rising global demand makes us well placed to grow in the years to come.

SATELLITE & BROADBAND COMMUNICATIONS

The global demand for Internet Everywhere, such as mobile internet connectivity in the air, on land and at sea as well as high-speed internet access, is set to continue unabated. To address this, high throughput systems including Ultra-High Throughput Satellites (Ultra-HTS) and Internet-From-The-Sky systems such as OneWeb's Low-Earth-Orbit Satellite constellation, as well as Google and Facebook's high altitude, long endurance unmanned aircraft have emerged. Our satellite and broadband communication solutions will continue to be in demand as a result.

The proliferation of mobile devices has heralded a digital revolution and in recent years, the likes of Uber and Airbnb are prominent examples of a new "sharing economy". Wall Street Daily estimated that in 2015, the sharing economy created 60,000 jobs in the US and attracted a total of US$15b in financing. Time magazine ranked it among the Top 10 ideas that will change the world. The proliferation of connected devices and the trends in Big Data have created the need for M2M communications and the digital sharing economy will give rise to new business models. Our M2M communications will allow us to have a share in the Internet of Things (IoT) market.

TRANSPORTATION SOLUTIONS & SYSTEMS

Rapid urbanisation and the creation of mega cities have put huge pressure on the road and rail infrastructure and as a result, demand for urban rail transit infrastructure in ASEAN, the Middle East and South America remains buoyant. Within ASEAN, Thailand, Malaysia and Indonesia are taking the lead. Urban rail developments in the second and third tier cities in China are also moving ahead, albeit at a slower pace due to the slowdown in the Chinese economy. In the Middle East, Saudi Arabia and Qatar are leading the region in urban rail development. In particular, the Riyadh Metro projects are progressing at a fast pace. We are already significant players in these markets and we will continue to make our presence felt.

KEY BUSINESS FOCUSES FOR 2017:

1. Sharpen our edge in High Throughput Satellite Communications and Intelligent Rail Transportation Solutions
2. Strengthen our Public Security Solutions and M2M communications business
3. Enhance our capabilities and offerings in Data Analytics and Cyber Security

ADVANCED ELECTRONICS & ICT SYSTEMS

Urbanisation has also produced challenges in public services provision in managing health, safety and security risks and has given rise to concerns about environmental sustainability. Cyber security remains a top priority for businesses and it will become more important as IoT takes off and our world becomes ever more mobile and connected.

With IoT, there will be a large trove of machine data where machine learning and analytics can help organisations gain insights and make better decisions. Cities can execute urban planning with greater precision, healthcare providers can provide targeted care to patients and industrial productivity can be optimised through predictive maintenance. These are some of the many value propositions that machine learning and analytics can bring. There will be opportunities for machine learning and data analytics solutions as demand grows, and we will continue to develop our expertise to bring new solutions to the market.

OPERATING REVIEW & OUTLOOK

Terrex 3 IFV

LAND SYSTEMS

2016 REVIEW

The Land Systems sector continued to develop innovative solutions for its customers in the defence and specialty vehicles segments. Highlights of the year include the launch of the Terrex 3 infantry fighting vehicle and the delivery of the prototype Armoured Fighting Vehicle to the Singapore Armed Forces. The specialty vehicles segment continued to provide the sector with a diversified revenue stream despite a challenging market environment.

The MAN A22 three-door City Bus

AUTOMOTIVE – DEFENCE

Defence Solutions On The Global Stage

The Terrex family of Infantry Fighting Vehicles (IFVs) continued to be the focus as the Land Systems sector strengthened its presence in the wheeled armoured and the IFV segments of the global defence market.

In March, ST Kinetics, together with its partner, Science Applications International Corp. (SAIC), progressed into the Engineering, Manufacturing and Development (EMD) phase of the US Marine Corps' Amphibious Combat Vehicle Phase 1, Increment 1 (ACV 1.1) programme.

During the EMD phase, SAIC and ST Kinetics will provide the US Marine Corps with 16 Terrex 2 prototypes that will be tested in 2017. In 2018, the US Marine Corps will make a decision and delivery is expected to be completed by 2020.

We also unveiled the Terrex 3 at Eurosatory 2016, an international defence and security exhibition. The Terrex 3 made its first appearance in Europe at DVD 2016, a showcase of equipment and technology for the UK Armed Forces. Based on the Terrex 2 platform, key adaptations were done to make this an expeditionary vehicle.

With this latest addition, the sector now offers a family of IFVs which delivers the best balance of mobility, lethality and protection to meet the full spectrum of operational requirements of modern fighting forces. The Terrex 3 was also the platform for Sentinel II, which was a contender for the Australian Army's LAND 400 Phase 2 programme.

In 2016, the Land Systems sector delivered the final prototype of the next-generation Armoured Fighting Vehicle (AFV) to the Singapore Armed Forces (SAF). Developed together with the Defence Science and Technology Agency, the next generation AFV will be commissioned by 2019 and will replace the ageing ULTRA M113 AFV that has been in service since the 1970s.

The Land Systems sector continued to offer novel solutions to enhance our customers' mobility and boost their superiority in the battlefield. Our latest development in Unmanned Ground Vehicles (UGV) is a partnership with Milrem of Estonia which features the ADDER Remote Weapon Station on Milrem's UGV to create an advanced armed tracked platform that augments a battalion's fighting capabilities.

AUTOMOTIVE – COMMERCIAL

Reallocating Resources Amidst Challenging Times

Autonomous Vehicles & Robotics

The Land Systems sector successfully delivered two Auto Riders to Gardens by The Bay (GB) in Singapore. The two vehicles are Asia's first fully operational autonomous vehicles (AVs) and are a showcase of the potential of self-driving technology in Singapore. The two vehicles have been running since June 2016, complementing GB's existing people-mover system.

In June, we signed a Master Agreement with Sentosa Development Corporation and the Ministry of Transport to commence the development of a fleet of AVs to operate in Sentosa. This follows the Memorandum of Understanding signed in 2015. Trials are expected to take place in 2017, with the vehicles plying pre-determined routes on Sentosa to see how they adapt and navigate under actual operating conditions.

This agreement is a step towards ST Kinetics' vision of deploying self-driving vehicles and mobility concepts to complement Singapore's multi-modal land transport system.

Besides transportation, ST Kinetics also presented a range of autonomous and robotics applications for the logistics and healthcare industries at the inaugural Singapore International Robo Expo.

These applications, aimed at helping businesses raise productivity and improve the efficiency of their operations, range from autonomous mobile robots for transportation of materials and supplies to smart logistics solutions that integrate the operations of an automated vertical storage system with Automated Guided Vehicles.

Specialty Vehicles

The global specialty vehicles market continued to be challenging, reflecting weak business confidence, amid the uncertain geopolitical outlook around the world. Some markets are showing signs of recovery though.

In the US, sustained demand for truck bodies, trailers and commercial grade road construction equipment enabled VT LeeBoy and VT Hackney to retain their leading positions in their respective segments.

VT LeeBoy saw stronger sales as the US economy continued to recover. The latest addition to its broad range of asphalt paving equipment is a compact paver that provides versatility and low sound levels for operations in residential areas. VT LeeBoy also launched the

KEY DEVELOPMENTS IN 2016:

1. Expanded family of infantry fighting vehicles with the launch of Terrex 3
2. Delivered the final prototype of the next-generation Armoured Fighting Vehicle to the Singapore Armed Forces
3. Awarded a prototype contract by the United States Postal Service for its Next Generation Delivery Vehicle

CSV816 Variable Width Chip Spreader with features that improve the efficiency and productivity of their customers' operations.

VT Hackney continued to benefit from the sustained demand for truck bodies and trailer products. In September, VT Hackney was one of a select group of companies awarded a contract by the United States Postal Service (USPS) for its Next Generation Delivery Vehicle (NGDV) Acquisition Program. VT Hackney will partner with Workhorse Group Incorporated on the contract to provide a prototype near-zero emission next-generation delivery vehicle that will help USPS reduce fuel and maintenance costs substantially.

The construction equipment market in India saw an improvement in 2016. With the Indian government's emphasis on infrastructure development as a key driver of economic growth, the country has set a three-year infrastructure investment target of Rs 25 trillion (US$376.5b) to develop 27 industrial clusters and for road, railway as well as port connectivity projects. The country has also set a target of 25,000km of National Highways to be awarded in 2016-2017, compared to 10,000km awarded in 2015-2016.

LeeBoy India's business performance reflected the growth in the Indian market. During the year, it also

OPERATING REVIEW & OUTLOOK

successfully penetrated new markets including South Africa and launched new products, such as the 18- and 22-tonne motor graders, as well as a drill attachment for excavators for use in the mining industry.

Brazil's construction sector remained in recession in 2016. The downturn of the energy sector and the on-going political uncertainties resulted in weak investor confidence, and delays in the construction of infrastructure projects continued to affect the sales of specialty vehicles.

ST Kinetics' family of IFVs-designed to meet the full operational requirements of a modern fighting force.

Despite the challenging business environment, LeeBoy Brazil continued to work on building market share. It also focused on exports to neighbouring Latin American countries such as Argentina, Chile, Mexico and Paraguay.

In China, the construction equipment market, having almost halved in 2015, continued to be affected by an unfavourable combination of the country's economic crunch, financial markets volatility and falling commodity prices. As part of its continuous review of its specialty vehicle business in China, the Land Systems sector divested its 60% equity stake in Guizhou Jonyang Kinetics Co., Ltd. in May.

In October, its Chinese subsidiary in the road construction equipment business, JHK ceased production with a view that the business was not able to operate on an ongoing basis. The Group recorded a $61m one-off charge for the Land Systems sector, consisting of an impairment of ST Kinetics' net carrying value in JHK and closure costs. Subsequently, in December, JHK was placed under voluntary liquidation.

MUNITIONS & WEAPONS

Steady Demand, Continuous Innovation

There was steady demand for our 40mm ammunition solutions from around the world, consolidating our position as one of the leaders in the global 40mm ammunition market. We secured new orders from several countries including Latin America and the Middle East. Existing customers also expressed their confidence in the quality and performance of the ammunition through repeat orders.

Another highlight for the year was the introduction of the new 5.56mm PLUS ammunition – a lightweight polymer round that weighs 30% less than the conventional 5.56mm ammunition. Fully compatible with 5.56mm rifles, it is ideal for urban operations and improves mobility by reducing the soldiers' combat load.

The sector also provided component and technology support for the ongoing contract with General Dynamics Ordnance and Tactical Systems – Canada for the production of the 40mm Air Bursting ammunition in Canada.

At Singapore Airshow 2016, ST Kinetics presented a full suite of advanced soldier systems designed to further empower and unburden soldiers in the battlefield. Collectively known as ARIELE (short for Army Individual Eco-Lightweight Equipment), the soldier-centric solutions enhance the soldiers' situational awareness, offer enhanced protection while lightening his battle load by up to 30%, and improve performance by cooling body temperatures by up to 15%. ARIELE also provides a superior energy source that will double the energy density and power management for the soldiers' personal fighting equipment.

SERVICES, TRADING & OTHERS

Launch Of New Solutions

In Singapore, the Land Systems sector continued to grow and expand market share through new vehicle launches. It introduced the new MAN Euro 6 Truck and successfully secured new customers. Euro 6 is the latest diesel engine emissions legislations set by the European Union and in Singapore, new diesel vehicles have to comply with this standard from 1 January 2018.

The sector secured a repeat order from Singapore's Land Transport Authority (LTA) for its MAN A95 Double Decker Bus in May, bringing the total number of buses ordered to 182 units.

During the year, the sector unveiled two new buses that will enhance commuter experience. The first is the unique 12.8m Double Deck Concept Bus which features two staircases and three doors.

The staircases and additional third door located at the rear staircase will help to reduce the bottleneck between the single staircase and exit door, and the time the bus stops at each bus-stop. The bus also boasts stylish interior lighting, comfortable seats with high headrest support, USB charging ports and advanced passenger information displays.

The second bus is a first-of-its-kind right-hand drive three-door City Bus which was unveiled at Singapore International Transport Congress and Exhibition 2016. Like the 12.8m Double Deck Concept Bus, the MAN A22 also has a third door located near the rear of the bus to encourage commuters to move to the back of the bus, as well as user-friendly features like designated wheelchair and baby pram areas to accommodate priority commuters.

The sector's Fleet Maintenance, Repair and Overhaul business expanded its market presence with the signing of a five-year comprehensive maintenance programme with a car rental company. The scope of work covers routine preventive maintenance, as well as wear and tear items of the contracted fleet of about 600 units.

INDUSTRY OUTLOOK

Continue To Tap Global Defence Opportunities With Customised Solutions

DEFENCE

Defence budgets in Asia Pacific are expected to grow due to the modernisation needs of countries in the region, and ongoing geopolitical tensions. Opportunities also exist in the rest of the world as countries replace and upgrade their ageing equipment.

The global defence landscape will continue to evolve with an increased demand for counter-terrorism solutions, systems for cyber security and intelligence gathering as well as unmanned security.

ST Kinetics will continue to participate in local and international programmes, extend its presence through new products and capabilities, and enter new markets.

COMMERCIAL

In Singapore, ST Kinetics will build up its MAN truck distribution business to meet the increased demand for Euro 6 trucks expected in 2017.

We will also meet the higher demand for city buses with features that provide positive commuter experience. Under LTA's Bus Service Enhancement Programme which started in 2012, a total of 1,000 government-funded buses will be on the road by 2017 to enhance connectivity and improve bus service levels. This includes the 820 buses already on the roads.

In support of the nation's move towards an efficient and sustainable transportation system, ST Kinetics will continue to leverage its engineering expertise to explore and conduct trials for the deployment of electric buses and AVs in Singapore. We will be conducting on-road AV trials on Sentosa to ensure the safety and reliability of the vehicles.

In the US, the economy is expected to maintain its steady recovery. Both VT Hackney and VT LeeBoy will continue to expand their product offerings by developing higher margin products and at the same time, expand their international sales to markets in Africa, South America and Asia. However, export sales could be tempered due to the strong US dollar and the weaker local economies in Latin America. VT Hackney will also work with its partner, Workhorse Group, to deliver the NGDV to the USPS.

KEY BUSINESS FOCUSES FOR 2017:

1. Deliver the 16 Terrex 2 prototypes for the US Marine Corps' Amphibious Combat Vehicle Phase 1.1 programme
2. Participate in local and international defence acquisition programmes
3. Conduct trials for the deployment of electric buses and autonomous vehicles in Singapore and overseas

Brazil is expected to continue to face economic uncertainty in 2017 with economists lowering their forecast for GDP growth from 1.36% to 1.30%. LeeBoy Brazil will continue to monitor market developments closely, and finetune its growth strategy to ride out the downturn. In the meantime, it will focus on meeting overseas demand from other Latin America markets.

India's economic recovery is expected to continue in 2017, driving the growth for LeeBoy India in both local and export markets. It will also seek to expand and strengthen its dealership network to increase sales to Africa and the Middle East.

OPERATING REVIEW & OUTLOOK

MARINE

2016 REVIEW

The marine industry has been plagued by a persistent oversupply of vessels and overcapacity in shipyards. While we have not been spared the impact of the oil and gas downturn, our diversified business portfolio has cushioned us to some extent.

As a result, we did relatively well compared to other industry players. In particular, our quick decision to pivot away from the offshore sector helped us avoid a hard landing in the shiprepair segment. We identified non-traditional areas such as the wind farm and the Liquefied Natural Gas (LNG)/Liquefied Petroleum Gas (LPG) power barge sectors as new sources of growth where we could leverage our design and engineering expertise. We observed increasing demand for more efficient vessels and hull forms and are providing solutions in these areas.

In the defence segment, our proven naval solutions continue to gain traction. We have increased our foreign defence sales while continuing to support our local defence partner. Geographically, we have expanded our agency network in order to widen our defence-related sales coverage areas to include South America as well.

We are also growing our capabilities in unmanned technologies, data analytics and sense-making systems to prepare ourselves for the future where technology will be our key differentiator.

We continue to focus on delivering our promises of quality with fast turnaround times, developing innovative designs in anticipation of customers' needs, as well as cost management and productivity improvements.

SHIPBUILDING

Delivering Order Book, Building New Capabilities

In 2016, we celebrated significant milestones with customers such as the Royal Navy of Oman (RNO), the Republic of Singapore Navy (RSN), Bouchard Transportation Co. Inc. (Bouchard Transportation), and Crowley Maritime Corporation (Crowley).

In Singapore, the fourth and final vessel of the RNO's Al-Ofouq programme, *Khassab,* was successfully delivered in July. All the four vessels namely *Al-Seeb*, *Shinas*, *Sadh* and *Khassab*, have completed live firing and hot-weather trials in Oman.

The RSN's Littoral Mission Vessel (LMV) programme is in serial production in our Singapore yard with eight ships either under construction or in the pre-construction phase. In 2016, we delivered the first two vessels, *Independence* and *Sovereignty*. The third vessel, *Unity*, was also successfully launched. The rest are making good progress in terms of construction and testing schedules.

In the US, VT Halter Marine delivered the *USNS Maury* (T-AGS 66), an oceanographic survey ship, to the US Navy. The vessel has since completed her post-delivery availability testing. She

LMV Independence is one of the eight LMVs that will replace the current Fearless-class Patrol Vessels.

is the seventh and final Pathfinder-class oceanographic survey ship designed and built by VT Halter Marine for the US Navy. VT Halter Marine was awarded the contract to provide and install additional mission handling equipment on the vessel and this is expected to be completed in the first quarter of 2017.

VT Halter Marine also successfully delivered the two 6,000hp Twin Screw Articulated Tug Barges (ATBs), *Frederick E. Bouchard* and *Morton S. Bouchard Jr.* to Bouchard Transportation. Meanwhile, the programme to build two LNG-powered container Roll-on/Roll-off vessels for Crowley is progressing well and we expect to deliver them in the third quarter of 2017 and the first quarter of 2018 respectively.

Besides delivering our contracts on time, we also worked hard to build up our order book. During the year, together with consortium partner Penguin International Limited (PIL), we won a contract from the Ministry of Home Affairs (MHA) for the design, construction and the system maintenance programme for three vessels – a Heavy Marine Fire Vessel, a Heavy Marine Rescue Vessel and a Marine Rescue Vessel. The consortium allows both ST Marine and PIL to leverage each other's capabilities to provide a total package solution to MHA. Construction of the vessels is anticipated to commence in mid-2017 with delivery expected in the second quarter of 2019. In the US, we won a contract from Virginia's Department of Transportation to design and build a 499-passenger/70-vehicle ferry.

In the defence sector, we focused our efforts on markets for landing craft, navy tugs, patrol vessels, special mission ships and oceanographic research vessels. VT Halter Marine entered into a joint venture with Raytheon Corporation and Al Zamil Shipbuilding in Saudi Arabia to pursue the Royal Saudi Navy Force Eastern Fleet Modernisation Programme. In the commercial sector, we focused on working with customers for possible replacements of tugs, barges, ferries and container vessels.

Looking ahead, we believe cleaner fuels, more efficient hull forms and smarter platforms are the way forward. We are leveraging our experience in the design and build of Roll-on/Roll-off passenger vessels (Ropax) to develop dual-fuelled Ropax carriers. We have also developed advanced hull forms for fast craft that use less propulsion power to get the same speed, targeting the growing segments of maritime and homeland security. With this, we hope to increase our scope of services and products to agencies such as the marine police and coastguards in the region and beyond.

Besides building capabilities, we are also building partnerships. We have identified partner shipyards to build ships in-country using our design and technology package. We are also working on signing long-term support agreements with our customers to provide service, maintenance and logistics support. The ability to support our customers from build to through-life support will be our value add.

SHIPREPAIR

Holding Steady Despite The Storm

In the commercial segment, our Shiprepair business held steady despite a depressed freight market and low oil prices. Cutbacks in spending on upgrades and maintenance of ships have left a negative impact on the industry. By adjusting quickly to market conditions and switching from the oil and gas segment to less affected segments such as the livestock and dredging shipping industry, we were able to mitigate the effects of the industry downturn.

The number of vessels docked has remained constant over the past three years. Projects delivered include repairs for dredgers *Vovlox Terrano*, *Ham 310* and *Cornelis Zanen*; chemical tankers *Stolt Tsubaki*, *Stolt Ajisai*, *Stolt Kiky*, and *Stolt Perseverance*; livestock carriers *Shorthorn Express*, *Sahiwal Express*, *Ocean Outback* and *Ocean Drover*; and

KEY DEVELOPMENTS IN 2016:

1. Secured new Shipbuilding contracts in Singapore and the US
2. Delivered a patrol vessel, two LMVs and two ATBs
3. Entered into joint venture to pursue the Royal Saudi Navy Force Eastern Fleet Modernisation

The sailing-off of Khassab, the fourth and final patrol vessel in the RNO's Al-Ofouq programme from ST Marine.

OPERATING REVIEW & OUTLOOK

offshore support vessels *Far Senator* and *Lady Grace*.

In the US, VT Halter Marine has been building up its track record for carrying out repairs of fisheries research vessels, with the National Oceanic and Atmospheric Administration (NOAA) as one of its many repeat customers. VT Halter Marine has also expanded its market share in dredger repairs and other conversion projects, such as the lengthening and repowering of tugs. It achieved a milestone in 2016 by berthing and carrying out repairs on a 810' Aframax vessel, the largest ship it has ever worked on. During the year, VT Halter Marine also installed new cargo hydraulic ramps for Crimson Shipping's vessels and had dry-docking repairs on small waterplane area twin hulls (SWATH hulls) for the US Navy Sea Fighter and Joint High Speed Vessel.

VT Halter Marine is currently pursuing opportunities in the areas of emission upgrades and repowering of vessels with engine manufacturer partnerships; and in the government sector for Military Sealift Command, US Navy and US Army vessels.

Besides Shiprepair, we were busy working on various upgrading, logistics management and maintenance programmes for the RSN, marine police and foreign navies. These included upgrading of the existing Landing Ships Tank, major refits of the frigates and submarines, and the extension in scope of logistics management and maintenance contracts. We were awarded the remediation programme of Armidale-class patrol vessels for the Royal Australian Navy and we have successfully completed four of the six vessels. Our focus on operations and support services, including engine servicing for overseas navies, contributes to our reputation as a Total Naval Solutions provider.

ENGINEERING

Successful Project Deliveries

The Ropax vessel, *Nova Star*, was chartered to Inter Shipping SARL, a Morocco-based shipping company, to provide ferry services between Algeciras, Spain and Tangier, Morocco.

In the environmental engineering segment, STSE Engineering Services Pte Ltd (STSE Engineering) successfully delivered an Integrated Waste Management System to the Brunei Economic Development Board under a Build-and-Operate contract. The facilities comprise a sanitary landfill and a transfer station.

An Integrated Waste Management System was successfully delivered to the Brunei Economic Development Board in March 2016.

STSE Engineering also successfully delivered the Kranji NEWater plant in Singapore and is currently managing its maintenance.

We have sharpened and enhanced our capabilities in water treatment and solid waste management systems. We developed gasification technology so as to extract maximum energy from waste while leaving minimal residue. STSE Engineering will continue to pursue Design-Build-Own-Operate and Design-Build-Operate-Transfer contracts which come with recurring revenue streams.

INDUSTRY OUTLOOK

Opportunities Within A Challenging Market

Shipbuilding

The shipbuilding market in the marine and offshore segment is not expected to recover in 2017. On top of the slowdown in the major world economies, there is currently an oversupply of ships and an overcapacity in shipyards. Many companies have been forced to restructure loans with their lenders as they continue to face cash flow issues.

In view of market conditions, we will focus on niche projects while developing new designs with smarter technologies catering to the needs of the industry in the future. One area in which we have seen increasing interest is LNG ferries that are operating in the Sulphur Emission Control Areas. Our design team has developed a 161m LNG Ropax with a carrying capacity of 1,200 passengers, targeted at short routes in the European and American markets.

Internationally, the naval and para-military shipbuilding market has a positive outlook, even though some navies are postponing their acquisition programmes due to budget cuts. We continue to see interest in our range of proven naval platforms such as those needed in maritime security, humanitarian assistance and disaster relief, as well as anti-piracy and anti-smuggling efforts. We are participating in tenders and seeing interest from regional navies as well as navies from South America. Platforms include littoral operations support vessels, patrol vessels, frigates as well as landing platform docks.

ST Marine can play a role in the Joint Multi-Mission Ship project as a designer or builder or in operations and support (O&S). We continue to see opportunities in local defence O&S as the RSN and the Police Coast Guard outsource more non-core functions. We will continue to engage them for upgrading, logistics management and maintenance programmes.

We are also in discussion with potential partners in the Middle East and Asia to provide long term engineering and operations support, including the refitting and upgrading of naval vessels, the overhaul of high speed diesel engines and the provision of integrated logistics services to their existing fleet and assets.

In the US, we do not foresee an improvement in the utilisation rates of offshore supply vessels in the near term. However, there is potential demand for replacement ATBs due to the average age of the fleet. We are seeing new interest in Inspection/Maintenance/Repair vessels and multipurpose chemical tankers as well as new designs of fishing trawlers. We also see a possible increase in demand for more powerful and efficient dredgers as there may be an increase in the number of deep draft post-Panamax cruise vessels calling at these ports. ATBs for the transportation of alternative fuels such as Compressed Gas Liquid is another new area that is gaining interest. Another positive factor is that the Jones Act continues to give US shipyards like VT Halter Marine an advantage in shipbuilding and related works. Meanwhile, the Foreign Military Sales, Foreign Military Financing and Direct Commercial Sales Programs provide opportunities; including with foreign navies with whom we have a good track record.

Shiprepair

The market outlook for commercial ship repairs remains very competitive. Most shipyards are not operating at maximum capacity and are prepared to undercut. Ship owners are pushing back their vessels docking surveys as long as they can, and some of our regular customers are requesting lower prices and longer installment payments. Nonetheless, many ship owners are still optimistic that conditions will eventually improve in 2017. We will focus on strengthening and maintaining our relationship with repeat customers, who contributed to the bulk of our sales.

To increase revenue, we will continue to focus on upgrading work on vessel types such as Floating Storage Regassification Units and Livestock Carriers, as well as unconventional conversion work. For example, with the steady growth in demand for wind farm support vessels due to the expanding wind farms in Europe, we are working on projects converting Platform Supply Vessels into Service Operation Vessels.

We are also working closely with customers to leverage technology and improve processes to help them reduce costs, for example, by developing subsystems such as Fuel Efficiency Modules.

In the US, VT Halter Marine will focus on attracting more repair business from repeat customers and expanding its market share with lifecycle upgrading, repowering and repurposing solutions for both defence and commercial sectors. To mitigate increasing competition, we will seek customers on the east coast of the US as well as customers operating in the Gulf of Mexico. Additionally, we are seeking partnerships with established players in the power barge market, offering our design and planning capabilities for such conversions.

We believe that our various efforts will help us navigate the current challenges.

KEY BUSINESS FOCUSES FOR 2017:

1. **Develop new ship designs with smarter technologies for niche markets**
2. **Pursue para-millitary shipbuilding and local defence operations support opportunities**
3. **Strengthen our capabilities in environmental engineering**

Environmental Engineering

In Singapore, we expect new tenders for the upgrading of water treatment and water reclamation plants in line with the Public Utility Board's plans to upgrade and expand existing facilities. Some of the larger projects include the Jurong Island Desalination Plant, the Integrated Waste Management Facility and the Tuas Water Reclamation Plant. We also anticipate several tenders in 2017 for Pneumatic Waste Conveyancing Systems to be installed in new HDB estates.

In the Middle East, there are multiple long-term infrastructure projects underway and we expect strong demand to continue for waste collection, logistics and treatment systems. We foresee more upcoming tenders for large scale Pneumatic Waste Conveyancing Systems from Qatar, UAE and other countries in the Middle East. In Asia, environmental infrastructure, and water and waste management solutions would form part of the infrastructure development requirements as China's One Belt One Road unfolds. We are positioning ourselves to capture some of these opportunities as they arise.

OPERATING REVIEW & OUTLOOK

OTHER HIGHLIGHTS

SINGAPORE AIRSHOW 2016

ST Engineering took centre stage as the largest participant at Singapore Airshow 2016, the region's biggest aviation and defence event, exhibiting over 100 products and solutions. Besides battle-tested weapons and vehicles, we showcased new solutions, including a proof of concept of an Unmanned Hybrid Vehicle and various Smart City solutions.

AIRBITAT SMART COOLER

A product that made its debut at Singapore Airshow 2016 was the Airbitat Smart Cooler. Developed by Innosparks, this is an innovative eco-friendly outdoor cooling system that overcomes humidity challenges in tropical climates to deliver refreshing cool air. Innosparks, together with Mandai Park Development, has since installed four trial units of Airbitat Smart Coolers at the Singapore Zoo.

CORPORATE INFORMATION

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Vincent Chong Sy Feng
(President & CEO)

Koh Beng Seng

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Dr Stanley Lai Tze Chang

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#21-00 Asia Square Tower 1
Singapore 018960

DBS Bank Ltd
12 Marina Boulevard
#45-01, DBS Asia Central
@ MBFC Tower 3
Singapore 018982

Oversea-Chinese Banking
Corporation Limited
65 Chulia Street
#10-00 OCBC Centre
Singapore 049513

United Overseas Bank Limited
1 Raffles Place
#25-61
One Raffles Place Tower 2
Singapore 048616

FINANCIAL REVIEW

REVENUE GROWTH DESPITE ECONOMIC HEADWINDS

The Group registered a 6% increase in revenue at $6.68b in FY2016. Profit before tax (PBT) and net profit came in 6% and 8% lower at $590.6m and $484.5m respectively.

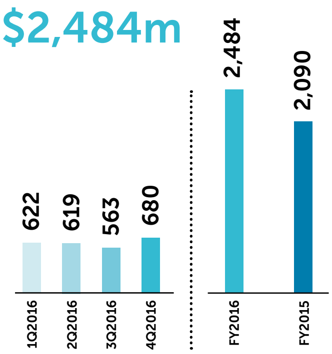
Revenue growth was largely driven by the Electronics sector and EFW, ST Aerospace's subsidiary acquired in January 2016. This was partly offset by lower revenue from the Land Systems sector following the divestment of Guizhou Jonyang Kinetics Co., Ltd. (GJK) in 2Q2016 and cessation of production of JHK in October 2016, as well as decreased revenue contribution from the Marine sector.

The lower PBT and net profit for the Group was largely the result of a one-off charge consisting of an impairment of asset carrying values and provision for closure costs for JHK, a road and construction

AEROSPACE

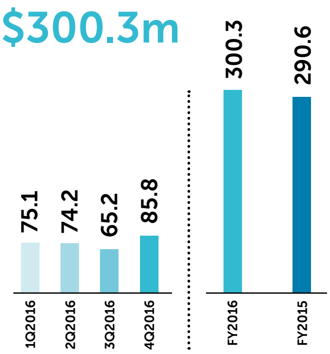
Revenue ($m)

$2,484m



Profit Before Tax ($m)

$300.3m



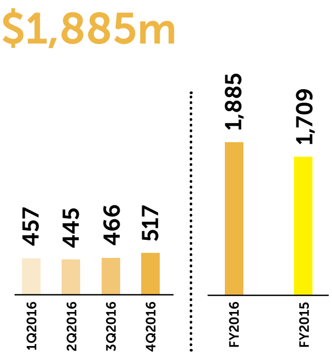
KEY HIGHLIGHTS:

1. Stepped up our shareholding in EFW from 35% to 55% in January 2016
2. Higher revenue and PBT in FY2016 mainly contributed by EFW
3. Formed joint venture with Sojitz Corporation through the sale of a 50% stake in Keystone Holdings (Global) Pte. Ltd. in July 2016

ELECTRONICS

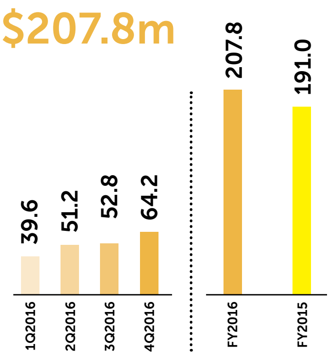
Revenue ($m)

$1,885m



Profit Before Tax ($m)

$207.8m



KEY HIGHLIGHTS:

1. PBT hit new level, crossed $200m
2. 10% higher FY2016 revenue mainly from increased sales in Communication & Sensor Systems Group and Large-Scale Systems Group
3. 9% higher FY2016 PBT mainly from increased revenue and higher other income, partially offset by higher operating expenses

machinery specialist based in Zhenjiang, China. JHK was placed under members' voluntary liquidation in December 2016. Excluding one-off impacts and operating losses sustained by the Specialty Vehicle business in China (comprising GJK and JHK), the Group's PBT and net profit were comparable to FY2015.

In FY2016, the Group invested $252m in capital expenditure as we continue to develop new capacity and capabilities. The Group secured more new orders in FY2016 at $6.5b and ended the year with a healthy order book of $11.6b.

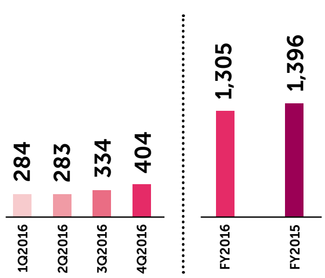
The Group delivered stronger operating cash flow in FY2016 and ended the year with cash and cash equivalents balance (including funds under management) of $1.4b. The Economic Value Added (EVA) for the Group remained positive at $252.4m for FY2016.

The Board is proposing to pay shareholders a final dividend of 10 cents per share. Together with the interim dividend of 5 cents per share paid in August 2016, a total of 15 cents dividend per share would have been paid for FY2016.

LAND SYSTEMS

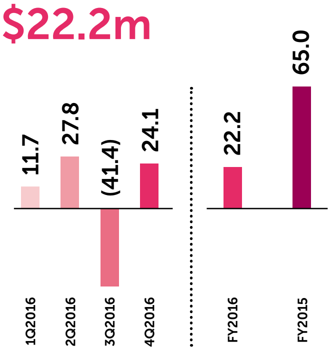
Revenue ($m)

$1,305m



Profit Before Tax ($m)

$22.2m



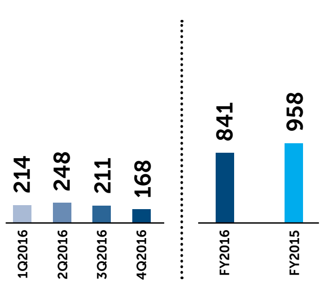
KEY HIGHLIGHTS:

1. Streamlined operation, divested Specialty Vehicle business in China
2. FY2016 revenue impacted by the divestment of GJK and cessation of production in JHK, partially offset by higher revenue from Munitions & Weapons and Services, Trading & Others business groups
3. FY2016 PBT impacted by one-off charge and provision for closure costs for JHK, partially offset by gain on divestment of GJK

MARINE

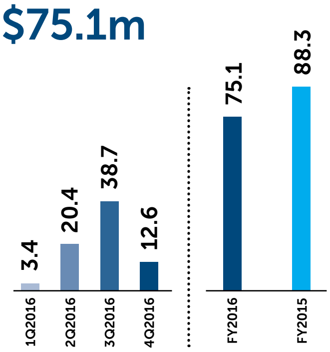
Revenue ($m)

$841m



Profit Before Tax ($m)

$75.1m



KEY HIGHLIGHTS:

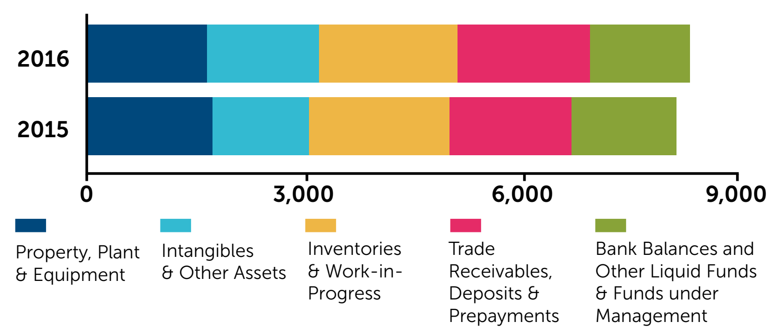
1. Lower FY2016 revenue mainly due to lower revenue recognition from Shipbuilding contracts
2. Lower FY2016 PBT mainly due to weaker Shipbuilding performance

FINANCIAL REVIEW

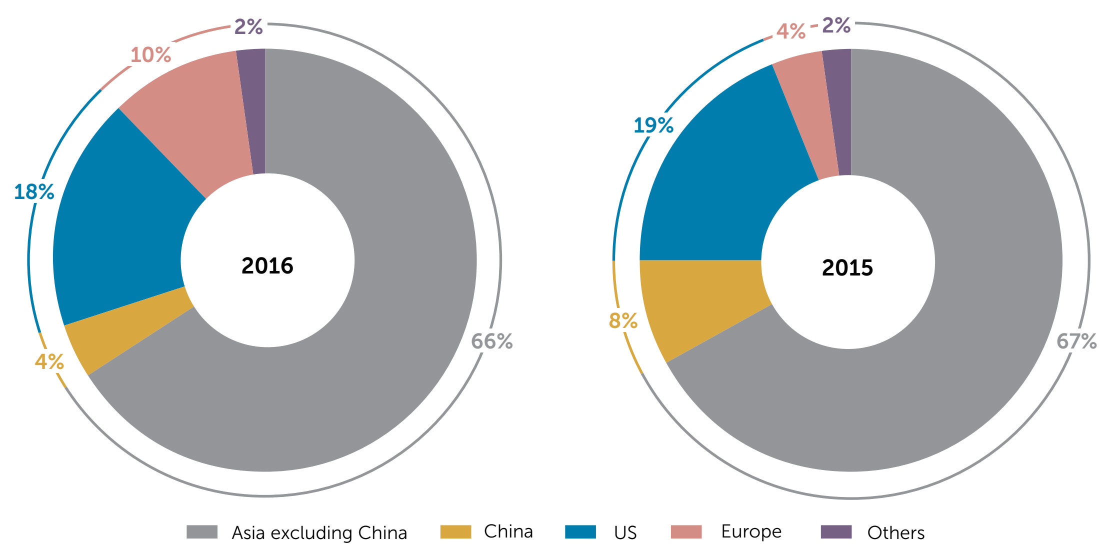
FINANCIAL POSITION

As at 31 December 2016, the Group's total assets of $8,365m was $196m or 2% higher than that as at 31 December 2015. The increase was mainly due to higher intangible assets largely as a result of increased investments in passenger-to-freighter conversion programme with the acquisition of EFW during the year.

Total Assets Deployment ($m)

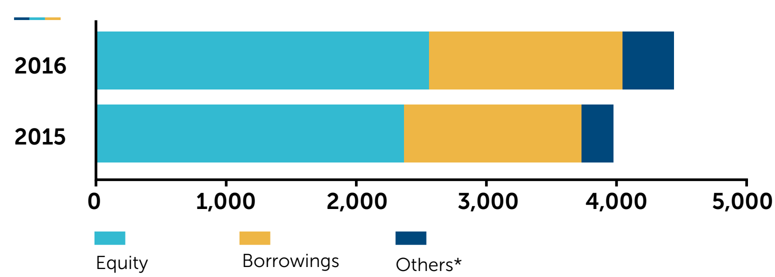


Total Assets by Geography



The average capital employed in FY2016 was $4,426m as compared to $3,971m in FY2015.

Capital Employed ($m)

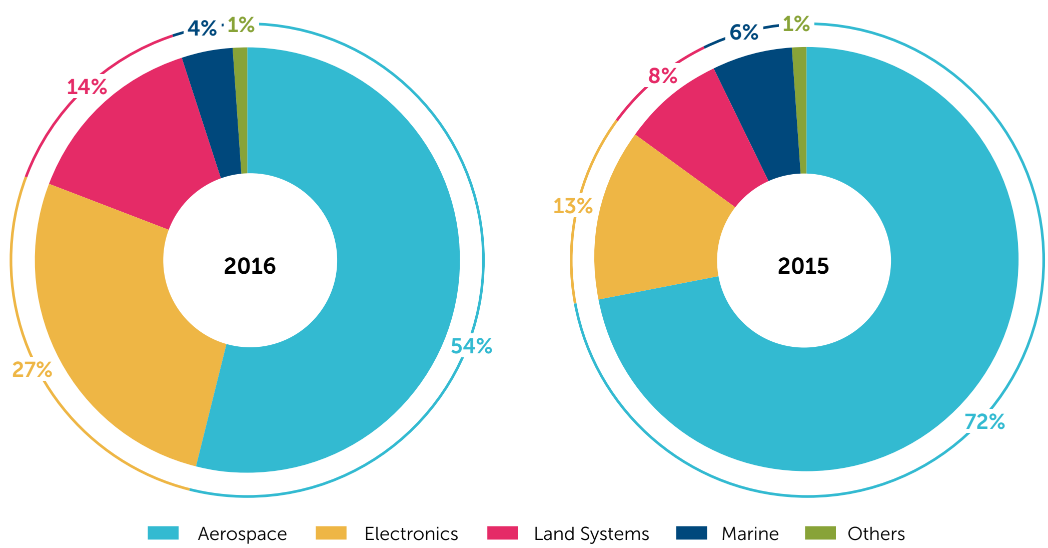


* Others include adjustments for foreign currency translation, present value of leases, etc.

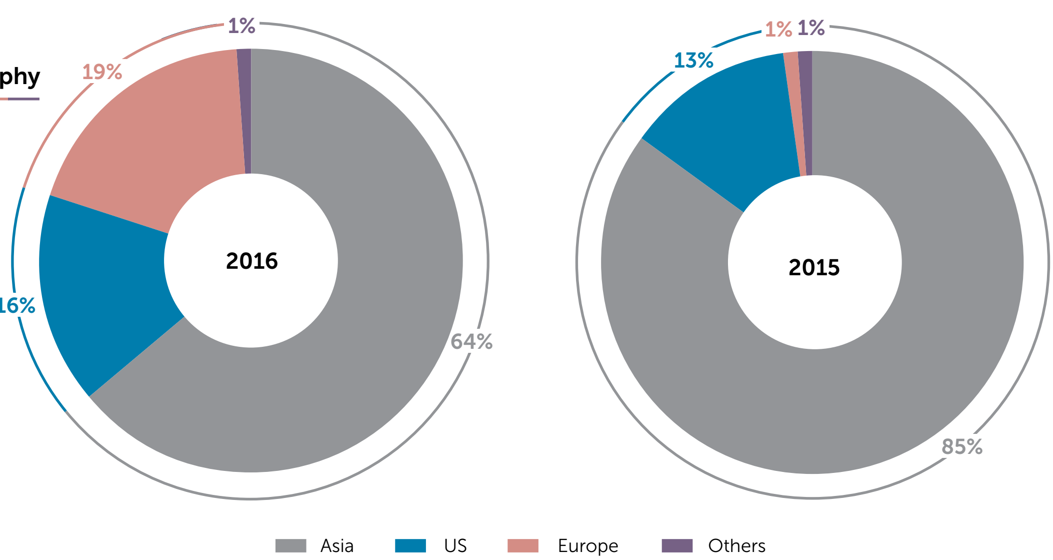
CAPITAL EXPENDITURE

During the year, the Group invested $252m in capital expenditure (2015: $293m), of which about 90% or $228m was utilised to develop new capacity and capabilities. 81% of the Group's capital expenditure was deployed towards Aerospace and Electronics sectors. Major capital expenditures during the year included a new EFW facility to grow the component manufacturing business and a new ST Electronics facility to house its expanding operations.

By Sector

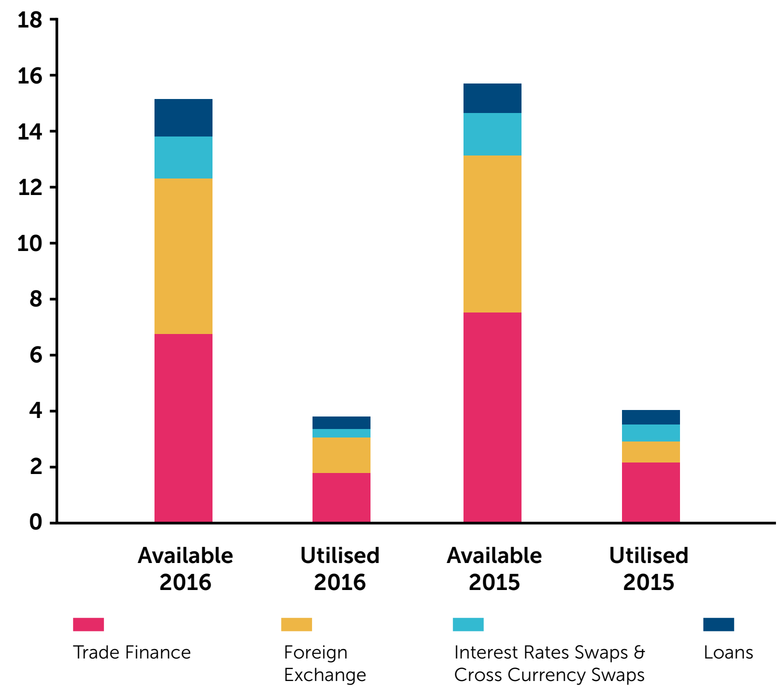


By Geography



FINANCIAL REVIEW

Banking Facilities ($b)



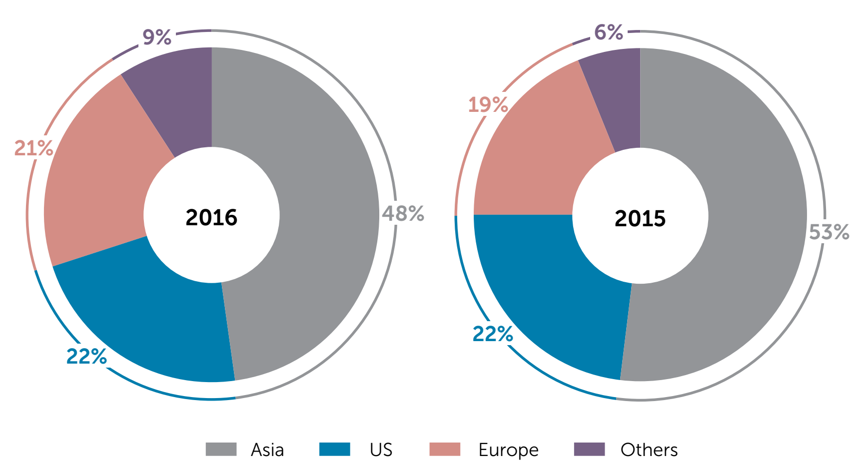
TREASURY MANAGEMENT

ST Engineering operates internationally and is exposed to financial risks, comprising currency, interest rate, credit and liquidity risks. The Group recognises that prudent management of financial risks is important and has in place a set of treasury policies and guidelines to mitigate these risks. Treasury activities are managed through the Group Treasury Division which reviews and updates the treasury policies and guidelines to tighten liquidity management as well as better manage the Group's exposure in view of the volatile external environment.

BANKING FACILITIES

Banking facilities have been secured in regions where the Group commands presence to support international business operations. The Group has access to approximately $15.1b (2015: $15.6b) of banking facilities as at 31 December 2016. These facilities include trade finance lines for performance bonds, banker's guarantees and letters of credit, hedging lines for foreign exchange, cross-currency swap and interest rate swap facilities, and credit lines for loans. In FY2016, additional banking facilities of $0.3b were obtained in the form of loan lines but $0.8b of trade finance lines were reduced resulting in a net decrease of $0.5b in banking facilities. The Group has drawn down $3.7b or 25% (2015: $4.0b or 26%) during the year and $11.4b or 75% (2015: $11.6b or 74%) remain available for use as at 31 December 2016.

Banking Facilities by Nationality of the Banks



FOREIGN EXCHANGE

The Group has receivables and payables denominated in foreign currencies. The Group actively manages its currency exposure through netting across its business units and the net exposure is hedged through plain vanilla foreign exchange forward contracts. The top three currencies which the Group is exposed to are USD, EUR and RMB. During the year, the Group engaged in approximately $0.7b (2015: $1.0b) equivalent of foreign exchange transactions. As at 31 December 2016, $1.2b (2015: $0.7b) remained as outstanding foreign exchange transactions.

LIQUIDITY

Group borrowings fell to $1.1b as at 31 December 2016, $0.1b lower as compared to FY2015. The Group's cash and cash equivalents, including funds under management, stood at $1.4b as at 31 December 2016 (2015: $1.4b).

During the year, efforts were made to enhance the yield on liquid funds. Following the US Federal Reserve's rate hike in December 2016 and with expectations of more hikes in 2017, interest rates on fixed deposits have seen a gradual increase as the average yield rose to 1.05% in 2016, versus the average yield of 0.95% in 2015. The Group maintained about $0.5b funds under management as at 31 December 2016. Funds under management, which are primarily invested in SGD and USD fixed income instruments, earned higher yields ranging from 1.29% to 5.75% per annum (2015: 1.50% to 4.95% per annum).

BORROWINGS

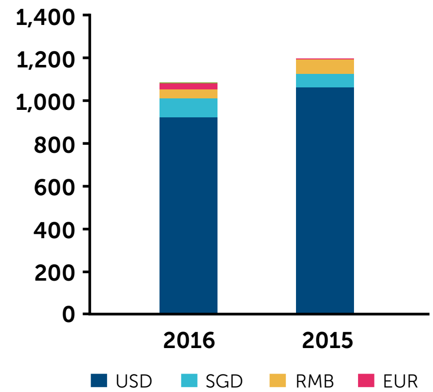
As at 31 December 2016, the Group's borrowings amounted to $1.1b (2015: $1.2b), comprising $0.7b (2015: $0.7b) of 10-year bond and $0.4b (2015: $0.5b) of bank loans, lease obligations and other loans. Borrowings were mostly in USD ($921m equivalent or 85.2%), SGD ($88m equivalent or 8.1%), RMB ($44m equivalent or 4.1%) and EUR ($27m equivalent or 2.5%) to support the Group's operations across the US, Singapore, China and Europe.

Borrowings in USD incurred interest rates ranging from 1.1% for less than 1-year tenor to 2.3% for a 5-year tenor. Rates for RMB loans taken up by business units in China ranged from 4.4% for less than 1-year tenor to 5.7% for a 1-year tenor (because of regulatory controls by the People's Bank of China) while EUR borrowing interest rates ranged from 0.6% for a 1-year tenor to 1.6% for a 10-year tenor.

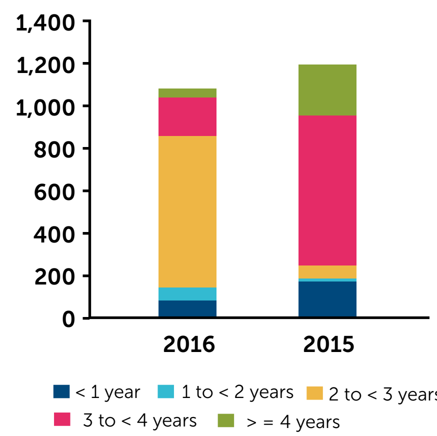
$773m or 72% of the Group's total borrowings as at 31 December 2016 will mature in two to three years' time, as compared to $75m or 6% as at 31 December 2015.

The Group seeks to minimise its interest rate risk exposure by tapping different sources of funds to refinance the debt instruments and/or enter into interest rate swaps, where appropriate. The Group actively manages its interest rate risk exposure by closely tracking developments in the financial market. In view of the rate hikes by the US Federal Reserve and an appreciation of the USD against SGD, the Group repaid US$77m of bank borrowings in FY2016. The Group unwound US$100m of interest rate swap in FY2015 to fixed rate borrowings. Consequently, interest expenses in FY2016 hit $42.4m, higher than that in FY2015 (2015: $39.8m). 79% of the Group's outstanding borrowings were at fixed interest rate as at 31 December 2016 (2015: 80%).

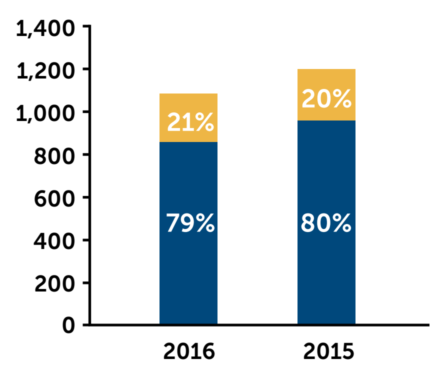
Borrowing Profile by Currency ($m)



Borrowing Profile by Maturity ($m)



Borrowing Profile by Fixed & Floating Rate ($m)

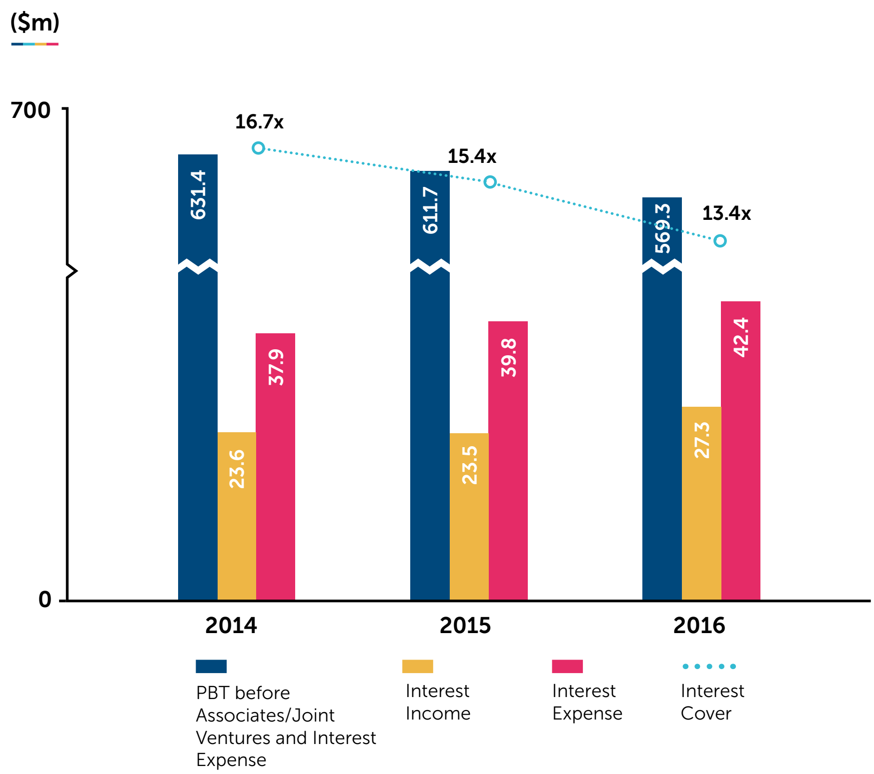


FINANCIAL REVIEW

INTEREST COVER RATIO

The Group's interest cover ratio reduced to 13.4 times in FY2016 (2015: 15.4 times). The lower interest cover was due to a combination of lower profits and higher interest expense. Interest expense rose by $2.6m due to a stronger USD on the USD bond coupon payments and higher interest rates incurred from conversion of floating to fixed rate borrowings.

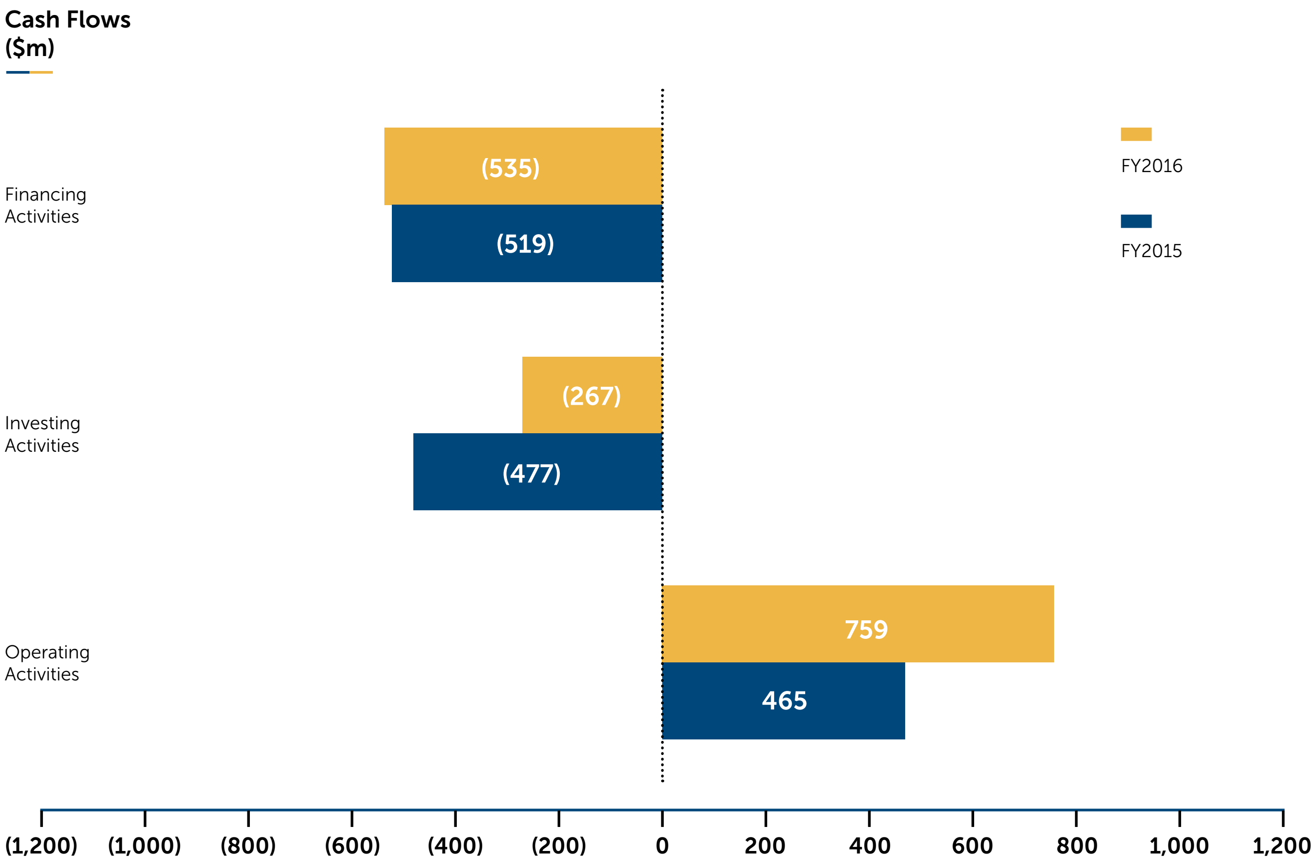
Interest income increased by $3.8m as a result of efforts to enhance the yield on liquid funds.



Gross debt/equity ratio decreased from 0.7 times in 2015 to 0.6 times in 2016 with reduced borrowings mainly from loan repayment through tighter working capital management, as well as the divestment of a 50% stake in Keystone Holdings (Global) Pte Ltd.

	2016	2015	2014
Gross Debt/Equity Ratio	**0.6**	0.7	0.6
Operating Cash Flow ($m)	**759**	465	624
Free Cash Flow ($m)	**492**	(12)	467
Net (Debt)/Cash ($m)	**(59)**	(102)	362

CASH FLOWS



OPERATING ACTIVITIES

The Group generated net cash of $759m from its operating activities compared to $465m in FY2015. The increase was due to favourable working capital with lower inventories including work-in-progress and an increase in progress billings in excess of work-in-progress in FY2016, as well as lower income tax paid.

INVESTING ACTIVITIES

Net cash used in investing activities of $267m in FY2016 was primarily for investment in property, plant and equipment ($251m) and capitalised research and development (R&D) activities ($77m) mainly in EFW's passenger-to-freighter conversion programme, partially offset by cash receipt from disposal of GJK and 50% stake in Keystone Holdings Global Pte. Ltd.

FINANCING ACTIVITIES

Net cash used in financing activities of $535m in FY2016 was mainly attributable to payment of FY2015 final dividend ($311m) and FY2016 interim dividend ($155m), net repayment of bank loans ($23m) and interest paid ($41m).

FINANCIAL REVIEW

TAX

During the year, Aerospace and Land Systems sectors achieved the Premium Status awarded by Inland Revenue Authority of Singapore (IRAS) following the completion of the Assisted Compliance Assurance Programme (ACAP) under the Singapore Goods and Services Tax (GST) regime. The GST compliance review is a voluntary risk management initiative and receiving the Premium Status is recognition of the strong compliance infrastructure put in place by the two business sectors. The Electronics and Marine sectors have also embarked on ACAP and are expected to complete the programme in 2017.

The Group also embarked on various initiatives following the release of the Organisation for Economic Cooperation and Development (OECD)'s final report on Base Erosion and Profit Shifting, Action 13, in October 2015. These initiatives include incorporating the OECD's proposed three-tiered structure into the Group's existing transfer pricing documentation, namely, (i) the Group Master File, which contains broad information on global business operations; (ii) local country files with details of related party transactions specific to the local subsidiaries, and (iii) a summary Country-by-Country Reporting (CbCR). The CbCR requirements will apply to the Group with effect from the financial year beginning 1 January 2017, in accordance with the CbCR Guidance released by IRAS in October 2016.

The Group's effective tax rate for 2016 is 17% (2015: 16%).

SIGNIFICANT ACCOUNTING POLICIES

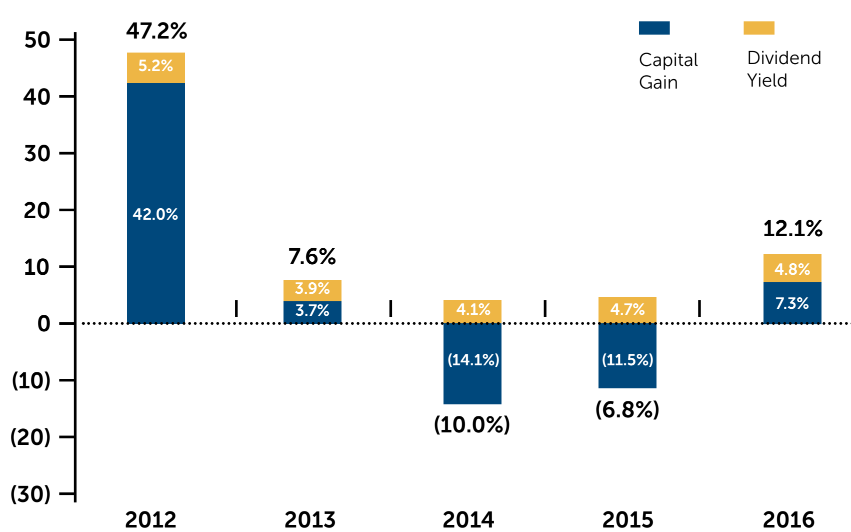
The Group's financial statements are prepared in accordance with Singapore Financial Reporting Standards (SFRS). The significant accounting policies are presented in Notes to the Financial Statements, Note 3 (pages 136 to 162). The Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 31 December 2015 except for the adoption of FRS and INT FRS that are mandatory for financial year beginning on or after 1 January 2016. The adoption of these FRS and INT FRS has no significant impact on the financial statements.

TOTAL SHAREHOLDER RETURN

The Group generated positive cash flow from operating activities and ended the year with $1.4b of cash and cash equivalents (including funds under management) as at 31 December 2016. ST Engineering paid an interim ordinary dividend of 5 cents per share to shareholders in August 2016 and will recommend a final dividend of 10 cents per share to shareholders at the forthcoming Annual General Meeting. The total dividend per share (DPS) for FY2016 would be 15 cents. Based on the average share price of $3.12, the DPS of 15 cents translates to a dividend yield of 4.81%.

ST Engineering's share price ended the year at $3.23, a 7.3% increase compared to a year ago. Over the same period, the STI Index declined by 0.1%. With a dividend yield of 4.81%, shares of ST Engineering generated a total positive shareholder return of 12.1%.

Total Shareholder Return (%)



ECONOMIC VALUE ADDED (EVA)

The Group's FY2016 EVA attributable to ordinary shareholders of $252.4m was 29% or $102.7m lower than that achieved in FY2015. The decreased EVA was mainly attributable to lower net operating profit after tax (NOPAT) and a higher capital charge arising from higher average capital employed as well as an adjustment for investments divested in the year.

EVA STATEMENT	2016 $m	2015 $m
Net profit before tax	**526.9**	572.0
Adjust for:		
Share of results of associates and joint ventures, net of tax	**63.8**	58.3
Interest expense	**55.7**	49.4
Others	**7.1**	(14.6)
Adjusted profit before interest and tax	**653.5**	665.1
Cash operating taxes (Note 1)	**(124.1)**	(88.1)
NOPAT - (a)	**529.4**	577.0
Average capital employed (Note 2)	**4,426.3**	3,971.0
Weighted Average Cost of Capital (Note 3) (%)	**5.6**	5.5
Capital charge	**(247.9)**	(218.4)
Adjustment to capital charge (Note 4)	**(39.3)**	(12.8)
Adjusted capital charge - (b)	**(287.2)**	(231.2)
EVA - [(a) - (b)]	**242.2**	345.8
Non-controlling share of EVA	**10.2**	6.7
EVA attributable to ordinary shareholders	**252.4**	352.5
Unusual items (UI) losses (Note 5)	**-**	2.6
EVA attributable to ordinary shareholders (exclude UI)	**252.4**	355.1

Note 1: The reported current tax is adjusted for the statutory tax impact of interest expense.

Note 2: Monthly average equity plus interest bearing liabilities, timing provision and present value of operating leases.

MAJOR CAPITAL COMPONENTS:	($m)
Borrowings	1,483.4
Equity	2,559.8
Others	383.1
	4,426.3

Note 3: The Weighted Average Cost of Capital is calculated in accordance to ST Engineering Group EVA Policy as follows:
i) Cost of Equity using Capital Asset Pricing Model with market risk premium at 5% (2015 @ 5.0%)
ii) Risk-free rate of 2.21% (2015 @ 2.15%) based on yield-to-maturity of Singapore Government 10 years Bonds;
iii) Ungeared beta at 0.73 (2015 @ 0.73) based on ST Engineering risk categorisation; and
iv) Cost of Debt at 3.65% (2015 @ 3.49%) using actual cost of debt of the borrowings in US, Europe, China and Singapore.

Note 4: Adjustment on realisation of deferred capital charge on some acquisitions.

Note 5: UI refer to divestment of investment properties, subsidiaries and associates, long term investments and disposal of major property, plant and equipment.

FINANCIAL REVIEW

VALUE ADDED

The Group's total value added for FY2016 of $2,903m was 7% higher compared to that of FY2015.

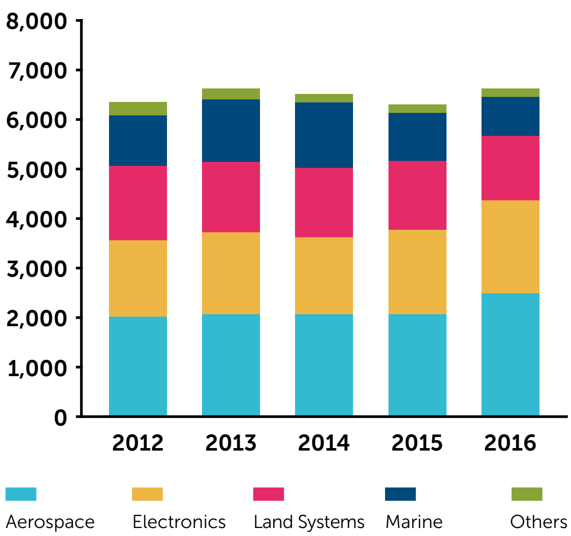
VALUE ADDED STATEMENT	2016 $m	%	2015 $m	%	2014 $m	%	2013 $m	%	2012 $m	%
Value added from										
Revenue earned	**6,683.7**		6,335.0		6,539.4		6,633.2		6,379.9	
Bought in materials and services	**(3,942.3)**		(3,792.5)		(4,022.0)		(4,002.2)		(3,776.3)	
	2,741.4		2,542.5		2,517.4		2,631.0		2,603.6	
Other income	**67.8**		55.4		40.2		34.2		43.2	
Finance income	**33.7**		56.2		43.5		68.9		48.4	
Finance costs (exclude interest expenses)	**(3.3)**		(10.1)		(7.3)		(33.5)		(17.6)	
Share of results of associates and joint ventures, net of tax	**63.8**		58.3		57.2		31.1		32.9	
Total value added	**2,903.4**		2,702.3		2,651.0		2,731.7		2,710.5	
Distribution of total value added										
To employees in wages, salaries and benefits	**1,941.0**	67	1,807.7	67	1,739.2	66	1,783.6	65	1,755.8	65
To government in taxes and levies	**119.2**	4	118.4	4	136.5	5	157.3	6	147.8	5
To providers of capital on:										
• Interest paid on borrowings	**42.4**	1	39.7	2	37.9	1	44.2	2	49.5	2
• Dividends to shareholders	**465.9**	16	497.6	18	498.8	19	521.3	19	475.8	17
	2,568.5		2,463.4		2,412.4		2,506.4		2,428.9	
Balance retained in business										
Depreciation and amortisation	**247.3**		187.3		170.5		142.0		137.1	
Retained profits	**58.9**		36.3		48.2		62.8		113.8	
Non-controlling interests	**8.3**		2.6		5.0		10.7		8.4	
	314.5	11	226.2	8	223.7	8	215.5	8	259.3	10
Non-production costs	**20.4**	1	12.7	1	14.9	1	9.8	0	22.3	1
Total distribution	**2,903.4**	100	2,702.3	100	2,651.0	100	2,731.7	100	2,710.5	100
Value added per employee ($)	**132,131**		120,704		116,935		119,616		120,149	
Value added per $ of employment costs ($)	**1.49**		1.49		1.52		1.53		1.54	
Value added per $ of gross property, plant and equipment ($)	**0.81**		0.78		0.83		0.91		1.06	
Value added per $ of revenue ($)	**0.43**		0.43		0.41		0.41		0.42	

5-YEAR KEY FINANCIAL DATA

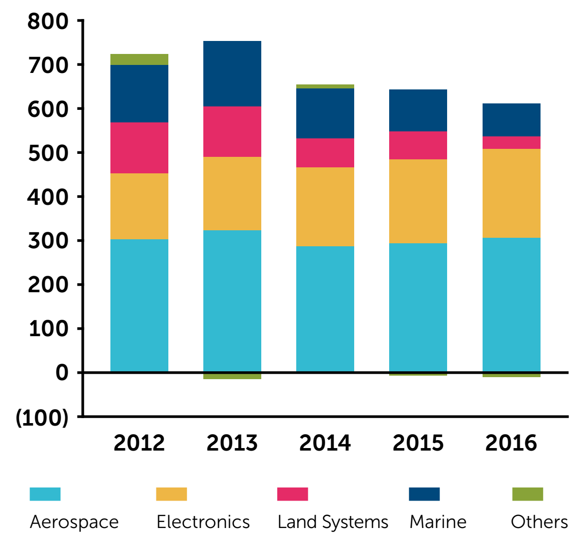
	2016	2015	2014	2013	2012
Income statement ($m)					
Revenue	**6,684**	6,335	6,539	6,633	6,380
Profit					
EBITDA	**718.4**	697.6	725.5	815.2	795.0
EBIT	**471.1**	510.3	555.0	673.2	658.0
PBT	**590.6**	630.3	650.7	729.7	715.4
Net Profit	**484.5**	529.0	532.0	580.8	576.2
Balance Sheet ($m)					
Property, plant and equipment, and investment property	**1,670**	1,709	1,578	1,520	1,213
Intangible and other assets	**1,570**	1,370	1,311	1,290	1,049
Inventories and work-in-progress	**1,898**	1,943	1,802	1,808	1,922
Trade receivables, deposits and prepayment	**1,824**	1,694	1,916	1,860	1,777
Bank balances and other liquid funds and funds under management	**1,403**	1,453	1,712	2,229	2,070
Current liabilities	**3,801**	3,720	3,716	4,094	3,890
Non-current liabilities	**2,120**	2,188	2,339	2,353	2,128
Share capital	**896**	896	889	853	782
Treasury shares	**(44)**	(67)	(6)	–	–
Capital and other reserves	**57**	48	24	71	(20)
Retained earnings	**1,274**	1,255	1,225	1,192	1,133
Non-controlling interests	**262**	129	132	144	118
Financial Indicators					
Earnings per share (cents)	**15.60**	17.05	17.06	18.73	18.76
Net assets value per share (cents)	**70.20**	68.74	68.38	68.14	61.51
Return on sales (%)	**7.4**	8.4	8.2	8.9	9.2
Return on equity (%)	**22.2**	24.8	24.9	27.4	30.4
Return on total assets (%)	**5.9**	6.5	6.5	6.8	7.3
Return on capital employed (%)	**12.0**	14.6	14.0	15.4	17.4
Dividend					
Gross dividend per share (cents)	**15.00**	15.00	15.00	15.00	16.80
Dividend yield (%)	**4.81**	4.68	4.08	3.86	5.16
Dividend cover	**1.04**	1.13	1.14	1.25	1.11
Productivity Data					
Average staff strength (numbers)	**21,974**	22,388	22,671	22,837	22,560
Revenue per employee ($)	**304,166**	282,965	288,449	290,456	282,795
Net profit per employee ($)	**22,049**	23,630	23,464	25,434	25,540
Employment costs ($m)	**1,947.5**	1,813.7	1,745.8	1,789.7	1,760.2
Employment costs per $ of revenue ($)	**0.29**	0.29	0.27	0.27	0.28
Economic Value Added ($m)	**252.4**	355.1	344.5	413.8	437.9
Economic Value Added spread (%)	**5.5**	8.7	8.4	10.2	12.1
Economic Value Added per employee ($)	**11,488**	15,861	15,197	18,118	19,411

FINANCIAL REVIEW

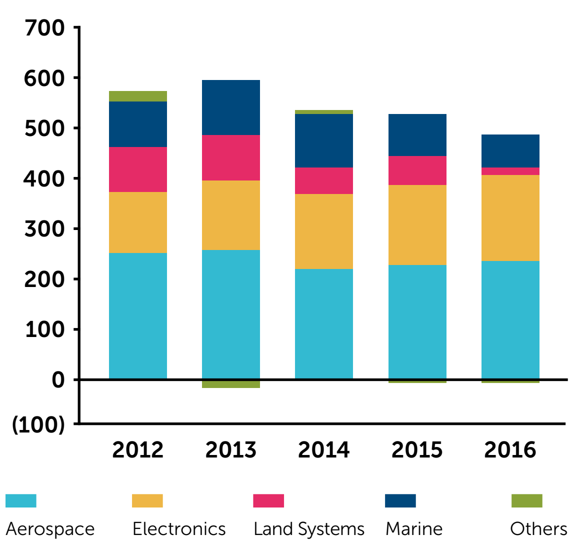
Revenue
by Sector
($m)



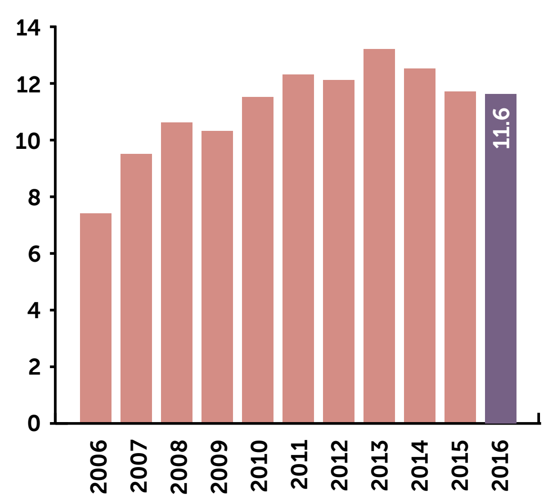
Profit Before Tax
by Sector
($m)



Net Profit
by Sector
($m)



10-Year
Order Book
($b)



INVESTOR RELATIONS

ST Engineering believes it is vital to have regular, clear and open communications with the investing community, comprising both retail and institutional investors. Through a carefully planned, multi-platform investor relations programme, ST Engineering aims to ensure that all key stakeholders have the latest, most relevant information in order to make sound, accurate and informed decisions about the Group's value and long term prospects. In communicating with the public, ST Engineering is committed to maintaining high standards of transparency and timely disclosures as well as staying ahead of market expectations.

DATE	EVENT
FEBRUARY	Investors and analysts visit ST Engineering at Singapore Airshow 2016 Annual management lunch with sell-side analysts FY2015 results briefing with live webcast
MARCH	Post results investor lunch
APRIL	Non-Deal Roadshow to Europe 19th Annual General Meeting
MAY	1Q2016 results briefing with live webcast DB Access Asia Conference - Singapore Investors facility visit to ST Electronics
JUNE	Citi ASEAN Conference - Singapore
AUGUST	2Q2016 results briefing with live webcast Post results investor lunch
SEPTEMBER	Investors facility visit to ST Aerospace CLSA Investors' Forum - Hong Kong
OCTOBER	Non-Deal Roadshow to US and Canada
NOVEMBER	3Q2016 results briefing with live webcast Morgan Stanley Asia Pacific Summit - Singapore
DECEMBER	Investors facility visit to ST Electronics

A key element in our investor relations programme is our regular briefing sessions with investors and analysts to communicate the Group's results, strategies and outlook. These meetings take a number of forms, as appropriate. These include one-on-one meetings, teleconferences, sell-side conferences, non-deal roadshows or luncheons. At these meetings, candid discussions of the Group's various opportunities and challenges take place so that investors are aware of the circumstances under which our companies operate.

All quarterly financial results briefings are webcast live and are accessible by the public. At these briefings, viewers can also pose questions in real-time. These events are subsequently archived and made available for playback on demand. Analysts and the media are invited to these briefings, hosted by the President & CEO of the Group, supported by the CFO and senior management.

We ensure that investors have access to all relevant public information about the Group at all times. To that end, all SGX announcements, marketing press releases and results briefing presentation materials are archived on our corporate website for the convenience of the investing community.

Through these varied channels, we offer platforms for long term and open dialogues with our various stakeholders so that they gain a better understanding of our businesses while we gain an understanding of the concerns of our investors.

We are constantly looking for ways to enhance our communication platforms as new technology become available and we will continue to refine our communications efforts to ensure that the information needs of analysts, the media and our institutional and retail investors are met, if not exceeded.

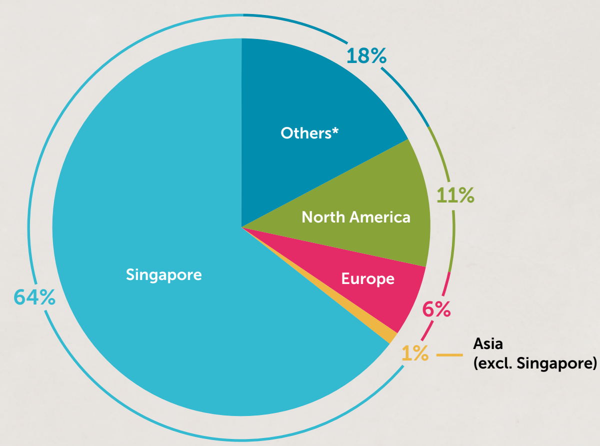
INVESTOR RELATIONS

SHAREHOLDING

Temasek Holdings remains our largest shareholder, with about 50% of total equity at the end of 2016. Another 29% is held by institutional investors, with the remainder held by retail and other shareholders. Shareholders from Singapore held a total of 64%, followed by those from North America (11%) and the UK (5%).

* Others include unidentified holdings and holdings below analysis threshold.

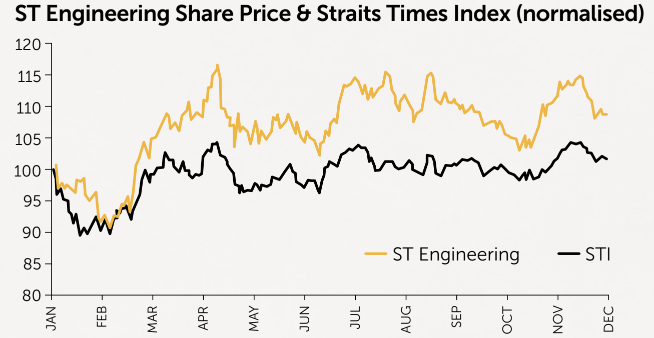
Based on Share Register Analysis as at 31 December 2016



SHARE PRICE MOVEMENT

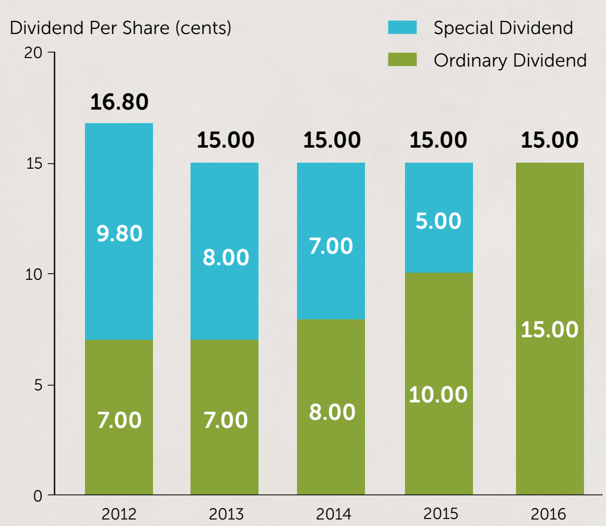
ST Engineering shares closed at $3.23 as at 30 December 2016, representing a gain of 7.3% for the year, compared to the Straits Times Index of -0.1%. Market capitalisation was $10.1b at year-end. The average daily share price over the course of the year was $3.17, with a high of $3.46 on 21 April, and a low of $2.69 on 11 February. Average daily trading volume for the year was 3.4m shares.

ST Engineering Share Price & Straits Times Index (normalised)



DIVIDEND

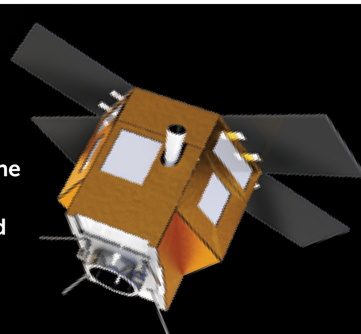
For 2016, the Board has proposed a final dividend of 10 cents per share. Together with the interim dividend of 5 cents per share paid in August, this translates to a total of 15 cents per share and represents 96% of our net profit. Dividend yield for 2016 stands at 4.81% (computed using the average closing share price of the last trading day of 2016 and 2015).



AWARDS

FOR TELEOS-1

The successful launch of TeLEOS-1, the first made-in-Singapore commercial Earth Observation Satellite, has paved the way for ST Electronics to become a significant emerging player in the global space industry.



The **President's Technology Award**, given to outstanding scientists and engineers in Singapore, was won by the TeLEOS-1 team comprising ST Electronics (Satellite Systems) Pte Ltd, DSO National Laboratories, Centre for Remote Imaging, Sensing and Processing National University of Singapore and Satellite Research Centre, Nanyang Technological University.

ST Engineering is the Distinguished Winner of the **SMF Collaborative Partnership Award** which recognises industry leaders who have fostered close partnerships with their supply chain companies and championed their developments.

BUSINESS EXCELLENCE

ASEAN Federation of Engineering Organisations (AFEO) Honorary Fellowship
by AFEO
- Lee Fook Sun, Deputy CEO & President, Defence Business, ST Engineering

PRODUCT QUALITY

Service Excellence Award
by SMRT Corporation Ltd
- Singapore Test Services

Top 50 Engineering Feats
by Institution of Engineers Singapore
- ST Electronics for Infrared Fever Screening System
- ST Kinetics for Bionix and SAR21

For Air+ Smart Mask and Micro Ventilator

Red Dot Design Award 2016
- Winner of Product Design

iF Design Award 2016
by iF International Forum Design
- Winner of Product Category

The Straits Times Digital Award 2016 - Winner of Editor's Choice and Readers' Choice
- Most Innovative Product

Top 50 Engineering Feats
by Institution of Engineers Singapore

Best Seller 2016
by Guardian Pharmacy Singapore
- Winner

AWARDS

For TeLEOS-1

Collaborative Partnership Award 2016
by Singapore Manufacturing Federation

President's Technology Award (Singapore)
- The TeLEOS-1 team (comprising ST Electronics (Satellite Systems), DSO National Laboratories, Centre for Remote Imaging, Sensing and Processing National University of Singapore and Satellite Research Centre, Nanyang Technological University)

DEFENCE

NS Advocate Award for Large Companies
- Advanced Material Engineering
- ST Electronics
- ST Electronics (e-Services)
- ST Electronics (Info-Comm Systems)
- ST Marine
- ST Synthesis

NS Advocate Award for Small and Medium-sized Enterprises
- SDDA
- STELOP

NS Mark Award (Gold) by MINDEF
- ST Kinetics

WORKPLACE SAFETY & HEALTH

Labour Department Safety Award (Gold)
by North Carolina Department of Labour
- VT LeeBoy

Land Transport Excellence Awards 2016 – Safety and Environmental Excellence in Land Transport Development (Major Projects)
by Land Transport Authority Singapore
- ST Electronics

National Safety & Security Watch Group Award
by Singapore Police Force and Singapore Civil Defence Force
- ST Electronics (Cluster Award)
- ST Marine (Individual Award)

Safety & Health Award 2016
by Ministry of Manpower and the Workplace Safety and Health Council (WSH Council)
- ST Electronics for eight Rail Electronics Projects

Safety & Security Watch Group Cluster Award
by Singapore Police Force
- ST Aerospace Engines
- ST Aerospace Systems

Safety & Security Watch Group Award 2016
by Singapore Civil Defence Force
- ST Aerospace Services

Singapore HEALTH Award (Platinum)
by Health Promotion Board
- ST Aerospace Engines

Workplace Safety and Health (WSH) Award 2016
by WSH Council
- ST Aerospace Services (Innovation Award)
- ST Marine

WSH Innovation Award (Manufacturing) (Gold)
by Singapore Manufacturing Federation
- ST Aerospace Engineering
- ST Aerospace Services

CORPORATE CITIZENSHIP

Community Chest SHARE Award 2016
by Community Chest

Pinnacle Award
- ST Kinetics

Platinum Award
- ST Aerospace
- ST Aerospace Engineering
- ST Aerospace Engines
- ST Aerospace Services
- ST Aerospace Supplies
- ST Aerospace Systems
- ST Electronics
- ST Electronics (Info-Software Systems)

Gold Award
- ST Electronics (Info-Comm Systems)
- ST Electronics (Info-Security Systems)
- ST Electronics (Satcom & Sensor Systems)
- ST Electronics (Training & Simulation Systems)
- ST Marine
- Singapore Test Services

Silver Award
- ST Electronics (eServices)

Plaque of Commendation Award
by Singapore Industrial and Services Employees' Union
- ST Aerospace Supplies

Star of Commendation Award (Gold)
by Singapore Industrial and Services Employees' Union
- ST Aerospace Engineering

INVESTOR RELATIONS

Southeast Asia's Institutional Investor Corporate Awards 2016 (Singapore) For Best Senior Management Investor Relations Support and Best Strategic Corporate Social Responsibility
- ST Engineering

CONTENTS

RISK AND SUSTAINABILITY HIGHLIGHTS

MANAGING FOR SUSTAINABILITY

This section is a summary of our sustainability efforts and should be read in conjunction with information published in the sustainability section of our website at www.stengg.com.

In this section, we focus on our sustainability targets, initiatives undertaken and performance in 2016. We report our management approach and data in accordance with the Global Reporting Initiative (GRI) G4 Guidelines: Core option. This year we have included information on the sustainability efforts relating to our operations in the US.

Unless otherwise stated, data and activities relate to our Singapore operations only. Information on sustainability efforts relating to our operations in the US is reported on pages 76 to 77.

RISK AND SUSTAINABILITY

The Group deploys the Enterprise Risk Management Framework to identify the most important risks that will act as barriers to achieving its business goals in the short, medium and long term. Besides business risks, risks arising from changes in the environment, social issues as well as governance are also identified. The Group believes in managing these risks well for its long-term sustainability.

The Risk and Sustainability Committee oversees management in the identification of risks as well as the implementation of risk management policies and strategies.

The Group's significant risks are set out below and a detailed description of the risks is provided in our website.

To help manage our long-term performance and achieve our long-term goals, a range of key performance indicators (KPIs), both operational and financial, are established and measured. These KPIs are linked to the significant risks of the Group and are also linked to the variable components of compensation of all executives.

ST Engineering's remuneration framework, comprising the following components, is aimed at fulfilling two objectives:

1. To attract and retain talents critical to achieving our business objectives; and

2. To align the employees' compensation to shareholders' wealth creation, through the following:

   A. A base salary, which reflects the market worth of a position, and benchmarked regularly to relevant industries to ensure competitiveness.

   B. A short term incentive, which rewards employees for achieving financial targets and operational objectives in both the short term and the medium term. This incentive is paid based on individual performance and contribution and consists of a Target Bonus and an EVA-Based-Incentive. The payment of the EVA-Based-Incentive is deferred over a time horizon, and may be clawed back in the event of a negative EVA.

   C. A long-term incentive, which rewards employees for achieving long-term growth and shareholders' wealth creation through share ownership. This incentive is a key mechanism to retain talent and to align employees' compensation to shareholders' wealth creation.

OUR RISKS	
GROWTH & COMPETITION	Product and technology obsolescence Merger and acquisition
ETHICS & GOVERNANCE	Cyber risk Bribery and corruption Regulatory compliance
OPERATIONS	Contract compliance Business disruption Product liability and safety
HUMAN CAPITAL	Talent management and succession planning Occupational health and safety
FINANCIAL	Credit Foreign exchange

ANTI-CORRUPTION TRAINING ACROSS GLOBAL OPERATIONS

NUMBER OF EMPLOYEES TRAINED	2014	2015	2016
Singapore	1,885	5,198	3,512
US	–	182	170
Europe	–	34	–
China	–	37	279
Total	1,885	5,451	**3,961**

CODE OF BUSINESS CONDUCT AND ETHICS TRAINING IN SINGAPORE

	2014	2015	2016
Number of employees trained	3,043	11,891	**13,961**
Percentage of employees trained	21%	79%	**93%**

SUSTAINABILITY PERFORMANCE

TARGETS

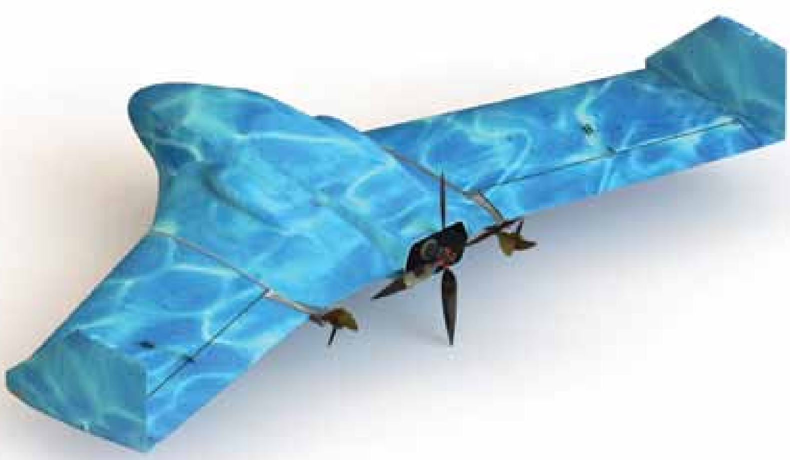
	2015 PERFORMANCE	WHAT WE SAID WE WOULD DO IN 2016	WHAT WE DID IN 2016	WHAT WE WILL DO IN 2017
INNOVATION	Met target spending on R&D	Review the existing R&D model with the aim of renewing and refreshing our approach where necessary	Concluded the review of the existing R&D practices with various initiatives identified for action	Create new innovation platforms to harness existing inter-group capabilities
PEOPLE EXCELLENCE	Conducted the Employee Opinion Survey 2015 with updated questions Organised Team Excellence Convention 2015 Organised Business Excellence Seminar 2015	Implement action plans to address issues raised in the Employee Opinion Survey 2015 Organise the Team Excellence Convention 2016	Reviewed compensation & benefits structure against industry best practice, and conducted performance management training in response to feedback from the Employee Opinion Survey 2015 Organised a successful Team Excellence Convention 2016 with 15 participating teams Reviewed the talent management framework to build up bench strength for the Group	Review and refresh the methodology and process for Employee Opinion Survey Review leadership competency framework to develop leaders of the future, with focus on global mindset, collaboration and innovative thinking
ENVIRONMENT	Implemented various initiatives to reduce Greenhouse Gas (GHG) emission All Singapore operations achieved ISO50001 certification All significant business entities in Singapore developed and submitted their respective Water Efficiency Management Plans to local regulators No significant fines or sanctions for non-compliance with environmental laws and regulations	Installation of solar Photovoltaic (PV) system Validation of GHG emission via ISO14064-1 Implement ISO14001:2015 Benchmark Pollution Control and Waste Management practices Continue journey to reduce GHG intensity by 16% on a business as usual basis for Singapore operations by 2025 with 2010 as the base year	Installed the solar PV System Singapore operations achieved verification in ISO14064-1 Singapore operations commenced implementation of ISO14001:2015 Reviewed our pollution control and waste management practices Achieved reduction in GHG intensity by 23% (unaudited) with 2010 as the base year	Continue implementation and sharing of best practices for ISO14001:2015 Conduct visits to learn about new initiatives in environmental sustainability, and study their feasibility for implementation Explore new initiatives for improving water efficiency

SUSTAINABILITY PERFORMANCE (cont'd)

TARGETS (cont'd)

	2015 PERFORMANCE	WHAT WE SAID WE WOULD DO IN 2016	WHAT WE DID IN 2016	WHAT WE WILL DO IN 2017
OCCUPATIONAL HEALTH & SAFETY	Reviewed and improved crane safety procedures, as well as those relating to heights, and preventing slips, trips and falls Reviewed and updated practices relating to ergonomics, back injury, and the prevention of musculoskeletal disorders No significant fines or sanctions for non-compliance with safety laws and regulations Achieved Accident Frequency Rate (AFR) and Accident Severity Rate (ASR) below national benchmarks	Review existing practices against Total Workplace Safety and Health (WSH) Guidelines and identify areas for improvement Organise campaigns and activities to promote health and safety Benchmark best practices through cross audits Improve on both the AFR and ASR	Reviewed existing Safety Operating Procedures against the National Total WSH Guidelines. Gaps identified were corrected for implementation. Organised campaigns and activities to promote health and safety Conducted cross audits to benchmark best practices Mixed results for AFR and ASR, with room for improvement	Work towards achieving a Vision Zero target of no fatalities and improve on both the AFR and ASR Benchmark best practices through cross audits Share WSH best practices & resources Drive WSH excellence by monitoring the leading indicators and organising awareness initiatives and programmes
SUSTAINABLE PROCUREMENT	Established the statement of commitment to sustainable procurement, and reported on the subject	Develop a work plan to implement sustainable procurement	Established a central procurement organisation headed by a Chief Procurement Officer	Strengthen central procurement organisation structure, resource and partnerships Invest in technology solutions to drive efficiencies, streamline processes and enable visibility for better supply chain management
COMMUNITY	Continued reporting based on LBG guidelines, but with more focus on community benefits and their impact Focused community efforts to benefit the persons with disabilities	Develop other strategic areas that would leverage ST Engineering's unique expertise	Embarked on developing a device to assist caregivers and wheelchair users to mount small flight of steps into and out of their homes Successfully launched the ST Engineering Volunteer Week, with major activities across all business areas	Review and develop a sustainable model for CSR investments, initiatives and activities Achieve 50 Good Deeds
GLOBAL OPERATIONS– UNITED STATES	Reported qualitatively on US sustainability efforts	To report targets and performance of the US sustainability efforts	Improved disclosures from US operations relating to people, environment and the community Established group-wide goals for US business units for energy management, GHG emissions, waste management, and sustainable procurement	Work towards a 15% reduction in GHG intensity by 2020 from the base year of 2015 Progressively report other targets and performance of US sustainability efforts

INNOVATION
& PRODUCTIVITY



We engage our employees collectively through various internal annual competitions to promote innovation and productivity.

The ThinkerSparks Competition is an annual event for employees to present their ideas for innovative products, services, new businesses and environmentally-friendly solutions. Winning ideas are nurtured by the relevant business units.

The annual InnoChamps Competition celebrates ideas that have become developed products and services well received by our customers, and rewards these outstanding employees for their innovations.

The ThinkOut is our biennial event to bring together entrepreneurial and creative problem solvers from across the business sectors and functions. The event is structured to leverage the confluence of diverse expertise and experiences to generate new perspectives to overcome challenges facing our customers. Good ideas and solutions developed are followed up by business sponsors.

In 2016, we embarked on an extensive study to review our R&D setup with the aim of critically evaluating our existing R&D practices. While we have invested well to achieve many innovations and awards, we must continue to harness inter-group capabilities and domain knowledge to serve our customers better by creating new platforms to innovate better. We will sharpen our ability to identify new and disruptive technologies and create space to nurture disruption.

Innovation also helps to drive our productivity efforts.

The following are two innovative ideas that helped drive productivity improvements during the year:

Inno-grinder, invented by ST Aerospace, not only helped to automate the grinding process, it also reduced the processing time drastically without compromising quality.

In ST Electronics, the switch from conventional soldering to the use of laser soldering resulted in a manpower reduction of up to 80%, reduced the probability of damage to printed circuit board and components and helped speed up the assembly process.

WHAT WE SAID WE WOULD DO IN 2016

- Review the existing R&D model with the aim of renewing and refreshing our approach where necessary

WHAT WE DID IN 2016

- Concluded the review of existing R&D practices with various initiatives identified for action

WHAT WE WILL DO IN 2017

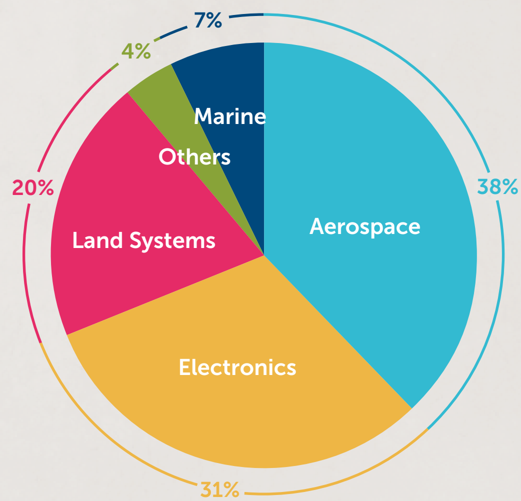
- Create new innovation platforms to harness existing inter-group capabilities

PEOPLE EXCELLENCE

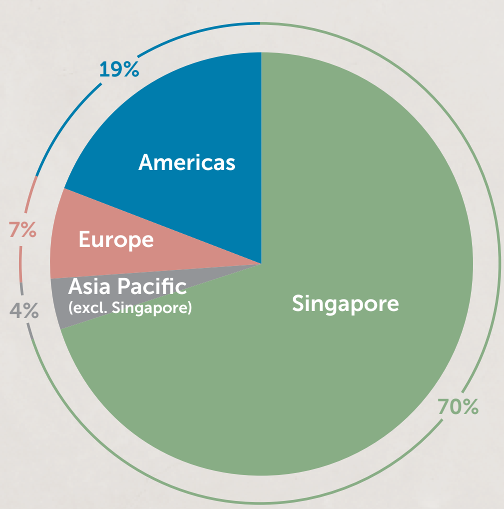
As an organisation with global presence, we have a diverse employee population with different cultures. We provide equal employment opportunity to all. Our recruitment, employment and development of people are based on qualifications, skills and competency to do the job.

GLOBAL WORKFORCE
PROFILE FOR 2016
TOTAL: 21,584

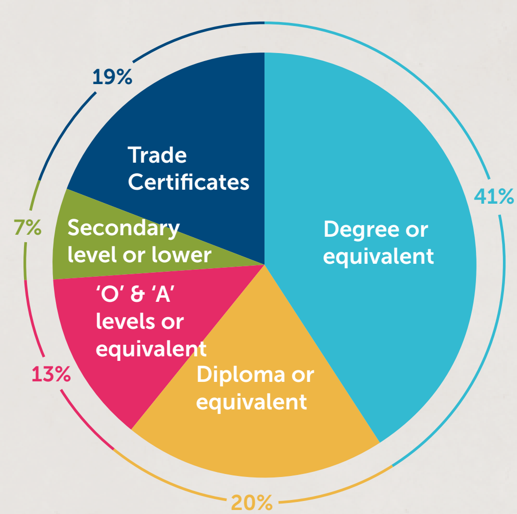
Employees by Sector



Employees by Geography



Employees by Qualifications



Workforce Profile for Singapore Operations

Male 79%	Employees	Female 21%
Male 95%	Supervised Workers*	Female 5%

* Supervised workers refer to workers we hire through local contractors. They are on short-term contracts, work in our facilities and are supervised by ST Engineering.

Turnover Rate

Male Employees
6.9%

Female Employees
7.3%

Average Training Hours per Employee

38.7 hrs

There were no reported incidences of discrimination by employees in 2016.

In 2016, 31% of employees were covered under collective bargaining agreements.

WHAT WE SAID WE WOULD DO IN 2016

- Implement action plans to address issues raised in the Employee Opinion Survey 2015
- Organise the Team Excellence Convention 2016

WHAT WE DID IN 2016

- Reviewed compensation & benefits structure against industry best practice, and conducted performance management training in response to feedback from the Employee Opinion Survey 2015
- Organised a successful Team Excellence Convention 2016 with 15 participating teams
- Reviewed the talent management framework to build up bench strength for the Group

WHAT WE WILL DO IN 2017

- Review and refresh the methodology and process for Employee Opinion Survey
- Review leadership competency framework to develop leaders of the future, with focus on global mindset, collaboration and innovative thinking

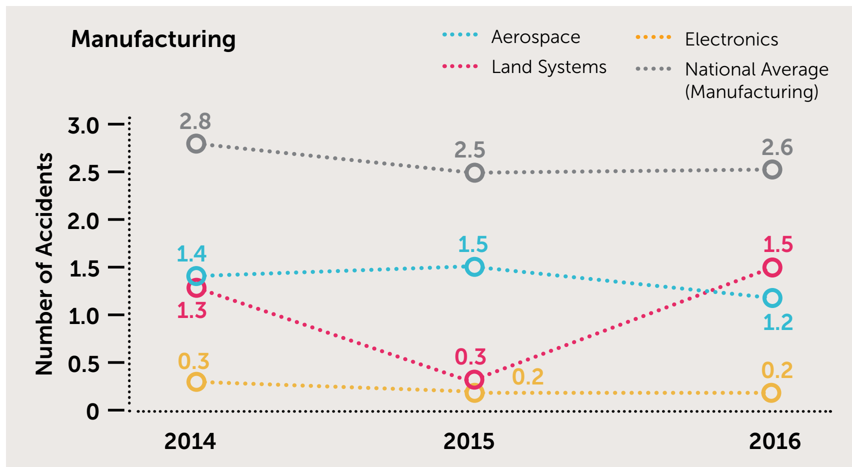
OCCUPATIONAL HEALTH & SAFETY

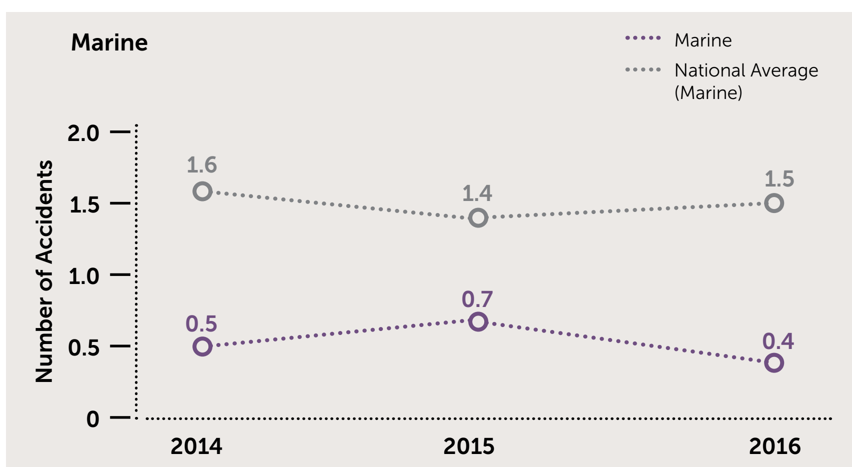
We are committed to 'Safety Before Profit'. The health and safety of our employees and contractors working on our products and delivering our services are very important to us.

Our workplace safety management is underpinned by legislative requirements and industry safety standards. A workplace safety culture is promulgated through the deployment of safety programmes and the measurement of key performance indicators in the operational areas. Our operations have implemented a safety management system based on the occupational safety guidelines under the OHSAS 18001 standard or equivalent.

In 2016, we saw an increase in accident frequency rate and accident severity rate in some sectors. It is with our deep regret that we report a fatality from the Marine sector, and an increase in man-days lost from a few higher severity cases in the Aerospace and Land Systems sectors. Additional safety measures to prevent recurrence were taken by the business units after the investigations of each case, and lessons learnt were shared across the Group during the Environment, Health & Safety Committee meetings.

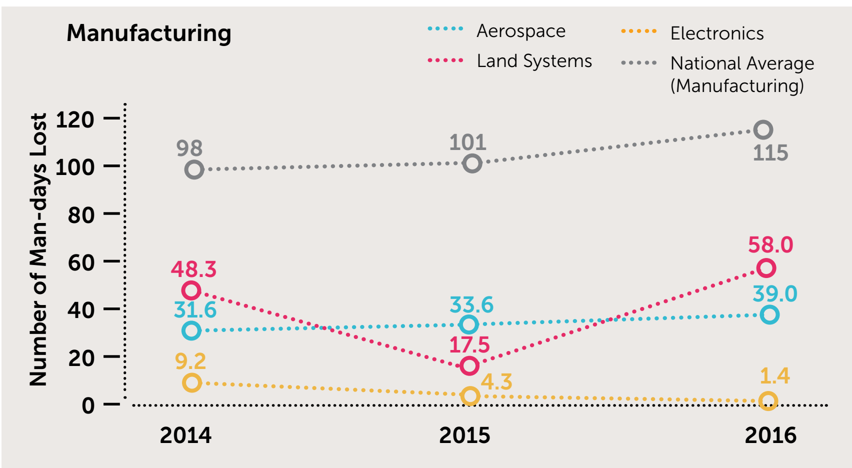
Accident Frequency Rate
(Number of accidents per million man-hours worked)

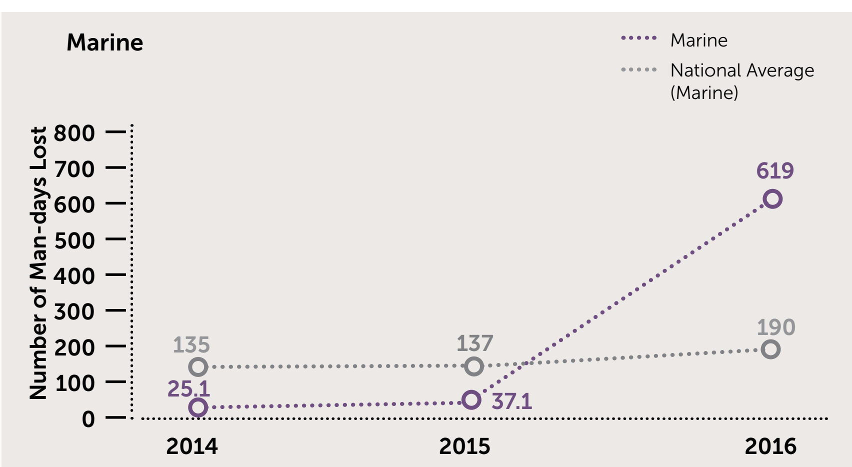




OTHER OCCUPATIONAL HEALTH & SAFETY PERFORMANCE INDICATORS (2016)	AEROSPACE	ELECTRONICS	LAND SYSTEMS	MARINE
No. of Occupational Health Activities Organised	24	18	24	12
Audiometric Examination (% of at-risk staff who attended)	100	100	100	100
Respiratory Protection Training (% of at-risk staff who attended)	100	100	100	100
Number of Occupational Disease Cases (excluding Noise Induced Deafness (NID) cases)	0	0	0	0
Number of Advanced NID Cases	2	0	0	0

Accident Severity Rate
(Number of man-days lost per million man-hours worked)





WHAT WE SAID WE WOULD DO IN 2016

- Review existing practices against Total WSH Guidelines and identify areas for improvement
- Organise campaigns and activities to promote health and safety
- Benchmark best practices through cross audits
- Improve on both the AFR and ASR

WHAT WE DID IN 2016

- Reviewed existing Safety Operating Procedures against the National Total WSH Guidelines. Gaps identified were corrected for implementation
- Organised campaigns and activities to promote health and safety
- Conducted cross audits to benchmark best practices
- Mixed results for AFR and ASR, with room for improvement

WHAT WE WILL DO IN 2017

- Work towards achieving a Vision Zero target of no fatalities, and improve on both the AFR and ASR
- Benchmark best practices through cross audits
- Share WSH best practices & resources
- Drive WSH excellence by monitoring the leading indicators and organising awareness initiatives and programmes

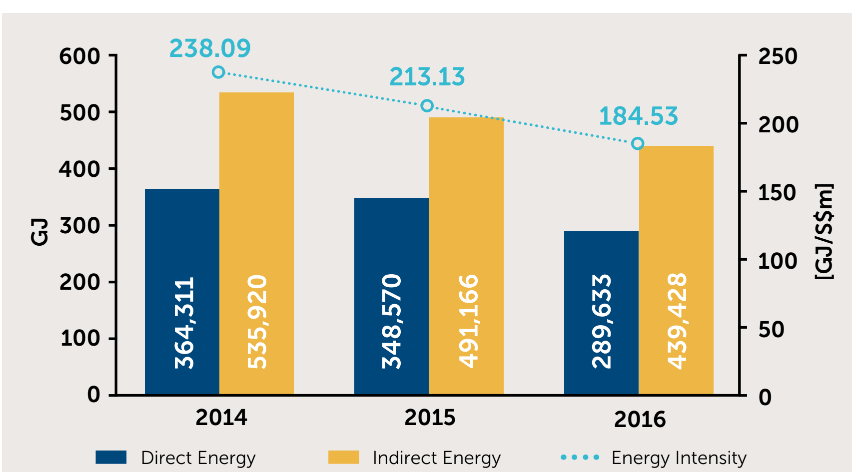
ENVIRONMENT

ST Engineering is continuously exploring energy efficient initiatives. One of the areas we are exploring is alternative clean energy.

Installing a solar photovoltaic (PV) system is one of ST Engineering's initiatives to provide our Singapore operations with a clean alternative energy source. The system uses rooftop solar panels to absorb and convert sunlight into electrical energy without generating any greenhouse gas emissions. The energy generated will then be used for our operations. We conducted a pilot project in 2014 to understand and learn more about the system's technology and its impact on our operations. In 2016, we expanded the PV system to cover more areas and we will continue to do this over the next several years. By the end of 2018, we estimate that the clean solar energy from the PV system will replace 6.5% of our existing electricity source of energy, thereby reducing our overall GHG by 3,700 tonnes of Carbon Dioxide Equivalent (tCO_2e) annually.

In 2016, our investments in innovation resulted in energy reductions from our products and services, with an estimated savings of 118.47 terajoules.

Energy Consumption & Intensity*



STAGE OF DEVELOPMENT	NUMBER OF PROJECTS TO REDUCE ENERGY CONSUMPTION	TOTAL ESTIMATED ANNUAL CO_2 SAVINGS (tCO_2e)
TO BE IMPLEMENTED	11	4,189
IMPLEMENTATION COMMENCED	1	751
IMPLEMENTED	4	209

WHAT WE SAID WE WOULD DO IN 2016

- Installation of solar PV system
- Validation of GHG via ISO14064-1
- Implement ISO14001:2015
- Benchmark Pollution Control and Waste Management practices
- Continue journey to reduce GHG intensity by 16% on a business as usual basis for Singapore operations by 2025 with 2010 as the base year

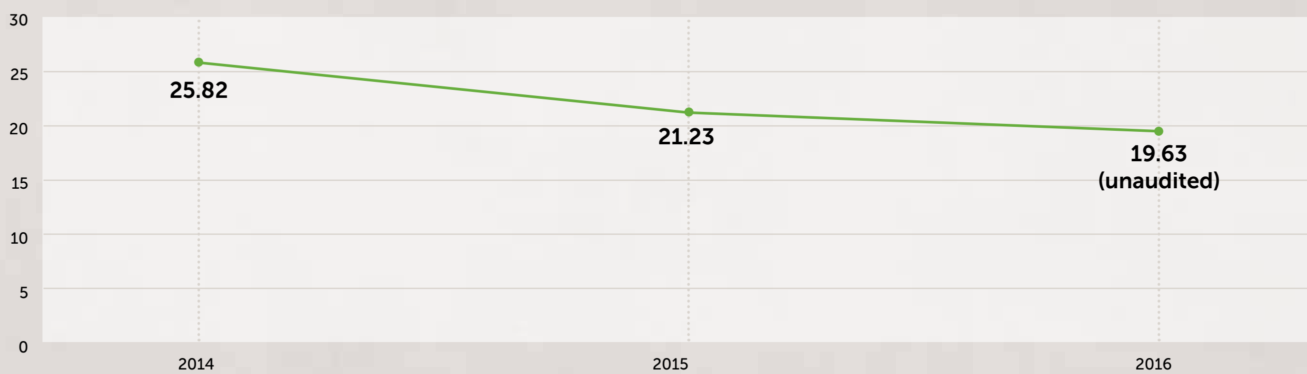
WHAT WE DID IN 2016

- Installed the solar PV System
- Singapore operations achieved verification in ISO14064-1
- Singapore operations commenced implementation of ISO14001:2015
- Reviewed our pollution control and waste management practices
- Achieved a reduction in GHG intensity by 23% (unaudited) with 2010 as the base year

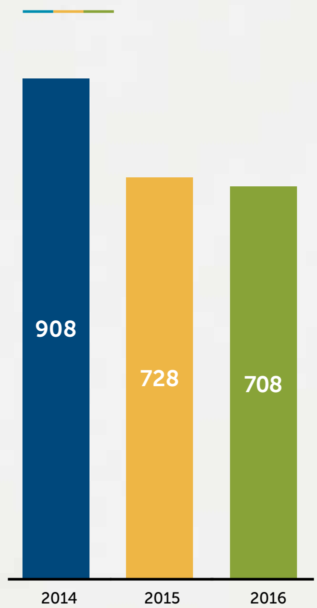
WHAT WE WILL DO IN 2017

- Continue implementation and sharing of best practices for ISO14001:2015
- Conduct visits to learn about new initiatives in environmental sustainability, and study their feasibility for implementation
- Explore new initiatives for improving water efficiency

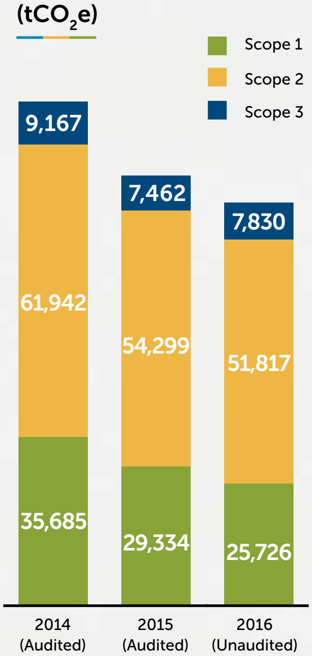
GHG Intensity* (tCO_2e/$m)



Water Consumption
('000m³)



GHG Emissions*
(tCO_2e)



* Notes:
Energy consumption and GHG emission figures for 2015 were adjusted as a result of audit, and restated accordingly.

GHG intensity figures are computed based on Scope 1 and 2 emissions normalised using revenue from Asia, where Singapore is a significant contributor.

Scope 1: Direct GHG emissions from sources owned or controlled by Singapore entities

Scope 2: Indirect GHG emissions from generation of purchased electricity consumed by Singapore entities

Scope 3: Indirect GHG emissions from business travels by air carried out by Singapore entities

PRODUCT QUALITY & SAFETY

Product Quality encompasses all faculties of engineering including system safety and product reliability. All operations in Singapore implement quality management systems (QMS) that provide a set of policies and procedures to meet the stringent requirements of authorities and customers. The QMS is third-party certified to ISO9001 standards and it addresses all the management processes, key processes and support processes that are relevant in our operations.

We implement system safety in our products, where we manage the safety implications of our products throughout the entire product life cycle, assessing and managing safety from the start at the design stage.

We constantly benchmark our practices to international standards, and we share our practices with our fellow engineers at the international level. In 2016, two papers – "Hazard Analysis for Facilities and Process Safety" and "Systematic Approach to Perform Safety Assessment on Vessel Platforms" – were selected for sharing at the 34th International System Safety Conference held in the US in August.

We achieved full compliance with product safety requirements in 2016.

SUSTAINABLE PROCUREMENT

The Group undertook a study to evaluate the feasibility of creating a central procurement organisation. The principal aim of this central organisation is to ensure sustainable and robust supply chain management across the Group. The new procurement organisation, headed by a Chief Procurement Officer, will leverage leading practices and integrated technology to deliver procurement value with greater efficiency and effectiveness. The Chief Procurement Officer will spearhead efforts in sustainable procurement.

WHAT WE SAID WE WOULD DO IN 2016

- Develop a work plan to implement sustainable procurement

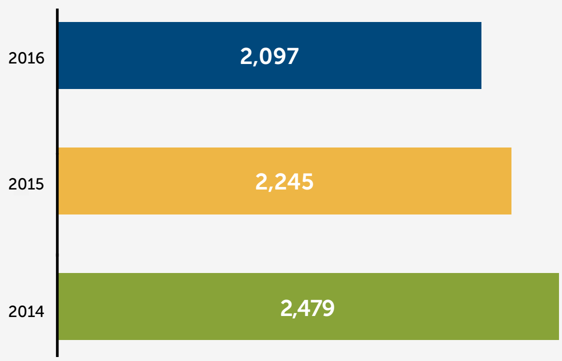
WHAT WE DID IN 2016

- Established a central procurement organisation headed by a Chief Procurement Officer

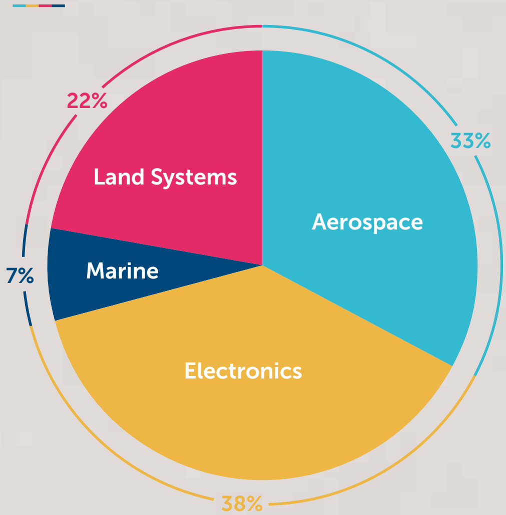
WHAT WE WILL DO IN 2017

- Strengthen central procurement organisation structure, resource and partnerships
- Invest in technology solutions to drive efficiencies, streamline processes and enable visibility for better supply chain management

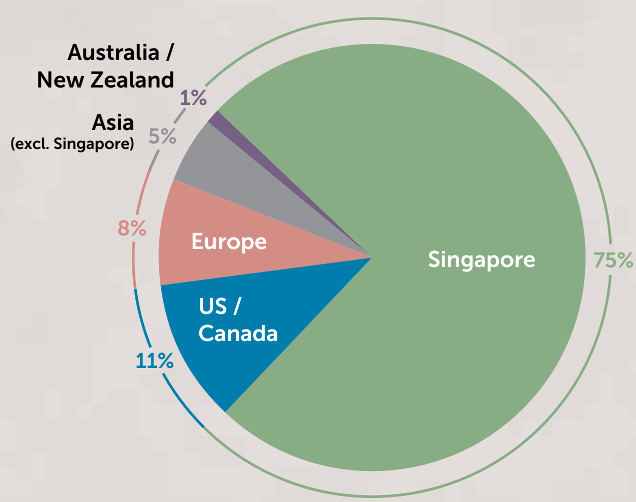
Total Purchase Value ($m)



Percentage of Purchase Value by Sector 2016



Percentage of Suppliers by Location 2016



COMMUNITY

As a responsible corporate citizen, ST Engineering supports and engages the communities that we operate in. These community programmes take various forms, from corporate sponsorships for youth development to employee-led activities for the less fortunate. As an organisation steeped in engineering and technical know-how, the Group also focuses on using our expertise to benefit society at large.

To aggregate the efforts of our employees, ST Engineering launched our inaugural Volunteer Week in 2016. Held from 6 to 9 September, our employees from business sectors in Singapore and the US held charitable activities during the week. Our employees volunteered their time, taking beneficiaries from homes for outings, doing landscaping work for homes, holding blood donation drives as well as distributing food to needy families. Volunteer Week was a success, not just in reaching out to the local communities, but also in bringing employees together for a good cause.

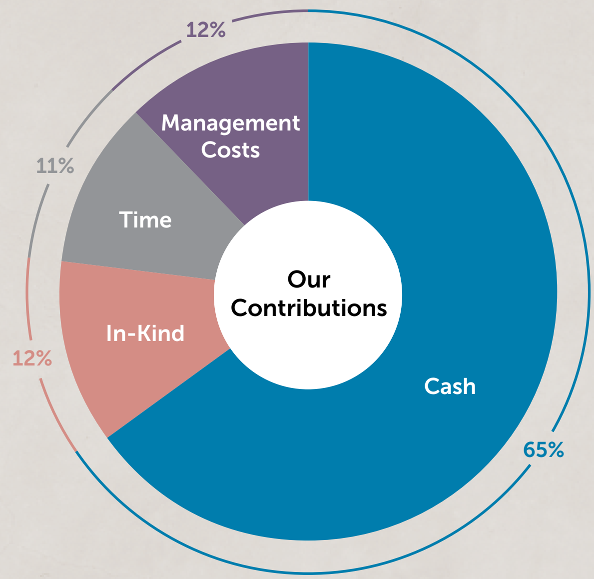
Our partnership with Assumption Pathway School (APS) continues. APS is a Singapore-based educational institution that provides alternative pathways for students unable to complete mainstream education. Since 2013, we have provided industrial attachments, financial assistance and cash awards to its students.

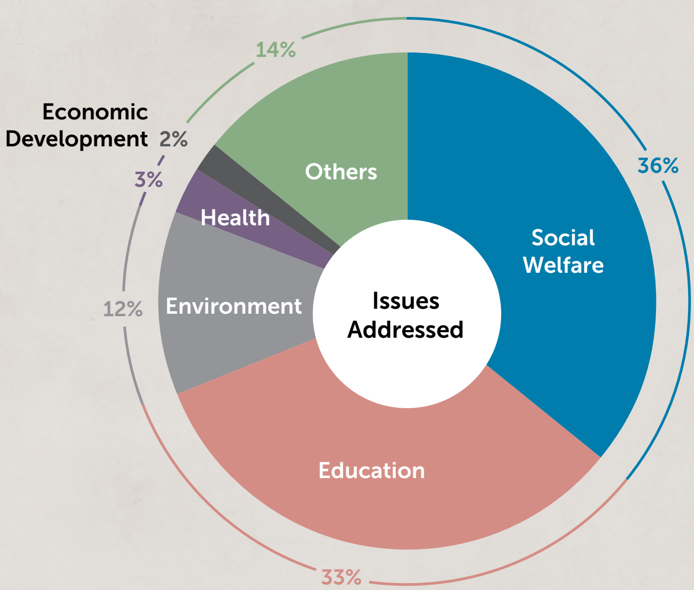
Volunteers interacting with residents of Thye Hua Kwan Moral Welfare Home.

Volunteers who supported the event at the Thye Hua Kwan Moral Welfare Home.

Partnering one of Singapore's most popular attractions, Gardens by the Bay, ST Engineering continues to sponsor two permanent audio-visual exhibits titled Earth Checks and plus-5 Degrees, aimed at educating the public on the impact of climate change. We hope that through the displays, more people will become aware of the urgency of making changes to mitigate the effect of climate change.

Volunteers at the SWAMI Home Mooncake Festival Celebrations.





Community Contributions for 2016

Total:

$1,743,622

WHAT WE SAID WE WOULD DO IN 2016

- Develop other strategic areas that would leverage ST Engineering's unique expertise

WHAT WE DID IN 2016

- Embarked on developing a device to assist caregivers and wheelchair users to mount small flight of steps into and out of their homes
- Successfully launched the ST Engineering Volunteer Week, with major activities across all business areas

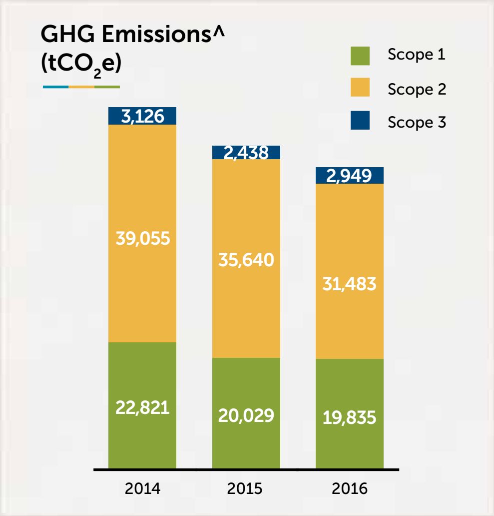
WHAT WE WILL DO IN 2017

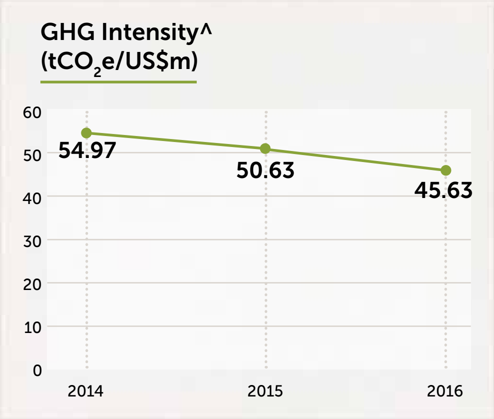
- Review and develop a sustainable model for CSR investments, initiatives and activities
- Achieve 50 Good Deeds

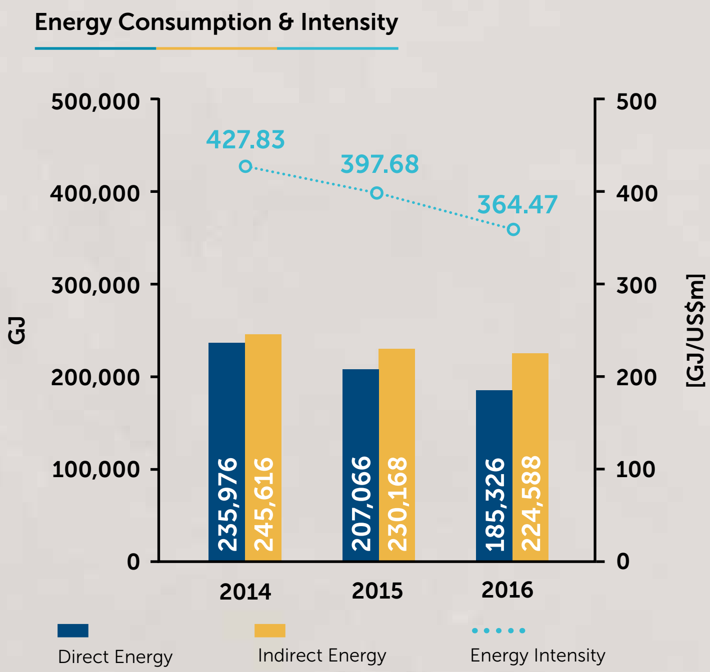
GLOBAL OPERATIONS
UNITED STATES

Sustainability programmes were developed with due consideration to the legal and environmental legislation in the US and with a view of improving operational performance. Since the inception of this journey in 2013, individual business units of VT Systems have set their respective reduction targets for energy, GHG emissions and waste. In 2016, group-wide goals were developed for the business units to collectively strive towards achievement by the year 2020.

Giving back to the community requires time and commitment from all employees. Employees are encouraged to take time to support charitable organisations that are meaningful to them. Additionally, VT Systems seeks to implement programmes that provide matching financial contributions for qualifying charities, as well as target health causes which potentially have high impact on the local communities. In 2016, VT Systems and its subsidiaries contributed an equivalent of US$442,308 to the community.







^ Notes:
GHG intensity figures are computed based on Scope 1 and 2 emissions normalised using revenue from US operations.

Scope 1: Direct GHG emissions from sources owned or controlled by US entities

Scope 2: Indirect GHG emissions from generation of purchased electricity consumed by US entities

Scope 3: Indirect GHG emissions from business travels by air carried out by US entities

Workforce Profile

Employees

Male	Female
84%	16%

Supervised Workers

Male	Female
90%	10%

* *Supervised workers refer to workers we hire through local contractors. They are on short term contracts, work in VT Systems facilities and are supervised by our employees.*

Turnover Rate

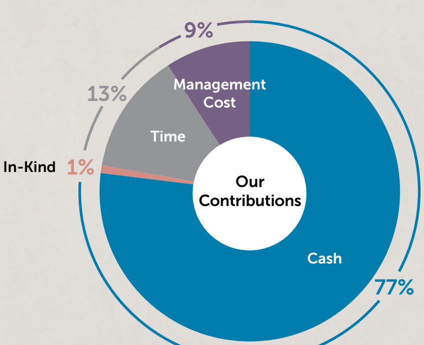
Male Employees **13%**

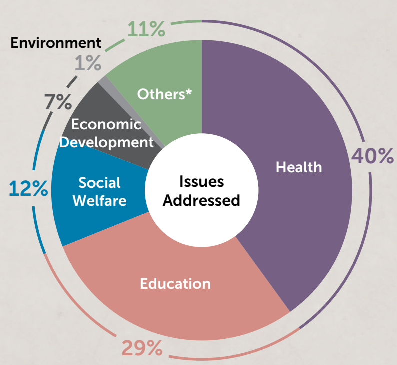
Female Employees **14%**

Average Training Hours per Employee

42.4 hrs

Community Contributions 2016
Total: US$442,308





* *Others include Art & Culture and Emergency Relief*

WHAT WE SAID WE WOULD DO IN 2016

- Report targets and performance of the US sustainability efforts

WHAT WE DID IN 2016

- Improved disclosures from US operations relating to people, environment and the community
- Established group-wide goals for US business units for energy management, GHG emissions, waste management, and sustainable procurement

WHAT WE WILL DO IN 2017

- Work towards a 15% reduction in GHG intensity by 2020 from the base year of 2015
- Progressively report other targets and performance of US sustainability efforts

CORPORATE GOVERNANCE

We believe that good corporate governance is not only the Board's responsibility, but that of the management and every level of the organisation. Our corporate governance framework goes beyond ticking the check box just for the sake of complying with corporate governance. Good corporate governance is the foundation for long term value creation of the Group. This Report sets out ST Engineering's corporate governance processes, practices and activities in 2016 with specific reference to the guidelines of the Singapore Code of Corporate Governance 2012 (the Code).

The Board is pleased to report that the Company has complied in all material aspects with the principles, guidelines and recommendations set out in the Code. Our Summary of Disclosures is enclosed on pages 101 to 103 of this Annual Report.

BOARD MATTERS

Board's Conduct of its Affairs

(Principle 1)

The Board is accountable to shareholders for overseeing the effective management of the business. 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 reserves the following key matters for its decision:

- setting the Group's overall long term strategic objectives and ensuring that decisions made are consistent with these objectives;
- approval of annual budgets, major funding proposals, investment and divestment proposals in accordance with the approved delegation of authority framework;
- appointment of the President & Chief Executive Officer (CEO), Board succession and appointments on Board committees;
- appointment of key management personnel and succession planning as an ongoing process;
- review of the risk management framework through its Risk and Sustainability Committee (RSC) as set out in page 62; and
- approval of the unaudited quarterly, half yearly and full year audited results prior to their release.

Besides monitoring the performance of the Group, the Board also oversees and provides guidance on sustainability issues such as environmental and social factors, as part of the overall business strategy. Board meetings may include presentations by the managements of its four key subsidiaries to discuss growth strategies relating to their specific business sectors.

In the discharge of its functions, the Board is supported by eight Board committees (compared to nine in the previous year) to which it delegates specific areas of responsibilities for review and decision making. During the year, in a review of the board committees, the Senior Human Resource Committee was dissolved and its responsibility for senior talent development will be rationalised under the Executive Resource and Compensation Committee (ERCC), as well as complemented by various talent development initiatives which are managed by ST Engineering senior management.

The President & CEO, Vincent Chong, is accountable to the Board. He is supported by the Deputy CEO, the Chief Financial Officer (CFO) and the four sector Presidents. On onboarding a Board member, 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 & CEO and Company Secretary on the strategic direction and performance of the Company and its key subsidiaries as well as his duties and obligations under the statutory and governance framework.

Visits to the Group's facilities are also arranged for new directors to enable them to develop a good understanding of the Group's business and operations and the respective key managements. The Board is routinely updated on the relevant laws, continuing listing obligations and accounting standards requiring compliance, and their implications for the Group, so as to enable each Director to properly discharge his duties as Board and Board committee member.

Depending on their skillsets and background, directors are sponsored for relevant courses, conferences and seminars in order that they can be better equipped to fulfil their governance role and to comply with directors' obligations. Where there are statutory and regulatory changes that affect the obligations of directors, the Company will organise briefings by external legal counsel. This is an ongoing process.

Board members receive monthly consolidated management reports on the financial performance of each business sector, capital commitments and significant operational highlights to keep the Board apprised of business and performance updates in the Group.

The Board convenes scheduled meetings on a quarterly basis to coincide with the announcement of the Group's quarterly results. Special Board meetings may be convened as and when necessary to consider urgent corporate actions, long term strategies or specific issues of importance.

To facilitate the Board's decision-making process, the Company's Constitution provides for Directors to participate in Board meetings by teleconference or video conference. 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. At the end of every Board meeting, the Chairman allocates time for its non-executive Directors to meet without the presence of Management.

Directors' attendance at Board and Board Committee meetings is tabulated on pages 79 and 80:

	BOARD		AUDIT COMMITTEE		EXECUTIVE RESOURCE AND COMPENSATION COMMITTEE		NOMINATING COMMITTEE	
NAME OF DIRECTOR	**Held**	**Attended**	**Held[8]**	**Attended[8]**	**Held**	**Attended**	**Held**	**Attended**
Kwa Chong Seng	4	4			4	4	1	1
Tan Pheng Hock [1]	3	3						
Vincent Chong Sy Feng [2]	4	4						
Koh Beng Seng	4	3	5	5				
Ng Chee Khern	4	3						
LG Lim Cheng Yeow Perry	4	4						
Quek Tong Boon [3]	2	2						
Quek Gim Pew [4]	1	1						
Venkatachalam Krishnakumar [5]	2	2	3	3	1	1		
Davinder Singh	4	3						
Dr Stanley Lai Tze Chang	4	4	5	3	4	4	1	1
Khoo Boon Hui [6]	4	4	2	2				
Quek See Tiat	4	4	5	5				
Olivia Lum Ooi Lin	4	3						
Dr Beh Swan Gin	4	3						
Lim Sim Seng [7]	4	4			3	3	1	1
Lim Ah Doo	4	4	5	5				
COL Alan Goh Kim Hua	4	3						

CORPORATE GOVERNANCE

	BUDGET AND FINANCE COMMITTEE		RESEARCH, DEVELOPMENT AND TECHNOLOGY COMMITTEE		RISK AND SUSTAINABILITY COMMITTEE	
NAME OF DIRECTOR	Held	Attended	Held	Attended	Held[8]	Attended[8]
Kwa Chong Seng						
Tan Pheng Hock [1]	2	1	1	1	4	4
Vincent Chong Sy Feng [2]	1	1	2	2	1	1
Koh Beng Seng						
Ng Chee Khern	3	2				
LG Lim Cheng Yeow Perry					5	3
Quek Tong Boon [3]			(abstained)	0		
Quek Gim Pew [4]			2	1		
Venkatachalam Krishnakumar [5]					3	2
Davinder Singh	3	3			5	2
Dr Stanley Lai Tze Chang			3	2		
Khoo Boon Hui [6]					5	5
Quek See Tiat						
Olivia Lum Ooi Lin					5	5
Dr Beh Swan Gin	3	3				
Lim Sim Seng [7]						
Lim Ah Doo						
COL Alan Goh Kim Hua						

No meetings were held for the Business Investment and Divestment Committee during the year as key matters were decided at the Board level. Matters of the Tenders Committee during the year were resolved via resolutions in writing.

[1] Retired on 1 October 2016
[2] Appointed full-fledged Director on 1 October 2016
[3] Resigned on 1 July 2016
[4] Appointed on 15 August 2016
[5] Resigned on 1 June 2016
[6] Appointed Audit Committee (AC) Member on 1 June 2016
[7] Appointed ERCC and Nominating Committee (NC) Member on 1 June 2016
[8] Includes the joint AC and RSC meeting held on 24 February 2016

Board Composition and Guidance

(Principle 2)

The Board comprises 14 directors and one alternate director.

The Board, through the NC, reviews the size and composition of the Board taking into consideration the need to balance the diversity of skillsets and backgrounds with the independence element. The current board size is not too large given the global scale of the Group's business and taking into cognizance ST Engineering's key role in supporting Singapore's defence technology ecosystem. The Board will continue to review its composition and size to facilitate effective decision making.

During the year, the Board welcomed the following new appointments:

- Quek Gim Pew, Chief Defence Scientist of Singapore's Ministry of Defence, was appointed non-independent non-executive Director and Chairman of the Research, Development and Technology Committee on 15 August 2016.

- Vincent Chong was appointed President & CEO and executive Director of the Company, as well as Member of the Business Investment and Divestment Committee, Budget and Finance Committee, Research, Development and Technology Committee and RSC on 1 October 2016. He takes over from Tan Pheng Hock, who retired as President & CEO and executive Director and became Advisor to Vincent Chong. The Board wishes to record its deep appreciation to Pheng Hock for his leadership and dedicated service over the past 14 years.

The Board consists of members with established track record in defence, business, finance, banking, technology, legal and management. 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 Board has 10 independent directors who represent more than 70% of the Board. The Code requires the independent directors to comprise at least half of the Board. The independence of each director is determined upon appointment and reviewed annually by the NC.

The NC has affirmed that the independent directors are Kwa Chong Seng, Koh Beng Seng, Davinder Singh, Dr Stanley Lai, Khoo Boon Hui, Quek See Tiat, Olivia Lum, Dr Beh Swan Gin, Lim Sim Seng and Lim Ah Doo. The Board agrees with the NC's assessment.

Two of our independent directors, Koh Beng Seng and Davinder Singh, have each served more than nine years and will be retiring at the coming AGM of the Company in April 2017. In keeping with the momentum of our board succession plan, they have decided not to seek re-election.

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. Any director who has an interest that may conflict with a subject under discussion by the Board, declares his interest and either recuses himself from the information flow and discussion of the subject matter or abstains from decision-making.

The Board, through the NC, reviews its size and composition from time to time to ensure it has the right blend and diversity of skills, expertise, experience and perspectives to enable the Board to effectively oversee ST Engineering.

The Board held a total of four meetings during the year to consider, among other things, the approval of the FY2015 results and release of the 1Q2016, 2Q2016 and 3Q2016 results.

The Board reviewed the Group's growth and strategy plans to ensure that the work of the Group is aligned with its charter and corporate objectives taking into account the major challenges in the global environment in which we operate.

Chairman and Chief Executive Officer
(Principle 3)

The Chairman and President & 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 President & 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.

CORPORATE GOVERNANCE

The Chairman is responsible for leading the Board and ensuring the effective functioning of the Board to act in the best interests of the Company and its shareholders. The Chairman facilitates the relationship between the Board, President & CEO and management, engaging them in open dialogue over various matters, including strategic issues, sustainability, risks and business planning processes. He ensures that discussions at the Board level are conducted objectively and professionally where all views are heard and key issues are debated in a fair and open manner. The Chairman also ensures that adequate time is provided for discussion of strategic issues and key concerns at Board meetings. He represents the views of the Board to the shareholders.

Vincent Chong who is an executive Director, and the President & CEO, is accountable to the Board for the conduct and performance of the Group. He sits on the boards of its key subsidiaries to ensure that decision-making processes and information flows are effectively channelled in a timely manner to ensure alignment with the ST Engineering Group's policies. He has been delegated authority to make decisions within certain financial limits authorised by the Board. He is supported in his work by Lee Fook Sun, Deputy CEO who is concurrently President, Defence Business, Eleana Tan Ai Ching, CFO, and the four sector Presidents. Fook Sun relinquished his position as President of ST Electronics from 1 January 2017 to focus on his other responsibilities in ST Engineering.

Board Membership & Evaluation of Performance
(Principles 4 and 5)

Supporting the Board are the following Board committees:

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

NOMINATING COMMITTEE

The NC is responsible for reviewing the composition of the Board and identifying and selecting suitable candidates to the Board, in particular, candidates with the appropriate qualifications, skillsets and experience who are able to discharge their responsibilities as directors. Shortlisted candidates are recommended to the Board for approval. The NC is also responsible for reviewing annually and determining the independence of non-executive directors, conducting board performance evaluation, succession planning for President & CEO and director training and development.

The NC comprises three non-executive independent directors. Kwa Chong Seng is the Chairman of the NC. The other members are Dr Stanley Lai and Lim Sim Seng.

The NC held one meeting in 2016 while other decisions were obtained by circulation. During the year, the NC was actively engaged in the board renewal process of ST Engineering and its key subsidiaries, having regard to the skills, experience and industry expertise needed for a balanced board composition to, among other things, oversee governance and risks within the Group's business. When the need for a new director is identified, potential candidates are identified from various sources. The NC will assess a shortlist according to the type of expertise needed. The NC will also assess a candidate's character, independence and experience to ensure that he has the requisite standard of competence to carry out his duties as a director of a listed company.

The NC also reviewed and affirmed the independence of the Company's independent directors.

The NC conducted a collective assessment of the Board to gauge the effectiveness of the Board's performance, the adequacy of the blend of skillsets and experience of the Board, and the quality and timeliness of board and committee meeting agendas and papers submitted by the Management. The review was internally undertaken with each Director being asked to complete a questionnaire. Their feedback was collated and shared with the Board. The review indicated that the Board continues to function effectively. The NC also took on board the feedback of the Board members on areas for improvement.

The NC has also noted the list of other directorships held by our directors taking into consideration their principal commitments. The NC is satisfied that each of the directors is able to devote time to carry out his duties as director in the Company.

The Board has considered and agreed not to set guidelines for maximum directorships in a listed company that a director can hold. Annually, an incumbent director is asked to affirm that he has adequate time to devote to his Board responsibilities. The ST Engineering Board members are selected on the basis of their ability to contribute to the Board through their relevant skillsets, experience, calibre and willingness to devote time. In addition, each Director is required to provide an annual affirmation of commitment to his Board responsibilities. With these considerations, the Board is of the view that setting a maximum number of board representations on listed companies for our directors is not needed.

The NC is also responsible for renewal and succession plans to ensure Board continuity. At each Annual General Meeting (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, Koh Beng Seng, Davinder Singh, Khoo Boon Hui and Quek See Tiat will retire. Vincent Chong and Quek Gim Pew, who are newly appointed, will hold office until the forthcoming AGM of the Company. The retiring directors, being eligible, have offered themselves for re-election, except for Koh Beng Seng and Davinder Singh who have decided not to seek re-election to accord with good corporate governance and in the interest of board renewal. Koh Beng Seng has served for 13 years while Davinder Singh has served nine years.

Each of the retiring non-executive directors has confirmed that he does not have any relationship with his fellow directors nor with the Company and its substantial shareholders.

The Board, acting on the recommendation of the NC, proposes that each of the retiring Directors, save for Koh Beng Seng and Davinder Singh, be re-elected at the Company's forthcoming AGM.

With the exception of Vincent Chong, the remaining 13 directors are non-executive Directors.

CORPORATE GOVERNANCE

The composition of the Board and Board committees as at 31 December 2016 is tabulated below:

BOARD MEMBERS	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)	RISK AND SUSTAINABILITY COMMITTEE (Established on 7/12/1998)	TENDERS COMMITTEE (Established on 5/1/1998)
Kwa Chong Seng		C	C	C				Rolling list of any three Board Directors
Vincent Chong Sy Feng [1]		M			M	M	M	
Koh Beng Seng	C							
LG Lim Cheng Yeow Perry		M					M	
Ng Chee Khern					M			
Quek Gim Pew [2]						C		
Davinder Singh					C		M	
Dr Stanley Lai Tze Chang	M		M	M		M		
Khoo Boon Hui [3]	M						C	
Quek See Tiat	M							
Olivia Lum Ooi Lin							M	
Dr Beh Swan Gin		M			M			
Lim Sim Seng [4]			M	M				
Lim Ah Doo	M							
COL Alan Goh Kim Hua								

Denotes:
C Chairman
M Member

[1] *Appointed on 1 October 2016*
[2] *Appointed on 15 August 2016*
[3] *Appointed AC Member on 1 June 2016*
[4] *Appointed ERCC and NC Member on 1 June 2016*

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 & CEO, Deputy 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.

Board papers are sent to directors at least three days prior to meetings in order for directors to be adequately prepared for the meetings.

The Company Secretary attends all Board meetings and ensures that board procedures are followed. The Company Secretary advises the Board on governance matters including their timely disclosure obligations. She also assists with the co-ordination of continuing training for board members to keep the Board up-to-date on corporate governance matters. The appointment and removal of the Company Secretary is a matter for the Board as a whole to decide.

REMUNERATION MATTERS

Procedures for Developing Remuneration policies
(Principle 7)
Level and Mix of Remuneration
(Principle 8)
Disclosure on Remuneration
(Principle 9)

ROLE OF EXECUTIVE RESOURCE AND COMPENSATION COMMITTEE

The ERCC performs the role of the remuneration committee. The ERCC comprises Kwa Chong Seng as Chairman, Dr Stanley Lai and Lim Sim Seng. The 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 independent non-executive directors.

The ERCC met four times during the year. All decisions at any meeting of the ERCC are 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 performs the following duties and responsibilities:

Executive Remuneration General Framework

- Reviews and recommends to the Board the Group's general framework for determining executive remuneration including the remuneration of the President & CEO, top five key management executives of the Group Companies and other Senior Management Executives (collectively referred to as "Senior Management Executives").

Executive Director and Senior Management Executives

- Reviews and recommends to the Board the entire specific remuneration package and service contract terms for the President & CEO, who is also the executive Director.

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- Considers, reviews, approves and/or varies (if necessary) the entire specific remuneration packages and service contract terms for the Senior Management Executives of the Group's Companies. For FY2016, the Board reviewed and approved the specific remuneration packages and service contract terms for the key management executives.

Non-executive Director Remuneration

- Reviews and recommends to the Board the remuneration framework (including directors' fees) for Non-executive Directors on the relevant Group Boards.

Equity Based Plans

- Approves the design of equity based plans and reviews and administers such plans.

Executive and Leadership Development

- Oversees the development of management with the aim of a continual build up of talent and renewal of strong and sound leadership to ensure the continued success of the Group and its businesses.

- Approves appointments to Senior Management Executive positions in the Group's Companies and reviews succession plans for key positions in the Group Companies.

For financial year 2016, Aon Hewitt Singapore Pte Ltd was engaged as remuneration consultant (Remuneration Consultant) to provide professional advice on board and executive remuneration matters. Aon Hewitt Singapore Pte Ltd and its principal consultant are independent and are not related to the Group or any of its Directors.

EXECUTIVE REMUNERATION STRUCTURE

Remuneration for the Senior Management Executives comprises a fixed component, variable cash component, share-based component and benefits.

A. Fixed Compensation:

The fixed component comprises the base salary and compulsory employer contribution to an employee's Central Provident Fund (CPF).

B. Variable Cash Compensation:

The variable component includes the Monthly Performance Bonus (which is 1/12 of the 13th month salary), Performance Target Bonus and EVA-based Incentive Scheme.

Performance Target Bonus (PTB)

The PTB is a cash-based incentive for Senior Management Executives which is linked to the achievement of annual performance targets that will vary depending on their job requirements.

Individual performance objectives are set at the beginning of each financial year. The objectives are aligned to the overall strategic, financial and operational goals of the Group and Company, and are cascaded down to a select group of key executives using scorecards, creating alignment between the performance of the Group, Company and the individual. While the performance objectives are different for each executive, they are assessed on the same principles across the following four broad categories of targets:

- Core Business
- People Development & Teambuilding
- Organisation Development
- Self Development

The individual PTB payouts for the President & CEO and key management executives are determined by the ERCC based on the Group, Company and individual performance at the end of the financial year. The maximum PTB payout is capped at 4.0 times of monthly base salary.

EVA-based Incentive Scheme (EBIS)

The EBIS was established with the objective of motivating and rewarding employees to create sustainable shareholder value over the medium term achieved by growing profits, deploying capital efficiently and managing the risk profile and risk time horizon of the business. A portion of the annual performance-related bonus of the Senior Management Executives is tied to the EVA achieved by the Group in the financial year.

Under the plan, one-third of the accumulated EVA-based bonus, comprising the EVA declared for the financial year and the balance of such bonus brought forward from preceding years (which comprises multiple years of incentive dollars retained in the EVA bank), is paid out in cash each year. The remaining two-thirds are carried forward in the individual executive's EVA bank. Amounts in the EVA bank are at risk because negative EVA will result in a clawback of EVA accumulated in previous years. This mechanism encourages the senior management to work for sustained EVA generation and to adopt strategies that are aligned with the long term interests of the Group.

In addition, the Group has a clawback facility with respect to the EVA bank in the event of a restatement of the financial results of the Group subsequent to an earlier misstatement and provisions for the forfeiture of the remaining EVA bank balance on termination due to misconduct or fraud resulting in any financial loss to the Group.

Based on the ERCC's assessment that the actual performance of the Group in financial year 2016 has partially met the pre-determined targets, the resulting annual EVA declared under EBIS was adjusted accordingly.

C. Share-based Compensation:

Share awards which were granted in financial year 2016 were based on the Singapore Technologies Engineering Performance Share Plan 2010 (PSP2010) and the Singapore Technologies Engineering Restricted Share Plan 2010 (RSP2010) approved and adopted by shareholders of the Company at the Extraordinary General Meeting held on 21 April 2010. Yearly awards under the PSP2010 and RSP2010 do not exceed the internal annual limit of 1% of the total number of issued shares of the Company, set by the ERCC.

Details of the share plans and awards granted are given in the Share Plans section of the Directors' Statement from pages 110 to 113.

PSP2010

The PSP2010 was established with the objective of motivating Senior Management Executives to strive for sustained growth and performance in the Group.

Pursuant to the PSP2010, the ERCC has decided to grant contingent awards on an annual basis, conditional on meeting targets set for a three-year performance period. With effect from financial year 2010, the performance measures used in PSP grants under PSP2010 are:

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- Absolute Total Shareholder Return (TSR) against Cost of Equity hurdles (i.e. measure of absolute Wealth Added); and
- Relative TSR against Defensive Stock Index, the constituents of which are selected "defensive stock" companies that have similar market risk as the Group and are listed on the Singapore Exchange (SGX).

A minimum threshold performance is required for any performance shares to be released to the recipient at the end of the performance period. The actual number of performance shares released will depend on the achievement of set targets over the performance period, capped at 170% of the conditional award.

The final PSP award is conditional on the vesting of the shares under the RSP2010 which have the same performance end period.

The Group has clawback policies for the unvested shares under PSP2010 in the event of exceptional circumstances of restatement of the financial results of the Group subsequent to an earlier misstatement, or of misconduct or fraud resulting in any financial loss to the Group.

The Group did not meet the predetermined target performance level for PSP awards granted based on the performance period from financial years 2014 to 2016.

RSP2010

The RSP2010 was established with the objective of motivating managers and above to strive for sustained long term growth and superior performance in the Group. It also aims to foster a share ownership culture among employees within the Group and to better align employees' incentives with shareholders' interests.

Pursuant to the RSP2010, the ERCC has decided to grant contingent awards on an annual basis, conditional on targets set for a one-year performance period. The performance measures set based on the Group corporate objectives, are:

- Group Net Profit; and
- Group EBITDA Margin.

A minimum threshold performance is required for any restricted shares to be released to the recipient at the end of the performance period. The actual number of shares released will depend on the achievement of set targets over the performance period, and will be determined by the ERCC at the end of the performance period, capped at 150% of the conditional award. The shares will be released equally over four consecutive years.

The Group has clawback policies for the unvested shares under RSP2010 in the event of exceptional circumstances of restatement of the financial results of the Group subsequent to an earlier misstatement, or of misconduct or fraud resulting in any financial loss to the Group.

The Group has partially met the pre-determined target performance level for the RSP awards granted in FY2016. The achievement for FY2016 grant is computed based on the performance period for financial year 2016.

D. Market-Related Benefits:

The benefits provided are comparable with local market practices.

The Code requires a company to disclose the names and remuneration of the CEO and at least the top five key management personnel (who are not also directors or the CEO). Details of the remuneration package for the President & CEO are provided in the Summary Compensation Table for Directors on pages 91 to 93. Details of the remuneration packages for the key management executives are provided in the Summary Compensation Table for Key Management Executives on page 94.

In performing the duties as required under its Terms of Reference, the ERCC ensures that remuneration paid to the Senior Management Executives is strongly linked to the achievement of business and individual performance targets. The performance targets as determined by the ERCC are set at realistic yet stretched levels each year to motivate a high degree of business performance with emphasis on both short- and long term quantifiable objectives. A Pay-for-Performance Alignment study was conducted by the Remuneration Consultant and reviewed by the ERCC; it was found that there was sufficient evidence indicating Pay-for-Performance Alignment for the Group in terms of both absolute and relative performance.

Under the Code, the compensation system shall take into account the risk policies of the Group, be symmetric with risk outcomes and be sensitive to the time horizon of risks. The ERCC will undertake periodic reviews of the compensation-related risks.

During financial year 2016, there were no termination, retirement and post-employment benefits granted to Directors, President & CEO and key management executives other than in accordance with the standard contractual agreement.

There were no employees who were immediate family members of a Director or the President & CEO and whose remuneration exceeded S$50,000 during the financial year 2016, except for Quek Gim Chuah (VP Quality, ST Aerospace), who is the brother of Quek Gim Pew, Director of the Company.

NON-EXECUTIVE DIRECTOR REMUNERATION

Non-executive Directors (NEDs) have remuneration packages consisting of Directors' fees and attendance fees, which are approved in arrears by shareholders for services rendered in the previous year. The Directors' Fee Policy comprises a basic retainer, attendance and additional fees for serving on Board committees. There has been no revision to this Policy.

For services rendered in financial year 2016, eligible NEDs will receive 70% of the total Directors' fees in cash and 30% of the total Directors' fees in the form of restricted shares which are governed by the terms of RSP2010, subject to shareholders' approval at its AGM in April 2017.

As the restricted shares are awarded in lieu of Directors' compensation in cash, the shares will be awarded outright as fully paid shares with no performance conditions attached and no vesting periods imposed. To encourage the alignment of interests of the NEDs with the interests of shareholders, the share award has a moratorium on selling. Each eligible NED is required to hold shares in the Group worth the lower of: (a) the total number of shares in the Group awarded to such NED as payment of the shares' component of the NEDs' fees for financial year 2011 and onwards; or (b) the number of shares of equivalent value to the prevailing annual basic retainer fee for a Director of the Group. An NED can sell all his shares in the Group a year after the end of his Board tenure.

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The computation of NEDs' compensation is based on current fee policy rates.

	FROM PRIVATE SECTOR ($) 2016
Chairman	600,000
Basic Retainer	
Director	72,000
Additional/Committee Fees	
Audit Committee:	
- Chairman	52,000
- Member	29,000
Executive Resource and Compensation Committee and	
Risk and Sustainability Committee:	
- Chairman	35,000
- Member	18,000
Other Committee:	
- Chairman	29,000
- Member	14,000
Attendance Fees	
Per Board Meeting	2,000
Per Board Committee Meeting	1,000

The Chairman's fee is a fixed fee covering all Board and Board Committee retainer and meeting attendance. The fee will be paid in a combination of cash (70%) and shares (30%). The share award, as part of the fee, will consist of fully-paid shares with no performance conditions attached and no vesting period imposed. However, the shares will have to be held for at least two years from the date of award, and the two year moratorium will apply even in the event of retirement.

The NEDs' compensation payable in respect of financial year 2016 is proposed to be S$1,752,233 (FY 2015: S$1,749,212). Details of the Directors' remuneration are provided in the Summary Compensation Table for Directors on pages 91 to 93.

Fees to directors who hold public sector appointments follow the Directorship & Consultancy Appointments Council (DCAC)'s guidelines as set out below.

	FROM PUBLIC SECTOR ($) 2016
Chairman	45,000
Deputy Chairman / Chairman Executive Committee / Chairman Audit Committee	33,750
Member Executive Committee / Member Audit Committee / Chairman of Other Board Committee(s)	22,500
Director/Other Committee Member	11,250

NEDs who hold public sector appointments follow DCAC guidelines and will not be eligible for the shares component of the NEDs' compensation. 100% of their compensation in cash is payable to DCAC, where applicable.

SUMMARY COMPENSATION TABLE FOR DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016 (GROUP):

Payable by the Company

EXECUTIVE DIRECTORS	SALARY*1 $	VARIABLE*2 $	BENEFITS*3 $	SHARE-BASED COMPENSATION*4 $	DIRECTORS' TOTAL FEES*6 CASH-BASED $	SHARE-BASED $	Total $
Tan Pheng Hock	972,660	858,736	103,450	924,294	–	–	2,859,140*5
Vincent Chong Sy Feng	742,380	1,296,018	205,435	1,193,531	–	–	3,437,364
Total	**1,715,040**	**2,154,754**	**308,885**	**2,117,825**	**–**	**–**	**6,296,504**

NON-EXECUTIVE DIRECTORS	SALARY*1 $	VARIABLE*2 $	BENEFITS*3 $	SHARE-BASED COMPENSATION*4 $	DIRECTORS' TOTAL FEES*6 CASH-BASED $	SHARE-BASED $	Total $
Kwa Chong Seng	-	-	-	-	420,000	180,000	600,000
Koh Beng Seng	-	-	-	-	135,000 (a)	-	135,000
Ng Chee Khern	-	-	-	-	11,250 (b)	-	11,250
LG Lim Cheng Yeow Perry	-	-	-	-	22,500 (b)	-	22,500
Quek Tong Boon	-	-	-	-	7,832 (c)	-	7,832
Quek Gim Pew	-	-	-	-	8,545 (b)(d)	-	8,545
Venkatachalam Krishnakumar	-	-	-	-	78,940 (e)	-	78,940
Davinder Singh	-	-	-	-	130,000 (a)	-	130,000
Dr Stanley Lai Tze Chang	-	-	-	-	115,500	49,500	165,000
Khoo Boon Hui	-	-	-	-	97,269 (f)	41,687	138,956
Quek See Tiat	-	-	-	-	79,800	34,200	114,000
Olivia Lum Ooi Lin	-	-	-	-	70,700	30,300	101,000

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SUMMARY COMPENSATION TABLE FOR DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016 (GROUP):

Payable by the Company (continued)

NON-EXECUTIVE DIRECTORS	SALARY*1 $	VARIABLE*2 $	BENEFITS*3 $	SHARE-BASED COMPENSATION*4 $	DIRECTORS' TOTAL FEES*6 CASH-BASED $	SHARE-BASED $	Total $
Dr Beh Swan Gin	-	-	-	-	22,500 (b)	-	22,500
Lim Sim Seng	-	-	-	-	71,897 (g)	30,813	102,710
Lim Ah Doo	-	-	-	-	79,800	34,200	114,000
COL Alan Goh Kim Hua (Alternate to LG Lim Cheng Yeow Perry)	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**1,351,533**	**400,700**	**1,752,233**

Payable by Subsidiaries

EXECUTIVE DIRECTORS	SALARY*1 $	VARIABLE*2 $	BENEFITS*3 $	SHARE-BASED COMPENSATION*4 $	DIRECTORS' TOTAL FEES*6 CASH-BASED $	SHARE-BASED $	Total $
Tan Pheng Hock	-	-	-	-	149,161 (h)	-	149,161
Vincent Chong Sy Feng	-	-	-	-	109,813 (h)	-	109,813
Total	**-**	**-**	**-**	**-**	**258,974**	**-**	**258,974**

SUMMARY COMPENSATION TABLE FOR DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016 (GROUP):

Payable by Subsidiaries (continued)

					DIRECTORS' TOTAL FEES*6		
NON-EXECUTIVE DIRECTORS	SALARY*1 $	VARIABLE*2 $	BENEFITS*3 $	SHARE-BASED COMPENSATION*4 $	CASH-BASED $	SHARE-BASED $	Total $
Quek Tong Boon	-	-	-	-	6,250 [c]	-	6,250
Quek Gim Pew	-	-	-	-	6,875 [b]	-	6,875
Dr Stanley Lai Tze Chang	-	-	-	-	31,500	13,500	45,000
Dr Beh Swan Gin	-	-	-	-	39,375 [b]	-	39,375
Lim Sim Seng	-	-	-	-	46,084	19,750	65,834
Lim Ah Doo	-	-	-	-	20,417	8,750	29,167
COL Alan Goh Kim Hua	-	-	-	-	2,815 [b]	-	2,815
Total	**-**	**-**	**-**	**-**	**153,316**	**42,000**	**195,316**

*1 *Salary includes base salary and employer CPF for the financial year ended 31 December 2016.*

*2 *Variable includes Monthly Performance Bonus (which is 1/12 of the 13th month salary or Annual Wage Supplement (AWS) paid over 12 months), Performance Target Bonus paid and EVA-based incentive for the financial year ended 31 December 2016. The EVA-based incentive for the year is added to the balance brought forward in each of the executive's individual EVA Bank. 1/3 of the total is paid out, with the balance 2/3 carried forward to the next year. A negative EVA-based incentive will result in a clawback of individual EVA Bank.*

*3 *Benefits provided for employees are comparable with local market practices. These include medical, dental, insurances, transport, etc.*

*4 *The PSP and RSP Contingent Awards to be granted in 2017 for work done in FY2016 are based on the fair values as determined using the Monte Carlo simulation model.*

*5 *Amount constitutes Tan Pheng Hock's remuneration as President & CEO for the period 1 January 2016 - 30 September 2016, excluding leave encashment and service awards. Pheng Hock retired with effect from 1 October 2016 and was appointed as Advisor to the President & CEO.*

*6 *The directors' cash fees and share awards will only be paid/granted upon approval by the shareholders at the forthcoming AGMs of the Company and its subsidiaries.*

(a) *Retire at AGM on 21 April 2017*

(b) *Fees for public sector directors are payable to a government agency, the DCAC*

(c) *Pro-rated. Quek Tong Boon resigned as Director on 1 July 2016*

(d) *Pro-rated. Quek Gim Pew was appointed Director on 15 August 2016*

(e) *Pro-rated. Venkatachalam Krishnakumar resigned as Director on 1 June 2016*

(f) *Khoo Boon Hui was appointed AC member on 1 June 2016*

(g) *Lim Sim Seng was appointed member of ERCC and NC on 1 June 2016*

(h) *Fees are payable to Singapore Technologies Engineering Ltd*

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The following information relates to remuneration of directors of Singapore Technologies Engineering Ltd:

NUMBER OF DIRECTORS IN REMUNERATION BANDS	2016	2015
$500,000 and above	3	3
$250,000 to $499,999	0	0
Below $250,000	14	15
Total	**17**	**18**

SUMMARY COMPENSATION TABLE FOR KEY MANAGEMENT EXECUTIVES FOR THE YEAR ENDED 31 DECEMBER 2016 (GROUP):

REMUNERATION	SALARY*1 %	VARIABLE*2 %	BENEFITS*3 %	SHARE-BASED COMPENSATION*4 %	Total %
Between $2,500,000 and $2,750,000					
Lee Fook Sun	26%	50%	3%	21%	100%
Between $1,500,000 and $1,750,000					
Ravinder Singh s/o Harchand Singh	30%	39%	4%	27%	100%
Lim Serh Ghee	35%	41%	5%	19%	100%
Ng Sing Chan	35%	35%	6%	24%	100%
Total for Key Management Executives				**$7,751,570**	

*1 *Salary includes base salary and employer CPF for the financial year ended 31 December 2016.*
*2 *Variable includes Monthly Performance Bonus (which is 1/12 of the 13th month salary or AWS paid over 12 months), Performance Target Bonus paid & EVA-based incentive for the financial year ended 31 December 2016.*
The EVA-based incentive for the year is added to the balance brought forward in each of the executives' individual EVA Bank. 1/3 of the total is paid out, with the balance 2/3 carried forward to the next year. A negative EVA-based incentive will result in a clawback of individual EVA Bank.
*3 *Benefits provided for employees are comparable with local market practices. These include medical, dental, insurances, transport, etc.*
*4 *The PSP and RSP Contingent Awards to be granted in March 2017 for work done in FY2016 are based on the fair values as determined using the Monte Carlo simulation model.*

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, risk review and prospects. The Board also takes adequate steps to ensure compliance with legislative and regulatory requirements, including compliance with the continuing listing obligations under the SGX Listing Manual. As and when new rules and regulations or accounting standards are introduced, external professionals will be invited to brief our directors.

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. KPMG LLP in Singapore audits Singapore incorporated subsidiaries that are not exempt from audit under the Singapore Companies Act. Subsidiaries incorporated in countries outside Singapore that require an audit in their local jurisdictions are largely audited by other independent member firms of the KPMG network affiliated with KPMG International Cooperative, a Swiss entity. Some of our overseas associates and joint ventures which engage other auditing firms do not constitute a significant number.

The Company has complied with Rules 712 and 715 of the SGX Listing Manual in relation to the engagement of its auditors.

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. Directors are discouraged from trading on short term considerations. 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 106 to 109 of this Annual Report.

Audit Committee
(Principle 12)

The AC is supported in its work by the audit committees of the four business sectors. The respective chairmen of the Risk and Audit Committees (RACs) 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' RACs 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 AC's key terms of reference include the following:

- undertaking the statutory and regulatory functions of an AC as are prescribed by law from time to time;
- reviewing the reports of the external and internal auditors to provide a further layer of assurance of the integrity, confidentiality and availability of critical information;
- reviewing interested person transactions;
- evaluating the work of the external auditors to determine their independence and recommending to the Board their re-appointment and compensation on an annual basis; and
- reviewing the level of non-audit services.

The Company has in place a Whistle-Blowing framework, 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 RACs, in the Group as well as the AC. In accordance with this framework, a Whistle-Blowing dashboard reporting is presented to the Sectors' RACs and the AC at its quarterly meetings. As ST Engineering has become a global company with

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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 and may commission investigations as appropriate.

The AC comprises Koh Beng Seng as Chairman, Dr Stanley Lai, Khoo Boon Hui, Quek See Tiat and Lim Ah Doo. All the members of the AC are independent directors and majority, including the AC Chairman, have the relevant accounting or financial management expertise or experience. Quek See Tiat will succeed Koh Beng Seng as AC Chairman following his retirement at the coming ST Engineering AGM.

The AC held five meetings during the year including a joint meeting with the RSC to review the significant risks and related key controls. The AC met twice with the external and internal auditors, without management, at the beginning and middle of the year.

During the year, the AC reviewed the financial statements of the Group before the announcement of the Group's quarterly and full-year results. In the process, the AC reviewed the key areas of management's estimates and judgement applied for key financial issues including revenue recognition, impairment testing, provisioning policies, critical accounting policies and any other significant matters that might affect the integrity of the financial statements. The AC also considered the report from the external auditors, including their findings on the key areas of audit focus. Significant matters that were discussed with management and the external auditors have been included as **key audit matters (KAMs)** in the audit report for the financial year ended 31 December 2016. Refer to pages 116-123 of this Annual Report.

In assessing each KAM, the AC took into consideration the approach and methodology applied in the valuation of assets, as well as the reasonableness of the estimates and key assumptions used. In addition to the views from the external auditors, subject matter experts, such as independent valuers, were consulted where necessary. The AC concluded that management's accounting treatment and estimates in each of the KAMs were appropriate.

During the year, the AC considered and approved the 2016 Audit Plan and the 2016 Internal Audit (IA) Plan. In addition, the AC reviewed the adequacy of internal control procedures including IT security issues, Interested Person transactions and the issues raised in IA reports. It also considered the reappointment of the external auditors as well as their remuneration.

The AC also reviewed the level of non audit services performed by its external auditors. For the full year 2016, $9,311,000 was paid to the external auditors for audit and non audit services of the Group, of which $2,719,000 or 29% were for non-audit services. The AC was satisfied that the non audit services performed by the auditors did not compromise their independence.

The AC is routinely updated on the proposed and impending changes in accounting standards and their implications for the Group.

Risk Management and Internal Control
(Principle 11)
Internal Audit
(Principle 13)

The AC, with the support of the respective Sectors' RACs oversees and appraises the quality of the IA function. The Board, through the AC, RSC (these Committees are deliberately kept separate at the holding level to specifically focus on each important area of responsibility) and the RACs, is responsible for oversight of the risk management responsibilities, sustainability, internal controls and governance processes delegated to Management.

IA supports the AC and RACs in reviewing the adequacy of the Group's internal control systems.

ST Engineering IA comprises a team of 30 staff members, including the Head, Internal Auditor, who reports to the AC functionally and to the President & CEO administratively.

ST Engineering IA is a member of the Singapore Chapter of the Institute of Internal Auditors (IIA) and adopts the International Standards for the Professional Practice of Internal Auditing (the IIA Standards) laid down in the International Professional Practices Framework issued by the IIA. ST Engineering IA successfully completed its external Quality Assurance Review in 2014 and continues to meet or exceed the IIA standards in all key aspects.

IA plans its internal audit schedules in consultation with, but independently of, management. The IA Plan is submitted to the RACs and the AC for approval at the beginning of each year.

The RACs and the AC also meet with IA at least once a year. During the year, RAC/AC met with IA twice a year without the presence of management to gather feedback on management's level of cooperation and other matters that warrant the RACs' and the AC's attention. All IA reports are submitted to the RACs and 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 actions taken are discussed at the quarterly RAC and AC meetings.

During the year, a joint RSC and AC meeting was held in accordance with the respective terms of reference of the committees to facilitate constructive sharing of the common issues that may need to be addressed by both these committees. During the joint committee meeting, members were updated on the risk management process and key risk policy listing.

During the year, IA worked with Management to align 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. IA is assisted in its work by an external accounting firm which is not the external auditors of the Company to ensure independence of the internal audit role. In accordance with its plan, surprise audits were conducted in the course of the year on selected areas including treasury activities. Dormant bank accounts were also reviewed against bank mandates, bank statements, balances, etc. There were no material issues highlighted following the surprise audits.

Control issues are discussed at AC meetings.

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.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by Management and various Board Committees, the Board, with the concurrence of the RACs and the AC, is satisfied that the Group's framework of internal controls and procedures as well as risk management systems are adequate as at 31 December 2016; to provide reasonable, but not absolute, assurance of achieving its internal control objectives and addressing financial, operational, compliance and information technology risks.

The Board is satisfied that problems are identified on a timely basis and follow up actions are taken promptly to minimise unnecessary lapses. The Board, through the board committees, is supported in these areas by the Internal Audit and Risk Management teams of the Company. In this regard, the Board also notes that no system can provide absolute assurance against the occurrence of material errors, poor judgment in decision making, human error, fraud or other irregularities.

Risk and Sustainability Committee

During the year, the Risk Review Committee (RRC) changed its name to the RSC to include the area on sustainability. The RSC, chaired by Khoo Boon Hui, comprises LG Perry Lim, Davinder Singh, Olivia Lum and Vincent Chong. Each RAC oversees the risk and audit aspects at the Sector level.

CORPORATE GOVERNANCE

a) Risk Governance

The RSC assists the Board in its risk governance responsibility. RSC's role is one of oversight of the responsibilities delegated to Management to ensure that there is a system of controls in place for identifying and managing risks in order to safeguard stakeholders' interests and the Company's assets. The RSC also oversees the Group's sustainability issues and reporting.

The RSC is supported by the Group Risk Management Team (GRMT), headed by SVP, Risk Management, working with the Sector Chief Risk Officers from each of the following Sectors:

1) Aerospace
2) Electronics
3) Land Systems
4) Marine

The Head of GRMT reports to the Chairman of the RSC and ST Engineering's President & CEO. The GRMT provides leadership in the implementation of a Group-wide Enterprise Risk Management (ERM) framework that allows risks to be identified, assessed, monitored and managed by the business managers.

The respective RACs additionally take on the review of risks and risk management systems and assist in the discharge of the risk oversight responsibilities at the Sector level.

Administratively, the RACs are supported by the GRMT and the Sector Chief Risk Officers. The GRMT ensures that there is general alignment in the quarterly risk agenda of the RAC meetings to that of the RSC. The annual risk work plan of each sector is also aligned to the Group risk work plan before it is approved by the respective RACs and further endorsed by the RSC.

The RSC reviews the minutes of the RAC meetings which are circulated to all members of the RSC. The RAC Chairman or a member of the RAC is invited to attend the quarterly RSC meetings so as to have a clear understanding of group risk policies and to share any feedback or raise any issue that the RACs may have.

In the respective Terms of Reference of the RSC and AC, the members of the RSC and the AC will come together at least once a year to discuss significant risks and audit issues of the Group. The RSC held a total of five meetings during the year including a joint meeting with AC.

There is at least a member on the RSC who is also a member of the AC to facilitate communication and access of information between the two committees.

b) Risk Aware Culture and Training

Embedding the right culture throughout the organisation is important for effective risk management. The RSC recognises good culture fosters openness that will enable Management and staff to escalate concerns in a timely manner without fear, as well as promote better judgment, which provides greater comfort to the Board and Management.

As part of the risk awareness and communication programme, annual risk management training plans covering various risk topics are developed and implemented by the respective sectors, and the status of the training is updated to the RSC and RAC at periodic intervals.

c) Risk Review Process

Under the ERM framework, a risk dashboard of the top 15 business risks (comprising the key inherent risks that may impact the business objectives) is developed and maintained by each of the significant business units, rolling up into a summary dashboard for each of the four business sectors – Aerospace, Electronics, Land Systems and Marine. Once the top business risks are identified, measures will then be taken to develop and implement risk preventive and mitigation actions (collectively known as "controls") and risk monitoring processes. The business managers are required to periodically review the effectiveness of the controls implemented, and initiate necessary changes as the risk profile changes.

Quarterly, the Presidents and the Sector Chief Risk Officers review, with the RSC and RAC, their respective dashboard of material business risks. At the meetings, the Presidents and Sector Chief Risk Officers would discuss the risk management action plans and measures to address these risks. At the same time, the Presidents and Sector Chief Risk Officers would also highlight the following for discussion:

1) emerging trends and issues in each business sector
2) new risk or changes to existing risk profile
3) new risk incidents
4) major risk exposures
5) risk management actions taken on previously identified risks

The Committee met four times during the year.

The Committee continues to monitor the implementation of risk management policies and procedures and receives updates to the risk registers maintained by the respective sectors. Major reviews include compliance with major laws and regulations, as well as business disruption risks and their continuity plans.

In addition, during the year the Committee reviewed with Management the incident notification framework and cyber risk management framework. The Committee also carried a review of its risk governance processes against the best practices set out in the Board Risk Committee Guide issued by the Singapore Institute of Directors.

d) Risk Management Self Assurance Process

The Risk Management Self Assurance is a process whereby the business risk owners, together with the respective control owners, evaluate and assess the operational effectiveness of the controls established to manage the key risks that are reported in the Sector Risk Dashboard.

On the basis of this self assessment, annually, the RACs and RSC will receive from the respective Sector Presidents and Sector Group Financial Controllers, written assurances on the adequacy and effectiveness of the system of risk management and controls to manage the significant risks.

For more information on the Company's material long term risks, and risk management framework, please refer to the ST Engineering website www.stengg.com for details.

System of Internal Control and Risk Management

The Board receives, at regular intervals, updates from the Board committees on the key business risks, the material controls to manage these risks, and the internal audit reports on the operational effectiveness of the material controls.

The Board has received assurance from the Group's President & CEO and CFO on the effectiveness of the Company's risk management and internal control systems, that the financial records have been properly maintained and that the financial statements give a true and fair view of the Company's operations and finances.

The Board is satisfied with the risk management process in place, and, in its opinion, that the effectiveness and adequacy of the material controls to manage the key risks have been appropriately reviewed through the management self assurance process, as well as reasonable independent assurance provided by the Company's IA Function.

CORPORATE GOVERNANCE

Budget and Finance Committee

Chaired by Davinder Singh, the Budget and Finance Committee members include Dr Beh Swan Gin, Ng Chee Khern and Vincent Chong. 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 three meetings to review the FY2016 budget assumptions and five-year forecast and to review the 2017 Plan prior to submission to the Board for approval.

Business Investment and Divestment Committee

The Business Investment and Divestment Committee comprises Kwa Chong Seng as Chairman, LG Perry Lim, Dr Beh Swan Gin and Vincent Chong. The Committee is delegated authority by the Board to consider investments and divestments up to certain threshold values and to ensure that investments/divestments are in line with the Group's strategy. During the year, no meetings were held as investment/divestment decisions were raised to the full Board for consideration.

Tenders Committee

The Tenders Committee comprises a rolling list of any three Directors drawn from the Board, and is delegated authority by the Board to consider tender proposals. Matters of the Tenders Committee during the year were resolved via resolutions in writing.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights
(Principle 14)
Communication with Shareholders
(Principle 15)
Conduct of Shareholder Meetings
(Principle 16)

At all times, ST Engineering is committed to disclosing material information in a timely, transparent and accurate manner in accordance with the Code.

All disclosures submitted to the Singapore Exchange Securities Trading Limited ("SGX-ST") through SGXNET are made available on the Group's corporate website at www.stengg.com.

The Investor Relations team and designated senior spokespersons establish and maintain regular dialogue with shareholders, media, analysts and the investment community through analyst and media briefings, facility visits, as well as investor roadshows and conferences. These platforms provide opportunities to present our business and investment case, as well as enable us to solicit and understand views of our stakeholders.

While we provide reasonable access to shareholders, media, analysts and the investment community to help them develop informed opinions of the Group, we do not respond or comment on rumours, market speculation, or forward projections of financial figures. In situations where the rumours or speculative news reports are materially incorrect or misleading, the Group may issue a clarification or confirmation statement through SGXNET.

The Group observes a "blackout period" of two weeks prior to the announcement of quarterly results. During this period, we do not comment on industry outlook, the Group's business performance and financial results. Neither do we participate in any investor meetings or conferences during this period.

At general meetings of shareholders, we facilitate the opportunity for shareholders to participate effectively. Board members are present at these meetings where shareholders can seek clarification or question the Board on issues pertaining to the resolutions proposed before they are voted on. The external auditors are also present to assist the directors in answering questions on audit related matters.

For transparency in the voting process, ST Engineering has, since 2010, adopted the use of electronic poll voting for all the resolutions put to vote at its AGMs and Extraordinary General Meetings. This is a fair and transparent way of voting based on the principle of one share one vote. Each substantially separate issue is proposed as a separate resolution at general meetings. We do not "bundle" resolutions, unless the resolutions are interdependent and linked so as to form one significant proposal.

CODE OF CORPORATE GOVERNANCE 2012

SUMMARY OF DISCLOSURES

PRINCIPLE AND GUIDELINES	DESCRIPTION	PAGE REFERENCE IN ST ENGINEERING ANNUAL REPORT 2016
Guideline 1.3	Delegation of authority, by the Board to any board committee, to make decisions on certain board matters	page 78
Guideline 1.4	The number of meetings of the Board and board committees held in the year, as well as the attendance of every board member at these meetings	pages 79-80
Guideline 1.5	The type of material transactions that require board approval under guidelines	page 78
Guideline 1.6	The induction, orientation and training provided to new and existing directors	pages 78-79
Guideline 2.3	The Board should identify in the company's Annual Report each director it considers to be independent. Where the Board considers a director to be independent in spite of the existence of a relationship as stated in the Code that would otherwise deem a director not to be independent, the nature of the director's relationship and the reasons for considering him as independent should be disclosed.	page 81
Guideline 2.4	Where the Board considers an independent director, who has served on the Board for more than nine years from the date of his first appointment, to be independent, the reasons for considering him as independent should be disclosed	page 81
Guideline 3.1	Relationship between the Chairman and the CEO where they are immediate family members	NA
Guideline 4.1	Names of the members of the NC and the key terms of reference of the NC, explaining its role and the authority delegated to it by the Board	pages 82-83

CORPORATE GOVERNANCE

PRINCIPLE AND GUIDELINES	DESCRIPTION	PAGE REFERENCE IN ST ENGINEERING ANNUAL REPORT 2016
Guideline 4.4	The maximum number of listed company board representations which directors may hold should be disclosed	Page 83
Guideline 4.6	Process for the selection, appointment and re-appointment of new directors to the Board, including the search and nomination process	pages 82-83
Guideline 4.7	Key information regarding directors, including which directors are executive, non-executive or considered by the NC to be independent	pages 16-21 and page 81
Guideline 5.1	The Board should state in the company's Annual Report how assessment of the Board, its board committees and each director has been conducted. If an external facilitator has been used, the Board should disclose in the company's Annual Report whether the external facilitator has any other connection with the company or any of its directors. This assessment process should be disclosed in the company's Annual Report.	page 83
Guideline 7.1	Names of the members of the RC and the key terms of reference of the RC, explaining its role and the authority delegated to it by the Board	page 85
Guideline 7.3	Names and firms of the remuneration consultants (if any) should be disclosed in the annual remuneration report, including a statement on whether the remuneration consultants have any relationships with the company	page 86
Principle 9	Clear disclosure of remuneration policies, level and mix of remuneration, and procedure for setting remuneration	pages 85-90
Guideline 9.1	Remuneration of directors, the CEO and at least the top five key management personnel (who are not also directors or the CEO) of the company. The annual remuneration report should include the aggregate amount of any termination, retirement and postemployment benefits that may be granted to directors, the CEO and the top five key management personnel (who are not directors or the CEO).	pages 91-94
Guideline 9.2	Fully disclose the remuneration of each individual director and the CEO on a named basis. There will be a breakdown (in percentage or dollar terms) of each director's and the CEO's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and their long term incentives.	pages 91-93
Guideline 9.3	Name and disclose the remuneration of at least the top five key management personnel (who are not directors or the CEO) in bands of S$250,000. There will be a breakdown (in percentage or dollar terms) of each key management personnel's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long term incentives. In addition, the company should disclose in aggregate the total remuneration paid to the top five key management personnel (who are not directors or the CEO). As best practice, companies are also encouraged to fully disclose the remuneration of the said top five key management personnel.	page 94

PRINCIPLE AND GUIDELINES	DESCRIPTION	PAGE REFERENCE IN ST ENGINEERING ANNUAL REPORT 2016
Guideline 9.4	Details of the remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceeds S$50,000 during the year. This will be done on a named basis with clear indication of the employee's relationship with the relevant director or the CEO. Disclosure of remuneration should be in incremental bands of S$50,000.	page 89
Guideline 9.5	Details and important terms of employee share schemes	pages 86-89
Guideline 9.6	For greater transparency, companies should disclose more information on the link between remuneration paid to the executive directors and key management personnel, and performance. The annual remuneration report should set out a description of performance conditions to which entitlement to short-term and long term incentive schemes are subject, an explanation on why such performance conditions were chosen, and a statement of whether such performance conditions are met.	pages 86-89
Guideline 11.3	The Board should comment on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems. The commentary should include information needed by stakeholders to make an informed assessment of the company's internal control and risk management systems.	page 97
	The Board should also comment on whether it has received assurance from the CEO and the CFO: (a) that the financial records have been properly maintained and the financial statements give true and fair view of the company's operations and finances; and (b) regarding the effectiveness of the company's risk management and internal control systems.	page 99
Guideline 12.1	Names of the members of the AC and the key terms of reference of the AC, explaining its role and the authority delegated to it by the Board	page 96
Guideline 12.6	Aggregate amount of fees paid to the external auditors for that financial year, and breakdown of fees paid in total for audit and non-audit services respectively, or an appropriate negative statement	page 96
Guideline 12.7	The existence of a whistle-blowing policy should be disclosed in the company's Annual Report	page 95
Guideline 12.8	Summary of the AC's activities and measures taken to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements	page 96
Guideline 15.4	The steps the Board has taken to solicit and understand the views of the shareholders e.g. through analyst briefings, investor roadshows or Investors' Day briefings	pages 100-101
Guideline 15.5	Where dividends are not paid, companies should disclose their reasons.	NA

FINANCIAL REPORT

CONTENTS

DIRECTORS' STATEMENT

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

We are pleased to submit this annual report to the members of the Company together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

In our opinion:

(a) the financial statements set out on pages 127 to 255 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and changes in equity of the Group and of the Company, and the financial performance and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

DIRECTORS

The directors of the Company in office at the date of this statement are as follows:

Kwa Chong Seng	(Chairman)
Vincent Chong Sy Feng *	
Koh Beng Seng	
LG Lim Cheng Yeow Perry	
Ng Chee Khern	
Quek Gim Pew	(Appointed on 15 August 2016)
Davinder Singh s/o Amar Singh	
Dr Stanley Lai Tze Chang	
Khoo Boon Hui	
Quek See Tiat	
Olivia Lum Ooi Lin	
Dr Beh Swan Gin	
Lim Sim Seng	
Lim Ah Doo	
COL Alan Goh Kim Hua	(Alternate Director to LG Lim Cheng Yeow Perry)

* *Vincent Chong ceased as Alternate Director to Tan Pheng Hock and was appointed Director and President and Chief Executive Officer on 1 October 2016.*

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Except for the Singapore Technologies Engineering Share Option Plan ("ESOP"), Singapore Technologies Engineering Performance Share Plan 2010 ("PSP2010") and Singapore Technologies Engineering Restricted Share Plan 2010 ("RSP2010") (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' STATEMENT

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

DIRECTORS' INTERESTS

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, debentures, warrants, share options or awards of the Company or of related corporations either at the beginning of the financial year or date of appointment if later, or at the end of the financial year.

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, debentures, warrants, share options and awards in the Company and its related corporations were as follows:

		Holdings in the name of the director, spouse or infant children	
		1 January 2016 or date of appointment if later	**31 December 2016**
The Company			
Ordinary Shares			
Kwa Chong Seng		571,600	928,100 *1
Vincent Chong Sy Feng		713,937	1,090,513
Koh Beng Seng		223,805	236,705
Davinder Singh s/o Amar Singh		70,237	83,337
Dr Stanley Lai Tze Chang		93,240	114,040
Khoo Boon Hui		–	10,700
Quek See Tiat		14,300	25,200
Olivia Lum Ooi Lin		5,100	14,600
Lim Sim Seng		–	4,800
Lim Ah Doo		30,000	31,300
Conditional Award of 126,000 shares under PSP2010 for performance period 2015 to 2017			
Vincent Chong Sy Feng		0 to 214,200 #1	0 to 214,200 #1
Conditional Award of 70,000 shares under PSP2010 for performance period 2016 to 2018			
Vincent Chong Sy Feng		–	0 to 119,000 #1
Time-based restricted shares under RSP2010 Vested in 2015 to 2017			
Vincent Chong Sy Feng	(434,160 shares)	289,440 #2	144,720 #2
Time-based restricted shares under RSP2010 Vested in 2015 to 2017			
Vincent Chong Sy Feng	(647,061 shares)	431,374 #2	215,687 #2

DIRECTORS' STATEMENT

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

DIRECTORS' INTERESTS (continued)

	Holdings in the name of the director, spouse or infant children	
	1 January 2016 or date of appointment if later	**31 December 2016**
The Company		
Conditional Award of 74,000 shares under RSP2010 for performance period 1 January 2015 to 31 December 2015		
Vincent Chong Sy Feng	0 to 111,000 #3	– #4
Unvested shares under RSP2010 arising from release of Conditional Award of 74,000 shares for performance period 1 January 2015 to 31 December 2015		
Vincent Chong Sy Feng	–	48,507 #2
Related Corporations		
Ascendas Funds Management (S) Limited *Unit holdings in Ascendas Real Estate Investment Trust*		
Quek See Tiat	34,000	34,000
Ascendas Pte Ltd *Regular Notes Ascendas Pte Ltd 2012 – Without Fixed Maturity Variable Rate Subordinated*		
Ng Chee Khern	$250,000	$250,000
Mapletree Greater China Commercial Trust Management Ltd. *Unit holdings in Mapletree Greater China Commercial Trust*		
Khoo Boon Hui	300,000	300,000
Mapletree Logistics Trust Management Ltd. *Unit holdings in Mapletree Logistics Trust*		
Lim Ah Doo	185,000	185,000

DIRECTORS' STATEMENT

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

DIRECTORS' INTERESTS (continued)

	Holdings in the name of the director, spouse or infant children	
	1 January 2016 or date of appointment if later	31 December 2016
Related Corporations		
Neptune Orient Lines Limited		
Ordinary Shares		
Kwa Chong Seng	2,000,000	N.A.@
S$400 million 4.25% Notes due 2017		
Kwa Chong Seng	$250,000 *2	N.A.@
Olam International Limited		
Ordinary Shares		
Kwa Chong Seng	420,000 *2	420,000 *2
Warrants		
Kwa Chong Seng	36,594 *2	38,020 *2
Singapore Airlines Limited		
S$500 million 3.22% Notes 9 Jul 2010 – 9 Jul 2020		
Davinder Singh s/o Amar Singh	$500,000	$500,000
Singapore Telecommunications Limited		
Ordinary Shares		
Kwa Chong Seng	26,466	26,466
Koh Beng Seng	1,520	1,520
Ng Chee Khern	2,720	2,720
Quek Gim Pew	3,120	3,120
Davinder Singh s/o Amar Singh	1,800	1,800
Khoo Boon Hui	3,087	3,087
Quek See Tiat	680	680
Olivia Lum Ooi Lin	100,460	100,460

DIRECTORS' STATEMENT

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

DIRECTORS' INTERESTS (continued)

	Holdings in the name of the director, spouse or infant children	
	1 January 2016 or date of appointment if later	**31 December 2016**
Related Corporations		
SMRT Corporation Ltd *Ordinary Shares*		
Dr Beh Swan Gin	10,000	– *
StarHub Ltd *Ordinary Shares*		
Quek See Tiat	5,000	5,000

@ *Ceased to be related corporation of Temasek Holdings (Private) Limited during the financial year.*

* *Delisted from SGX-ST with effect from 31 October 2016.*

*1 *Includes interest in 300,000 shares in Singapore Technologies Engineering Ltd, held in trust by a trustee company on behalf of the director.*

*2 *Held in trust by a trustee company on behalf of the director.*

#1 *A minimum threshold performance over a 3-year period is required for any performance shares to be released and the actual number of performance shares to be released is capped at 170% of the conditional award.*

#2 *Balance of unvested restricted shares to be released according to the stipulated vesting periods.*

#3 *A minimum threshold performance over a 1-year period is required for any restricted shares to be released. The actual number of restricted shares to be released is capped at 150% of the conditional award and will be delivered in phases according to the stipulated vesting periods.*

#4 *For this period, Vincent Chong Sy Feng was awarded 64,676 shares upon partial achievement of targets set. The balance of the conditional award covering the period from 1 January 2015 to 31 December 2015 has thus lapsed.*

There was no change in any of above-mentioned directors' interests in the Company between the end of the financial year and 21 January 2017.

DIRECTORS' STATEMENT

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

SHARE PLANS

The Executive Resource and Compensation Committee ("ERCC") is responsible for administering the ST Engineering Share Plans.

The ERCC members are Kwa Chong Seng (Chairman), Lim Sim Seng and Dr Stanley Lai Tze Chang.

As at 31 December 2016, no participants have been granted options and/or have received shares under the ST Engineering Share Plans which, in aggregate, represent 5% or more of the total number of new shares available under the ST Engineering Share Plans.

The aggregate number of new shares issued pursuant to the RSP2010 and PSP2010 did not exceed 8% of the issued share capital of the Company.

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) ***ESOP***

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

Participant	Aggregate options granted and accepted since commencement to end of financial year under review	Aggregate options exercised/ lapsed since commencement to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Directors of the Company			
Koh Beng Seng	204,000	204,000	–
Non-Executive Directors of the Company and its subsidiaries (including current and former directors)	5,405,566	5,405,566	–
Group Executives	193,717,858	183,666,379	10,051,479
Parent Group Executives and others	187,320	187,320	–

DIRECTORS' STATEMENT

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

SHARE PLANS (continued)

(a) ***ESOP*** (continued)

(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, ordinary shares in the Company were issued pursuant to the exercise of options to take up unissued shares of the Company.

(b) ***PSP2010 ("PSP")***

The PSP was established with the objective of motivating senior management staff 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 3-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 170% of the conditional award.

The performance measures used in PSP grants are Absolute Total Shareholder Return ("TSR") against Cost of Equity hurdles (i.e. measure of absolute Wealth Added); and Relative TSR against Defensive Stock Index, the constituents of which are selected "defensive stock" companies that have similar market risk as the Group and are listed on the Singapore Exchange ("SGX").

In addition to PSP performance targets being met, the ERCC decided that the final award for PSP is conditional upon the performance targets for RSP that has the same end of performance period being met. Known as the plan trigger condition, this is to create alignment between senior management and other employees. The final award for PSP 2014 is therefore conditional on the performance targets for RSP 2016, which has the same end of performance period in December 2016, being met.

DIRECTORS' STATEMENT

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

SHARE PLANS (continued)

(b) ***PSP2010 ("PSP")*** (continued)

The awards granted under the PSP are as follows:

Participant	Conditional awards granted during the financial year under review	Awards released during the financial year under review	Aggregate conditional awards granted since commencement to end of financial year under review	Aggregate awards released since commencement to end of financial year under review	Aggregate conditional awards not released as at end of financial year under review
Director of the Company					
Vincent Chong Sy Feng	0 to 119,000	–	0 to 333,200	–	0 to 333,200
Group Executives (including Vincent Chong Sy Feng)	0 to 3,313,300	– *	0 to 15,930,700	3,075,043	0 to 8,232,200

* *During the year, the Group did not meet the pre-determined target performance level and that tranche of conditional award has thus lapsed.*

(c) ***RSP2010 ("RSP")***

The RSP was 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' interests.

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 1-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 equally to the recipient over a 4-year vesting period.

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 targets measured over a 1-year performance period are set based on ST Engineering Group corporate objectives. The performance measures used for the 1-year performance period are ST Engineering Group Net Profit After Tax and EBITDA Margin.

DIRECTORS' STATEMENT

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

SHARE PLANS (continued)

(c) ***RSP2010 ("RSP")*** (continued)

Since 2011, the awards granted under the ST Engineering RSP to the Non-Executive Directors (other than those from the public sector) are outright shares with no performance and vesting conditions but with a Moratorium on selling. These shares will form up to 30% of their total compensation with the remaining 70% payable in cash.

The awards granted under the RSP are as follows:

Participant	Conditional awards/ awards granted during the financial year under review	Awards released during the financial year under review	Aggregate conditional awards/awards granted since commencement to end of financial year under review	Aggregate awards released since commencement to end of financial year under review	Aggregate awards not released as at end of financial year	Aggregate conditional awards not released as at end of financial year under review
Directors of the Company						
Kwa Chong Seng	56,500	56,500	128,100	128,100	–	–
Vincent Chong Sy Feng	–	376,576	0 to 1,515,751	1,060,513	408,914	–
Koh Beng Seng	12,900	12,900	57,500	57,500	–	–
Davinder Singh s/o Amar Singh	13,100	13,100	55,100	55,100	–	–
Dr Stanley Lai Tze Chang	20,800	20,800	88,500	88,500	–	–
Khoo Boon Hui	10,700	10,700	10,700	10,700	–	–
Quek See Tiat	10,900	10,900	25,200	25,200	–	–
Olivia Lum Ooi Lin	9,500	9,500	14,600	14,600	–	–
Lim Sim Seng	4,800	4,800	4,800	4,800	–	–
Lim Ah Doo	1,300	1,300	1,300	1,300	–	–
Non-Executive Directors of the Company and its subsidiaries (including current and former directors)	204,900	204,900	897,300	897,300	–	–
Group Executives (including Vincent Chong Sy Feng)	0 to 8,737,491	4,685,901	0 to 50,507,972	16,540,492	5,043,749	0 to 8,282,078

DIRECTORS' STATEMENT

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

AUDIT COMMITTEE

The Audit Committee comprises five 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 Stanley Lai Tze Chang
Quek See Tiat
Khoo Boon Hui
Lim Ah Doo

The Audit Committee carried out its functions in accordance with Section 201B of the Singapore Companies Act, Chapter 50, the SGX Listing Manual and the Code of Corporate Governance.

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 full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

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

The Company has complied with Rules 712 and 715 of the SGX Listing Manual in relation to the engagement of its auditors.

AUDITORS

The Auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Kwa Chong Seng
Director

Vincent Chong Sy Feng
Director

Singapore
15 February 2017

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Singapore Technologies Engineering Ltd (the Company) and its subsidiaries (the Group), which comprise the balance sheets of the Group and the Company as at 31 December 2016, the statement of changes in equity of the Group and Company, the consolidated income statement, the consolidated statement of comprehensive income and the consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 127 to 255.

In our opinion, the accompanying consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Group and Company as at 31 December 2016, and changes in equity of the Group and Company and the financial performance and cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *'Auditor's responsibilities for the audit of the financial statements'* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD

<table>
<tr><th>THE KEY AUDIT MATTER</th><th>HOW WAS THE MATTER ADDRESSED IN OUR AUDIT</th></tr>
<tr><td colspan="2">Impairment of non-financial assets, including goodwill and other intangible assets
Refer to Note 3.17(i) – Key sources of estimation uncertainty: Expected future cash flows and discount rates and Note 16 – Intangible assets of S$1,019.6 million.</td></tr>
<tr><td>Goodwill and intangible assets form 12% of the Group's total assets. There is a risk of impairment due to the uncertain economic conditions in specific markets that the Group operates in, which increases the level of judgement and estimation uncertainties within management's cash flow forecast.

The Group uses the discounted cash flow technique to determine the recoverable amounts of each cash-generating units ("CGU") and based on management's assessment, an impairment loss of $3.4 million was recognised in respect of one CGU during the year.</td><td>Our procedures included, among others:

• We evaluated the identification of CGUs within the Group against the requirements of the accounting standards.

• We reviewed the basis and methodology adopted to arrive at the recoverable amounts of the CGUs.

• We assessed the key assumptions used in the cash flow projections, namely sales growth rates, earnings before interest, depreciation and amortisation ("EBIDA") growth rates, discount rates, terminal growth rates by comparing the Group's assumptions to externally derived data where available.

• We reviewed the historical accuracy of the Group's estimates in the previous periods, identification and analysis of changes in the assumptions from prior periods, focusing particularly on those CGUs where cash flow projections are sensitive to changes in key assumptions and/or are operating in challenging economic conditions.

• We have also assessed the adequacy of related disclosures in Note 16 to the financial statements.

Findings:

We found that the assumptions and resulting estimates used in the discounted cash flow projections for all the CGUs were within acceptable range, except for a CGU in the United States, which includes growth estimates that exceeded historical performance. In this instance, we have re-computed the recoverable amount using reduced growth estimates and we agree with management that no impairment charge is required for this CGU.

Overall, the results of our evaluation of the Group's impairment charge are consistent with management assessment.

We found the Group's disclosure provides sufficient details on the sensitivity of the impairment charge to variations in key assumptions.</td></tr>
</table>

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD

<table>
<tr><th>THE KEY AUDIT MATTER</th><th>HOW WAS THE MATTER ADDRESSED IN OUR AUDIT</th></tr>
<tr><td colspan="2">Impairment of property, plant and equipment – Roll-on/Roll-off Passenger ferry ("ROPAX")
Refer to Note 3.17(i) – Key sources of estimation uncertainty: Expected future cash flows and discount rates and Note 12 – Property, plant and equipment of S$1,670.1 million.</td></tr>
<tr><td>The carrying amount of a ROPAX vessel, which was chartered out on a short term operating lease, representing a significant balance within the boats and barges class of property, plant and equipment.

ST Marine ("STM") was awarded a contract to design and build the ROPAX vessel in 2007. The contract was subsequently terminated in 2011, resulting in STM taking title of the vessel. Since the repossession of the vessel, management has tried to realise the value of the vessel through sale and charter. Limited market demand for such a vessel led to difficulties in selling or chartering the vessel out on a long term basis, resulting in write downs on the carrying value of the ROPAX between 2011 and 2013, to reflect its net realisable value. Since then, the ROPAX has been put to use through short term chartering arrangements. The vessel is currently under a charter to provide ferry services between Spain and Morocco for a two-year period beginning January 2016.

The Group evaluated the recoverable amount of the ROPAX using the discounted cash flow ("DCF") technique across two scenarios where the ROPAX is chartered or disposed, weighted based on likelihood of outcomes to derive at a recoverable amount for the ROPAX.

There are inherent uncertainties involved in estimating the recoverable amount of the ROPAX as it is dependent on the current economic conditions and whether the carrying amount can be realised through future sale or other chartering arrangements.</td><td>Our procedures included, amongst others:

• We assessed the factors relevant to the likelihood of the outcome of each scenario.

• We considered two other possible scenarios that could happen and computed the recoverable amount after incorporating the additional scenarios and compared to the carrying amount of the ROPAX.

• We evaluated the key assumptions used in the review, particularly charter rates by comparing to the rates used in existing lease arrangement and externally derived data where available.

• We compared the discount rate used by management to our calculations based on market data.

Findings:

The results of our evaluation of the valuation of the ROPAX are consistent with management assessment that no further impairment charge is required. Nonetheless, uncertainties remain in the future over the probability of securing longer term chartering arrangements or selling the vessel, that may change the estimated recoverable amount of ROPAX.</td></tr>
</table>

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD

THE KEY AUDIT MATTER	HOW WAS THE MATTER ADDRESSED IN OUR AUDIT
Revenue recognition *Refer to Note 3.17(i) – Key sources of estimation uncertainty: Revenue recognition and Note 5 – Revenue of S$6,683.7 million.*	
The Group's three largest revenue streams are derived from the sale of goods, rendering of services and long term contract revenues. Some of these revenue streams have contracts that account for revenue and profit based on the stage of completion of individual contracts. The amount of revenue and profit recognised is dependent on management's assessment on the stage of completion and the forecast cost profile of each long term contract. As long-term contracts can extend over multiple years, changes in conditions and circumstances over time can result in variations to the original contract terms, including cost overruns which may require further negotiation and settlements resulting in penalties and provisions for losses. Significant judgement is applied in forecasting the costs to be incurred, the overall margins of these contracts and assessment on the stage of completion. Such estimates are inherently judgemental.	Our procedures included, amongst others: • We tested the controls designed and applied by the Group to ensure that the estimates used in assessing revenue and costs are appropriate. The controls tested include, amongst others, controls over the preparation and authorisation of project evaluation, approval of revenue calculated and project costing, and accuracy and completeness over manpower and labour rates computed. • We selected a sample of contracts for testing based on a number of qualitative and quantitative factors, such as contracts with significant deterioration in margin, those contracts with variations, claims and other factors which indicated that a greater level of judgement is required in the estimates developed for current and forecast contract performance. • For each selected contracts, we assessed the appropriateness of estimates used in the forecasts and whether the estimates showed any evidence of management bias. • We reviewed the contractual terms and work status of the customer contracts and verified that revenue is recognised according to the stage of completion of each project.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD

THE KEY AUDIT MATTER	HOW WAS THE MATTER ADDRESSED IN OUR AUDIT
Revenue recognition (continued)	
	Findings: As a practical expedient, the Group recognised revenue for certain short term maintenance, repair and overhaul ("MRO") services below a certain threshold upon the completion of the service contract, instead of by reference to the stage of completion. Management assessed and quantified the impact on an annual basis and concluded that the resultant effect on the Group's financial statements was immaterial. We have reviewed management's quantification and agree that the effect was immaterial. We found that the actual results at completion of certain ship building contracts in the US that adopted first of class designs tend to be lower than the initial margins estimated at the inception of the contract. The changes in margins were due to revision in the quantity of materials calculated and the corresponding labour hours required as the design and engineering matures. We found that the estimates used to derive the revised margins were fair. For the other long term contracts of the Group, we found that the estimates used to derive budgeted margins were fair except for some projects where the actual profit margins at completion of the contracts tend to be marginally higher compared to the estimated margins used for profit recognition at various stages of completion.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD

THE KEY AUDIT MATTER	HOW WAS THE MATTER ADDRESSED IN OUR AUDIT
Net realisable value of inventories and work-in-progress *Refer to Note 3.17 (i) – Key sources of estimation uncertainty: Allowance for inventory obsolescence and write down of finished goods to net realisable value ("NRV") and Note 19 – Inventories and work-in-progress of S$1,898.3 million.*	
There are judgement and estimates used in the valuation of the Group's inventories and work-in-progress. In particular, the Group holds significant amount of aircraft components for trading purposes which are slow moving. Due to the weak economic environment, resulting in a slower demand for aircraft components, there is a risk that the estimates of net realisable values exceed future selling prices, resulting in losses when the inventories are sold. Based on independent valuation reports, the Group recorded write downs of the carrying amount of the aircraft components in 2014 and 2015.	<u>Valuation of aircraft components</u> <u>Our procedures included, amongst others:</u> • We analysed the historical sales transactions and orders for future sales, and compared them to inventory levels. • We compared the remaining useful lives of the aircraft components to the projected remaining economic life of the respective aircraft types relating to the component pool. • We compared the written down values of the aircraft components to recent sale transactions and industry trends. • We evaluated the competence, capabilities and objectivity of the external valuer. We considered the limitations that impact the value attributed to individual component by understanding the valuation basis and assessed the historical transacted prices used to estimate the value of the components. **Findings:** We found that management's assessment to evaluate inventories at the lower of cost or net realisable value as at 31 December 2016 and the valuation methodologies used by the independent valuers to be fair. However, there remains volatility in the components trading market that may impact the realisation of the value of inventories in the future.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD

THE KEY AUDIT MATTER	HOW WAS THE MATTER ADDRESSED IN OUR AUDIT
Net realisable value of inventories and work-in-progress (continued)	
The recoverability of work-in-progress is assessed based on management's judgement and estimates on costs to complete these long term contracts, and the respective stage of completion.	<u>Recoverability of work-in-progress</u> <u>Our procedures included, amongst others:</u> • We evaluated significant and long-outstanding work-in-progress accounts and assessed the Group's ability to complete contracts within budgeted margins by assessing management's underlying estimates and assumptions on forecasted margins and the relationship of cost versus billing status on contracts. **Findings:** Overall, our assessment is that the assumptions and resulting estimates used in determining the work-in-progress amounts were fair.
Acquisition of Elbe Flugzeugwerke GmbH *Refer to Note 4 – Acquisition of controlling interests in Elbe Flugzeugwerke GmbH (EFW)*	
On 1 January 2016, the Group increased its equity stake in EFW from 35% to 55%. Assessing whether the Group controls EFW is a critical accounting judgement. The rights of the Group are encapsulated in the shareholders' agreement and assessing whether the Group's rights are sufficient to give it control over EFW requires detailed consideration of the relevant provisions and a commercial assessment of which rights are more important. It was determined that control was obtained on the date of acquisition. There is also judgement and estimates used in determining the value of the purchase price, which comprised the cost of developing intellectual property ("IP") on A320 passenger to freighter ("PTF") conversion technology.	Our procedures included, amongst others: • Reviewed the shareholders' agreement for the rights of the respective shareholders and the key matters that require voting by majority shareholders and other matters which require unanimous agreement. • Compared the methodologies and key assumptions used in deriving the allocated values to the components of the purchase price to generally accepted market practices and market data. • Evaluated the appropriateness of using cost of developing the A320 PTF conversion technology as a proxy to fair value.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD

<table>
<tr><th>THE KEY AUDIT MATTER</th><th>HOW WAS THE MATTER ADDRESSED IN OUR AUDIT</th></tr>
<tr><td colspan="2">Acquisition of Elbe Flugzeugwerke GmbH (continued)</td></tr>
<tr><td></td><td>Findings:

We found the Group's assessment of EFW being a controlled subsidiary is supported by key terms in the shareholders' agreement that provides the Group with the power to make key operating and capital decisions of EFW.

We also found that the estimates used in determining the value of the to-be-developed IP on A320 PTF conversion technology and the resulting estimates used to determine the allocated values to the purchase price were fair.</td></tr>
<tr><td colspan="2">Liquidation of Jiangsu Huatong Kinetics and Jiangsu Huaran Kinetics
Refer to Note 4 – Liquidation of JHK</td></tr>
<tr><td>Jiangsu Huatong Kinetics Co., Ltd and Jiangsu Huaran Kinetics Co., Ltd (collectively known as "JHK"), subsidiaries of the Land Systems Sector, continued to incur operating losses and are not expected to have adequate financial resources to continue their operations.

On 18 October 2016, the Group announced that they have started the process to cease the production activities of JHK in order to reduce its operating losses. On this basis, the Group recognised a one-off charge of S$61.1 million (net of non-controlling interest), comprising impairment losses on the carrying amounts of JHK's underlying assets and goodwill and a provision relating to the closure costs.

On 14 December 2016, JHK companies have been placed under members' voluntary liquidation.</td><td>Our procedures included, amongst others:

• We obtained relevant information, including recent market announcement made by the Group, and studied this information to obtain an understanding of the financial position and capital needs of JHK.

• We read the Board papers supporting the proposals by management to cease production of JHK and subsequently to place JHK in members' voluntary liquidation.

• We assessed the methods and assumptions used by management, in their estimation of the recoverable amounts of significant underlying assets including (i) the fair value less cost to sell of plant and equipment; (ii) the net realisable value of inventory; (iii) the recoverability of trade and other receivable balances, and the consequent impact of the cessation of production on these realisable values.</td></tr>
</table>

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD

THE KEY AUDIT MATTER	HOW WAS THE MATTER ADDRESSED IN OUR AUDIT
Liquidation of Jiangsu Huatong Kinetics and Jiangsu Huaran Kinetics (continued)	
The recognition of impairment losses and closure costs involves significant judgement and estimates.	• We assessed assumptions and estimates used by management in their estimation of the provision for closure costs, taking into account the legal or constructive obligations of JHK in the local jurisdiction, and other supporting information. • We considered the adequacy of the Group's disclosures in relation to the impairment charge recognised on the respective assets of JHK. **Findings:** We found that the estimates used in determining the recoverable amounts of JHK's underlying assets and provision for closure costs to be appropriate based on the information available to date, noting nonetheless that continuing developments in the future may result in changes of the estimates used in determining the impairment losses of JHK and the provision for closure costs.
Provision for warranties *Refer to Note 3.17 (i) – Key sources of estimation uncertainty: Provision for warranties and Note 26 – Provision for warranties of S$200.4 million.*	
Warranties are provided as stipulated under each sale contract. Such specific provisions are assessed and decided by project managers based on their experience of the likelihood of claims and risks arising from contracts covered by warranty. For contracts that do not specifically indicate any warranty provision, warranties are provided based on a percentage of sales. Determining the amount of both specific and general warranties involves judgement and estimates.	<u>Our procedures included, amongst others:</u> • We assessed the key assumptions applied in determining the Group's provision amount for warranties. This included a comparison of the provision for warranties to the historical amounts being utilised, to determine whether the Group's estimation techniques were reasonable. **Findings:** Based on our procedures, we found that the Group's provision falls within the upper range of the potential claims assessed by management.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD

Other information

Management is responsible for the other information. The other information comprises Financial Highlights, Letter to Shareholders, Board of Directors, Senior Management, Operating & Financial Review, Investor Relations, Awards, Corporate Information, Sustainability Report, Corporate Governance, Directors' Statement, SGX Listing Manual Requirements, and Sectoral Financial Review which we obtained prior to the date of this auditors' report, and the Shareholding Statistics which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Shareholding Statistics, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITORS' REPORT

**MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD**

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE COMPANY
SINGAPORE TECHNOLOGIES ENGINEERING LTD

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Ang Fung Fung.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
15 February 2017

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS)

	Note	Group 2016 $'000	Group 2015 $'000
Revenue	5	**6,683,737**	6,335,023
Cost of sales		**(5,378,469)**	(5,052,897)
Gross profit		**1,305,268**	1,282,126
Distribution and selling expenses		**(182,322)**	(179,444)
Administrative expenses		**(476,252)**	(469,128)
Other operating expenses		**(175,611)**	(123,283)
Profit from operations	6	**471,083**	510,271
Other income		**67,815**	55,747
Other expenses		**(15)**	(299)
Other income, net	8	**67,800**	55,448
Finance income		**33,691**	56,191
Finance costs		**(45,707)**	(49,948)
Finance (costs)/income, net	9	**(12,016)**	6,243
Share of results of associates and joint ventures, net of tax		**63,766**	58,340
Profit before taxation		**590,633**	630,302
Taxation	10	**(97,770)**	(98,659)
Profit for the year		**492,863**	531,643
Attributable to:			
Shareholders of the Company		**484,514**	529,039
Non-controlling interests	41	**8,349**	2,604
		492,863	531,643
Earnings per share (cents)	11		
Basic		**15.60**	17.05
Diluted		**15.60**	17.04

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS)

	Note	Group 2016 $'000	Group 2015 $'000
Profit for the year		**492,863**	531,643
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Defined benefit plan remeasurements	29	**(5,964)**	–
Items that are or may be reclassified subsequently to profit or loss:			
Net fair value changes on available-for-sale financial assets	34	**1,089**	(3,883)
Net fair value changes on cash flow hedges		**4,124**	4,050
Realisation of cash flow hedge reserve arising from disposal of an associate	34	**11,368**	(2,805)
Foreign currency translation differences		**(2,937)**	36,372
Share of foreign currency translation differences of associates and joint ventures	34	**(2,809)**	(860)
Reclassification of foreign currency translation reserve to profit or loss arising from disposal of foreign entities	34	**9,446**	–
		20,281	32,874
Other comprehensive income for the year, net of tax		**14,317**	32,874
Total comprehensive income for the year, net of tax		**507,180**	564,517
Total comprehensive income attributable to:			
Shareholders of the Company		**501,379**	559,078
Non-controlling interests	41	**5,801**	5,439
		507,180	564,517

The accompanying notes are an integral part of the financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS)

	Note	Group		Company	
		2016	2015	**2016**	2015
		$'000	$'000	**$'000**	$'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	**1,670,132**	1,708,779	**3,251**	3,997
Subsidiaries	13	**–**	–	**1,277,609**	1,194,799
Associates and joint ventures	14	**405,530**	461,560	**17,657**	17,657
Investments	15	**322,051**	328,684	**–**	–
Intangible assets	16	**1,019,585**	736,970	**–**	–
Long-term trade receivables		**1,894**	5,011	**–**	–
Finance lease receivables	17	**–**	523	**–**	–
Deferred tax assets	18	**92,528**	105,551	**4,813**	4,700
Amounts due from related parties	21	**4,806**	4,806	**507,257**	355,028
Advances and other receivables	22	**2,534**	329	**–**	–
Derivative financial instruments	40	**32,967**	25,790	**–**	–
Employee benefits	29	**151**	–	**–**	–
		3,552,178	3,378,003	**1,810,587**	1,576,181
Current assets					
Inventories and work-in-progress	19	**1,898,278**	1,943,004	**–**	–
Trade receivables	20	**1,457,982**	1,319,714	**–**	–
Amounts due from related parties	21	**24,618**	56,582	**199,634**	470,376
Advances and other receivables	22	**338,217**	334,165	**2,084**	5,299
Finance lease receivables	17	**–**	3,173	**–**	–
Short-term investments	15	**188,890**	182,969	**–**	–
Bank balances and other liquid funds	23	**904,890**	951,494	**588,862**	82,091
		4,812,875	4,791,101	**790,580**	557,766
Total assets		**8,365,053**	8,169,104	**2,601,167**	2,133,947
EQUITY AND LIABILITIES					
Current liabilities					
Advance payments from customers		**932,515**	871,246	**–**	–
Trade payables and accruals	24	**1,722,488**	1,702,649	**24,148**	20,619
Amounts due to related parties	25	**28,449**	20,553	**504,827**	1,742
Provisions	26	**274,662**	257,524	**–**	–
Progress billings in excess of work-in-progress	19	**620,331**	568,575	**–**	–
Provision for taxation		**133,227**	124,628	**–**	5,528
Borrowings	27	**87,427**	174,686	**–**	–
Employee benefits	29	**1,916**	–	**–**	–
		3,801,015	3,719,861	**528,975**	27,889
Net current assets		**1,011,860**	1,071,240	**261,605**	529,877

The accompanying notes are an integral part of the financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS)

	Note	Group		Company	
		2016	2015	**2016**	2015
		$'000	$'000	**$'000**	$'000
Non-current liabilities					
Advance payments from customers		**590,828**	700,908	**–**	–
Trade payables and accruals	24	**137,763**	229,535	**8,997**	11,538
Deferred tax liabilities	18	**216,592**	134,815	**–**	–
Borrowings	27	**992,848**	1,018,545	**–**	–
Employee benefits	29	**85,200**	–	**–**	–
Deferred income	28	**77,159**	92,052	**–**	–
Other long-term payables		**–**	700	**–**	–
Derivative financial instruments	40	**19,435**	11,615	**–**	–
Amounts due to related parties	25	**17**	146	**676,417**	644,274
		2,119,842	2,188,316	**685,414**	655,812
Total liabilities		**5,920,857**	5,908,177	**1,214,389**	683,701
Net assets		**2,444,196**	2,260,927	**1,386,778**	1,450,246
Share capital and reserves					
Share capital	30	**895,926**	895,926	**895,926**	895,926
Treasury shares	31	**(44,081)**	(66,870)	**(44,081)**	(66,870)
Capital reserves	33	**113,184**	113,277	**(2,791)**	(3,073)
Other reserves	34	**(56,653)**	(65,495)	**65,231**	72,512
Retained earnings		**1,273,886**	1,255,214	**472,493**	551,751
Equity attributable to owners of the Company		**2,182,262**	2,132,052	**1,386,778**	1,450,246
Non-controlling interests	41	**261,934**	128,875	**–**	–
		2,444,196	2,260,927	**1,386,778**	1,450,246
Total equity and liabilities		**8,365,053**	8,169,104	**2,601,167**	2,133,947

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS)

The Group	Note	Share capital $'000	Treasury shares $'000	Capital reserves $'000	Other reserves $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1.1.2015		889,426	(6,529)	116,323	(92,057)	1,225,040	2,132,203	132,407	2,264,610
Total comprehensive income for the year									
Profit for the year		–	–	–	–	529,039	529,039	2,604	531,643
Other comprehensive income									
Net fair value changes on available-for-sale financial assets	34	–	–	–	(3,883)	–	(3,883)	–	(3,883)
Net fair value changes on cash flow hedges		–	–	–	3,658	–	3,658	392	4,050
Share of net fair value changes on cash flow hedges of an associate	34	–	–	–	(2,805)	–	(2,805)	–	(2,805)
Foreign currency translation differences		–	–	–	33,929	–	33,929	2,443	36,372
Share of foreign currency translation differences of associates and joint ventures	34	–	–	–	(860)	–	(860)	–	(860)
Other comprehensive income for the year, net of tax		–	–	–	30,039	–	30,039	2,835	32,874
Total comprehensive income for the year, net of tax		–	–	–	30,039	529,039	559,078	5,439	564,517
Transactions with owners of the Company, recognised directly in equity									
Contributions by and distributions to owners of the Company									
Issue of shares		6,500	–	–	(1,144)	–	5,356	–	5,356
Capital contribution by non-controlling interests		–	–	–	–	–	–	639	639
Cost of share-based payment		–	–	–	16,501	–	16,501	81	16,582
Purchase of treasury shares	31	–	(89,776)	–	–	–	(89,776)	–	(89,776)
Treasury shares reissued pursuant to share plans		–	29,435	(3,046)	(17,689)	–	8,700	(129)	8,571
Dividends paid	35	–	–	–	–	(497,604)	(497,604)	–	(497,604)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(10,813)	(10,813)
Total contributions by and distributions to owners of the Company		6,500	(60,341)	(3,046)	(2,332)	(497,604)	(556,823)	(10,222)	(567,045)
Changes in ownership interests in subsidiaries									
Acquisition of non-controlling interests in subsidiaries without a change in control		–	–	–	(2,406)	–	(2,406)	(5,194)	(7,600)
Acquisition of subsidiaries with non-controlling interests		–	–	–	–	–	–	6,445	6,445
Total transactions with owners of the Company		6,500	(60,341)	(3,046)	(4,738)	(497,604)	(559,229)	(8,971)	(568,200)
Transfer from retained earnings to statutory reserve		–	–	–	1,261	(1,261)	–	–	–
At 31.12.2015		895,926	(66,870)	113,277	(65,495)	1,255,214	2,132,052	128,875	2,260,927

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS)

The Group	Note	Share capital $'000	Treasury shares $'000	Capital reserves $'000	Other reserves $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1.1.2016		895,926	(66,870)	113,277	(65,495)	1,255,214	2,132,052	128,875	2,260,927
Total comprehensive income for the year									
Profit for the year		–	–	–	–	484,514	484,514	8,349	492,863
Other comprehensive income									
Net fair value changes on available-for-sale financial assets	34	–	–	–	1,089	–	1,089	–	1,089
Net fair value changes on cash flow hedges		–	–	–	572	–	572	3,552	4,124
Realisation of cash flow hedge reserve arising from disposal of an associate	34	–	–	–	11,368	–	11,368	–	11,368
Foreign currency translation differences		–	–	–	467	–	467	(3,404)	(2,937)
Share of foreign currency translation differences of associates and joint ventures	34	–	–	–	(2,809)	–	(2,809)	–	(2,809)
Reclassification of foreign currency translation reserve to profit or loss arising from disposal of foreign entities		–	–	–	9,446	–	9,446	–	9,446
Defined benefit plan remeasurements		–	–	–	–	(3,268)	(3,268)	(2,696)	(5,964)
Other comprehensive income for the year, net of tax		–	–	–	20,133	(3,268)	16,865	(2,548)	14,317
Total comprehensive income for the year, net of tax		–	–	–	20,133	481,246	501,379	5,801	507,180
Transactions with owners of the Company, recognised directly in equity									
Contributions by and distributions to owners of the Company									
Capital contribution by non-controlling interests		–	–	–	–	–	–	448	448
Return of capital to non-controlling interests		–	–	–	–	–	–	(1,178)	(1,178)
Cost of share-based payment		–	–	–	9,515	–	9,515	20	9,535
Purchase of treasury shares	31	–	(3,137)	–	–	–	(3,137)	–	(3,137)
Treasury shares reissued pursuant to share plans		–	25,926	282	(16,719)	–	9,489	(97)	9,392
Dividends paid	35	–	–	–	–	(465,930)	(465,930)	–	(465,930)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(10,638)	(10,638)
Total contributions by and distributions to owners of the Company		–	22,789	282	(7,204)	(465,930)	(450,063)	(11,445)	(461,508)
Changes in ownership interests in subsidiaries									
Acquisition of non-controlling interests in a subsidiary without a change in control		–	–	–	(731)	–	(731)	564	(167)
Acquisition of subsidiaries with non-controlling interests	4	–	–	–	–	–	–	154,816	154,816
Disposal of a subsidiary	4	–	–	(375)	(3,474)	3,474	(375)	(16,677)	(17,052)
Total transactions with owners of the Company		–	22,789	(93)	(11,409)	(462,456)	(451,169)	127,258	(323,911)
Transfer from retained earnings to statutory reserve		–	–	–	118	(118)	–	–	–
At 31.12.2016		895,926	(44,081)	113,184	(56,653)	1,273,886	2,182,262	261,934	2,444,196

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS)

The Company	Note	Share capital $'000	Treasury shares $'000	Capital reserve $'000	Share-based payment reserve $'000	Retained earnings $'000	Total $'000
At 1.1.2015		889,426	(6,529)	–	74,865	568,323	1,526,085
Total comprehensive income for the year							
Profit for the year		–	–	–	–	481,032	481,032
Total comprehensive income for the year		–	–	–	–	481,032	481,032
Transactions with owners of the Company, recognised directly in equity							
Contributions by and distributions to owners of the Company							
Issue of shares		6,500	–	–	(1,144)	–	5,356
Cost of share-based payment		–	–	–	16,582	–	16,582
Purchase of treasury shares	31	–	(89,776)	–	–	–	(89,776)
Treasury shares reissued pursuant to share plans		–	29,435	(3,073)	(17,791)	–	8,571
Dividends paid	35	–	–	–	–	(497,604)	(497,604)
Total contributions by and distributions to owners of the Company		6,500	(60,341)	(3,073)	(2,353)	(497,604)	(556,871)
At 31.12.2015		895,926	(66,870)	(3,073)	72,512	551,751	1,450,246
At 1.1.2016		895,926	(66,870)	(3,073)	72,512	551,751	1,450,246
Total comprehensive income for the year							
Profit for the year		–	–	–	–	386,672	386,672
Total comprehensive income for the year		–	–	–	–	386,672	386,672
Transactions with owners of the Company, recognised directly in equity							
Contributions by and distributions to owners of the Company							
Cost of share-based payment		–	–	–	9,535	–	9,535
Purchase of treasury shares	31	–	(3,137)	–	–	–	(3,137)
Treasury shares reissued pursuant to share plans		–	25,926	282	(16,816)	–	9,392
Dividends paid	35	–	–	–	–	(465,930)	(465,930)
Total contributions by and distributions to owners of the Company		–	22,789	282	(7,281)	(465,930)	(450,140)
At 31.12.2016		895,926	(44,081)	(2,791)	65,231	472,493	1,386,778

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS)

	Note	Group 2016 $'000	Group 2015 $'000
Cash flows from operating activities			
Profit before taxation		**590,633**	630,302
Adjustments:			
Share of results of associates and joint ventures, net of tax		**(63,766)**	(58,340)
Share-based payment expense		**9,535**	16,582
Depreciation charge		**195,678**	170,394
Property, plant and equipment written off		**709**	6,216
Amortisation of other intangible assets	16	**51,643**	16,898
Other intangible assets written off		**54**	143
Gain on disposal of property, plant and equipment	8	**(903)**	(1,190)
Gain on disposal of investments	9	**(3,672)**	(343)
Remeasurement (gain)/loss on fair value of pre-existing interest in an acquiree	4	**(1,364)**	299
Gain on disposal of an associate	8	**(731)**	(59)
Gain on disposal of subsidiaries, net		**(11,781)**	–
Bargain purchase arising from business combination	8	**(1,333)**	(10,529)
Write-back on loan to an associate		**–**	(272)
Write-back on progressive payments to contractor		**–**	(283)
Changes in fair value of financial instruments and hedged items		**(2,500)**	(14,804)
Changes in fair value of financial instruments held for trading	9	**11**	(15)
Interest expense		**42,441**	39,752
Interest income		**(27,342)**	(23,499)
Impairment/(write-back) on property, plant and equipment	12	**30,837**	(212)
Impairment losses on goodwill and other intangible assets	16	**9,322**	4,942
Impairment of investments	9	**1,579**	–
Dividends from investments	9	**(4)**	(3)
Operating profit before working capital changes		**819,046**	775,979
Changes in:			
Inventories and work-in-progress		**75,264**	(99,619)
Progress billings in excess of work-in-progress		**50,477**	(156,772)
Trade receivables		**(106,021)**	36,405
Advance payments to suppliers		**(15,694)**	174,200
Other receivables, deposits and prepayments		**(1,331)**	13,057
Amount due from holding company and related corporations balances		**15,502**	15,765
Amount due to holding company and related corporations balances		**(7,248)**	(13,285)
Amount due from associates		**22,005**	(8,973)
Amount due from joint ventures		**15,966**	(2,506)
Trade payables		**19,074**	(27,855)
Advance payments from customers		**(67,602)**	(138,130)
Other payables, accruals and provisions		**(3,943)**	(33,656)
Loans to staff and third parties		**(2,571)**	12,873
Deferred income		**(6,378)**	2,078
Foreign currency translation of foreign operations		**(912)**	(875)
Cash generated from operations		**805,634**	548,686
Interest received		**29,886**	27,857
Income tax paid		**(76,715)**	(111,093)
Net cash from operating activities		**758,805**	465,450

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS)

	Note	Group 2016 $'000	Group 2015 $'000
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**3,760**	2,736
Proceeds from disposal of an associate		**731**	–
Proceeds from sale and maturity of investments		**224,093**	81,228
Proceeds from unwinding of cross currency interest rate swaps		**–**	14,300
Repayment of loan from a joint venture		**–**	272
Dividends from associates and joint ventures		**44,736**	51,393
Dividends from investments		**4**	3
Purchase of property, plant and equipment		**(250,922)**	(273,040)
Investments in an associate and a joint venture		**(35,162)**	–
Purchase of investments		**(216,297)**	(345,182)
Additions to other intangible assets		**(76,823)**	(22,499)
Acquisition of controlling interests in subsidiaries, net of cash acquired	4	**9,127**	13,441
Disposal of subsidiaries, net of cash disposed	4	**29,526**	–
Net cash used in investing activities		**(267,227)**	(477,348)
Cash flows from financing activities			
Proceeds from bank loans		**199,478**	216,445
Proceeds from other loans		**–**	1,615
Proceeds of a loan from a joint venture		**2,000**	5,000
Repayment of bank loans		**(222,611)**	(113,122)
Repayment of other loans		**(161)**	(156)
Repayment of lease obligations		**(972)**	(1,125)
Repayment of loan to a joint venture		**(7,000)**	–
Proceeds from issuance of shares		**–**	5,356
Proceeds from share options exercise with issuance of treasury shares		**9,392**	8,571
Purchase of treasury shares		**(3,137)**	(89,776)
Capital contribution from non-controlling interests of subsidiaries		**448**	639
Return of capital to non-controlling interests of a subsidiary		**(1,178)**	–
Acquisition of non-controlling interests in a subsidiary		**(167)**	(7,600)
Dividends paid to shareholders of the Company	35	**(465,930)**	(497,604)
Dividends paid to non-controlling interests		**(10,638)**	(10,813)
Interest paid		**(40,885)**	(37,322)
Deposits discharged		**6,117**	736
Net cash used in financing activities		**(535,244)**	(519,156)
Net decrease in cash and cash equivalents		**(43,666)**	(531,054)
Cash and cash equivalents at beginning of the year		**944,119**	1,462,612
Exchange difference on cash and cash equivalents at beginning of the year		**3,179**	12,561
Cash and cash equivalents at end of the year	23	**903,632**	944,119

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL

The Company is a public limited company domiciled and incorporated in Singapore. The address of the Company's registered office and principal place of business is 1 Ang Mo Kio Electronics Park Road #07-01 ST Engineering Hub, Singapore 567710.

The Company's immediate and ultimate holding company is Temasek Holdings (Private) Limited, a company incorporated in Singapore.

The principal activities of the Company are those of an investment holding company and the provision of engineering and related services. The principal activities of operating segments are described in Note 38 to the financial statements.

The financial statements of Singapore Technologies Engineering Ltd and the consolidated financial statements of Singapore Technologies Engineering Ltd and its subsidiaries (collectively referred to as the "Group") as at 31 December 2016 and for the year then ended were authorised and approved by the Board of Directors for issuance on 15 February 2017.

2. BASIS OF FINANCIAL STATEMENTS PREPARATION

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRSs").

The financial statements have been prepared on the historical cost convention, except for the revaluation of certain financial instruments.

The financial statements are presented in Singapore dollars ("SGD") which is the Company's functional currency. All values are rounded to the nearest thousand ($'000) except when otherwise indicated.

The accounting policies set out below have been consistently applied by the Company and the Group and are consistent with those used in the previous year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method in accordance with FRS 103 *Business Combinations* as at the acquisition date, which is the date on which control is transferred to the Group.

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, refer to Note 3.5(i).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of consolidation (continued)

(i) ***Business combinations*** (continued)

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, any subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests ("NCI") that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the NCI's proportionate share of the recognised amounts of the acquiree's identifiable net assets, at the acquisition date. The measurement basis taken is elected on a transaction-by-transaction basis. All other NCI are measured at acquisition-date fair value, unless another measurement basis is required by FRSs.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. Adjustments to NCI arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(ii) ***Subsidiaries***

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Consistent accounting policies are applied to like transactions and events in similar circumstances. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of consolidation (continued)

(iii) Acquisitions of entities under amalgamation

The Company's interests in Singapore Technologies Aerospace Ltd, Singapore Technologies Electronics Limited, Singapore Technologies Kinetics Ltd, and Singapore Technologies Marine Ltd (collectively referred to as the "Scheme Companies") resulted from the amalgamation of the Scheme Companies pursuant to a scheme of arrangement under Section 210 of the Companies Act, Chapter 50 in 1997.

As the amalgamation of the Scheme Companies constitutes a uniting of interests, the pooling of interests method has been adopted in the preparation of the consolidated financial statements in connection with the amalgamation.

Under the pooling of interests method, the combined assets, liabilities and reserves of the pooled enterprises are recorded at their existing carrying amounts at the date of amalgamation. The excess or deficiency of amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) over the amount recorded for the share capital acquired is recorded as capital reserve.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset, depending on the level of influence retained.

(v) Investments in associates and joint ventures (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% or more of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for by the Group using the equity method and are recognised initially at cost, which includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income ("OCI") from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Basis of consolidation (continued)

(v) ***Investments in associates and joint ventures (equity-accounted investees)*** (continued)

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interest, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation to fund the investee's operations or has made payments on behalf of the investee.

In the Company's separate financial statements, investments in associates and joint ventures are accounted for at cost, less accumulated impairment losses.

(vi) ***Transactions eliminated on consolidation***

All significant inter-company balances and transactions are eliminated on consolidation.

3.2 Foreign currency

The major functional currencies of the Group entities are Singapore dollar ("SGD"), United States dollar ("USD") and Euro.

Transactions, assets and liabilities denominated in foreign currencies are translated into the respective functional currencies at reporting date using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Transactions	Date of transaction
Monetary assets and liabilities	Reporting date
Non-monetary assets and liabilities carried at fair value	Date fair value is determined

Foreign exchange gains and losses resulting from retranslation are recognised in profit or loss, except for qualifying cash flow hedges which are deferred to equity.

On consolidation, the assets, liabilities, income and expenses of foreign operations are translated into SGD using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Income and expenses	Average exchange rate
Assets and liabilities	Reporting date
Equity	Historical date

Foreign exchange differences resulting from translation are initially recognised in the foreign currency translation reserve and subsequently transferred to the profit or loss on disposal of the foreign operation.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial Instruments

(i) Non-derivative financial assets and liabilities

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. The Group derecognises a financial asset when the contractual rights to the cash flows on the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial liabilities are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Non-derivative financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

Financial assets and liabilities are offset and the net amount presented in the balance sheets when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial assets and liabilities are categorised as follows:

	Category	Subsequent measurement
(1)	**Loans and receivables** – With fixed or determinable payments, that are not quoted in an active market – Comprise bank balances and other liquid funds, and trade and other receivables (including finance lease receivables and amounts due from related parties)	Amortised cost, computed using effective interest method, less impairment losses.
(2)	**Fair value through profit or loss ("FVTPL")** – Acquired principally for the purposes of selling in the near term – Includes separable embedded derivatives and other derivatives not designated in hedging relationship	Gains and losses arising from fair value changes are recognised in profit or loss. Fair value gains and losses arising from embedded derivatives and forward currency contracts that provide an economic hedge to trading transactions, are considered to be part of the Group's operating activities and are classified as part of cost of sales to reflect the nature of the transactions.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial Instruments (continued)

(i) Non-derivative financial assets and liabilities (continued)

	Category	Subsequent measurement
(3)	**Available-for-sale ("AFS")** – Designated or are not classified in the other categories of financial assets – Comprise equity securities and bonds	Gains and losses arising from changes in fair value are recognised in OCI and presented in fair value reserve in equity, until the investment is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in reserve is included in profit or loss for the year. For those financial assets where there is no active market and where fair value cannot be reliably measured, they are measured at cost.
(4)	**Liabilities at amortised cost** – Comprise bank overdrafts, trade and other payables (including lease obligations and amounts due to related parties) and borrowings	Amortised cost, computed using effective interest method.

(ii) Derivative financial instruments and hedge accounting

Derivative financial assets and liabilities are categorised as follows:

	Category	Subsequent measurement
(1)	**Fair value hedges**	Gains and losses arising from fair value change of derivatives are recognised in profit or loss together with the fair value change of hedged items attributable to the hedged risks. When the hedge accounting is discontinued, adjustments to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial Instruments (continued)

(ii) Derivative financial instruments and hedge accounting (continued)

	Category	Subsequent measurement
(2)	**Cash flow hedges**	Effective portion is recognised in OCI and presented in fair value reserve in equity, until the hedged transaction occurs or is no longer expected to occur, at which time, the cumulative gain or loss in equity is transferred to profit or loss. The ineffective portion is taken to profit or loss immediately.
(3)	**Net investment hedges**	Gains and losses arising from translation of foreign currency financial liabilities designated as net investment hedges of foreign operations, if deemed effective, are recognised in OCI and presented in foreign currency translation reserve in equity. On disposal of the foreign operation, the cumulative gain or loss are released to profit or loss. The ineffective portion is taken to profit or loss immediately.
(4)	**Embedded derivatives**	Any gains or losses arising from fair value changes of derivatives that are not designated in a hedging relationship are recognised immediately in profit or loss. Gains and losses that provide an economic hedge to trading transactions are classified as cost of sales to better reflect the nature of the transactions.

(iii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial Instruments (continued)

(iv) Treasury shares

When ordinary shares are reacquired by the Company, the consideration paid is recognised as deduction from equity. Reacquired shares are classified as treasury shares. When treasury shares are sold, or re-issued subsequently, the cost of treasury shares is reversed from treasury shares account and the realised gain or loss on transaction is presented as a change in equity of the Company. No gain or loss is recognised in profit or loss.

Treasury shares have no voting rights and no dividends are allocated to them.

(v) Intra-group financial guarantees in the separate financial statements

Financial guarantees are financial instruments issued by the Company that require the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are recognised initially at fair value and are classified as financial liabilities. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities.

When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantee is transferred to profit or loss.

3.4 Property, plant and equipment and depreciation

(i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost comprises expenditure that is directly attributable to the acquisition of the asset and subsequent costs incurred to replace parts that are eligible for capitalisation. Cost may also include transfers from equity on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Certain items of property, plant and equipment which were subject to a one-time revaluation in 1972 ("the 1972 assets") are stated at valuation, net of depreciation and any impairment losses.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Property, plant and equipment and depreciation (continued)

(ii) Depreciation

Depreciation of property, plant and equipment is recognised in profit or loss on a straight line basis, except for freehold land which are not depreciated, and leasehold land which are depreciated over the remaining lease term.

The estimated useful lives are as follows:

Item #		Useful life
Buildings	–	2 to 60 years *
Leasehold land	–	Over the period of the lease of between 2 and 50 years *
Improvements to premises	–	3 to 30 years *
Wharves and slipways	–	20 years
Syncrolift and floating docks	–	15 years
Boats and barges	–	10 to 23 years
Plant and machinery		
– Aerospace	–	8 to 25 years
– Electronics	–	10 years
– Land Systems	–	5 to 15 years
– Marine	–	5 to 30 years
– Others	–	5 years
Production tools and equipment		
– Aerospace	–	5 to 15 years
– Electronics	–	10 years
– Others	–	3 years
Furniture, fittings, office equipment and computers	–	2 to 5 years
Transportation equipment and vehicles	–	4 to 5 years
Aircraft and aircraft engines	–	15 to 30 years
Satellite	–	5 years

\# *Property, plant and equipment purchased specifically for projects are depreciated over the useful life or the duration of the project, whichever is shorter.*

* *Refer to Note 12(c)(ii) for details of the lease tenure used to approximate the useful lives of the leasehold land, buildings and improvements.*

(iii) Disposals

Profits or losses on disposal of property, plant and equipment are included in the profit or loss account.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Intangible assets

(i) Goodwill

Goodwill represents the excess of:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Other intangible assets

Class of intangible assets	Background	Measurement method	Amortisation method	Useful lives
Acquired as part of business combination/Separately acquired				
Dealer network	Includes customer relationships and networks acquired	(i) Initially recognised at cost (ii) Cost of intangible assets acquired as part of business combination is its fair value as at date of acquisition (iii) Carried at cost less any accumulated amortisation and impairment losses following initial recognition	Straight-line	5 to 25 years
Commercial and intellectual property rights	Relates to intellectual property			2 to 16 years
Brands	Includes corporate brands such as the LeeBoy™ and Rosco brand of road construction equipment			Aerospace: 5 years Electronics: 20 years Land: 70 years
Licenses	Relates to licenses to – conduct commercial aviation activities – conduct pilot training in U.S. – purchase and lease Boeing parts – develop MRO capabilities for specific aircraft types			7 to 30 years
Technology agreements	Relates to the intellectual property assets required to operate the EcoPower Engine Wash business			13 years
Authorised repair centre agreements	Relates to the sole appointed authorised service centre for repair and overhaul of landing gear			5 years

NOTES TO THE FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Intangible assets (continued)

(ii) Other intangible assets (continued)

Class of intangible assets	Background	Measurement method	Amortisation method	Useful lives
Development expenditure				
Development expenditure	Relates to costs incurred for – the prototyping and development of Boeing 757 15-Pallet Supplemental Type Certificate ("B757 15-PTF") – the design, development and assembly of aircraft seats – the development of A320/A321 PTF conversion Supplemental Type Certificate The amortisation of the development and assembly of aircraft seats as well as the development of A320/A321 PTF has been deferred for the year ended 31 December 2016 as the assets are not yet ready for management's intended use. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the development. The expenditure capitalised includes costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. In any other circumstances, development costs are recognised in profit or loss as incurred.	(i) Initially recognised at cost (ii) Carried at cost less any accumulated amortisation and impairment losses following initial recognition	A320/A321 PTF: Units of production method Others: Straight-line	B757 15-PTF: 10 years A320/A321 PTF: 10 units Others: 2 to 5 years

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Intangible assets (continued)

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated intangible assets, is recognised in profit or loss as incurred.

3.6 Inventories and work-in-progress

Inventories are measured at the lower of cost and net realisable value. Cost (comprising direct labour, material costs, direct expenses and an appropriate allocation of production overheads) is calculated on a first-in, first-out basis or by weighted average cost depending on the nature and use of the inventories. Cost may also include transfers from equity on qualifying cash flow hedges of foreign currency purchases of inventories. Allowance is made for deteriorated, damaged, obsolete and slow-moving inventories.

Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs to sell.

Work-in-progress is measured at cost plus profits recognised to date less progress billings and recognised losses, if any, when the possibility of loss is ascertained.

Work-in-progress is included in current assets in the balance sheet for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as “progress billings in excess of work-in-progress” and is included in current liabilities.

3.7 Impairment

(i) Non-derivative financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset not carried at FVTPL is impaired.

To determine whether there is objective evidence that financial assets (including equity securities) are impaired, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor/issuer, default or significant delay in payments, significant adverse changes in the business environment where the debtor/issuer operates and disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

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3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

3.7 Impairment (continued)

(i) Non-derivative financial assets (continued)

Financial assets carried at amortised cost

Individually significant financial assets are first tested for impairment on an individual basis. The Group considers if there are objective evidence of impairment, such as probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If it is determined that no objective evidence of impairment exists, the individually significant financial assets are included in the collective assessment for financial assets that are not individually significant. The financial assets are categorised based on credit risks characteristics for a collective assessment of impairment, based on past default experience.

The amount of loss is computed as the difference between the asset's carrying amount and the expected recoverable amount, discounted to its present value and recognised as an expense in profit or loss. The carrying amount of the asset shall be reduced through use of an allowance account. If there are changes in events subsequent to the recognition of the impairment loss, the changes in impairment loss is accounted for or reversed through profit or loss.

Financial assets carried at cost

Unquoted equity investments where the fair value cannot be reliably estimated are classified as available-for-sale investments.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The loss recognised is not reversed in future periods.

Available-for-sale financial assets

Significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investment is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is transferred from equity and recognised in the profit or loss. For available-for-sale equity instruments, impairment losses previously recognised are reversed through OCI and available-for-sale debt instruments are reversed through the profit or loss, if the increase in fair value is related objectively to a subsequent event.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment (continued)

(ii) Non-financial assets

The Group assess at each reporting date whether there is an indication that its non-financial assets, other than goodwill, inventories, work-in-progress and deferred tax assets, may be impaired. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

These tests are performed by assessing the recoverable amount of each individual asset or, if this is not possible, then the recoverable amount of the CGU to which the asset belongs. CGUs are the lowest levels at which assets are grouped and generate separately identifiable cash flows.

The recoverable amount is the higher of an asset's or a CGU's fair value less costs to sell and value-in-use. The value-in-use calculations are based on discounted cash flows expected to arise from the asset.

Intangible assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill that forms part of the carrying amount of an investment in an associate and/or joint venture is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate and/or joint venture is tested for impairment as a single asset when there is objective evidence that the investment in an associate and/or joint venture may be impaired.

3.8 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

(i) Warranties

The warranty provision represents the best estimate of the Group's contractual obligations at the balance sheet date.

Under the terms of the revenue contracts with key customers, the Group is obligated to make good, by repair or replacement, engineering or manufacturing defects that become apparent within the warranty period from the date of sale. The warranty obligation varies from 6 months to 10 years. The Group's experience of the proportion of its products sold that requires repair or replacement differs from year to year as every contract is customised to the specification of the customers.

The estimation of the provision for warranty expenses is based on the Group's past claim experience over the duration of the warranty period and the industry average in relation to warranty exposures and represents the best estimates of the costs expected to incur per dollar of sales. The warranty provision made as at 31 December 2016 is expected to be incurred over the applicable warranty periods.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Provisions (continued)

(ii) Liquidated damages

Provision for liquidated damages is made in respect of anticipated claims from customers due to a breach in contractual terms (e.g. late performance). The utilisation of provisions is dependent on the timing of claims.

(iii) Foreseeable losses

Provision for foreseeable losses on uncompleted contracts are recognised immediately in profit or loss when it is determinable.

3.9 Employee benefits

(i) Employee equity compensation benefits

The Group operates a number of share-based payment plans. A description of each type of share-based payment arrangement that existed at any time during the period is described in Note 32.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(iii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund and will have no legal or constructive obligation to pay further amounts. The Group's contributions to the defined contribution plans are recognised in the income statement as expenses in the financial year to which they relate.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Employee benefits (continued)

(iv) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The fair value of any plan assets is deducted. The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

(v) Economic Value Added ("EVA")-based Incentive Scheme

The Group adopts an incentive compensation plan, which is tied to the creation of EVA, as well as attainment of individual and Group performance goals for its key executives. An EVA bank is used to hold incentive compensation credited in any year.

Typically one-third of the accumulated EVA-based bonus, comprising the EVA declared in the financial year and the balance of such bonus brought forward from preceding years is paid out in cash each year, with the balance being carried forward to the following year. The balances of the EVA bank in future will be adjusted by the yearly EVA performance of the Group and the payouts made from the EVA bank.

3.10 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, net of any returns, trade discounts and volume rebates.

Revenue is recognised using the following methods:

(i) Revenue from sale of goods is recognised when risks and rewards of ownership have transferred to the customer.

(ii) Revenue from rendering of services is recognised in proportion to the stage of completion of these services.

(iii) Revenue from long-term contracts is recognised by reference to stage of completion, which is measured by either:

(a) a combination of different cost components or a single cost component that would provide the most reliable indication of the stage of completion of a contract; or

(b) when goods and services, representing part of a contract, are delivered; or

(c) upon completion of designated phases of a contract.

(iv) Management fee income is recognised when management services are rendered.

NOTES TO THE FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Other income

(i) Government grants are recognised when the Group complies with the conditions associated with the grants. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income in the same periods in which the expenses are recognised. Grants relating to depreciable assets are recognised in profit or loss as other income over the estimated useful lives of the relevant assets.

(ii) Commission income in excess of the certain percentage of the total amount received is taken up in the income statement only upon the discharge of specified contractual obligations.

(iii) Rental income from leasing of facilities is accounted for on a straight-line basis over the lease terms.

(iv) The gain or loss on disposal of an item of property, plant and equipment, subsidiary, associate or joint venture is determined by comparing the proceeds from disposal with the carrying amount of the disposed item, and is recognised net within other income.

(v) The gain from bargain purchase is recognised in other income from business combinations where the fair value of the identifiable net assets or pre-existing equity interest in the acquiree exceeds the consideration transferred.

3.12 Finance income and finance costs

Finance income comprises interest income, dividend income, gains on disposal and fair valuation of financial assets and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss when the shareholder’s right to receive payment is established.

Finance costs comprise interest expense, losses on disposal and fair valuation of financial assets or impairment losses recognised on investments, and losses on hedging instruments that are recognised in profit or loss.

Interest expense that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and liabilities are reported on a net basis as either finance income or finance cost.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Finance leases

(i) As lessee

Finance lease are those leasing agreements, which transfer substantially all the risks and benefits incidental to ownership.

Assets financed under such leases are capitalised at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss.

(ii) As lessor

Leases where the Group transferred substantially all the risks and rewards incidental to legal ownership of the leased assets, are classified as finance leases.

The leased asset is derecognised and the present value of the lease receivables (net of initial direct costs for negotiating and arranging the lease) is recognised on the balance sheet. The difference between the gross receivables and the present value of the lease receivables is recognised as unearned finance income.

Each lease payment received is applied against the gross investment in the finance lease receivables to reduce both the principal and the unearned finance income. The finance income is recognised in profit or loss on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivables.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to finance lease receivables and recognised as an expense in profit or loss over the lease term on the same basis as the leased income.

3.14 Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased asset, are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Income taxes

(i) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is accounted for in respect of temporary differences arising from differences between the carrying amount of assets and liabilities and the corresponding tax base.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that sufficient future taxable profits will be available to utilise them.

However, deferred tax assets and liabilities are not recognised for:
- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination which affects neither accounting nor taxable profit or loss; and
- taxable temporary differences arising on the initial recognition of goodwill.

Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists and they relate to taxes levied by the same tax authority on the same taxable entity.

3.16 Operating segments

For management purposes, the Group is organised on a worldwide basis into four major operating segments. The management of the Company reviews the segments' operating results regularly in order to allocate resources to the segments and to assess the segments' performance.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Significant accounting estimates and judgements

(i) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate and growth rates in order to calculate the present value of those cash flows.

Impairment of loans and receivables

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the balance sheet date is disclosed in Note 40 to the financial statements.

Depreciation charge

Management estimates the useful lives, residual values to be within 2 to 60 years based on factors such as changes in the expected level of usage and technological developments. These are reassessed at each reporting date, and adjusted prospectively, if appropriate.

Revenue recognition and provision for foreseeable losses

The Group has recognised revenue from long-term contracts by reference to the stage of completion. The bases for measuring the stage of completion are described in 3.10(iii).

Significant judgement based on management's knowledge and experience is required in determining the appropriate stage of completion and estimating a reasonable contribution margin or expected losses for revenue and costs recognition.

Allowance for inventory obsolescence and write down of finished goods to net realisable value

The allowance for inventory obsolescence is based on estimates from historical trends and expected utilisation of inventories. The actual amount of inventory write-offs could be higher or lower than the allowance made.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Significant accounting estimates and judgements (continued)

(i) Key sources of estimation uncertainty (continued)

Provision for warranty

The provision for warranty is based on estimates from known and expected warranty work to be performed after completion. The warranty expense incurred could be higher or lower than the provision made.

Provision for closure costs

The provision for closure costs is based on estimates of the expected costs that the Group will incur for the period between the cessation of a subsidiary's operation to the completion of the subsidiary's liquidation. As the liquidation process is subjected to regulatory approval and subsequent negotiations with various stakeholders, the actual costs incurred may be higher or lower than management's estimate.

Income taxes

There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Certain subsidiaries of the Group have potential tax benefits arising from unutilised tax losses, unabsorbed wear and tear allowances and other temporary differences, which are available for set-off against future taxable profits. Significant judgement is involved in determining the availability of future taxable profits against which the Group can utilise the tax benefits therefrom. The use of the potential tax benefits is also subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the subsidiaries operate. Where the final outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax provision and recognised deferred tax assets relating to the potential tax benefits in the period in which such determination is made.

Measurement of fair values

A number of the Group's accounting policies require the measurement of fair values for both financial and non-financial assets and liabilities. The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note 4 and Note 40 to the financial statements.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 **Significant accounting estimates and judgements** (continued)

(i) ***Key sources of estimation uncertainty*** (continued)

<u>EVA-based Incentive Scheme ("EBIS")</u>

Estimates of the Group's obligations arising from the EBIS at the balance sheet date may be affected by future events, which cannot be predicated with any certainty. The assumptions and estimates are made based on management's knowledge and experience and may vary from actual experience so that the actual liability may vary considerably from the best estimates. Negative EVA will result in a clawback of EVA bonus accumulated in previous years.

(ii) ***Critical judgements made in applying accounting policies***

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relates to assessing whether the Group has control over its investee companies.

During the year, the Group assessed the terms and conditions of the shareholders' agreement of subsidiaries that are not wholly-owned by the Group. The Group made critical judgements over:

(a) their ability to exercise power over its investees;

(b) their exposure or rights to variable returns for its investments with those investees; and

(c) their ability to use its power to affect those returns.

The Group's judgement included considerations of their power exercised at the board of the respective investees and rights and obligations arising from board reserve of matters as agreed with the other shareholders.

3.18 **New standards and interpretations not adopted**

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these statements.

For those new standards and amendments to standards that are expected to have an effect on the financial statements of the Group and the Company in future financial periods, the Group has set up project teams to assess the transition options and the potential impact on its financial statements, and to implement these standards. These cover project implementation status, key reporting and business risks and the implementation approach. The Group does not plan to adopt these standards early.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 New standards and interpretations not adopted (continued)

New standards

Summary of the requirements	**Potential impact on the financial statements**
FRS 115 *Revenue from Contracts with Customers*	
FRS 115 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met. When effective, FRS 115 replaces existing revenue recognition guidance, including FRS 18 *Revenue*, FRS 11 *Construction Contracts*, INT FRS 113 *Customer Loyalty Programmes*, INT FRS 115 *Agreements for the Construction of Real Estate*, INT FRS 118 *Transfers of Assets from Customers* and INT FRS 31 *Revenue – Barter Transactions Involving Advertising Services*. FRS 115 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. FRS 115 offers a range of transition options including full retrospective adoption where an entity can choose to apply the standard to its historical transactions and retrospectively adjust each comparative period presented in its 2018 financial statements. When applying the full retrospective method, an entity may also elect to use a series of practical expedients to ease transition.	During 2016, the Group completed its initial assessment of the impact on the Group's financial statements. Based on its initial assessment, the Group expects the following key changes: **Identification of performance obligations** – The Group currently recognises revenue for each long-term contract based on the different types of goods and services stipulated in its contracts. Under FRS 115, the Group is required to identify distinct performance obligations ("PO") in bundled arrangements and account for each PO separately, unless it can be demonstrated that the Group provides a significant integrated service; and the goods or services within the contract are highly dependent on or highly integrated with other goods or services. The Group has evaluated the criteria required for contracts with multiple performance obligations and has put in place process to assess, track and monitor the recognition of revenue for each performance obligation. The Group does not expect a significant impact on the timing and amount of revenue recognition based on its initial assessment of the PO for on-going contracts as at 31 December 2016. **Variable consideration** – The Group's contracts may include variable considerations such as discounts, incentives, performance bonuses, penalties, including liquidated damages for delays, or other similar terms. Under FRS 115, the Group is required to estimate the amount of consideration to which it expects to be entitled and variable amounts are included in contract revenue to the extent that it is highly probable that there will be no significant reversal when the uncertainty is resolved. The Group expects some revenue to be deferred under FRS 115.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 New standards and interpretations not adopted (continued)

New standards

Summary of the requirements	**Potential impact on the financial statements**
FRS 115 ***Revenue from Contracts with Customers*** (continued)	
	Timing of recognition – The Group currently recognises revenue from long term contracts by reference to the stage of completion. Under FRS 115, revenue is recognised over time if one or more of the criteria are met: (1) The customer simultaneously receives and consumes the benefits provided by the contractor's performance as the contractor performs; (2) the contractor's performance creates or enhanced an asset that the customer controls as the asset is created or enhances; and/or (3) the contractor's performance does not create an asset with an alternative use to the contractor and the contractor has an enforceable right to payment for the performance completed to date. Based on its initial assessment, the Group expects to be able to progressively recognise revenue from most of its long term contracts. **Transition** – The Group plans to adopt the standard when it becomes effective in 2018 using the retrospective approach with practical expedients. Based on its initial assessment on its on-going contracts as at 31 December 2016, the Group does not expect the transition adjustments to be material on its financial statements.
FRS 109 ***Financial Instruments***	
FRS 109 replaces most of the existing guidance in FRS 39 *Financial Instruments: Recognition and Measurement*. It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from FRS 39.	During 2016, the Group completed its initial assessment of the impact of adopting FRS 109 on the Group's financial statements. Based on the profile of the Group's financial assets and liabilities as at 31 December 2016, the Group does not expect a significant impact on its opening equity as a result of applying FRS 109. The Group's initial assessment of the three elements of FRS 109 is as described below.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 New standards and interpretations not adopted (continued)

New standards

Summary of the requirements	**Potential impact on the financial statements**
FRS 109 *Financial Instruments* (continued)	
FRS 109 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is generally required, except for hedge accounting. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Restatement of comparative information is not mandatory. If comparative information is not restated, the cumulative effect is recorded in opening equity as at 1 January 2018.	**Classification and measurement** – The Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under FRS 109. Loans and receivables and held-to-maturity debt securities that are currently accounted for at amortised cost will continue to be accounted for using amortised cost model under FRS 109. For financial assets currently held at fair value, the Group expects to continue measuring most of these assets at fair value under FRS 109. The expected classification and measurement of these financial assets under FRS 109 is summarised below: • A significant portion of the AFS debt securities are expected to be classified as financial assets subsequently measured at fair value through other comprehensive income as they are held to maintain liquidity for the Group and may be sold from time to time should the need arise. • The Group holds long term investments in AFS equity securities. For the equity investments that are not designated as held for trading, the Group expects to elect to present subsequent changes in fair value in OCI. Under FRS 109, only dividend income is recognised in profit or loss. Any subsequent fair value changes are recognised in OCI and will not be reclassified to profit or loss even upon divestment. For the remaining portion of AFS equity securities that may be sold from time to time for liquidity management, the Group expects to designate these as financial assets subsequently measured at FVTPL. • Equity securities that are currently classified as held for trading and those that are currently designated at FVTPL will continue to be classified as financial assets subsequently measured at FVTPL. **Impairment** – The Group plans to apply the simplified approach and record lifetime expected impairment losses on all trade receivables and any contract assets arising from the application of FRS 115. Based on the profile of the Group's loans and receivables as at 31 December 2016, the Group does not expect a significant impact on its impairment loss allowance on the adoption of FRS 109. The Group is currently refining its impairment loss estimation methodology to quantify the impact on its financial statements.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 New standards and interpretations not adopted (continued)

New standards

Summary of the requirements	**Potential impact on the financial statements**
FRS 109 *Financial Instruments* (continued)	
	Hedge accounting – The Group expects that all its existing hedges that are designated in effective hedging relationships will continue to qualify for hedge accounting under FRS 109. **Transition** – The Group plans to adopt the standard when it becomes effective in 2018 without restating comparative information; and is gathering data to quantify the potential impact arising from the adoption.
FRS 116 *Leases*	
FRS 116 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use ("ROU") assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. FRS 116 substantially carries forward the lessor accounting requirements in FRS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the FRS 17 operating lease and finance lease accounting models respectively. However, FRS 116 requires more extensive disclosures to be provided by a lessor.	The Group has performed a preliminary high-level assessment of the new standard on its existing operating lease arrangements as a lessee. Based on the preliminary assessment, the Group expects these operating leases to be recognised as ROU assets with corresponding lease liabilities under the new standard. Based on the Group's operating lease arrangements as at 31 December 2016, the ROU and lease liabilities on an undiscounted basis amount to approximately 5% of the consolidated total assets and 7% of consolidated total liabilities. The Group plans to adopt the standard when it becomes effective in 2019. The Group will perform a detailed analysis of the standard, including the transition options and practical expedients in 2017. The Group expects that the impact on adoption of IFRS 16 *Leases* to be similar to adopting FRS 116, after the transition to SG-IFRS in 2018 as described below.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 New standards and interpretations not adopted (continued)

New standards

Summary of the requirements	**Potential impact on the financial statements**
FRS 116 *Leases* (continued) When effective, FRS 116 replaces existing lease accounting guidance, including FRS 17, INT FRS 104 *Determining whether an Arrangement contains a Lease*, INT FRS 15 *Operating Leases – Incentives*, and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. FRS 116 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if FRS 115 is also applied.	

Convergence with International Financial Reporting Standards ("IFRS")

In addition, the Accounting Standards Council ("ASC") announced on 29 May 2014 that Singapore-incorporated companies listed on the Singapore Exchange ("SGX") will apply a new financial reporting framework identical to the International Financial Reporting Standards (referred to as SG-IFRS in these financial statements) for the financial year ending 31 December 2018 onwards.

The Group has performed a preliminary assessment of the impact of SG-IFRS 1 First-time adoption of International Financial Reporting Standards for the transition to the new reporting framework. Based on the Group's preliminary assessment, the Group expects that the impact on adoption of SG-IFRS 15 *Revenue from Contracts with Customers* and SG-IFRS 9 *Financial Instruments* will be similar to adopting FRS 115 and FRS 109 as described in this Note.

Other than arising from the adoption of new and revised standards, the Group does not expect to change its existing accounting policies on adoption of the new framework. The Group is currently performing a detailed analysis of the available policy choices, transitional optional exemptions and transitional mandatory exceptions under SG-IFRS 1 and the preliminary assessment may be subject to changes arising from the detailed analyses.

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4. SIGNIFICANT DEVELOPMENTS DURING THE YEAR

In 2016

(a) Developments in China Speciality Vehicles business in Land Systems sector

During the current year, the Group disposed of its equity interest in Guizhou Jonyang Kinetics Co, Ltd ("GJK") to its non-controlling shareholder. In addition, the Group ceased production at Jiangsu Huatong Kinetics Co., Ltd and Jiangsu Huaran Kinetics Co., Ltd (collectively known as "JHK") and commenced voluntary liquidation proceedings for JHK. With the disposal of GJK and the commencement of voluntary liquidations of JHK (collectively known as "China Speciality Vehicles business"), the Group has reduced its operations significantly in China.

(i) ***Disposal of GJK***

On 5 May 2016, the Group entered into an agreement with its non-controlling shareholder to dispose its 60% equity interest in GJK for a consideration of $41.4 million. A gain on disposal of $10.4 million was recognised in the current year.

The financial effects arising from the disposal of GJK are as follows:

	2016 $'000
Property, plant and equipment	**26,521**
Deferred tax assets	**5,997**
Inventories and work-in-progress	**98,507**
Trade receivables	**45,219**
Advances and other receivables	**22,593**
Bank balances and other liquid funds	**14,418**
Trade payables and accruals	**(161,810)**
Non-controlling interests	**(16,677)**
Net assets disposed	**34,768**
Realisation of reserves	**(3,815)**
Gain on disposal	**10,404**
Sale consideration	**41,357**
Less: bank balances and other liquid funds in subsidiary disposed	**(14,418)**
Consideration receivable as at 31 December 2016	**(8,324)**
Net cash inflow on disposal	**18,615**

(ii) ***Commencement of voluntary liquidation and cessation of production activities of JHK***

On 18 October 2016, the Group commenced the process to cease the production activities of JHK in order to reduce its operating losses. The shareholders formally commenced the voluntary liquidation process in JHK on 14 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

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(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

4. SIGNIFICANT DEVELOPMENTS DURING THE YEAR (continued)

In 2016 (continued)

(a) Developments in China Speciality Vehicles business in Land Systems sector (continued)

(ii) ***Commencement of voluntary liquidation and cessation of production activities of JHK*** (continued)

Management assessed the recoverable amount of JHK's underlying assets based on its fair value less cost of disposal and recognised an impairment loss of $54.9 million on JHK's underlying assets. In addition, the Group estimated and recognised a provision for closure costs of $11.6 million in the current year that will be incurred for the period between the cessation of JHK's operations to the finalisation of the voluntary liquidation process.

The impairment charge recognised on the underlying assets of JHK and provision for closure costs, net of non-controlling interest, are set out below:

	2016 $'000
Impairment loss on underlying assets attributable to the Group:	
Property, plant and equipment	28,170
Goodwill	5,968
Deferred tax assets	3,166
Inventories and work-in-progress	9,921
Trade and other receivables	7,715
	54,940
Realisation of foreign currency translation reserves attributable to JHK	1,700
Provision for closure costs	11,606
Impairment losses and closure costs incurred on JHK	68,246
Attributable to:	
Shareholders of the Company	61,111
Non-controlling interests ("NCI")	7,135
	68,246

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4. SIGNIFICANT DEVELOPMENTS DURING THE YEAR (continued)

In 2016 (continued)

(a) Developments in China Speciality Vehicles business in Land Systems sector (continued)

A summary of the financial effects of China Speciality Vehicles business on the Group's consolidated income statement are as follows:

	2016			2015		
	Group $'000	**Financial effects of China Speciality Vehicles business $'000**	**Group excluding China Speciality Vehicles business $'000**	Group $'000	Financial effects of China Speciality Vehicles business $'000	Group excluding China Speciality Vehicles business $'000
Revenue	**6,683,737**	**37,525**	**6,646,212**	6,335,023	172,642	6,162,381
Cost of sales	**(5,378,469)**	**(41,424)**	**(5,337,045)**	(5,052,897)	(139,021)	(4,913,876)
Gross profit	**1,305,268**	**(3,899)**	**1,309,167**	1,282,126	33,621	1,248,505
Distribution and selling expenses	**(182,322)**	**(13,166)**	**(169,156)**	(179,444)	(28,790)	(150,654)
Administrative expenses	**(476,252)**	**(9,430)**	**(466,822)**	(469,128)	(21,884)	(447,244)
Other operating expenses	**(175,611)**	**(52,609)**	**(123,002)**	(123,283)	(6,556)	(116,727)
Profit/(loss) from operations	**471,083**	**(79,104)**	**550,187**	510,271	(23,609)	533,880
Other income, net	**67,800**	**11,181**	**56,619**	55,448	1,717	53,731
Finance (costs)/income, net	**(12,016)**	**(1,670)**	**(10,346)**	6,243	(2,134)	8,377
Share of results of associates and joint ventures, net of tax	**63,766**	**–**	**63,766**	58,340	–	58,340
Profit/(Loss) before taxation	**590,633**	**(69,593)**	**660,226**	630,302	(24,026)	654,328
Taxation	**(97,770)**	**(3,546)**	**(94,224)**	(98,659)	(269)	(98,390)
Profit/(loss) for the year	**492,863**	**(73,139)**	**566,002**	531,643	(24,295)	555,938
Attributable to:						
Shareholder of the Company	**484,514**	**(61,702)**	**546,216**	529,039	(16,044)	545,083
Non-controlling interests	**8,349**	**(11,437)**	**19,786**	2,604	(8,251)	10,855
	492,863	**(73,139)**	**566,002**	531,643	(24,295)	555,938

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4. SIGNIFICANT DEVELOPMENTS DURING THE YEAR (continued)

In 2016 (continued)

(b) Acquisition and disposal of controlling interests in subsidiaries in Aerospace sector

(i) ***Acquisition of Elbe Flugzeuwerke GmbH***

During the year, the Group acquired an additional 20% interests in EFW for a consideration of $152,691,000 (Euro 98,700,000) comprising of $4,943,000 (Euro 3,200,000) of cash and $147,748,000 (Euro 95,500,000) in A320/A321 PTF engineering development work on 1 January 2016. As a result, the Group's equity interest in EFW increased from 35% to 55%, obtaining control of EFW. EFW contributed revenue of $415,863,000 and net profit of $8,158,000.

Consideration transferred

The following table summarises the acquisition-date fair value of each major class of consideration transferred:

	Note	2016 $'000
Cash		**4,943**
To-be-developed intellectual property on A320/A321 PTF conversion technology		**136,922**
Settlement of pre-existing relationship	24	**(74,727)**
Total consideration transferred		**67,138**

To-be-developed intellectual property on A320/A321 PTF conversion technology

The purchase consideration for the additional 20% acquisition in EFW includes a to-be-developed A320/A321 PTF conversion technology that is expected to cost the Group $136,922,000.

Settlement of pre-existing relationship

In 2013, the Group invested in EFW by contributing a cash consideration of $4,241,000 and a to-be-developed intellectual property on A330 PTF conversion technology valued at $142,562,000 in return for a 35% equity ownership in EFW.

As at the date of the acquisition to obtain control in EFW, the Group still has a remaining obligation to transfer intellectual property of $74,727,000 to EFW. Management has estimated that this amount reflects the amount that the Group will need to incur, develop and deliver the intellectual property, with no favourable or unfavourable settlement impact. This pre-existing relationship was effectively settled when the Group acquired control of EFW.

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4. SIGNIFICANT DEVELOPMENTS DURING THE YEAR (continued)

In 2016 (continued)

(b) Acquisition and disposal of controlling interests in subsidiaries in Aerospace sector (continued)

(i) ***Acquisition of Elbe Flugzeuwerke GmbH*** (continued)

Identifiable assets acquired and liabilities assumed

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Recognised on acquisition 2016 $'000	Carrying amount before acquisition 2016 $'000
Property, plant and equipment	77,233	77,233
Intangible assets	236,781	9,498
Derivative financial assets	3,533	3,533
Deferred tax assets	20,187	18,587
Inventories and work-in-progress	128,892	122,985
Trade receivables	68,957	68,957
Advances and other receivables	137,738	816
Bank balances and other liquid funds	14,070	14,070
Derivative financial liabilities	(36,494)	(36,494)
Provisions	(1,252)	(1,252)
Provision for taxation	(1,816)	(1,816)
Employee benefits	(70,366)	(70,366)
Trade payables and accruals	(114,389)	(109,393)
Deferred tax liabilities	(119,038)	(2,061)
Total identifiable net assets	344,036	94,297

Cash inflow on acquisition in 2016:	
Cash consideration paid	(4,943)
Less: cash acquired	14,070
Net cash inflow on acquisition	9,127

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4. SIGNIFICANT DEVELOPMENTS DURING THE YEAR (continued)

In 2016 (continued)

(b) Acquisition and disposal of controlling interests in subsidiaries in Aerospace sector (continued)

(i) ***Acquisition of Elbe Flugzeuwerke GmbH*** (continued)

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	2016 $'000
Total consideration transferred	67,138
NCI, based on their proportionate interest in the recognised amounts of the assets and liabilities of the acquiree	154,816
Fair value of pre-existing interest in the acquiree	145,616
Fair value of identifiable net assets	(344,036)
Goodwill	23,534

The remeasurement to fair value of the Group's existing 35% interest in EFW resulted in a gain of $1,364,000. This amount has been recognised in other income, net in the income statement.

The goodwill is attributable mainly to the synergies expected to be achieved from integrating the acquiree into the Group's existing aircraft business. None of the goodwill recognised is expected to be deductible for tax purposes.

The Group incurred acquisition-related costs of $333,000 on legal fees and due diligence costs. These costs have been included in administrative expenses.

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4. SIGNIFICANT DEVELOPMENTS DURING THE YEAR (continued)

In 2016 (continued)

(b) Acquisition and disposal of controlling interests in subsidiaries in Aerospace sector (continued)

(ii) Disposal of Keystone Holdings (Global) Pte. Ltd ("Keystone")

On 5 July 2016, the Group had completed the disposal of its 50% equity interest in Keystone to SJ Aviation Capital Pte. Ltd for a sale consideration of $13.9 million. As a result, the Group's equity interest in Keystone decreased from 100% to 50% and Keystone was reclassified from a subsidiary to a joint venture.

	2016 **$'000**
Property, plant and equipment	**105,717**
Trade receivables	**326**
Advances and other receivables	**1,292**
Bank balances and other liquid funds	**3,010**
Advance payments from customers	**(16,733)**
Trade payables and accruals	**(2,066)**
Borrowings	**(65,741)**
Deferred tax liabilities	**(280)**
Net assets disposed	**25,525**
Realisation of reserves	**920**
Gain on disposal	**1,392**
Fair value of pre-existing interest in the acquiree	**(13,916)**
Sale consideration	**13,921**
Less: bank balances and other liquid funds in subsidiary disposed	**(3,010)**
Net cash inflow on disposal	**10,911**

In 2015

(c) Acquisitions of controlling interests in subsidiaries

(i) Acquisition of Singapore Precision Repair and Overhaul Pte Ltd ("SPRO")

On 30 September 2015, the Aerospace sector acquired an additional 50% interest in SPRO for a cash consideration of $8,150,000. As a result, the Group's equity interest in SPRO increased from 50% to 100%, obtaining control of SPRO.

(ii) Acquisition of STELOP Pte. Ltd. ("STELOP")

On 1 September 2015, the Electronics sector has reclassified its investment in STELOP from a joint venture to a subsidiary following the changes made to the shareholders' agreement.

Following the completion of the final purchase price allocation during the financial year, the Group made adjustments to the provisional fair value originally recorded in the prior year.

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4. SIGNIFICANT DEVELOPMENTS DURING THE YEAR (continued)

In 2015 (continued)

(c) Acquisitions of controlling interests in subsidiaries (continued)

(ii) Acquisition of STELOP Pte. Ltd. ("STELOP") (continued)

The effect of the adjustments made during the 12-month period from acquisition date (the "Window Period") is set out below:

	Fair values recognised on acquisition (provisional) 2015 $'000	Adjustments during Window Period 2016 $'000	Fair values recognised on acquisition (final) 2016 $'000
Property, plant and equipment	10,959	1,981	12,940
Intangible assets	8,184	(375)	7,809
Deferred tax assets	171	–	171
Inventories and work-in-progress	32,420	–	32,420
Trade receivables	24,195	–	24,195
Advances and other receivables	77	–	77
Bank balances and other liquid funds	21,591	–	21,591
	97,597	1,606	99,203
Trade payables and accruals	(29,630)	–	(29,630)
Provisions	(1,169)	–	(1,169)
Progress billing in excess of work-in-progress	(19,599)	–	(19,599)
Provision for tax	(1,574)	–	(1,574)
Deferred tax liabilities	(2,411)	(273)	(2,684)
	(54,383)	(273)	(54,656)
Net identifiable assets	43,214	1,333	44,547
Non-controlling interests	(6,468)	–	(6,468)
Net identifiable assets, after non-controlling interests	36,746	1,333	38,079
Goodwill arising on consolidation	1,732	–	1,732
Bargain purchase arising from business combination	(10,529)	(1,333)	(11,862)
Total purchase consideration	27,949	–	27,949
Total purchase consideration:			
Cost of acquisitions	8,150	–	8,150
Fair value of pre-existing interest in the acquiree	19,799	–	19,799
	27,949	–	27,949
Cash outflow on acquisitions in 2015:			
Cost of acquisitions	(8,150)	–	(8,150)
Net cash acquired with the subsidiaries	21,591	–	21,591
Net cash inflow on acquisition	13,441	–	13,441

Purchase price adjustments, which are non-cash in nature, made during the Window Period have not been applied retrospectively as these adjustments, which relate mainly to balance sheet effects and certain consequential income statement effects, are immaterial to the Group.

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5. REVENUE

	Group	
	2016	2015
	$'000	$'000
Sale of goods	**2,187,741**	1,939,713
Service income	**3,969,886**	3,704,189
Contract revenue	**526,110**	691,121
	6,683,737	6,335,023

6. PROFIT FROM OPERATIONS

Profit from operations is arrived after charging/(crediting) the following items (except where otherwise disclosed in the other notes to financial statements):

	Group	
	2016	2015
	$'000	$'000
After charging/(crediting)		
Auditors' remuneration		
– auditors of the Company	**2,928**	2,783
– other auditors #	**3,664**	3,192
Non-audit fees		
– auditors of the Company	**1,234**	1,205
– other auditors #	**1,485**	997
Fees paid to auditors of the Company under business relationship arrangement	**436**	–
Fees and remuneration of directors *	**8,308**	8,589
Fees paid to a firm of which a director is a member	**519**	388
Allowance/(write-back of allowance) for		
– inventory obsolescence	**54,864**	53,417
– doubtful debts (trade)	**10,559**	9,663
– doubtful debts (related parties)	**–**	(280)
– unbilled receivables (trade)	**–**	5
– doubtful lease receivables	**697**	2,743
Provision for foreseeable losses	**8,037**	32,808
Property, plant and equipment written off	**709**	6,216
Research, design and development expenses	**109,108**	114,163
Operating lease expenses	**47,914**	47,811
Fair value changes in embedded derivatives not designated as hedging instruments (included in cost of sales)		
– Gains	**(293)**	–
– Losses	**287**	6,420
Fair value changes of forward currency contracts not designated as hedging instruments (included in cost of sales)		
– Gains	**(2,521)**	(13,067)
– Losses	**2,593**	8,020

* *Includes share-based payment expense of $2,518,525 (2015: $2,519,270).*

Refers to other member firms of KPMG International

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7. PERSONNEL EXPENSES

	Group	
	2016	2015
	$'000	$'000
Wages and salaries *	**1,580,071**	1,466,404
Contributions to defined contribution plans	**170,707**	149,016
Defined benefit plan expenses	**5,225**	–
Share-based payments	**8,946**	15,840
Other personnel expenses	**195,162**	187,785
	1,960,111	1,819,045

* *Includes directors' remuneration of $3,869,794 (2015: $4,523,914).*

8. OTHER INCOME, NET

		Group	
	Note	**2016**	2015
		$'000	$'000
Other income			
Government grants		**16,761**	10,815
Commission income		**4**	5
Rental income		**6,333**	6,765
Gain on disposal of property, plant and equipment		**903**	1,190
Gain on disposal of subsidiaries		**11,796**	–
Gain on disposal of an associate		**731**	59
Bargain purchase arising from business combination	4	**1,333**	10,529
Grant income from Wage Credit Scheme		**19,835**	15,283
Remeasurement gain on fair value of pre-existing interest in acquiree	4	**1,364**	–
Others		**8,755**	11,101
		67,815	55,747
Other expenses			
Loss on disposal of a subsidiary		**(15)**	–
Remeasurement loss on fair value of pre-existing interest in acquiree		**–**	(299)
		(15)	(299)
Other income, net, recognised in profit or loss		**67,800**	55,448

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9. FINANCE (COSTS)/INCOME, NET

	Group	
	2016	2015
	$'000	$'000
Finance income		
Dividend income from quoted equity investments	**4**	3
Interest income		
– bank deposits	**9,148**	11,580
– staff loans	**12**	15
– finance lease	**149**	413
– bonds	**15,295**	10,366
– others	**2,738**	1,125
Exchange gain, net	**–**	7,331
Gain on disposal of investments	**3,672**	343
Gain on fair value changes of investments held for trading	**–**	15
Net change in fair value of cash flow hedges reclassified from equity on occurrence of forecast transactions	**314**	–
Fair value changes of financial instruments		
– gain on forward currency contract, cross currency interest rate swaps and cross currency swap not designated as hedging instrument	**2,280**	14,615
– gain on ineffective portion of forward currency contract designated as hedging instrument	**42**	9
Fair value changes of hedged items	**37**	10,376
	33,691	56,191
Finance costs		
Interest expense		
– bank loans and overdrafts	**(8,122)**	(7,879)
– bonds	**(32,060)**	(30,707)
– finance lease	**(747)**	(738)
– others	**(1,512)**	(428)
Exchange loss, net	**(1,503)**	–
Loss on fair value changes of investments held for trading	**(11)**	–
Net change in fair value of cash flow hedges reclassified from equity on occurrence of forecast transactions	**–**	(10,082)
Loss on fair value changes of forward currency contract and forward currency denominated cash balance designated as hedging instrument	**(173)**	(114)
Impairment losses on investments	**(1,579)**	–
	(45,707)	(49,948)
Finance (costs)/income, net, recognised in profit or loss	**(12,016)**	6,243

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10. TAXATION

	Group	
	2016	2015
	$'000	$'000
Current income tax		
Current year	**143,979**	102,326
Overprovision in respect of prior years	**(18,431)**	(15,533)
	125,548	86,793
Deferred income tax		
Current year	**(13,523)**	4,289
(Over)/under provision in respect of prior years	**(14,542)**	7,351
Effect of reduction in tax rate	**287**	226
	(27,778)	11,866
	97,770	98,659

Reconciliation of tax expense

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the year ended 31 December is as follows:

	Group	
	2016	2015
	$'000	$'000
Profit before taxation	**590,633**	630,302
Taxation at statutory tax rate of 17% (2015: 17%)	**100,408**	107,151
Adjustments:		
Income not subject to tax	**(4,249)**	(3,560)
Expenses not deductible for tax purposes	**34,158**	24,894
Different tax rates of other countries	**(2,312)**	(8,553)
Overprovision in prior years, net	**(32,973)**	(8,182)
Effect of change in tax rates	**287**	226
Effect of results of associates and joint ventures presented net of tax	**(10,840)**	(9,918)
Tax incentives	**(4,916)**	(4,364)
Deferred tax assets not recognised	**27,619**	16,620
Deferred tax assets previously not recognised now utilised	**(11,246)**	(3,421)
Tax credits claimed during the year	**–**	(9,437)
Others	**1,834**	(2,797)
	97,770	98,659

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11. EARNINGS PER SHARE

Basic earnings per share

The calculation for basic earnings per share is based on:

	Group	
	2016	2015
	$'000	$'000
Profit attributable to shareholders	**484,514**	529,039

The weighted average number of ordinary shares is arrived at as follows:

	Group	
	2016	2015
Number of shares	**'000**	'000
Issued ordinary shares at beginning of the year	**3,101,528**	3,120,005
Effect of share options exercised, performance shares and restricted shares released	**5,140**	(1,733)
Effect of treasury shares held	**(1,021)**	(18,776)
Weighted average number of ordinary shares issued during the year	**–**	3,976
Weighted average number of ordinary shares	**3,105,647**	3,103,472

Diluted earnings per share

When calculating diluted earnings per share, the weighted average number of ordinary shares is adjusted for the effect of all dilutive potential ordinary shares. The average fair value of one ordinary share during the financial year ended 31 December 2016 was $3.18 (2015: $3.27) per share. The weighted average number of ordinary shares adjusted for the unissued shares under option is as follows:

	Group	
	2016	2015
Number of shares	**'000**	'000
Weighted average number of ordinary shares * (used in the calculation of basic earnings per share)	**3,105,647**	3,103,472
Weighted average number of unissued shares under option	**–**	13,980
Number of shares that would have been issued at fair value	**–**	(12,850)
Weighted average number of ordinary shares (diluted)	**3,105,647**	3,104,602

* *The weighted average number of ordinary shares takes into account the weighted average effect of changes in treasury shares transactions during the year.*

As at 31 December 2016, 10,051,479 (2015: 5,383,061) share options were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

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12. PROPERTY, PLANT AND EQUIPMENT

	Valuation/Cost						
The Group	**As at 1.1.2015 $'000**	**Additions *1 $'000**	**Disposals/ write-off $'000**	**Arising from acquisition of interest in subsidiaries $'000**	**Reclassi-fications $'000**	**Translation difference $'000**	**As at 31.12.2015 $'000**
At Valuation							
Leasehold land and buildings	1,919	–	–	–	–	–	1,919
Wharves and slipways	1,490	–	–	–	(173)	–	1,317
Syncrolift and floating docks	4,603	–	–	–	10	–	4,613
Plant and machinery	1,694	–	–	–	(11)	–	1,683
Furniture, fittings, office equipment and computers	279	–	–	–	6	–	285
At Cost							
Freehold land and buildings	66,247	3,173	(637)	–	160	4,514	73,457
Leasehold land and buildings	1,029,745	6,338	(17,883)	638	72,077	13,525	1,104,440
Improvements to premises	92,920	9,503	(5,676)	412	28,253	2,827	128,239
Wharves and slipways	45,366	20	–	–	292	1,271	46,949
Syncrolift and floating docks	87,877	–	–	–	1,143	1,329	90,349
Boats and barges	181,075	–	–	–	19	88	181,182
Plant and machinery	753,231	45,520	(18,587)	6,987	21,539	11,777	820,467
Production tools and equipment	299,821	19,390	(6,313)	2,349	(4)	7,898	323,141
Furniture, fittings, office equipment and computers	262,006	23,454	(14,039)	379	4,792	4,645	281,237
Transportation equipment and vehicles	17,563	1,369	(1,746)	5	35	277	17,503
Aircraft and aircraft engines	214,938	147,597	–	–	(20,792)	4,556	346,299
Construction-in-progress	120,397	36,508	(7)	189	(128,930)	4,296	32,453
	3,181,171	292,872	(64,888)	10,959	(21,584)	57,003	3,455,533

*1 *Includes $1,733,000 by way of non-cash government grant.*

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Valuation/Cost							
The Group	**As at 1.1.2016 $'000**	**Additions $'000**	**Disposals/ write-off $'000**	**Arising from acquisition of interest in a subsidiary/ finalisation of purchase price allocation $'000**	**Due to disposal of subsidiaries $'000**	**Reclassi- fications $'000**	**Translation difference $'000**	**As at 31.12.2016 $'000**
At Valuation								
Leasehold land and buildings	1,919	–	–	–	–	–	–	1,919
Wharves and slipways	1,317	–	–	–	–	–	–	1,317
Syncrolift and floating docks	4,613	–	–	–	–	–	–	4,613
Plant and machinery	1,683	–	–	–	–	–	–	1,683
Furniture, fittings, office equipment and computers	285	–	–	–	–	–	–	285
At Cost								
Freehold land and buildings	73,457	–	–	–	–	612	1,391	75,460
Leasehold land and buildings	1,104,440	15,752	(629)	27,374	(27,033)	7,544	(5,446)	1,122,002
Improvements to premises	128,239	7,400	(1,175)	–	(30)	956	1,445	136,835
Wharves and slipways	46,949	–	–	–	–	–	412	47,361
Syncrolift and floating docks	90,349	–	(263)	–	–	509	428	91,023
Boats and barges	181,182	–	(76)	–	–	(3,773)	28	177,361
Plant and machinery	820,467	59,780	(27,060)	25,557	(14,630)	11,019	667	875,800
Production tools and equipment	323,141	28,482	(7,927)	13,033	(504)	1,701	1,890	359,816
Furniture, fittings, office equipment and computers	281,237	25,728	(17,017)	2,245	(3,746)	1,411	783	290,641
Transportation equipment and vehicles	17,503	1,708	(1,152)	–	(1,619)	(59)	(63)	16,318
Aircraft and aircraft engines	346,299	25,564	–	–	(108,871)	(7,578)	(1,857)	253,557
Satellite	–	–	–	–	–	13,698	–	13,698
Construction-in-progress	32,453	87,941	(421)	11,005	(25)	(34,344)	(137)	96,472
	3,455,533	252,355	(55,720)	79,214	(156,458)	(8,304)	(459)	3,566,161

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Accumulated depreciation					
The Group	**As at 1.1.2015 $'000**	**Depreciation charge/ impairment losses *2 for the year $'000**	**Disposals/ write-off $'000**	**Reclassi-fications $'000**	**Translation difference $'000**	**As at 31.12.2015 $'000**
At Valuation						
Leasehold land and buildings	1,919	–	–	–	–	1,919
Wharves and slipways	1,490	–	–	(173)	–	1,317
Syncrolift and floating docks	4,603	–	–	10	–	4,613
Plant and machinery	1,694	–	–	(11)	–	1,683
Furniture, fittings, office equipment and computers	279	–	–	6	–	285
At Cost						
Freehold land and buildings	21,961	1,755	(580)	–	1,581	24,717
Leasehold land and buildings	444,963	41,042	(9,081)	–	6,112	483,036
Improvements to premises	47,473	8,778	(5,613)	71	1,445	52,154
Wharves and slipways	26,827	1,318	–	173	291	28,609
Syncrolift and floating docks	70,487	1,611	–	(10)	160	72,248
Boats and barges	48,969	6,517	–	–	88	55,574
Plant and machinery	426,869	45,192	(11,306)	(107)	9,071	469,719
Production tools and equipment	211,329	14,530	(6,339)	(8)	6,528	226,040
Furniture, fittings, office equipment and computers	208,715	35,420	(13,990)	(77)	3,910	233,978
Transportation equipment and vehicles	14,092	1,507	(1,465)	–	225	14,359
Aircraft and aircraft engines	71,978	12,545	–	(9,652)	1,632	76,503
	1,603,648	170,215	(48,374)	(9,778)	31,043	1,746,754

*2 *In the prior year, based on an independent party valuation report with reference to replacement costs for these plant and equipment, the Group reversed the impairment loss recognised of $179,000 (included in the income statement as part of cost of sales). Additionally, an impairment loss of $33,000 made in relation to leasehold land and buildings previously was derecognised subsequent to the disposal of the assets in the prior year.*

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Accumulated depreciation						
The Group	As at 1.1.2016 $'000	Depreciation charge/ impairment losses *3 for the year $'000	Disposals/ write-off $'000	Due to disposal of subsidiaries $'000	Reclassi- fications $'000	Translation difference $'000	As at 31.12.2016 $'000
At Valuation							
Leasehold land and buildings	1,919	–	–	–	–	–	1,919
Wharves and slipways	1,317	–	–	–	–	–	1,317
Syncrolift and floating docks	4,613	–	–	–	–	–	4,613
Plant and machinery	1,683	–	–	–	–	–	1,683
Furniture, fittings, office equipment and computers	285	–	–	–	–	–	285
At Cost							
Freehold land and buildings	24,717	1,468	–	–	–	479	26,664
Leasehold land and buildings	483,036	64,306	(496)	(6,610)	46	1,234	541,516
Improvements to premises	52,154	10,916	(1,163)	(30)	(2)	395	62,270
Wharves and slipways	28,609	1,317	–	–	–	145	30,071
Syncrolift and floating docks	72,248	1,498	(263)	–	–	128	73,611
Boats and barges	55,574	6,372	(76)	–	(1,792)	28	60,106
Plant and machinery	469,719	63,061	(24,679)	(9,085)	13	1,377	500,406
Production tools and equipment	226,040	22,070	(7,569)	(476)	37	3,065	243,167
Furniture, fittings, office equipment and computers	233,978	35,613	(16,832)	(3,386)	(47)	990	250,316
Transportation equipment and vehicles	14,359	1,407	(1,076)	(1,479)	(48)	(44)	13,119
Aircraft and aircraft engines	76,503	17,117	–	(3,154)	(7,578)	708	83,596
Satellite	–	1,370	–	–	–	–	1,370
	1,746,754	226,515	(52,154)	(24,220)	(9,371)	8,505	1,896,029

*3 *During the year, the Group recognised impairment losses of $30,837,000, which mainly relate to:*

- *impairment of rotable assets deployed to customers. Following the liquidation of one of its customers, the Group performed an impairment assessment and recognised an impairment loss of $1,132,000 as part of cost of sales in the income statement. The recoverable amount was estimated based on its market value less cost to sell.*

- *impairment on certain property, plant and equipment of JHK (Note 4). The Group performed an impairment assessment and recognised an impairment loss of $28,170,000. The recoverable amounts of these property, plant and equipment were determined based on the fair value less costs of disposal of the property, plant and equipment. Management estimated the fair value less costs of disposal of these property, plant and equipment based on independent valuation obtained from a third party valuer in China.*

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Net book value		
The Group	**31.12.2016 $'000**	31.12.2015 $'000	1.1.2015 $'000
At Valuation			
Leasehold land and buildings	**–**	–	–
Wharves and slipways	**–**	–	–
Syncrolift and floating docks	**–**	–	–
Plant and machinery	**–**	–	–
Furniture, fittings, office equipment and computers	**–**	–	–
At Cost			
Freehold land and buildings	**48,796**	48,740	44,286
Leasehold land and buildings	**580,486**	621,404	584,782
Improvements to premises	**74,565**	76,085	45,447
Wharves and slipways	**17,290**	18,340	18,539
Syncrolift and floating docks	**17,412**	18,101	17,390
Boats and barges	**117,255**	125,608	132,106
Plant and machinery	**375,394**	350,748	326,362
Production tools and equipment	**116,649**	97,101	88,492
Furniture, fittings, office equipment and computers	**40,325**	47,259	53,291
Transportation equipment and vehicles	**3,199**	3,144	3,471
Aircraft and aircraft engines	**169,961**	269,796	142,960
Satellite	**12,328**	–	–
Construction-in-progress	**96,472**	32,453	120,397
	1,670,132	1,708,779	1,577,523

Due to changes in the use of assets,

(a) Plant and machinery with net book value amounting to $1,982,000 (2015: $11,806,000) were reclassified to inventories; and

(b) Inventories amounting to $3,049,000 (2015: $12,510,000) were reclassified to property, plant and equipment.

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company	Leasehold land and buildings $'000	Furniture, fittings, office equipment and computers $'000	Transportation equipment and vehicles $'000	Total $'000
Cost				
As at 1.1.2015	2,841	4,932	525	8,298
Additions	–	446	–	446
As at 31.12.2015	2,841	5,378	525	8,744
Additions	–	374	–	374
Disposals/write-off	–	(1,279)	(57)	(1,336)
As at 31.12.2016	2,841	4,473	468	7,782
Accumulated depreciation				
As at 1.1.2015	165	3,363	202	3,730
Depreciation charge for the year	282	631	104	1,017
As at 31.12.2015	447	3,994	306	4,747
Depreciation charge for the year	282	609	94	985
Disposals/write-off	–	(1,144)	(57)	(1,201)
As at 31.12.2016	729	3,459	343	4,531
Net book value				
As at 31.12.2016	2,112	1,014	125	3,251
As at 31.12.2015	2,394	1,384	219	3,997
As at 1.1.2015	2,676	1,569	323	4,568

(a) Property, plant and equipment pledged as security

Property, plant and equipment of certain overseas subsidiaries of the Group with a carrying value of $62,252,000 (2015: $190,743,000) are pledged as security for bank loans and other loans.

(b) Property, plant and equipment under lease obligations

Included in the above are property, plant and equipment acquired under finance lease obligations with a net book value of:

	Group 2016 $'000	Group 2015 $'000
Leasehold land and buildings	**16,953**	17,588
Transportation equipment and vehicles	**–**	74
Furniture, fittings, office equipment and computers	**755**	961
	17,708	18,623

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

(c) Major properties

(i) Freehold land and buildings

Location	Description	Land area (sq. m.)	Net book value 2016 $'000	Net book value 2015 $'000
USA				
13442 Emerson Road, Kidron, Ohio	Industrial buildings	68,351	**1,006**	1,036
300 Hackney Ave, Independence, Kansas	Industrial buildings	117,358	**4,891**	4,920
400 Hackney Ave, Washington, North Carolina	Industrial buildings	39,942	**1,676**	1,600
914 Saegers Station Drive, Montgomery, Pennsylvania	Industrial buildings	122,659	**4,574**	4,432
7801 Trinity Drive, Escatawpa, Mississippi	Shipyard and buildings	839,564	**4,201**	4,121
5801 Elder Ferry Road, Moss Point, Mississippi	Shipyard and buildings	227,151	**4,525**	4,435
900 Bayou Casotte Parkway, Pascagoula, Mississippi	Shipyard and buildings	331,803	**21,196**	21,163
2810 Lousie Street, Pascagoula, Mississippi	Shipyard and buildings	25,252	**3,078**	3,119
3800 Richardson Road South, Hope Hull, Alabama	Production facility	8,361	**2,351**	2,542
Australia				
2 Bowral Place, Ballarat, Victoria	Office building and training classrooms	7,714	**1,217**	1,249

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

(c) Major properties (continued)

(ii) Leasehold land, buildings and improvements

Location	Description	Tenure	Land area (sq. m.)	Net book value 2016 $'000	2015 $'000
Singapore					
501 Airport Road	Factory and office building	10.6 years from 1.6.2013	23,899	**5,078**	5,507
503 Airport Road	Factory and office building	10.6 years from 1.6.2013	7,175	**735**	784
505 Airport Road	Jet engine test cell	3 years from 1.7.2016	5,317	**15,840**	16,617
8 Changi North Way	Hangar and office building	30 years from 1.1.1992	75,713	**22,672**	25,064
	Hangar and office building	22.5 years from 16.6.1999	14,860	**1,796**	1,937
	Hangar and office building	16.3 years from 20.8.2005	9,764	**8,449**	8,891
102 Gul Circle	Factory and office building	30 years from 17.7.2012	6,857	**7,338**	7,621
51 Loyang Drive	Leasehold land for factory building	30 years from 1.1.1992	6,045	**511**	613
540 Airport Road	Hangars and office building	3 years lease from 1.7.2016	52,212	**14,984**	17,096
Seletar West Camp	Hangars and office building	31.7 years lease from 5.1.2009	25,200	**28,314**	29,650
Seletar West Camp	Factory and office building	25.7 years from 1.2.2015	4,516	**5,795**	–
Seletar West Camp	New Aero Centre	28.4 years from 1.4.2012	23,094	**9,725**	10,087
24 Ang Mo Kio Street 65	Industrial and commercial buildings	30 years from 1.12.2012	23,970	**3,995**	4,123
100 Jurong East Street 21	Industrial and commercial buildings	30 years from 1.11.1988, renewable to 2048	11,232	**5,550**	5,922

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

(c) **Major properties** (continued)

(ii) ***Leasehold land, buildings and improvements*** (continued)

Location	Description	Tenure	Land area (sq. m.)	Net book value 2016 $'000	Net book value 2015 $'000
Singapore (continued)					
1 Ang Mo Kio Electronics Park Road	Industrial and commercial buildings	30 years from 1.11.2011	20,000	**59,892**	64,224
6 Ang Mo Kio Electronics Park Road	Industrial and commercial buildings	30 years from 1.12.2011	5,000	**17,018**	18,048
33 Tuas Avenue 2	Factory and office building	30 years from 1.4.1996 to 31.3.2026	6,669	**1,480**	1,662
16 Benoi Crescent	Industrial and commercial buildings	30 years from 16.7.1989 to 15.7.2019	6,981	**1,459**	1,609
249 Jalan Boon Lay	Industrial and commercial buildings	27 years from 1.10.2001 to 31.12.2028, renewable to 10.10.2065	206,031	**109,876**	117,211
16 Tuas Avenue 7	Industrial buildings	30 years from 16.8.2013 to 15.8.2043	12,029	**149**	241
601 Rifle Range Road	Industrial buildings	Renewable every year *	556,074	**5,701**	5,275
15 Chin Bee Drive	Industrial buildings	60 years from 1.8.1973 to 31.7.2033	39,137	**16,406**	18,652
16 Benoi Road	Administrative offices and workshop	56 years from 1.6.1969	20,224	**5,148**	5,796
7 Benoi Road	Buildings, foreshore and workshops	56 years from 1.6.1969	103,975	**13,504**	15,624
60 Tuas Road	Buildings, foreshore and workshops	30 years from 1.12.1992	137,724	**2,716**	3,427
30/36 Kian Teck Avenue	Workers' dormitory	30 years from 1.9.1995	3,908	**2,533**	2,825

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

(c) Major properties (continued)

(ii) Leasehold land, buildings and improvements (continued)

Location	Description	Tenure	Land area (sq. m.)	Net book value 2016 $'000	Net book value 2015 $'000
USA					
2100 Aerospace Drive Brookley Complex, Mobile, Alabama	Hangar and office building	29 years from 1.11.2012	103,825	**28,603**	28,723
9800 John Saunders Road, San Antonio, Texas	Hangar and office building	16.6 years from 1.6.2002	255,121	**27,085**	22,674
People's Republic of China					
No 2, Huayu Road, Huli District, Xiamen 361006, Fujian	Leasehold land for factory building	50 years from 20.11.2008	38,618	**46,957**	50,216
97 Zhong Cao Road, Guiyang, Guizhou	Leasehold land, industrial and commercial buildings	50 years from 26.2.2008 to 21.2.2058	242,662	**–**	21,628
66 Xin Cheng Rui Shandong Road, Dantu, Zhenjiang, Jiangsu	Leasehold land, industrial and commercial buildings	50 years from 30.11.2012 to 30.11.2062	51,576	**9,467**	14,673
68 Xin Cheng Rui Shandong Road, Dantu, Zhenjiang, Jiangsu	Leasehold land, industrial and commercial buildings	50 years from 31.05.2013 to 31.05.2063	200,120	**50,205**	71,173
Germany					
Grenzstr. 1, Dresden	Hangar and office building	31 years from 1.1.1994	110,145	**24,479**	–
Zum Windkanal 32, Dresden	Hangar	18 years from 1.8.2007	4,625	**6,747**	–
Lindenstr. 1, Kodersdorf	Production hall with offices	5 years from 1.3.2013	5,688	**20**	–

* *This relates to buildings constructed by subsidiaries on properties rented from the Ministry of Defence Singapore on leases which are renewable from one to three years. In view of the relationship between the landlord and the subsidiaries, the cost of the buildings is depreciated over the period of intended use, i.e. 30 years.*

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13. SUBSIDIARIES

	Company	
	2016	2015
	$'000	$'000
Unquoted shares, at cost	**1,177,733**	1,088,081
Impairment in subsidiaries	**(7,000)**	(7,000)
Carrying amount after impairment in subsidiaries	**1,170,733**	1,081,081
Capital contribution *[1]	**106,876**	113,718
	1,277,609	1,194,799

*[1] *The amount relates mainly to capital contribution in the form of share options, performance shares and restricted shares issued to employees of subsidiaries.*

Details of the subsidiaries are as follows:

	Effective equity interest held by the Group	
	2016	2015
	%	%
(a) Singapore Technologies Aerospace Ltd and its subsidiaries	**100**	100
ST Aerospace Engineering Pte Ltd and its subsidiaries:	**100**	100
ST PAE Holdings Pty Ltd and its subsidiaries ⌘	**100**	100
Aerospace Engineering Services Pty Ltd *[1] #	**100**	100
Aerospace Engineering Services Pty Ltd Unit Trust *[1] #	**100**	100
Pacific Flight Services Pte Ltd	**100**	100
Pacific Flight Services Pty Ltd ⌘	**100**	100
ST Aerospace Academy Pte. Ltd. and its subsidiary:	**100**	100
Aviation Training Academy Australia Pty Ltd ⌘ and its subsidiary:	**100**	100
ST Aerospace Academy (Australia) Pty Ltd ⌘	**100**	100
ST Aerospace Engines Pte Ltd and its subsidiary:	**100**	100
ST Aerospace Technologies (Xiamen) Company Limited ⌘	**80**	80
ST Aerospace Systems Pte Ltd and its subsidiary	**100**	100
Singapore Precision Repair and Overhaul Pte Ltd	**100**	100
ST Aerospace Supplies Pte Ltd and its subsidiaries:	**100**	100
iShopAero Pte Ltd	**100**	100
ST Aerospace Guangzhou Aero-Technologies & Engineering Co Ltd. ⌘	**100**	100
ST Aerospace International Structures Pte Ltd	**100**	100
ST Aviation Resources Pte Ltd	**100**	100
ST Aerospace Services Co Pte. Ltd.	**80**	80
Singapore Technologies Engineering (Europe) Ltd ⌘	**100**	100
Singapore Aerospace K.K. #	**100**	100
Visiontech Engineering Pte Ltd	**51**	51

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13. SUBSIDIARIES (continued)

Details of the subsidiaries are as follows (continued):

		Effective equity interest held by the Group	
		2016	2015
		%	%
(a)	**Singapore Technologies Aerospace Ltd and its subsidiaries** (continued)	**100**	100
	ST Aerospace Solutions (Europe) A/S ⌘ and its subsidiary:	**100**	100
	Airline Rotables (UK Holdings) Limited ⌘ and its subsidiary:	**100**	100
	Airline Rotables Limited ⌘	**100**	100
	ST Aerospace Rotables Pte. Ltd.	**100**	100
	Precision Products Singapore Pte Ltd	**100**	100
	ST Aerospace Resources Pte. Ltd.	**100**	100
	ST Aerospace Aircraft Seats Pte. Ltd.	**90**	90
	Elbe Flugzeugwerke GmbH *[2] and its subsidiaries	**55**	35
	CCI-Assembly GmbH *[2]	**55**	35
	Aircraft Composites Sachsen GmbH *[3]	**55**	–
(b)	**Singapore Technologies Electronics Limited and its subsidiaries**	**100**	100
	SEEL Electronic & Engineering Sdn Bhd	**100**	100
	ST Electronics (Info-Software Systems) Pte. Ltd. and its subsidiaries:	**100**	100
	INFA Systems Limited	**100**	100
	ST Electronics (Software Services) Limited *[4]	**–**	100
	ST Electronics (e-Services) Pte. Ltd. and its subsidiary:	**100**	100
	Knowledge Alive Pte. Ltd. and its subsidiary:	**100**	100
	COMAT Training Services Pte Ltd	**100**	100
	ST Electronics (Data Centre Solutions) Pte. Ltd.	**100**	100
	ST Electronics (Wuxi) Co., Ltd.	**100**	100
	ST Electronics (Training & Simulation Systems) Pte. Ltd. and its subsidiaries:	**100**	100
	Antycip Simulation Limited and its subsidiary:	**93**	93
	Antycip Simulation SAS	**93**	93
	ST Education & Training Private Limited and its subsidiaries:	**100**	100
	STET Homeland Security Services Pte. Ltd.	**100**	100
	STET Maritime Pte. Ltd.	**100**	100
	ST Electronics (Enterprise 1) Pte. Ltd.	**100**	100
	ST Electronics (Info-Comm Systems) Pte. Ltd. and its subsidiaries:	**100**	100
	ST Electronics (Info-Security) Pte. Ltd.	**100**	100
	STELCOMMS Pte. Ltd.	**100**	100
	Telematics Wireless Ltd. and its subsidiary:	**100**	100
	Telematics Wireless USA Corp #	**100**	100
	ST Electronics (Satcom & Sensor Systems) Pte. Ltd. and its subsidiaries:	**100**	100
	iDirect Asia Pte. Ltd.	**100**	100
	OrisTel Systems Pte. Ltd.	**100**	100
	ST Electronics (Shanghai) Co., Ltd and its subsidiary:	**100**	100
	ST Electronics (Tianjin) Co., Ltd	**100**	100

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13. SUBSIDIARIES (continued)

Details of the subsidiaries are as follows (continued):

		Effective equity interest held by the Group 2016 %	2015 %
(b)	**Singapore Technologies Electronics Limited and its subsidiaries** (continued)	**100**	100
	iTS Technologies Pte Ltd	**100**	100
	ST Electronics (Taiwan) Limited	**100**	100
	ST Electronics (Thailand) Limited	**100**	100
	ST Electronics do Brasil Serviços e Soluções em Sistemas Eletronicôs Ltda #	**100**	100
	GFM Electronics S.A. de C.V. ^	**51**	51
	STELOP Pte. Ltd.	**50.05**	50.05
(c)	**Singapore Technologies Kinetics Ltd and its subsidiaries**	**100**	100
	SDG Kinetics Pte. Ltd. and its subsidiaries:	**100**	100
	LeeBoy India Construction Equipment Private Limited ^	**100**	99.2
	LeeBoy Brazil Equipamentos De Construção Ltda. # ⌘	**100**	100
	Mobility Systems Pte Ltd and its subsidiaries:	**100**	100
	Silvatech Global Systems Limited # ⌘	**100**	100
	Silvatech Systems Corporation Pte Ltd *5 and its subsidiary:	**100**	100
	Kinetics Drive Solutions Inc. # ⌘	**100**	100
	Technicae Projetos e Serviços Automotivos Ltda. # ⌘	**94.36**	94.36
	STA Inspection Pte Ltd	**100**	100
	Singapore Commuter Private Limited and its subsidiaries:	**100**	100
	Jiangsu Huatong Kinetics Co., Ltd. *6	**75.3**	75.3
	Jiangsu Huaran Kinetics Co., Ltd. *6	**75.3**	75.3
	Securedge Pte. Ltd. *6	**100**	100
	STA Investment Pte Ltd *4	**–**	100
	ST Kinetics International Pte. Ltd. and its subsidiary:	**100**	100
	VT Hackney, S.A. de C.V.	**100**	100
	SDDA Pte. Ltd. and its subsidiary:	**100**	100
	Kinetics Link Services Sdn. Bhd.	**60**	60
	ST Kinetics Integrated Engineering Pte. Ltd.	**100**	100
	Singapore Test Services Private Limited	**100**	100
	Advanced Material Engineering Pte. Ltd. and its subsidiaries:	**100**	100
	Advanced Pyrotechnic Materials Private Limited	**51**	51
	SMART Systems Pte Ltd	**51**	51
	Unicorn International Pte Limited	**100**	100
	Allied Ordnance of Singapore (Pte) Limited *4	**–**	100
	Ordnance Development and Engineering Company of Singapore (1996) Private Limited	**100**	100
	Autonomous Technology Pte Ltd and its subsidiaries:	**100**	100
	Guizhou Jonyang Kinetics Co., Ltd. *7	**–**	60
	Kinetics Automotive & Specialty Equipment Co., Ltd ⌘ ^	**100**	100
	Kinetics Systems (Shanghai) Co., Ltd.	**100**	100

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13. SUBSIDIARIES (continued)

Details of the subsidiaries are as follows (continued):

		Effective equity interest held by the Group	
		2016	2015
		%	%
(d)	**Singapore Technologies Marine Ltd and its subsidiaries**	**100**	100
	STSE Engineering Services Pte Ltd and its subsidiaries:	**100**	100
	STSE (Shanghai) Co. Ltd.	**100**	100
	STSE Engineering Services (B) Sdn Bhd	**100**	100
	Hovertrans Solutions Pte. Ltd.	**51**	51
	ST Marine (Wuhan) Engineering Design Consultancy Co. Ltd.	**100**	100
(e)	**Vision Technologies Systems, Inc. and its subsidiaries**	**100**	100
	Vision Technologies Aerospace, Incorporated # and its subsidiaries:	**100**	100
	VT Mobile Aerospace Engineering, Inc. # ⌘	**100**	100
	DalFort Aerospace GP, Inc. *[1] #	**100**	100
	DalFort Aerospace, L.P. *[1] #	**100**	100
	VT San Antonio Aerospace, Inc. # ⌘	**100**	100
	EcoServices, LLC # ⌘	**50.1**	50.1
	Aviation Academy of America, Inc. #	**100**	100
	VT Volant Aerospace, LLC # ⌘	**100**	100
	VT Aviation Services, Inc. # ⌘	**100**	100
	Vision Technologies Electronics, Inc. # and its subsidiary:	**100**	100
	VT iDirect, Inc. # ⌘ and its subsidiaries:	**100**	100
	iDirect UK Limited and its subsidiary:	**100**	100
	Parallel Limited *[4]	**–**	100
	iDirect Italy S.r.l. # ⌘	**100**	100
	iDirect International, Inc. # ⌘	**100**	100
	iDirect Government, Inc. # ⌘	**100**	100
	VT iDirect Canada, Inc. # ⌘	**100**	100
	VT iDirect Solutions Limited	**100**	100
	Vision Technologies Kinetics, Inc. # and its subsidiaries:	**100**	100
	Miltope Corporation # ⌘ and its subsidiary:	**100**	100
	IV Phoenix Group, Inc. #	**97**	97
	MÄK Technologies, Inc. # ⌘	**100**	100
	Vision Technologies Land Systems, Inc. # and its subsidiaries:	**100**	100
	VT Dimensions, Inc. #	**100**	100
	VT LeeBoy, Inc. # ⌘	**100**	100
	VT Hackney, Inc. # ⌘	**100**	100
	Vision Technologies Marine, Inc. # and its subsidiary:	**100**	100
	VT Halter Marine, Inc. # ⌘	**100**	100
	VT Systems International, LLC # and its subsidiary	**100**	100
	VT Systems Participações Ltda. #	**100**	100

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13. SUBSIDIARIES (continued)

Details of the subsidiaries are as follows (continued):

		Effective equity interest held by the Group 2016 %	2015 %
(f)	**Singapore Technologies Dynamics Pte Ltd and its subsidiary**	**100**	100
	Innosparks Pte. Ltd.	**100**	100
(g)	**ST Synthesis Pte Ltd**	**100**	100
(h)	**FusionTech Pte. Ltd.**	**100**	100
(i)	**Kaz-ST Engineering Bastau Limited Liability Partnership**	**51**	51
(j)	**ST Engineering Financial I Ltd.**	**100**	100
(k)	**ST Engineering Financial II Pte. Ltd.**	**100**	100
(l)	**ST Engineering Management Services Pte. Ltd. *3**	**100**	–

*1 *The companies ceased operations.*

*2 *The companies had been reclassified from associates to subsidiaries following the acquisition of additional equity interest during the year.*

*3 *The company was incorporated during the year and was not audited for the purpose of consolidation in the year.*

*4 *The companies were dissolved, struck off or had completed its members' voluntary liquidation during the year.*

*5 *The company had applied to Accounting and Corporate Regulatory Authority to strike off its name from the Register.*

*6 *The companies are in the process of liquidation.*

*7 *The company was disposed during the year.*

^ *The companies are not audited by KPMG LLP, Singapore and other member firms of KPMG International.*

Not required to be audited under the law in the country of incorporation.

⌘ *Audited by member firms of KPMG International for consolidation purposes.*

All subsidiaries that are required to be audited under the law in the country of incorporation are audited by KPMG LLP, Singapore and other member firms of KPMG International, except as indicated above.

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13. SUBSIDIARIES (continued)

(a) During the financial year, the Group incorporated the following companies:

Name of company	Country of incorporation/ place of business	Equity interest held %
Aircraft Composites Sachsen GmbH	Germany	55
ST Engineering Management Services Pte. Ltd.	Singapore	100

(b) During the financial year, the Group acquired additional equity interests in the following companies:

Name of company	Interest acquired %	Interest after acquisition %	Consideration $'000	Carrying value of net identifiable assets/ liabilities acquired $'000
Elbe Flugzeugwerke GmbH and its subsidiary	20	55	4,943	344,036
LeeBoy India Construction Equipment Private Limited	0.8	100	167	(564)

(c) During the financial year, the Group made additional capital contribution in the following companies:

Name of company	Capital contribution $'000	Equity interest before capital contribution %	Equity interest after capital contribution %
ST Aerospace Aircraft Seats Pte. Ltd.	4,032	90	90
ST Aerospace Resources Pte. Ltd.	8,228	100	100
SDG Kinetics Pte. Ltd. and its subsidiaries	16,598	100	100
SDDA Pte. Ltd.	31,200	100	100
STA Inspection Pte Ltd	8,000	100	100
Vision Technologies Aerospace, Incorporated	2,140	100	100
VT Volant Aerospace, LLC	4,280	100	100
Vision Technologies Systems, Inc.	89,152	100	100

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14. ASSOCIATES AND JOINT VENTURES

	Group		Company	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Unquoted shares, at cost	**252,540**	357,496	**17,657**	17,657
Goodwill on acquisition written off, net	**(146)**	(110)		
Share of net assets acquired	**252,394**	357,386		
Impairment in associates and joint ventures	**(865)**	(4,458)		
Share of post-acquisition reserves	**154,001**	108,632		
	405,530	461,560		
Represented by:				
Interest in associates	**344,925**	422,672		
Interest in joint ventures	**60,605**	38,888		
	405,530	461,560		

(a) **Details of associates are as follows:**

Name of associate	**Principal activities**	**Country of incorporation/ place of business**	**Effective equity interest held by the Group 2016 %**	2015 %
Airbus Helicopters Southeast Asia Private Limited	Selling, maintaining and overhauling of helicopters	Singapore	**25**	25
Composite Technology International Pte Ltd #	Repairing and rebuilding helicopter rotor blades	Singapore	**33.33**	33.33
Madrid Aerospace Services S.L. *1 #	Repair and overhaul of aircraft landing gears and its related components	Spain	**–**	50
Shanghai Technologies Aerospace Company Limited #	Aircraft and component maintenance, repair, overhaul and other related maintenance business	People's Republic of China	**49**	49
ST Aerospace (Guangzhou) Aviation Services Company Limited #	Aircraft and component maintenance, repair, overhaul and other related maintenance business	People's Republic of China	**49**	49

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14. ASSOCIATES AND JOINT VENTURES (continued)

(a) Details of associates are as follows: (continued)

Name of associate	Principal activities	Country of incorporation/ place of business	Effective equity interest held by the Group 2016 %	2015 %
Turbine Coating Services Pte Ltd #	Repair, refurbishment and upgrading of aircraft jet engine turbine blades and vanes	Singapore	**24.5**	24.5
Turbine Overhaul Services Pte Ltd #	Repair and service of gas and steam turbine components	Singapore	**49**	49
NEC STEE Cloud Services Pte. Ltd. *2 #	Providing cloud computing related services	Singapore	**–**	40
WizVision Pte. Ltd. #	Providing information technology services and trading of computer accessories	Singapore	**22.8**	22.8
CityCab Pte Ltd #	Rental of taxis and provision of premier bus service, charge card facilities and travel related services	Singapore	**46.5**	46.5
Timoney Holdings Limited	Design and prototyping services and component supply for the automotive and aerospace engineering sectors	Republic of Ireland	**27.68**	27.68
NanoScience Innovation Pte Ltd #	Research and development of ultra fine structure, especially nano-scale, materials, devices, equipment and intellectual properties	Singapore	**21.6**	21.6
Experia Events Pte. Ltd.	Organising and management of conferences, exhibitions and other related activities, including the biennial Singapore Airshow event	Singapore	**33**	33
Singapore Airshow & Events Pte. Ltd. ^	Dormant	Singapore	**33**	33

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14. ASSOCIATES AND JOINT VENTURES (continued)

(b) Details of joint ventures are as follows:

Name of joint venture	Principal activities	Country of incorporation/ place of business	Effective equity interest held by the Group 2016 %	2015 %
Total Engine Asset Management Pte. Ltd. #	Leasing of engines	Singapore	**50**	50
WingStar Pte. Ltd. *[3]	Acquisition, ownership and management of aircraft	Singapore	**50**	50
Keystone Holdings (Global) Pte. Ltd. *[4]	Investment holding	Singapore	**50**	–
ST Electronics (Satellite Systems) Pte. Ltd.	Design and development, system integration, manufacturing and sale of satellite equipment	Singapore	**51**	51
ATREC Pte. Ltd.	Research and technology development in advanced materials for both defence and commercial applications	Singapore	**50**	50
Takata CPI Singapore Pte Ltd #	Manufacture of pyrotechnic components for seatbelts and air bags used in motor vehicles	Singapore	**49**	49
First Response Marine Pte. Ltd.	Ship and boat leasing with operator (including chartering)	Singapore	**50**	50
Fortis Marine Solutions Pte. Ltd. # *[3]	Provide design and systems engineering services and maintenance of specialised naval vessels	Singapore	**51**	51
Halter-Bollinger Joint Venture, L.L.C. *[5]	To bid and secure US boat fabrication contracts for its shareholders	USA	**–**	50
Joint Shipyard Management Services Pte Ltd	Construction and managing workers' dormitories	Singapore	**30**	30

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14. ASSOCIATES AND JOINT VENTURES (continued)

(b) Details of joint ventures are as follows: (continued)

Name of joint venture	Principal activities	Country of incorporation/ place of business	Effective equity interest held by the Group 2016 %	2015 %
Nova Star Cruises Limited # *6	Provision of ferry services	Canada	**10**	10
ZHR Marine, LLC	Performing reconditioning, testing and maintenance of naval ships and vessels, integrated electronic systems and related ancillary training	Saudi Arabia	**33**	–

*1 *The entity was liquidated during the year.*

*2 *The entity was disposed during the year for a cash consideration of $731,000.*

*3 *These entities are placed under members' voluntary liquidation.*

*4 *Following the disposal of 50% of the equity interests in these entities for a sale consideration of $13.9 million, these entities are reclassified from subsidiaries to joint ventures.*

*5 *The entity was dissolved during the year.*

*6 *This entity has filed an assignment of bankruptcy during the year.*

^ *Not required to be audited under the law in the country of incorporation.*

Not audited by KPMG LLP, Singapore and other member firms of KPMG International.

All associates and joint ventures that are required to be audited under the law in the country of incorporation are audited by KPMG LLP, Singapore and other member firms of KPMG International, except as indicated above.

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14. ASSOCIATES AND JOINT VENTURES (continued)

Associates

The following table summarises the information of each of the Group's material associates, based on their respective financial statements prepared in accordance with FRS, modified for fair value adjustments on acquisitions and differences with the Group's accounting policies. The summarised financial information is not adjusted for percentage ownership held by the Group.

Name of associate	Elbe Flugzeugwerke GmBH $'000	Shanghai Technologies Aerospace Company Limited $'000	Turbine Coating Services Pte Ltd $'000	Turbine Overhaul Services Pte Ltd $'000	CityCab Pte Ltd $'000	Experia Events Pte. Ltd. $'000	Immaterial associates $'000	Total $'000
2016								
Percentage of interest	55%	49%	24.5%	49%	46.5%	33%		
Revenue	–	91,671	35,828	195,216	389,503	53,345		
Profit for the year	–	9,650	15,619	43,679	28,567	17,085		
Other comprehensive income	–	(6,359)	947	2,139	–	–		
Total comprehensive income	–	3,291	16,566	45,818	28,567	17,085		
Attributable to NCI	–	–	–	–	259	–		
Attributable to investee's shareholders	–	3,291	16,566	45,818	28,308	17,085		
Non-current assets	–	89,443	59,128	29,007	222,630	57,937		
Current assets	–	69,127	2,895	216,105	106,412	33,784		
Non-current liabilities	–	–	–	–	(28,341)	(3,416)		
Current liabilities	–	(21,282)	(11,127)	(107,202)	(65,626)	(15,657)		
Net assets	–	137,288	50,896	137,910	235,075	72,648		
Attributable to NCI	–	–	–	–	1,480	–		
Attributable to investee's shareholders	–	137,288	50,896	137,910	233,595	72,648		
Group's interest in net assets of investee at beginning of the year	121,330	66,630	11,760	71,995	104,202	18,336	28,419	422,672
Group's share of:								
– Profit for the year	–	4,728	3,826	21,401	13,163	5,638	7,284	56,040
– Total other comprehensive income	–	(3,115)	233	1,050	–	–	(2,615)	(4,447)
Total comprehensive income	–	1,613	4,059	22,451	13,163	5,638	4,669	51,593
Group's contribution during the year	–	–	–	–	–	–	34,776	34,776
Dividends received during the year	–	(972)	(3,349)	(26,870)	(8,743)	–	(2,852)	(42,786)
Disposal of an associate during the year	(121,330)	–	–	–	–	–	–	(121,330)
Carrying amount of interest in investee at end of the year	–	67,271	12,470	67,576	108,622	23,974	65,012	344,925

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14. ASSOCIATES AND JOINT VENTURES (continued)

Associates (continued)

Name of associate	Elbe Flugzeugwerke GmBH $'000	Shanghai Technologies Aerospace Company Limited $'000	Turbine Coating Services Pte Ltd $'000	Turbine Overhaul Services Pte Ltd $'000	CityCab Pte Ltd $'000	Experia Events Pte. Ltd. $'000	Immaterial associates $'000	Total $'000
2015								
Percentage of interest	35%	49%	24.5%	49%	46.5%	33%		
Revenue	310,366	76,041	42,892	267,147	348,460	6,982		
Profit for the year	7,690	569	20,096	55,499	28,609	(8,090)		
Other comprehensive income	(35,434)	3,629	3,204	9,145	–	–		
Total comprehensive income	(27,744)	4,198	23,300	64,644	28,609	(8,090)		
Attributable to NCI	–	–	–	–	244	–		
Attributable to investee's shareholders	(27,744)	4,198	23,300	64,644	28,365	(8,090)		
Non-current assets	366,642	94,450	32,406	30,186	106,932	60,859		
Current assets	201,262	60,588	23,768	205,071	208,368	37,448		
Non-current liabilities	(2,325)	–	–	–	(62,096)	(3,214)		
Current liabilities	(218,921)	(19,053)	(8,174)	(88,328)	(27,748)	(39,531)		
Net assets	346,658	135,985	48,000	146,929	225,456	55,562		
Attributable to NCI	–	–	–	–	1,366	–		
Attributable to investee's shareholders	346,658	135,985	48,000	146,929	224,090	55,562		
Group's interest in net assets of investee at beginning of the year	134,747	65,901	11,441	61,876	98,452	24,305	40,663	437,385
Group's share of:								
– Profit/(loss) for the year	1,091	280	4,923	27,192	13,190	(2,668)	3,760	47,768
– Total other comprehensive income	(12,409)	1,777	785	4,483	–	–	96	(5,268)
Total comprehensive income	(11,318)	2,057	5,708	31,675	13,190	(2,668)	3,856	42,500
Dividends received during the year	(2,099)	(1,328)	(5,389)	(21,556)	(7,440)	(3,301)	(4,244)	(45,357)
Disposal of an associate during the year	–	–	–	–	–	–	(11,856)	(11,856)
Carrying amount of interest in investee at end of the year	121,330	66,630	11,760	71,995	104,202	18,336	28,419	422,672

On 30 September 2015, the Group's equity interest in one of its associates, SPRO, increased from 50% to 100% and SPRO became a subsidiary from that date (see Note 4). Accordingly, the information presented in the above table includes the results of SPRO only for the period from 1 January 2015 to 30 September 2015.

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14. ASSOCIATES AND JOINT VENTURES (continued)

Joint venture

The following table summarises the information of each of the Group's material joint ventures, adjusted for any differences in accounting policies and reconciles the carrying amount of the Group's interest in joint ventures and the share of profit and other comprehensive income of equity-accounted investment (net of tax). The summarised financial information is not adjusted for the percentage ownership held by the Group.

Name of joint venture	Keystone Holdings (Global) Pte. Ltd. $'000	Total Engine Asset Management Pte Ltd. $'000	Fortis Marine Solutions Pte. Ltd. $'000	Immaterial joint ventures $'000	Total $'000
2016					
Percentage of interest	50%	50%	51%		
Revenue	6,760	58,509	108		
Profit/(loss) for the year	1,684	8,692	(518)		
Other comprehensive income [a]	1,604	1,286	–		
Total comprehensive income	3,288	9,978	(518)		
[a] Includes:					
– Depreciation and amortisation of:	1,822	7,072	–		
– Interest expense of:	702	3,394	–		
– Income tax expense of:	101	1,608	39		
Non-current assets	111,493	168,003	–		
Current assets [b]	5,973	25,965	11,815		
Non-current liabilities [c]	(54,181)	(139,527)	–		
Current liabilities [d]	(32,166)	(2,390)	(159)		
Net assets	31,119	52,051	11,656		
[b] Includes cash and cash equivalents of:	4,912	2,543	10,978		
[c] Includes non-current financial liabilities (excluding trade and other payables and provisions)	54,181	139,527	–		
[d] Includes current financial liabilities (excluding trade and other payables and provisions)	32,166	2,380	–		
Group's interest in net assets of investee at beginning of the year	–	21,036	6,209	11,643	38,888
Share of total comprehensive income	1,644	4,989	(264)	2,996	9,365
Group's contribution during the year	13,916	–	–	386	14,302
Dividends received during the year	–	–	–	(1,950)	(1,950)
Carrying amount of interest in investee at end of the year	15,560	26,025	5,945	13,075	60,605

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14. ASSOCIATES AND JOINT VENTURES (continued)

Joint venture (continued)

Name of joint venture	Total Engine Asset Management Pte Ltd. $'000	STELOP Pte. Ltd. $'000	Fortis Marine Solutions Pte. Ltd. $'000	Immaterial joint ventures $'000	Total $'000
2015					
Percentage of interest	50%	50.05%	51%		
Revenue	15,642	23,758	24,809		
Profit/(loss) for the year	4,360	(973)	8,467		
Other comprehensive income [a]	2,608	–	–		
Total comprehensive income	6,968	(973)	8,467		
[a] Includes:					
– Depreciation and amortisation of:	6,763	443	227		
– Interest expense of:	3,200	–	–		
– Income tax expense of:	529	–	1,358		
Non-current assets	193,264	–	–		
Current assets [b]	7,213	–	20,692		
Non-current liabilities [c]	(156,223)	–	–		
Current liabilities [d]	(2,182)	–	(8,517)		
Net assets	42,072	–	12,175		
[b] Includes cash and cash equivalents of:	7,142	–	9,619		
[c] Includes non-current financial liabilities (excluding trade and other payables and provisions)	156,223	–	–		
[d] Includes current financial liabilities (excluding trade and other payables and provisions)	1,147	–	–		
Group's interest in net assets of investee at beginning of the year	17,552	9,335	5,971	8,109	40,967
Share of total comprehensive income	3,484	(487)	4,318	4,884	12,199
Carrying amount of interest in a joint venture reclassified to a subsidiary	–	(8,242)	–	–	(8,242)
Dividends received during the year	–	(606)	(4,080)	(1,350)	(6,036)
Carrying amount of interest in investee at end of the year	21,036	–	6,209	11,643	38,888

On 1 September 2015, STELOP was reclassified from a joint venture to a subsidiary following amendments to shareholders' agreement. Accordingly, the information presented in the above table includes the results of STELOP only for the period from 1 January 2015 to September 2015.

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15. INVESTMENTS

	Note	Group 2016 $'000	Group 2015 $'000
Quoted investments			
Equity shares, at fair value (Available-for-sale)	40	**639**	189
Equity shares, at fair value (Fair value through profit or loss)	40	**364**	369
		1,003	558
Unquoted investments			
Equity shares (Available-for-sale)			
Non-related corporations, net of impairment losses		**10,114**	9,902
Bonds, at fair value (Available-for-sale)	40	**499,812**	501,181
Interest rate: 1.29% to 5.75% (2015: 1.5% to 4.95%) per annum			
Maturity: 1.2.2017 to 31.12.2049 (2015: 18.3.2016 to 19.1.2026)			
Venture capital funds and limited partnership, at fair value	40	**12**	12
Total unquoted investments		**509,938**	511,095
Total investments, net of impairment losses		**510,941**	511,653
Represented by:			
Short-term investments		**188,890**	182,969
Long-term investments		**322,051**	328,684
		510,941	511,653

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16. INTANGIBLE ASSETS

The Group	Goodwill $'000	Dealer network $'000	Development expenditure $'000	Commercial and intellectual property rights $'000	Film cost inventory $'000	Brands $'000	Licenses $'000	Technology agreement $'000	Authorised repair centre agreement $'000	Others $'000	Total $'000
Cost											
At 1.1.2015	497,205	22,331	47,041	71,946	11,803	79,235	55,246	33,337	–	11,032	829,176
Additions	–	–	37,512	–	–	–	876	–	–	–	38,388
Acquisition of subsidiaries	1,732	1,656	–	324	–	–	–	–	5,914	290	9,916
Write-off	–	–	–	–	–	–	(143)	–	–	–	(143)
Translation difference	32,228	287	2,515	2,982	–	5,319	(189)	2,365	–	10	45,517
At 31.12.2015 and 1.1.2016	531,165	24,274	87,068	75,252	11,803	84,554	55,790	35,702	5,914	11,332	922,854
Additions	–	–	75,187	–	–	–	1,572	–	–	64	76,823
Acquisition of a subsidiary/ finalisation of purchase price allocation	23,534	150,454	78,414	–	–	–	–	–	(57)	7,595	259,940
Disposal of a subsidiary	–	–	–	(517)	–	–	–	–	–	–	(517)
Write-off	–	–	–	–	(11,803)	–	–	–	–	(54)	(11,857)
Translation difference	9,159	(1,928)	42	1,734	–	1,711	125	762	–	(9)	11,596
At 31.12.2016	563,858	172,800	240,711	76,469	–	86,265	57,487	36,464	5,857	18,928	1,258,839
Accumulated amortisation and impairment losses											
At 1.1.2015	43,622	11,696	11,122	55,055	11,803	10,568	3,339	4,642	–	6,307	158,154
Amortisation for the year *	–	1,354	4,435	4,221	–	1,315	807	2,642	–	2,124	16,898
Impairment losses +	4,000	–	–	–	–	–	942	–	–	–	4,942
Translation difference	955	564	487	2,972	–	619	(106)	399	–	–	5,890
At 31.12.2015 and 1.1.2016	48,577	13,614	16,044	62,248	11,803	12,502	4,982	7,683	–	8,431	185,884
Amortisation for the year *	–	7,373	24,302	2,600	–	1,316	2,434	2,650	1,339	9,629	51,643
Impairment losses +	6,732	657	–	1,933	–	–	–	–	–	–	9,322
Disposal of a subsidiary	–	–	–	(517)	–	–	–	–	–	–	(517)
Write-off	–	–	–	–	(11,803)	–	–	–	–	–	(11,803)
Translation difference	1,406	240	1,018	1,435	–	263	81	282	–	–	4,725
At 31.12.2016	56,715	21,884	41,364	67,699	–	14,081	7,497	10,615	1,339	18,060	239,254
Net book value											
At 31.12.2016	507,143	150,916	199,347	8,770	–	72,184	49,990	25,849	4,518	868	1,019,585
At 31.12.2015	482,588	10,660	71,024	13,004	–	72,052	50,808	28,019	5,914	2,901	736,970
At 1.1.2015	453,583	10,635	35,919	16,891	–	68,667	51,907	28,695	–	4,725	671,022

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16. INTANGIBLE ASSETS (continued)

* *Amortisation charge of $51,643,000 (2015: $16,898,000 is recognised in the income statement as part of:*

- *Other operating expenses of $21,716,000 (2015: $5,947,000); and*
- *Cost of sales of $29,927,000 (2015: $10,951,000)*

\+ *During the year, an impairment loss on goodwill of $6,732,000 (2015 : $4,000,000) was recognised in other operating expenses in the income statement as the recoverable amount of two (2015: one) CGUs were determined to be lower than the carrying amount.*

During the year, the Group assessed that certain licenses and commercial and intellectual property rights (2015: technology licences) are impaired as these intangible assets are not expected to be generating future economic benefits for the Group. Hence, impairment losses of $2,590,000 (2015: $942,000) were recognised during the year.

Impairment testing of goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's business divisions. The aggregate carrying amounts of goodwill allocated to each CGU within the business divisions and the key assumptions used in determining the recoverable amount of each CGU are as follows:

			Pre-tax discount rate		**Terminal value growth rate**	
The Group	**2016 $'000**	2015 $'000	**2016 %**	2015 %	**2016 %**	2015 %
Aerospace						
Aircraft Maintenance & Modification	**14,392**	14,940	**9.5 – 12.8**	9.2 – 12.1	**2.0 – 3.5**	0 – 4.6
Component/Engine Repair & Overhaul	**14,153**	14,665	**10.4**	10.8	**3.0**	3.0
Engineering & Material Services	**25,569**	2,262	**6.5 – 9.8**	6.5	**1.3 – 2.0**	1.3
Electronics						
Communication & Sensor Systems Group	**261,234**	255,685	**10.4 – 12.7**	12.7 – 14.6	**4.0 – 5.0**	4.0 – 5.0
Software Systems Group	**28,764**	28,420	**8.5 – 19.6**	10.9 – 18.0	**2.0 – 3.0**	2.0 – 3.0
Land Systems						
Automotive	**125,744**	130,108	**7.8 – 18.6**	10.1 – 22.2	**4.2 – 5.0**	5.0 – 6.0
Others	**37,287**	36,508	**11.7**	12.8	**3.0**	3.0
	507,143	482,588				

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16. INTANGIBLE ASSETS (continued)

Impairment testing of goodwill (continued)

The recoverable amounts of the CGUs are determined based on value-in-use calculations, using cash flow projections derived from the financial budgets approved by management for the next five years. The key assumptions used in the calculation of recoverable amounts are as follows:

The discount rate used is estimated based on past experience and the industry weighted average cost of capital.

The long-term terminal value growth rate has been determined based on either the nominal GDP rates for the country in which the CGU is based or the long-term compound annual growth rate estimated by management by reference to forecasts included in industry reports and expected market development.

Sensitivity to changes in assumptions:

(a) Following the impairment in two (2015: one) of the CGUs within the business divisions, the recoverable amount in these CGUs are approximately equal to the carrying amounts. Therefore, any adverse movement in a key assumption would lead to a further impairment in these CGUs.

(b) Management has identified the following change in the financial budgets approved by management as set out below could cause the carrying amount to exceed the recoverable amount.

		Change required for carrying amount to equal the recoverable amount	
Business Divisions	**Assumption**	**2016**	2015
		%	%
Others	Sales growth rate (average of next 5 years)	**0.6**	0.9

(c) No sensitivity analysis was disclosed for the remaining CGUs as the Group believes that any reasonable possible change in the key assumptions is not likely to materially cause the recoverable amount to be lower than its carrying amount.

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17. FINANCE LEASE RECEIVABLES

The Group entered into finance lease arrangements with customers with terms ranging from 1 to 2 years (2015: 1 to 2.5 years) and effective interest rates of 5.6% (2015: 1.15% to 14.93%) per annum.

The Group	Gross investment in finance lease $'000	Unearned interest $'000	Present value of minimum lease receivables $'000	Allowance for doubtful lease receivables $'000	Net investment in finance lease $'000
2016					
Within 1 year	885	–	885	(885)	–
Between 1 and 5 years	–	–	–	–	–
	885	–	885	(885)	–
2015					
Within 1 year	17,409	(43)	17,366	(14,193)	3,173
Between 1 and 5 years	530	(7)	523	–	523
	17,939	(50)	17,889	(14,193)	3,696

	Group	
	2016 $'000	2015 $'000
Net investment in finance lease		
Not past due and not impaired	**–**	2,336
Past due and not impaired	**–**	1,360
	–	3,696
Individually assessed		
Doubtful lease receivables	**885**	14,193
Allowance for doubtful lease receivables	**(885)**	(14,193)
	–	–

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18. DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2016	2015	**2016**	2015
The Group	**$'000**	$'000	**$'000**	$'000
Property, plant and equipment	**(255)**	(119)	**113,806**	113,609
Intangible assets	**–**	–	**195,360**	82,455
Allowance for doubtful debts	**(1,655)**	(3,196)	**–**	–
Allowance for inventory obsolescence	**(25,581)**	(28,861)	**–**	–
Provisions and accruals	**(131,691)**	(130,291)	**–**	–
Unabsorbed capital allowances and unutilised tax losses	**(25,072)**	(23,143)	**–**	130
Fair value of derivative financial instruments designated as cash flow hedges	**(12,860)**	(5,010)	**72**	162
Fair value of defined benefit plan	**(10,087)**	–	**–**	–
Other items	**(10,228)**	(9,466)	**32,255**	32,994
Deferred tax (assets)/liabilities	**(217,429)**	(200,086)	**341,493**	229,350
Set off of tax	**124,901**	94,535	**(124,901)**	(94,535)
Net deferred tax (assets)/ liabilities	**(92,528)**	(105,551)	**216,592**	134,815

	Assets		Liabilities	
	2016	2015	**2016**	2015
The Company	**$'000**	$'000	**$'000**	$'000
Property, plant and equipment	**–**	–	**44**	307
Provisions and accruals	**(4,105)**	(4,973)	**–**	–
Unabsorbed capital allowances and unutilised tax losses	**(795)**	(1,181)	**–**	–
Other items	**–**	–	**43**	1,147
Deferred tax (assets)/liabilities	**(4,900)**	(6,154)	**87**	1,454
Set off of tax	**87**	1,454	**(87)**	(1,454)
Net deferred tax assets	**(4,813)**	(4,700)	**–**	–

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18. DEFERRED TAX ASSETS AND LIABILITIES (continued)

(a) Recognised deferred tax assets and liabilities (continued)

Movement in deferred tax balances during the year:

The Group	As at 1.1.2015 $'000	Recognised in profit or loss $'000	Recognised in other comprehensive income $'000	Deconsolidation of a subsidiary / finalisation of purchase price allocation $'000	Utilisation of tax losses $'000
Property, plant and equipment	98,591	10,083	–	1,286	–
Intangible assets	71,987	4,859	–	1,336	–
Allowance for doubtful debts	(712)	(2,407)	–	–	–
Allowance for inventory obsolescence	(25,724)	(1,597)	–	(13)	–
Provisions and accruals	(131,623)	2,771	–	(458)	–
Unabsorbed capital allowances and unutilised tax losses	(21,002)	(8,985)	–	89	7,377
Fair value of derivative financial instruments designated as cash flow hedges	(4,616)	(123)	(93)	–	–
Fair value of defined benefit plan	–	–	–	–	–
Other items	15,265	7,265	–	–	3,534
	2,166	11,866	(93)	2,240	10,911

The Company	As at 1.1.2015 $'000	Recognised in profit or loss $'000	As at 31.12.2015 $'000	Recognised in profit or loss $'000	As at 31.12.2016 $'000
Property, plant and equipment	149	158	307	(263)	44
Provisions and accruals	(7,392)	2,419	(4,973)	868	(4,105)
Unabsorbed capital allowances and unutilised tax losses	–	(1,181)	(1,181)	386	(795)
Other items	243	904	1,147	(1,104)	43
	(7,000)	2,300	(4,700)	(113)	(4,813)

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Exchange difference $'000	As at 31.12.2015 $'000	Recognised in profit or loss $'000	Recognised in other comprehen-sive income $'000	Acquired in business combinations / finalisation of purchase price allocation $'000	Divest-ment of subsid-iaries $'000	Utilisation of tax losses $'000	Exchange difference $'000	As at 31.12.2016 $'000
3,530	113,490	(1,734)	–	971	(2)	–	826	113,551
4,273	82,455	(6,371)	–	117,766	–	–	1,510	195,360
(77)	(3,196)	(100)	–	–	1,615	–	26	(1,655)
(1,527)	(28,861)	731	–	(22)	2,690	–	(119)	(25,581)
(981)	(130,291)	(548)	–	(1,078)	774	–	(548)	(131,691)
(492)	(23,013)	(16,444)	–	–	–	14,654	(269)	(25,072)
(16)	(4,848)	(149)	3,019	(10,949)	–	–	139	(12,788)
–	–	–	(2,570)	(7,638)	–	–	121	(10,087)
(2,536)	23,528	(3,163)	(6)	74	640	711	243	22,027
2,174	29,264	(27,778)	443	99,124	5,717	15,365	1,929	124,064

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18. DEFERRED TAX ASSETS AND LIABILITIES (continued)

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2016	2015
	$'000	$'000
Tax losses	**468,987**	407,709
Deductible temporary differences	**19,336**	26,876
Unabsorbed wear and tear allowance and investment allowance	**4,560**	3,867
	492,883	438,452

The tax benefits have not been recognised in the financial statements due to the uncertainty over the sufficiency of future taxable profits to be generated in the foreseeable future.

The use of these potential tax benefits is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the subsidiaries operate.

(c) Unrecognised temporary differences relating to investments in subsidiaries

As at 31 December 2016, a deferred tax liability of $ 145,718,000 (2015: $130,914,000) for temporary difference of $510,973,000 (2015: $464,468,000) related to undistributed earnings of certain subsidiaries was not recognised as the Group has determined that the undistributed profits of its overseas subsidiaries will not be remitted to Singapore in the foreseeable future, but be retained for organic growth and acquisitions.

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19. INVENTORIES AND WORK-IN-PROGRESS

	Group	
	2016	2015
	$'000	$'000
Inventories of equipment and spares	**686,674**	767,200
Work-in-progress in excess of progress billings		
Work-in-progress, including profits recognised	**4,732,408**	5,037,344
Progress billings	**(3,520,804)**	(3,861,540)
	1,211,604	1,175,804
Total inventories and work-in-progress at lower of cost and net realisable value	**1,898,278**	1,943,004
Progress billings in excess of work-in-progress		
Work-in-progress, including profits recognised	**4,740,173**	4,676,497
Progress billings	**(5,360,504)**	(5,245,072)
	(620,331)	(568,575)

In 2016, raw materials, consumables and changes in finished goods and work-in-progress recognised as cost of sales amounted to $5,027,908,000 (2015: $4,697,107,000).

Allowances for inventory obsolescence and foreseeable losses

As at 31 December 2016, the inventories are stated after allowance for inventory obsolescence of $356,651,000 (2015: $349,120,000) and work-in-progress in excess of progress billings and progress billings in excess of work-in-progress are stated after provision for foreseeable losses of $9,377,000 (2015: $ 18,509,000) and $8,143,000 (2015: $5,061,000) respectively.

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20. TRADE RECEIVABLES

	Group	
	2016	2015
	$'000	$'000
Not past due and not impaired	**656,163**	573,376
Past due and not impaired	**302,566**	333,412
	958,729	906,788
Collectively assessed		
Gross receivables	**4,781**	5,560
Allowance for doubtful debts	**(4,781)**	(5,560)
	–	–
Individually assessed		
Gross receivables	**43,582**	47,559
Allowance for doubtful debts	**(43,582)**	(47,559)
	–	–
Unbilled receivables	**500,478**	414,196
Allowance for unbilled receivables	**(1,225)**	(1,270)
	499,253	412,926
Trade receivables, net	**1,457,982**	1,319,714

At 31 December 2016, trade receivables of the Group included retentions of $40,843,000 (2015: $31,825,000) related to projects in progress.

Trade receivables denominated in currencies other than the functional currencies of the Company and its subsidiaries as at 31 December are as follows:

- $236,755,000 (2015: $232,273,000) denominated in USD
- $36,458,000 (2015: $25,882,000) denominated in Euro

Trade receivables amounting to $7,461,000 (2015: $13,136,000) are arranged to be repaid through letters of credit issued by reputable banks.

A subsidiary within the Group has not recognised $16,500,000 (2015: $17,513,000) of trade receivable due from one of its customers in view of uncertainty over the collectability of the debts. The amount would be recognised in the financial statements upon receipt.

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21. AMOUNTS DUE FROM RELATED PARTIES

	Group		Company	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Trade:				
Subsidiaries	**–**	–	**7,756**	5,982
Associates	**7,650**	11,871	**–**	–
Joint ventures	**4,687**	3,326	**–**	–
Related corporations	**10,795**	24,803	**27**	44
	23,132	40,000	**7,783**	6,026
Non-trade:				
Subsidiaries *1	**–**	–	**699,108**	832,940
Associates *2	**–**	18,771	**–**	–
Joint ventures *3	**6,292**	4,955	**–**	–
	6,292	23,726	**699,108**	832,940
Allowance for doubtful debts	**–**	(2,338)	**–**	(13,562)
	29,424	61,388	**706,891**	825,404
Receivable:				
Within 1 year	**24,618**	56,582	**199,634**	470,376
After 1 year	**4,806**	4,806	**507,257**	355,028
	29,424	61,388	**706,891**	825,404

There were no significant amounts due from related parties denominated in currencies other than the functional currencies of the Group as at 31 December 2016 and 31 December 2015.

Amounts due from related parties denominated in currencies other than the functional currency of the Company as at 31 December 2016 is $162,599,000 (2015: $172,882,000) denominated in USD.

*1 *Included in the amounts due from subsidiaries (non-trade) are:*

(a) *loans of $693,886,000 (2015: $814,280,000) bearing interest at rates ranging 0.72% to 2.46% (2015: 1.20% to 2.45%) per annum. The loans are unsecured and repayable from 24 January 2017 to 31 October 2019; and*

(b) *unsecured interest-free loans of $20,307,000 (2015: $13,562,000), which were fully impaired. The loans were forgiven during the year.*

*2 *Included in the amounts due from associates (non-trade) are a loan of $2,321,000 in 2015 whereby interest was charged at EURIBOR + 1% per annum and was repriced every three months with an effective interest rate of 0.87%. The loan was fully provided since 2014 and written off during the year upon the completion of the liquidation of an associate.*

*3 *Included in the amounts due from joint ventures (non-trade) are a loan of $4,806,000 (2015: $4,806,000) bearing interest at 6.38% (2015: 6.38%) per annum, which is the effective interest rate. The loan is unsecured and repayable by 2029.*

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22. ADVANCES AND OTHER RECEIVABLES

		Group		Company	
	Note	**2016**	2015	**2016**	2015
		$'000	$'000	**$'000**	$'000
Deposits		**20,495**	27,275	**12**	66
Interest receivables		**7,047**	7,853	**368**	946
Other recoverables		**32,213**	36,361	**1,024**	3,725
Non-trade receivables		**38,124**	31,327	**18**	29
Advance payments to suppliers		**178,303**	166,519	**–**	–
Prepayments		**57,268**	57,956	**662**	428
Derivative financial instruments	40	**4,048**	6,520	**–**	105
Housing and car loans and advances to staff		**3,074**	507	**–**	–
Loans to third parties		**179**	176	**–**	–
		340,751	334,494	**2,084**	5,299
Receivable:					
Within 1 year		**338,217**	334,165	**2,084**	5,299
After 1 year		**2,534**	329	**–**	–
		340,751	334,494	**2,084**	5,299

23. BANK BALANCES AND OTHER LIQUID FUNDS

	Group		Company	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Fixed deposits with financial institutions	**530,811**	610,002	**469,047**	70,303
Cash and bank balances	**374,079**	341,492	**119,815**	11,788
	904,890	951,494	**588,862**	82,091
Deposits pledged	**(1,258)**	(7,375)	**–**	–
Cash and cash equivalents	**903,632**	944,119	**588,862**	82,091

Cash and cash equivalents comprise cash balances and fixed deposits. Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value.

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23. BANK BALANCES AND OTHER LIQUID FUNDS (continued)

Fixed deposits with financial institutions mature at varying periods within 12 months (2015: 12 months) from the financial year-end. Interest rates range from 0% to 6.5% (2015: 0% to 5%) per annum, which are also the effective interest rates.

At the reporting date, cash and cash equivalents for the Group include $492,676,000 (2015: nil) cash from subsidiaries pooled together and managed centrally by the Company in bank balances and fixed deposits as part of the Group cash management and treasury activities.

Cash and bank balances of $1,258,000 (2015: $7,375,000) have been placed with banks as security for letters of credit issued to third parties. Cash and cash equivalents denominated in currencies other than the functional currencies of the Company and its subsidiaries as at 31 December are as follows:

- $432,363,000 (2015: $219,115,000) denominated in USD
- $29,707,000 (2015: $44,316,000) denominated in Euro

24. TRADE PAYABLES AND ACCRUALS

		Group		Company	
	Note	**2016**	2015	**2016**	2015
		$'000	$'000	**$'000**	$'000
Trade payables		**822,022**	822,520	**–**	–
Non-trade payables *[1]		**91,181**	165,394	**11,339**	9,099
Purchase of property, plant and equipment		**1,433**	1,774	**–**	–
Accrued operating expenses *[2]		**877,861**	901,762	**21,806**	23,058
Accrued interest payable		**17,651**	16,717	**–**	–
Derivative financial instruments	40	**50,103**	24,017	**–**	–
		1,860,251	1,932,184	**33,145**	32,157
Payable:					
Within 1 year		**1,722,488**	1,702,649	**24,148**	20,619
After 1 year		**137,763**	229,535	**8,997**	11,538
		1,860,251	1,932,184	**33,145**	32,157

Trade payables denominated in currencies other than the functional currencies of the Company and its subsidiaries as at 31 December are as follows:

- $89,674,000 (2015: $165,763,000) denominated in USD
- $32,054,000 (2015: $36,321,000) denominated in Euro

*[1] *The non-trade payables include an amount of nil (2015: $74,727,000) for its obligation to perform engineering development work as part of the consideration for the acquisition of an associate (Note 4).*

*[2] *Included in the accrued operating expenses is an amount of $375,170,000 (2015: $400,183,000) for its obligations under its employee compensation schemes.*

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25. AMOUNTS DUE TO RELATED PARTIES

	Group		Company	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Trade:				
Subsidiaries	**–**	–	**1,985**	1,736
Associates	**3,784**	2,433	**–**	–
Joint ventures	**22,509**	3,841	**–**	–
Related corporations	**2,166**	9,420	**8**	6
	28,459	15,694	**1,993**	1,742
Non-trade:				
Subsidiaries *[1]	**–**	–	**1,179,251**	644,274
Joint ventures *[2]	**–**	5,004	**–**	–
Related corporations	**7**	1	**–**	–
	7	5,005	**1,179,251**	644,274
	28,466	20,699	**1,181,244**	646,016
Payable:				
Within 1 year	**28,449**	20,553	**504,827**	1,742
After 1 year	**17**	146	**676,417**	644,274
	28,466	20,699	**1,181,244**	646,016

There were no significant amounts due to related parties denominated in currencies other than the functional currencies of the Group as at 31 December 2016 and 31 December 2015.

Amounts due to related parties denominated in currencies other than the functional currency of the Company as at 31 December 2016 are $477,553,000 (2015: $296,407,000) denominated in USD.

*[1] *Included in the amounts due to subsidiaries (non-trade) are:*

- *loans of $642,313,000 (2015: $628,472,000) bearing interest at 4.75% (2015: 4.75%) per annum. The loans are unsecured and repayable on 16 July 2019; and*
- *an amount of $492,676,000 (2015: nil) placed by subsidiaries to the Company under a cash pooling arrangement.*

*[2] *Included in the amounts due to joint ventures (non-trade) is an unsecured loan of $5,000,000 in 2015, bearing interest at 1.46% per annum, which is the effective interest rate. The loan was fully repaid during the year.*

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26. PROVISIONS

Movements in provisions are as follows:

The Group	Warranties $'000	Liquidated damages $'000	Foresee-able losses $'000	Closure costs $'000	Total $'000
2016					
At beginning of the year	206,084	24,926	26,514	–	257,524
Charge to profit or loss	27,263	20,377	3,929	11,606	63,175
Provision utilised	(33,645)	(2,343)	(9,072)	–	(45,060)
Acquisition of a subsidiary	1,252	–	–	–	1,252
Disposal of a subsidiary	(1,399)	–	(1,782)	–	(3,181)
Translation difference	826	70	56	–	952
At end of the year	200,381	43,030	19,645	11,606	274,662
2015					
At beginning of the year	200,355	20,710	24,007	–	245,072
Charge to profit or loss	31,970	6,608	16,372	–	54,950
Provision utilised	(29,532)	(2,702)	(13,774)	–	(46,008)
Acquisition of subsidiaries	843	326	–	–	1,169
Translation difference	2,448	(16)	(91)	–	2,341
At end of the year	206,084	24,926	26,514	–	257,524

27. BORROWINGS

The Group	Note	Non-current $'000	Current $'000	Total $'000
2016				
Unsecured fixed rate bonds	(a)	721,098	–	721,098
Bank loans	(b)	253,471	85,053	338,524
Lease obligations	(c)	18,124	661	18,785
Other loans	(d)	155	1,713	1,868
		992,848	87,427	1,080,275
2015				
Unsecured fixed rate bonds	(a)	705,567	–	705,567
Bank loans	(b)	293,962	172,178	466,140
Lease obligations	(c)	18,706	730	19,436
Other loans	(d)	310	1,778	2,088
		1,018,545	174,686	1,193,231

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27. BORROWINGS (continued)

(a) Unsecured fixed rate bonds

	Group 2016 $'000	Group 2015 $'000
Principal	**722,400**	707,300
Unamortised discount	**(1,302)**	(1,733)
	721,098	705,567
Unamortised discount:		
At beginning of the year	**1,733**	2,026
Amortisation for the year	**(446)**	(424)
Translation difference	**15**	131
	1,302	1,733

On 16 July 2009, the Group issued US$500 million 4.80% Notes due 2019 under its US$1.2 billion Multicurrency Medium Term Note Programme. The bonds bear interest at a fixed rate of 4.80% per annum and interest is payable every six months from the date of issue. The bonds are unconditionally and irrevocably guaranteed by the Company.

At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the guarantee.

(b) Secured and unsecured bank loans

Currency	Effective interest rate 2016 %	Effective interest rate 2015 %	Maturity 2016	Maturity 2015	Group 2016 $'000	Group 2015 $'000
SGD	**1.00**	–	**2017**	–	**25,000**	–
USD	**1.14 – 2.31**	0.73 – 3.72	**2017 – 2020**	2016 – 2020	**242,726**	402,029
RMB	**4.35 – 5.66**	4.35 – 5.60	**2017 – 2018**	2016 – 2017	**43,006**	63,153
INR	**–**	10	**–**	2016	**–**	958
BRL	**23.30**	–	**2017**	–	**1,031**	–
EUR	**0.63 – 1.59**	–	**2017 – 2026**	–	**26,761**	–
					338,524	466,140
Unsecured					**252,065**	362,498
Secured					**86,459**	103,642
					338,524	466,140

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27. BORROWINGS (continued)

(b) Secured and unsecured bank loans (continued)

There are bank loans which are secured by assets as follows:

Secured by	Loan amount ($)
Land and buildings of a subsidiary	nil (2015: $17,440,000)
Certain property, plant and equipment of subsidiaries	$57,678,000 (2015: $79,379,000)
Subsidiary's land use right	$6,510,000 (2015: $6,823,000)

Bank loans denominated in currencies other than the functional currency of the Company and its subsidiaries as at 31 December are as follows:

- $43,344,000 (2015: $31,121,000) denominated in USD

(c) Lease obligations

A subsidiary leases certain land, buildings and equipment from a foreign Airport Authority under a finance lease arrangement until 31 October 2041, with an option to terminate the lease at any time with a 36-month written notice. The leased assets are pledged as collateral against the lease.

The obligations under the finance leases to be paid by the subsidiaries are as follows:

The Group	Within 1 year $'000	Between 1 and 5 years $'000	After 5 years $'000	Total $'000
2016				
Minimum lease payment	1,353	5,040	30,082	36,475
Interest	(692)	(2,845)	(14,153)	(17,690)
Present value of payment	661	2,195	15,929	18,785
2015				
Minimum lease payment	1,424	5,241	31,496	38,161
Interest	(694)	(2,878)	(15,153)	(18,725)
Present value of payment	730	2,363	16,343	19,436

	Group	
	2016 **$'000**	2015 $'000
Repayable:		
Within 1 year	**661**	730
After 1 year	**18,124**	18,706
	18,785	19,436

Lease terms do not contain restrictions concerning dividends, additional debt or further leasing.

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27. BORROWINGS (continued)

(d) Other loans

Included in the other loans are:

(i) US dollar denominated term notes of $250,000 (US$173,000) (2015: $371,000 (US$261,000)) and $77,000 (US$53,000) (2015: $102,000 (US$72,000)) owing to the Pennsylvania Industrial Development Authority and the Industrial Properties Corporation, respectively, by a US entity of the Group. These notes are secured by land and buildings of the entity and bear effective interest, respectively, at 2.75% and 4% (2015: 2.75% and 4%) per annum, and are payable through 1 July 2019 and 28 June 2019, respectively; and

(ii) A RMB denominated loan of $1,541,000 (RMB7,410,000) (2015: $1,615,000 (RMB7,410,000)) from a non-controlling shareholder of a subsidiary. This loan is unsecured, bears effective interest at 9% (2015: 9%) per annum, and is repayable within the next twelve months.

28. DEFERRED INCOME

	Group	
	2016	2015
	$'000	$'000
Government compensation	**31,154**	31,820
Government grants	**41,997**	52,326
Deferred rents	**4,008**	7,906
	77,159	92,052

Government compensation and grants relate mainly to grants received:

(a) for the relocation of a subsidiary's manufacturing facility in the People's Republic of China; and

(b) to subsidise the cost of capital assets.

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29. EMPLOYEE BENEFITS

	Group 2016 $'000
Net defined benefit asset	**(151)**
Total employee benefit asset	**(151)**
Net defined benefit liabilities	**82,438**
Liability for staff benefits	**4,678**
Total employee benefit liabilities	**87,116**
Non-current	**85,200**
Current	**1,916**
	87,116
Net defined benefit liabilities	
Present value of unfunded obligations	**89,179**
Fair value of plan assets	**(6,892)**
	82,287

Certain subsidiaries of the Group provide pension plans for its employees. These pension plans are recognised in the Group's financial statements as defined benefit liability/(asset) that corresponds to whether the plan's funded asset is lesser/(exceeded) the pension liability. A net defined benefit asset of $151,000 was recognised for a particular pension plan as its funded asset exceeded its pension liability. The surplus of $151,000 cannot be offset against other pension liabilities as there is no legally enforceable right to use these surplus to settle obligations under the other plans.

Movement in net defined (asset)/liability

The following table shows a reconciliation from the opening balances to the closing balances for net defined benefit (asset)/liability and its components.

The Group	Defined benefit obligation 2016 $'000	Fair value of plan assets 2016 $'000	Net defined benefit liability/(asset) 2016 $'000
Balance at 1 January	–	–	–
Included in profit or loss			
Current service cost	3,843	–	3,843
Interest cost/(income)	1,812	(127)	1,685
Administrative expenses	–	(222)	(222)
Translation difference	98	(90)	8
	5,753	(439)	5,314

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29. EMPLOYEE BENEFITS (continued)

Movement in net defined (asset)/liability (continued)

The Group	Defined benefit obligation 2016 $'000	Fair value of plan assets 2016 $'000	Net defined benefit liability/(asset) 2016 $'000
Included in OCI			
Remeasurements loss/(gain):			
• Actuarial loss/(gain) arising from:			
– financial assumptions	6,543	(11)	6,532
– experience assumptions	1,878	137	2,015
• Return on plan assets excluding interest income	–	(14)	(14)
	8,421	112	8,533
Others			
Contributions paid by the employer	821	(369)	452
Benefits paid	(1,993)	203	(1,790)
Change in measurement	172	(172)	–
Acquisition of a subsidiary	70,672	(306)	70,366
Translation difference	(947)	(140)	(1,087)
Others	6,807	(6,308)	499
Balance at 31 December	89,706	(7,419)	82,287

	Group 2016 $'000
Represented by:	
Net defined benefit asset	**(151)**
Net defined benefit liability	**82,438**
	82,287

The expenses are recognised in the following line items in profit or loss:

	Group 2016 $'000
Cost of sales	**5,150**
Administrative expenses	**26**
Other operating expenses	**49**
Finance cost	**89**
Defined benefit obligation expenses	**5,314**

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29. EMPLOYEE BENEFITS (continued)

The fair values of planned assets in each category are as follows:

	Group 2016 $'000
Equity securities	**207**
Government bonds	**378**
Derivatives	**93**
Funds managed by a trustee	**2,046**
Funds with insurance companies	**4,695**
Fair value of planned assets	**7,419**

All equity securities and government bonds have quoted prices in active markets. All government bonds have an average rating of A+.

Defined benefit obligation

(a) Actuarial assumptions

The following relates to the actuarial assumptions (expressed as weighted-averages) of the significant post employment defined benefit plans in a subsidiary. The remaining defined benefit plans are not material to the Group and additional disclosures are not shown at the reporting date:

	Group 2016 %
Discount rate	**1.7**
Future salary growth	**2.8**
Future pension growth	**1.7**

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	Group 2016
Longevity at age 65 for current pensioners	
Males	**19.3**
Females	**23.4**
Longevity at age 65 for current members aged 45	
Males	**21.9**
Females	**25.9**

At 31 December 2016, the weighted-average duration of the defined benefit obligation was 14.2 years.

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29. EMPLOYEE BENEFITS (continued)

Defined benefit obligation (continued)

(b) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	2016	
The Group	**Increase $'000**	**Decrease $'000**
Discount rate (0.5% movement)	(5,155)	5,278
Future salary growth (0.25% movement)	212	(193)
Future pension growth (0.25% movement)	736	(696)
Future mortality (10% movement)	–	580

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

30. SHARE CAPITAL

	Group and Company	
	2016 $'000	2015 $'000
Issued and fully paid		
At beginning of the year		
3,122,495,197 (2015: 3,120,004,716) ordinary shares	**895,926**	889,426
Issued during the year		
nil (2015: 2,490,481) ordinary shares	**–**	6,500
At end of the year		
3,122,495,197 (2015: 3,122,495,197) ordinary shares	**895,926**	895,926

Included in share capital is a special share issued to the Minister for Finance. The special share enjoys all the rights attached to the ordinary shares. In addition, the special share carries the right to approve any resolution to be passed by the Company, either in general meeting or by its Board of Directors, on certain matters specified in the Company's Constitution. The special share may be converted at any time into an ordinary share.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

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31. TREASURY SHARES

	Group and Company	
	2016	2015
	$'000	$'000
At beginning of the year	**(66,870)**	(6,529)
Purchased during the year	**(3,137)**	(89,776)
Reissue of treasury shares pursuant to share plans	**25,926**	29,435
At end of the year	**(44,081)**	(66,870)

Treasury shares relate to ordinary shares of the Company that are held by the Company.

During the financial year, the Company purchased 1,088,900 (2015: 27,616,900) of its ordinary shares by way of on-market purchases. The shares, held as treasury shares, were included as deduction against shareholders' equity.

The cost of treasury shares re-issued pursuant to the share option plans amounted to $10,399,000 (2015: $10,800,000). In addition, 4,890,801 (2015: 3,962,072) and nil (2015: 1,529,222) treasury shares, at a cost of $15,527,000 (2015: $13,443,000) and nil (2015: $5,192,000), were reissued pursuant to its RSP and PSP respectively.

32. SHARE-BASED PAYMENT ARRANGEMENTS

Singapore Technologies Engineering Share Option Plan ("ESOP")

The Company ceased to grant options under the ESOP with effect from 2007. Information regarding ESOP is as follows:

(a) The exercise price of the options is equal to volume-weighted average price for the shares on the SGX over the three consecutive trading days immediately preceding the date of grant.

(b) The options are exercisable at the end of the first year after date of grant, in accordance with a vesting schedule to be determined by ERCC and are settled in cash.

(c) The options granted expire after five years for non-executive directors and 10 years for the employees of the Company and its subsidiaries.

During the year, 3,276,310 (2015: 5,360,387) options were exercised under ESOP. These options were exercised by reissuance of 3,276,310 (2015: 3,192,638) treasury shares and issuance of nil (2015: 2,167,749) ordinary shares.

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32. SHARE-BASED PAYMENT ARRANGEMENTS (continued)

Singapore Technologies Engineering Share Option Plan ("ESOP") (continued)

At the end of the financial year, outstanding options granted to eligible employees and directors of the Company are as follows:

(i) Options outstanding under the ESOP

	Number of shares 2016	2015
ESOP		
At beginning of the year	**17,636,741**	23,472,008
Exercised	**(3,276,310)**	(5,360,387)
Lapsed	**(4,308,952)**	(474,880)
At end of the year	**10,051,479**	17,636,741
Exercisable at end of the year	**10,051,479**	17,636,741

(ii) Details of share options

Details of share options to subscribe for ordinary shares pursuant to ESOP are as follows:

2016

Date of Grant	Balance as at 1.1.2016	Options lapsed	Options exercised	Balance as at 31.12.2016	No. of holders at 31.12.2016	Exercise Price ($)	Exercisable period
9.2.2006	3,434,439	3,411,231	23,208	–	–	3.010	10.2.2007 to 9.2.2016
10.8.2006	3,590,392	541,416	3,048,976	–	–	2.840	11.8.2007 to 10.8.2016
15.3.2007	5,228,849	157,780	196,077	4,874,992	448	3.230	16.3.2008 to 15.3.2017
10.8.2007	5,383,061	198,525	8,049	5,176,487	579	3.610	11.8.2008 to 10.8.2017
	17,636,741	4,308,952	3,276,310	10,051,479			

2015

Date of Grant	Balance as at 1.1.2015	Options lapsed	Options exercised	Balance as at 31.12.2015	No. of holders at 31.12.2015	Exercise Price ($)	Exercisable period
7.2.2005	1,735,450	63,757	1,671,693	–	–	2.370	8.2.2006 to 7.2.2015
10.8.2005	2,653,569	82,415	2,571,154	–	–	2.570	11.8.2006 to 10.8.2015
9.2.2006	3,896,164	25,837	435,888	3,434,439	296 *	3.010	10.2.2007 to 9.2.2016
10.8.2006	4,063,233	29,188	443,653	3,590,392	300 *	2.840	11.8.2007 to 10.8.2016
15.3.2007	5,494,779	66,402	199,528	5,228,849	486 *	3.230	16.3.2008 to 15.3.2017
10.8.2007	5,628,813	207,281	38,471	5,383,061	606	3.610	11.8.2008 to 10.8.2017
	23,472,008	474,880	5,360,387	17,636,741			

* *Includes one Executive Director of the Company*

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32. SHARE-BASED PAYMENT ARRANGEMENTS (continued)

Singapore Technologies Engineering Share Option Plan ("ESOP") (continued)

(ii) Details of share options (continued)

The options were exercised on a regular basis throughout the year and the weighted average share price for options exercised during the year was $3.29 (2015: $3.40). The weighted average remaining contractual life for these options is 0.41 year (2015: 0.99 year).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial model, taking into account the terms and conditions upon which the options were granted.

Singapore Technologies Engineering Performance Share Plan 2010 ("PSP2010")

Outstanding Awards under PSP2010 are as follow:

	Year of grant			
	2016	2015	2014	Total
Number of performance shares				
At grant date	**1,949,000**	1,841,900	1,413,000	5,203,900
Lapsed	**(82,228)**	(69,988)	(209,213)	(361,429)
Outstanding as at 31.12.2016	**1,866,772**	1,771,912	1,203,787	4,842,471

During the year, the Group did not meet the pre-determined target performance level and hence, no performance shares were awarded in respect of grant made in 2013 under PSP2010. In the prior year, performance shares amounting to 1,529,222 ordinary shares were awarded in respect of grant made in 2012 under PSP2010.

The fair value of the performance shares is determined on conditional grant date using the Monte Carlo simulation model.

The significant inputs to the model used for the conditional grants are as follows:

	Year of grant		
	2016	2015	2014
Market conditions			
Volatility of Defensive Index (%)	**n.a.**	9.18	9.76
Volatility of the Company's shares (%)	**17.78**	14.71	15.35
Correlation of Index Constituents / Defensive Index vs. the Company (%)	**12.9 – 67.3**	57.2	51.2
Risk-free rate (%)	**1.12**	1.45	0.54
Share price ($)	**3.23**	3.43	3.79
Cost of equity (%)	**7.00**	7.60	6.90
Dividend yield	(-- Management's forecast in line with dividend policy --)		

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32. SHARE-BASED PAYMENT ARRANGEMENTS (continued)

Singapore Technologies Engineering Restricted Share Plan 2010 ("RSP2010")

Outstanding Awards under RSP2010 are as follows:

Date of grant	Number of restricted shares as at grant date	Number of restricted shares lapsed	Number of restricted shares released	Balance outstanding as at 31.12.2016
RSP2010				
25 February 2011	50,000	–	50,000	–
16 March 2011	7,380,041	1,033,826	6,343,239	2,976
22 March 2012	4,617,900	917,309	3,700,591	–
22 March 2013	4,347,000	1,951,743	1,881,191	514,066
19 September 2013	90,000	–	90,000	–
13 March 2014	4,873,600	2,475,198	1,306,461	1,091,941
4 April 2014	300,000	–	200,000	100,000
28 April 2014	1,404,751	–	1,044,344	360,407
16 March 2015	12,000	–	6,000	6,000
18 March 2015	5,054,850	873,046	1,277,722	2,904,082
1 May 2015	20,000	–	20,000	–
1 June 2015	45,000	45,000	–	–
5 June 2015	24,000	–	8,000	16,000
18 March 2016	5,358,700	161,140	–	5,197,560
13 May 2016	204,900	–	204,900	–
4 July 2016	289,661	–	96,554	193,107
1 August 2016	14,930	–	–	14,930
30 September 2016	44,856	–	44,856	–
3 October 2016	152,901	–	–	152,901
14 November 2016	173,077	–	–	173,077
2 December 2016	24,016	–	24,016	–

During the year, restricted shares amounting to 4,890,801 (2015: 4,284,804) ordinary shares were awarded under RSP2010. These shares were awarded by reissuance of 4,890,801 (2015: 3,962,072) treasury shares and issuance of nil (2015: 322,732) ordinary shares.

The fair value of the restricted shares is determined at conditional grant date using the Monte Carlo simulation model.

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32. SHARE-BASED PAYMENT ARRANGEMENTS (continued)

Singapore Technologies Engineering Restricted Share Plan 2010 ("RSP2010") (continued)

The significant inputs to the model used for the conditional grant in 2015 and 2016 are as follows:

	Year of grant	
	2016	2015
Volatility of the Company's shares (%)	**17.73**	14.71
Risk-free rate (%)	**0.813 – 1.337**	1.05 – 1.71
Share price ($)	**3.23**	3.43
Dividend yield	(--Management's forecast in line with dividend policy--)	

33. CAPITAL RESERVES

Included in capital reserve is:

(a) an amount of $115,948,000 (2015: $115,948,000) relating to share premium of the respective pooled enterprises, namely Singapore Technologies Aerospace Ltd, Singapore Technologies Electronics Limited, Singapore Technologies Kinetics Ltd and Singapore Technologies Marine Ltd classified as capital reserve upon the pooling of interests during the financial year ended 31 December 1997; and

(b) an amount of nil (2015: $375,000) relating to an excess capital contribution from non-controlling shareholders of a subsidiary in China; and

(c) an amount of $2,791,000 (2015: $3,073,000) and $2,764,000 (2015: $3,046,000) for the Company and the Group respectively, relating to realised loss on re-issuance of treasury shares under share-based payment arrangements of the Company.

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34. OTHER RESERVES

The Group	Note	Foreign currency translation reserve $'000	Statutory reserve $'000	Fair value reserve $'000	Share-based payment reserve $'000	Premium paid on acquisition of non-controlling interests $'000	Total $'000
At 1.1.2015		(140,288)	4,074	(37,902)	84,798	(2,739)	(92,057)
Other comprehensive income:							
Net fair value changes on available-for-sale financial assets	(i)	–	–	(3,883)	–	–	(3,883)
Net fair value changes on cash flow hedges	(ii)	–	–	3,658	–	–	3,658
Share of net fair value changes on cash flow hedges of an associate	(ii)	–	–	(2,805)	–	–	(2,805)
Foreign currency translation differences	(iii)	33,840	(5)	8	200	(114)	33,929
Share of foreign currency translation differences of associates and joint ventures		(860)	–	–	–	–	(860)
Total comprehensive income for the year, net of tax		32,980	(5)	(3,022)	200	(114)	30,039
Issue of shares		–	–	–	(1,144)	–	(1,144)
Cost of share-based payment		–	–	–	16,501	–	16,501
Treasury shares reissued pursuant to share plans		–	–	–	(17,689)	–	(17,689)
Acquisition of non-controlling interests in subsidiaries without a change in control		–	–	–	–	(2,406)	(2,406)
Transfer from retained earnings to statutory reserve		–	1,261	–	–	–	1,261
At 31.12.2015		(107,308)	5,330	(40,924)	82,666	(5,259)	(65,495)

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34. OTHER RESERVES (continued)

The Group	Note	Foreign currency translation reserve $'000	Statutory reserve $'000	Fair value reserve $'000	Share-based payment reserve $'000	Premium paid on acquisition of non-controlling interests $'000	Total $'000
At 1.1.2016		(107,308)	5,330	(40,924)	82,666	(5,259)	(65,495)
Other comprehensive income:							
Net fair value changes on available-for-sale financial assets	(i)	–	–	1,089	–	–	1,089
Net fair value changes on cash flow hedges	(ii)	–	–	572	–	–	572
Realisation of cash flow hedge reserve arising from disposal of an associate		–	–	11,368	–	–	11,368
Foreign currency translation differences	(iii)	503	–	(1)	–	(35)	467
Share of foreign currency translation differences of associates and joint ventures		(2,809)	–	–	–	–	(2,809)
Reclassification of foreign currency translation reserve to profit or loss arising from disposal of foreign entities		9,446	–	–	–	–	9,446
Total comprehensive income for the year, net of tax		7,140	–	13,028	–	(35)	20,133
Cost of share-based payment		–	–	–	9,515	–	9,515
Treasury shares reissued pursuant to share plans		–	–	–	(16,719)	–	(16,719)
Acquisition of non-controlling interests in a subsidiary without a change in control		–	–	–	–	(731)	(731)
Disposal of a subsidiary		–	(3,474)	–	–	–	(3,474)
Transfer from retained earnings to statutory reserve		–	118	–	–	–	118
At 31.12.2016		(100,168)	1,974	(27,896)	75,462	(6,025)	(56,653)

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34. OTHER RESERVES (continued)

		Group	
		2016	2015
		$'000	$'000
(i)	Net fair value changes on available-for-sale financial assets:		
	– Net fair value changes during the year	**3,955**	(3,546)
	– Reclassification adjustment to profit or loss on disposal of financial assets in finance costs, net	**(1,295)**	(337)
	– Reclassification to profit or loss on impairment	**(1,571)**	–
		1,089	(3,883)
(ii)	Net fair value changes on cash flow hedges:		
	– Net fair value changes during the year	**(1,871)**	(12,868)
	– Reclassification adjustment to profit or loss on occurrence of forecast transaction in finance costs, net	**(314)**	10,082
	– Recognised in the carrying value of non-financial assets on occurrence of the hedged transactions	**2,757**	3,639
		572	853
(iii)	Foreign currency translation differences arising from:		
	– Translation of quasi equity loans forming part of net investments in foreign entities	**(1,705)**	(1,727)
	– Translation of foreign currency loans used as hedging instruments for effective net investment hedges	**(7,859)**	(34,980)
	– Translation of foreign entities	**10,067**	70,547
		503	33,840

As at 31 December 2016, bonds amounting to $338.1 million (US$234 million) (2015: $424.4 million (US$300 million)) have been designated as a hedge of the net investment in Vision Technologies Systems, Inc. and its subsidiaries ("US subsidiaries") and are being used to hedge the Group's exposure to foreign exchange risk on this investment.

Exchange gain or loss on the re-translation of these bonds is transferred to other comprehensive income to offset any exchange gain or loss on translation of the net investment in the US subsidiaries. There is no ineffectiveness in the hedge during the year.

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34. OTHER RESERVES (continued)

Type of reserve	Nature
Foreign currency translation reserve	Comprises foreign exchange differences arising from the translation of the financial statements of foreign entities, effective portion of the hedging instrument which is used to hedge against the Group's net investment in foreign currencies as well as from the translation of foreign currency loans used to hedge or form part of the Group's net investments in foreign entities.
Statutory reserve	Statutory reserve comprise of transfers from revenue reserve in accordance with the regulations of the foreign jurisdiction in which the Group's subsidiaries and joint ventures operate, principally in the People's Republic of China where the subsidiaries and joint ventures are required to make appropriation to a Statutory Reserve Fund and Enterprise Expansion Fund. The laws of the countries restrict the distribution and use of these statutory reserves.
Fair value reserve	Fair value reserve records the cumulative fair value changes of available-for-sale financial assets and the effective portion of hedging instruments, until they are disposed or impaired.
Share-based payment reserve	Represents the cumulative value of services received for the issuance of the options and shares under the share plans of the Company issued to employees and non-executive directors.
Premium paid on acquisition of non-controlling interests	Difference between the consideration paid on acquisition of non-controlling interests and the carrying value of the proportionate share of the net assets acquired.

35. DIVIDENDS

	Group and Company	
	2016	2015
	$'000	$'000
Final dividend paid in respect of the previous financial year of 5.0 cents (2015: 4.0 cents) per share	**156,125**	124,864
Special dividend paid in respect of the previous financial year of 5.0 cents (2015: 7.0 cents) per share	**156,125**	218,512
Interim dividend paid in respect of the current financial year of 5.0 cents (2015: 5.0 cents) per share	**155,412**	155,519
	467,662	498,895
Additional final dividend paid in respect of the previous financial year due to issue of shares before books closure date	**(1,732)**	(1,291)
	465,930	497,604

The Directors propose a final dividend of 10.0 cents (2015: 5.0 cents ordinary dividend and 5.0 cents special dividend) per share amounting to $312.2 million (2015: $312.3 million), in respect of the financial year ended 31 December 2016. These dividends have not been recognised as a liability as at year end as they are subject to approval of the shareholders at the Annual General Meeting of the Company.

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36. RELATED PARTY INFORMATION

Key management personnel compensation

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling activities of the Group. The executive directors and senior management executives of the Group Companies are considered as key management personnel.

	Group	
	2016	2015
	$'000	$'000
Short-term employee benefits	**34,493**	34,192
Contributions to defined contribution plans	**746**	567
Share-based payments	**5,569**	8,491
	40,808	43,250

In addition to related party information disclosed elsewhere in the financial statements, the Group has significant transactions with the following related parties on terms agreed between the parties.

	Group	
	2016	2015
	$'000	$'000
Associates of the Group		
Sales and services rendered	**10,423**	9,886
Purchases and services received	**(30,123)**	(31,671)
Dividend income	**42,786**	45,357
Joint ventures of the Group		
Sales and services rendered	**21,018**	29,391
Purchases and services received	**(23,466)**	(24,913)
Dividend income	**1,950**	6,036
Other related parties *		
Sales and services rendered	**49,544**	78,116
Purchases and services received	**(20,765)**	(17,608)
Rental expense	**(8,009)**	(6,539)
Rental income	**2,402**	2,289

* *Other related parties refer to subsidiaries, associates and joint ventures of immediate holding company.*

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37. COMMITMENTS

(i) Capital commitments

	Group	
	2016	2015
	$'000	$'000
Capital expenditure contracted but not provided in the financial statements	**134,613**	96,614

(ii) Leases – As lessee

Future minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2016	2015
	$'000	$'000
Third parties		
Within 1 year	**46,506**	40,326
Between 1 and 5 years	**130,658**	103,817
After 5 years	**206,243**	216,870
	383,407	361,013
Related parties		
Within 1 year	**5,342**	5,350
Between 1 and 5 years	**15,430**	17,298
After 5 years	**28,419**	31,879
	49,191	54,527

The Group has several operating lease agreements for leasehold land and buildings, office premises and computers. Lease terms do not contain restrictions on the Group activities concerning dividends, additional debt or further leasing.

None of the operating leases is subject to contingent rent arrangements.

(iii) Leases – As lessor

The Group has entered into commercial leases on its aircraft, aircraft engines and certain property, plant and equipment. The non-cancellable leases have lease term ranging from 1 to 15 years.

The future lease payment receivables under non-cancellable operating leases are as follows:

	Group	
	2016	2015
	$'000	$'000
Within 1 year	**13,614**	25,196
Between 1 and 5 years	**28,727**	51,457
After 5 years	**11,650**	15,867
	53,991	92,520

(iv) Investments

As at 31 December 2016, the Group has outstanding commitments in respect of uncalled capital to the extent of $0.2 million (2015: $0.2 million) in subsidiaries.

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37. COMMITMENTS (continued)

(v) Contingent liabilities (unsecured)

(a) The Group is a party to various claims that arise in the normal course of the Group's business. The total liability on these matters cannot be determined with certainty. However, in the opinion of management, the ultimate liability, to the extent not otherwise provided for, will not materially impact the consolidated financial statements of the Group.

(b) In the prior year, the Group's certain subsidiaries provided equipment buy-back guarantees to financial institutions which have extended equipment financing to the customers for their purchase of their products. The outstanding equipment buy-back guarantees as at 31 December 2015 amounted to $4,553,000.

38. SEGMENT INFORMATION

For management purposes, the Group is organised on a worldwide basis into four major operating segments. The management of the Company reviews the segments' operating results regularly in order to allocate resources to the segments and to assess the segments' performance.

The operating segments and principal activities identified within the Group are outlined below:

Segments	Principal activities
Aerospace	Provides a spectrum of maintenance and engineering services that include airframe, engine and component maintenance, repair and overhaul, engineering design and development, technical services, material support, asset management services and pilot training.
Electronics	Delivers innovative system solutions to government, commercial, defence, and industrial customers worldwide. It specialises in the design, development and integration of advanced electronics and communications systems, such as broadband radio frequency and satellite communication, e-Government solutions, information communications technologies and IT, rail and traffic management, real-time command and control, modelling and simulation, eLearning and interactive digital media, training services, intelligent building management and information security.
Land Systems	Provides design and engineering services, manufacture, sales and knowhow transfer of military and commercial vehicles, automotive subsystems, armament, weapons, weapon systems, ammunition and explosives. It also provides engineering services for assembly, upgrading/modifications, maintenance, repair and overhaul of vehicles and weapon systems, and trading in motor vehicles, equipment, vehicle spares and related accessories.
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. It also provides a suite of sustainable environmental engineering solutions.
Others *	Research and development, treasury, investment holding and provision of management, consultancy, integrated logistics management, integrated facilities management, warehousing and other support services.

* *None of these segments meets any of the quantitative thresholds for determining reportable segments in financial years 2016 and 2015.*

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38. SEGMENT INFORMATION (continued)

Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Inter-segment pricing is based on terms negotiated between the parties which are intended to reflect competitive terms.

	Aerospace $'000	Electronics $'000	Land Systems $'000	Marine $'000	Others $'000	Elimination $'000	Group $'000
2016							
Revenue							
External sales	2,484,337	1,884,733	1,304,819	840,582	169,266	–	6,683,737
Inter-segment sales	8,520	25,768	7,135	578	33,209	(75,210)	–
	2,492,857	1,910,501	1,311,954	841,160	202,475	(75,210)	6,683,737
Reportable segment profit from operations	240,431	191,846	(11,200)	63,576	(78,061)	64,491	471,083
Other income	22,736	19,400	25,101	7,548	482,002	(488,972)	67,815
Other expenses	(4,339)	(15)	(1,675)	(124)	–	6,138	(15)
Finance income	11,431	4,089	2,251	3,866	45,938	(33,884)	33,691
Finance costs	(12,038)	(7,827)	(7,199)	(596)	(59,767)	41,720	(45,707)
Share of results of associates and joint ventures, net of tax	42,097	305	14,896	851	–	5,617	63,766
Profit before taxation	300,318	207,798	22,174	75,121	390,112	(404,890)	590,633
Taxation	(49,102)	(33,194)	(18,015)	(7,370)	15,672	(5,761)	(97,770)
Non-controlling interests	(16,831)	(58)	8,534	6	–	–	(8,349)
Profit attributable to shareholders	234,385	174,546	12,693	67,757	405,784	(410,651)	484,514
Other assets	2,770,573	2,054,854	1,556,147	967,208	5,047,431	(4,436,690)	7,959,523
Associates and joint ventures	244,263	1,565	126,737	8,666	17,657	6,642	405,530
Segment assets	3,014,836	2,056,419	1,682,884	975,874	5,065,088	(4,430,048)	8,365,053
Segment liabilities	2,030,556	1,783,937	1,442,303	809,473	2,871,524	(3,016,936)	5,920,857
Capital expenditure *	200,041	80,070	36,513	10,235	2,344	(25)	329,178
Depreciation and amortisation	112,988	45,536	38,720	28,422	21,697	(42)	247,321
Impairment losses *	2,667	8	37,492	–	1,571	–	41,738
Other non-cash expenses	393	56	314	–	–	–	763

* *These relate to additions or impairment of property, plant and equipment and intangible assets.*

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38. SEGMENT INFORMATION (continued)

	Aerospace $'000	Electronics $'000	Land Systems $'000	Marine $'000	Others $'000	Elimination $'000	Group $'000
2015							
Revenue							
External sales	2,089,772	1,708,959	1,395,587	958,028	182,677	–	6,335,023
Inter-segment sales	5,842	34,215	5,432	345	27,191	(73,025)	–
	2,095,614	1,743,174	1,401,019	958,373	209,868	(73,025)	6,335,023
Reportable segment profit from operations	222,013	178,699	47,189	71,795	(70,129)	60,704	510,271
Other income	23,856	14,654	13,239	7,482	560,949	(564,433)	55,747
Other expenses	(578)	–	(1,645)	(115)	–	2,039	(299)
Finance income	25,596	3,683	2,880	3,716	77,185	(56,869)	56,191
Finance costs	(19,157)	(6,122)	(13,252)	(103)	(103,835)	92,521	(49,948)
Share of results of associates and joint ventures, net of tax	38,870	38	16,590	5,500	–	(2,658)	58,340
Profit before taxation	290,600	190,952	65,001	88,275	464,170	(468,696)	630,302
Taxation	(56,900)	(27,191)	(14,395)	(2,558)	7,385	(5,000)	(98,659)
Non-controlling interests	(6,981)	(761)	5,130	8	–	–	(2,604)
Profit attributable to shareholders	226,719	163,000	55,736	85,725	471,555	(473,696)	529,039
Other assets	2,328,622	1,860,634	1,855,080	994,623	4,579,005	(3,910,420)	7,707,544
Associates and joint ventures	311,473	1,397	121,781	8,229	17,657	1,023	461,560
Segment assets	2,640,095	1,862,031	1,976,861	1,002,852	4,596,662	(3,909,397)	8,169,104
Segment liabilities	1,874,224	1,637,723	1,713,471	810,727	2,510,204	(2,638,172)	5,908,177
Capital expenditure *	219,757	52,878	23,247	18,866	18,244	–	332,992
Depreciation and amortisation	71,470	39,871	38,981	29,609	7,404	(43)	187,292
Impairment losses *	–	–	4,447	–	–	–	4,447
Other non-cash expenses	5,956	8	393	–	2	–	6,359

* *These relate to additions or impairment of property, plant and equipment and intangible assets.*

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38. SEGMENT INFORMATION (continued)

(i) Analysis by country of incorporation

Revenue is based on the country of incorporation regardless of where the goods are produced or services rendered. Non-current assets, excluding derivative financial instruments and deferred tax assets, are based on the location of those assets.

The Group	Revenue 2016 $'000	Revenue 2015 $'000	Non-current assets 2016 $'000	Non-current assets 2015 $'000
Asia	**4,599,078**	4,695,163	**2,005,125**	2,095,321
USA	**1,524,481**	1,498,855	**867,663**	878,105
Europe	**494,651**	81,354	**457,397**	175,000
Others	**65,527**	59,651	**96,347**	98,236
	6,683,737	6,335,023	**3,426,532**	3,246,662

(ii) Analysis by geographical areas

Revenue is based on the location of customers regardless of where the goods are produced or services rendered.

The Group	Revenue 2016 $'000	Revenue 2015 $'000
Asia	**3,951,297**	3,940,047
USA	**1,631,675**	1,503,208
Europe	**610,188**	311,526
Others	**490,577**	580,242
	6,683,737	6,335,023

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company are exposed to financial risks, namely, interest rate, foreign exchange, market, liquidity and credit risks, arising from its operations and the use of financial instruments. The Group's principal financial instruments, other than foreign exchange contracts and derivatives, comprise bank guarantees, performance bonds, bank loans and overdrafts, finance leases and hire purchase contracts, investments, cash and short-term deposits. All financial transactions with the banks are governed by banking facilities duly accepted with Board of Directors' resolutions, with banking mandates, which define the permitted financial instruments and facilities limits. All financial transactions require dual signatories. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is the Group's policy not to engage in foreign exchange and/or derivatives speculation. The purpose of engaging in treasury transactions is solely for hedging. The Group's treasury mandates allow only foreign exchange spot, forward or non-deliverable forward, foreign exchange swap, cross currency swap, purchase of foreign exchange call, put or collar option, forward rate agreement, interest rate swap, purchase of interest rate cap, floor or collar option ("Permitted Transactions"). These instruments are generic in nature with no embedded or leverage features and any deviation from these instruments would require specific approval from the Board of Directors.

The policies for managing each of these risks are broadly summarised below.

Interest rate risk

As at reporting date, the interest rate profile of the interest-bearing financial instruments is:

	Group		Company	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Fixed rate instruments				
Financial assets	**535,617**	618,504	**469,047**	70,303
Financial liabilities	**(850,380)**	(1,019,158)	**–**	–
	(314,763)	(400,654)	**469,047**	70,303
Variable rate instruments				
Financial assets	**499,812**	501,181	**693,886**	814,280
Financial liabilities	**(229,895)**	(179,073)	**(642,313)**	(628,472)
	269,917	322,108	**51,573**	185,808

The Group has cash balances placed with reputable banks and financial institutions. The Group manages its interest rate risk on its interest income by placing the cash balances in varying maturities and interest rate terms with due consideration to operating cash flow requirements and optimising yield.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The Group's debts include 10-year bonds issued, bank loans and lease commitments. The Group seeks to minimise its interest rate risk exposure through tapping different sources of funds to refinance the debt instruments and/or enter into interest rate swaps and cross-currency interest rate swaps. An increase of 50 basis points in interest rate at the reporting date would lead to a reduction of the Group's profit or loss and other comprehensive income by approximately $1.1 million (2015: $0.9 million) and $7.7 million (2015: $7.7 million) respectively. A decrease in 50 basis points in interest rate at the reporting date would increase the Group's profit or loss and other comprehensive income by approximately $1.1 million (2015: $0.9 million) and $7.5 million (2015: $7.9 million) respectively. This analysis assumes that all other variables remain constant.

Information relating to the Group's interest rate risk exposure is also disclosed in the notes on the Group's borrowings, investments and loans receivable, where applicable.

Foreign exchange risk

The Group is exposed to foreign exchange risk from its global operations and revenues, costs and borrowings denominated in a currency other than the respective functional currencies of the Company and its subsidiaries. The Group's foreign exchange exposures are primarily from USD and Euro, and manage its exposure through forward currency contracts, cross currency interest rate swaps and embedded derivatives.

The Group Treasury Division monitors the current and projected foreign currency cash flow within the Group and aims to reduce the exposure of the net position by transacting with the banks where appropriate.

No foreign exchange sensitivity analysis was disclosed as the Company had assessed that a reasonable change in the exchange rate would not result in any significant impact on the Group's results.

Market risk

The Group has strategic investments in quoted equity shares. The market value of these investments will fluctuate with market conditions.

No sensitivity analysis was disclosed as the Company had assessed that a reasonable change in the market value of these investments would not result in any significant impact on the Group's results.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

The table below analyses the maturity profile of the Group's financial liabilities based on the contractual undiscounted cash flows including estimated interest payments and excluding impact of netting arrangements.

The Group	Contractual cash flow $'000	Within 1 year $'000	Between 1 and 5 years $'000	More than 5 years $'000
2016				
Bank loans	(352,097)	(85,785)	(254,127)	(12,185)
Bonds	(810,629)	(34,675)	(775,954)	–
Other loans	(1,892)	(1,551)	(341)	–
Lease obligations	(36,475)	(1,353)	(5,040)	(30,082)
Trade and other payables	(1,847,896)	(1,710,116)	(135,674)	(2,106)
Derivative financial instruments:				
• Gross-settled forward currency contracts				
– payments	(1,186,418)	(744,840)	(441,578)	–
– receipts	1,153,563	716,980	436,583	–
• Net-settled interest rate swaps	1,616	(788)	2,404	–
• Net-settled cross currency interest rate swaps	25,298	2,136	23,162	–
Financial guarantee	(52,000)	(52,000)	–	–
2015				
Bank loans	(491,131)	(176,697)	(314,434)	–
Bonds	(827,635)	(33,950)	(793,685)	–
Other loans	(2,181)	(1,673)	(508)	–
Lease obligations	(38,161)	(1,424)	(5,241)	(31,496)
Other long-term payables	(700)	–	(700)	–
Trade and other payables	(1,928,966)	(1,699,285)	(229,022)	(659)
Derivative financial instruments:				
• Gross-settled forward currency contracts				
– payments	(699,352)	(456,604)	(242,748)	–
– receipts	696,823	453,402	243,421	–
• Net-settled interest rate swaps	(297)	(1,166)	869	–
• Net-settled cross currency interest rate swaps	23,593	1,784	21,809	–
Financial guarantee	(83,706)	(83,706)	–	–

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The Company	Contractual cash flow $'000	Within 1 year $'000	Between 1 and 5 years $'000
2016			
Trade payables and accruals	(33,145)	(24,148)	(8,997)
Amounts due to related parties	(1,181,244)	(504,827)	(676,417)
Intra-group financial guarantee	(187,824)	(187,824)	–
2015			
Trade payables and accruals	(32,157)	(20,619)	(11,538)
Amounts due to related parties	(752,229)	(1,742)	(750,487)
Derivative financial instruments:			
• Gross-settled forward currency contracts			
– payments	(1,547)	(1,547)	–
– receipts	1,652	1,652	–
Intra-group financial guarantee	(297,066)	(297,066)	–

For derivative financial instruments, the cash inflows/(outflows) represent the contractual undiscounted cash flows relating to these instruments. The amounts are compiled on a net basis for derivatives that are net-settled. Gross inflows and outflows are included for derivatives that are gross-settled on a simultaneous basis. Net-settled derivative financial assets are included in the maturity analysis as they are held to hedge the cash flow variability of the Group's bank loans and bonds.

Except for the cash flow arising from the intra-group financial guarantee, it is not expected that the cash flows included in the maturity analysis of the Group and the Company could occur significantly earlier, or at significantly different amounts.

At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the intra-group financial guarantee.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk, or the risk of counterparties defaulting, is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Company or its subsidiaries obtain collaterals from customers or arrange master netting agreements. Cash terms, advance payments, and letters of credit or bank guarantees are required for customers of lower credit standing.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is:

	Group		Company	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Investments	**510,941**	511,653	**–**	–
Finance lease receivables	**–**	3,696	**–**	–
Derivative financial instruments, non-current	**32,967**	25,790	**–**	–
Trade receivables	**1,459,876**	1,324,725	**–**	–
Amounts due from related parties	**29,424**	61,388	**706,891**	825,404
Advances and other receivables	**105,180**	110,019	**1,422**	4,871
Bank balances and other liquid funds	**904,890**	951,494	**588,862**	82,091
Recognised financial assets	**3,043,278**	2,988,765	**1,297,175**	912,366

The Group limits its exposure to credit risk on investments held by investing mostly in bonds of high credit ratings. Management actively monitors the credit ratings and does not expect any counterparty to fail to meet its obligations.

Derivatives are entered into with financial institutions, which have long-term rating of A3 by Moody's, A- by Standard & Poor's or the equivalent by a reputable credit rating agency.

Cash and bank deposits are placed with reputable financial institutions.

As at 31 December 2016, there were no significant concentrations of credit risk, except for 38% (2015: 34%) of trade receivables excluding unbilled receivables relating to three major customers of the Group. The table below analyses the trade receivables by the Group's main reportable segments.

	Group	
	2016	2015
	$'000	$'000
Aerospace	**584,730**	489,856
Electronics	**515,146**	425,594
Land Systems	**241,573**	279,305
Marine	**97,526**	103,679
Others	**20,901**	26,291
	1,459,876	1,324,725

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The ageing of financial assets excluding cash and cash equivalents, investments and derivative financial instruments, net of impairment losses, are as follows:

	Group		Company	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Not past due *	**1,239,095**	1,096,959	**708,313**	830,170
1 – 90 days	**264,562**	264,517	**–**	–
91 – 180 days	**36,372**	58,029	**–**	–
181 – 360 days	**39,231**	51,439	**–**	–
> 360 days	**11,172**	22,364	**–**	–
	1,590,432	1,493,308	**708,313**	830,170

* *This includes unbilled receivables which relates to services rendered but not billed.*

The movements in allowance for impairment losses in respect of financial assets excluding cash and cash equivalents, investments and derivative financial instruments are as follows:

	Group		Company	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
At beginning of the year	**78,278**	85,709	**13,562**	6,981
Charge to profit or loss	**19,223**	13,354	**6,700**	6,440
Allowance utilised	**(11,113)**	(22,201)	**(20,307)**	–
Acquisition of a subsidiary	**173**	282	**–**	–
Disposal of a subsidiary	**(28,684)**	–	**–**	–
Translation difference	**(970)**	1,134	**45**	141
At end of the year	**56,907**	78,278	**–**	13,562

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40. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

	Carrying amount						Fair value			
The Group	Loans and receivables $'000	Fair value through profit or loss $'000	Available -for-sale $'000	Liabilities at amortised cost $'000	Derivatives used for hedging $'000	Total carrying amount $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2016										
Financial assets measured at fair value										
Investments	–	364	500,463	–	–	500,827	1,003	499,812	12	500,827
Derivative financial instruments	–	28,894	–	–	8,121	37,015	–	37,015	–	37,015
	–	29,258	500,463	–	8,121	537,842	1,003	536,827	12	537,842
Financial assets not measured at fair value										
Investments	–	–	10,114	–	–	10,114				
Trade receivables	1,459,876	–	–	–	–	1,459,876				
Amounts due from related parties	29,424	–	–	–	–	29,424				
Advances and other receivables	101,132	–	–	–	–	101,132				
Bank balances and other liquid funds	904,890	–	–	–	–	904,890				
	2,495,322	–	10,114	–	–	2,505,436				
Financial liabilities measured at fair value										
Derivative financial instruments	–	(13,776)	–	–	(55,762)	(69,538)	–	(69,538)	–	(69,538)
Financial liabilities not measured at fair value										
Creditors and accruals	–	–	–	(1,810,148)	–	(1,810,148)				
Amounts due to related parties	–	–	–	(28,466)	–	(28,466)				
Borrowings	–	–	–	(1,080,275)	–	(1,080,275)				
	–	–	–	(2,918,889)	–	(2,918,889)				

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40. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	Carrying amount						Fair value			
The Group	**Loans and receivables $'000**	**Fair value through profit or loss $'000**	**Available -for-sale $'000**	**Liabilities at amortised cost $'000**	**Derivatives used for hedging $'000**	**Total carrying amount $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
2015										
Financial assets measured at fair value										
Investments	–	369	501,382	–	–	501,751	558	501,181	12	501,751
Derivative financial instruments	–	25,135	–	–	7,175	32,310	–	32,310	–	32,310
	–	25,504	501,382	–	7,175	534,061	558	533,491	12	534,061
Financial assets not measured at fair value										
Investments	–	–	9,902	–	–	9,902				
Finance lease receivables	3,696	–	–	–	–	3,696				
Trade receivables	1,324,725	–	–	–	–	1,324,725				
Amounts due from related parties	61,388	–	–	–	–	61,388				
Advances and other receivables	103,499	–	–	–	–	103,499				
Bank balances and other liquid funds	951,494	–	–	–	–	951,494				
	2,444,802	–	9,902	–	–	2,454,704				
Financial liabilities measured at fair value										
Derivative financial instruments	–	(5,078)	–	–	(30,554)	(35,632)	–	(35,632)	–	(35,632)
Financial liabilities not measured at fair value										
Creditors and accruals	–	–	–	(1,908,167)	–	(1,908,167)				
Amounts due to related parties	–	–	–	(20,699)	–	(20,699)				
Borrowings	–	–	–	(1,193,231)	–	(1,193,231)				
Other long-term payables	–	–	–	(700)	–	(700)				
	–	–	–	(3,122,797)	–	(3,122,797)				

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40. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Company	Carrying amount: Loans and receivables $'000	Carrying amount: Fair value through profit or loss $'000	Carrying amount: Liabilities at amortised cost $'000	Carrying amount: Total carrying amount $'000	Fair value: Level 1 $'000	Fair value: Level 2 $'000	Fair value: Level 3 $'000	Fair value: Total $'000
2016								
Financial assets not measured at fair value								
Amounts due from related parties	706,891		–	706,891				
Advances and other receivables	1,422		–	1,422				
Bank balances and other liquid funds	588,862		–	588,862				
	1,297,175		–	1,297,175				
Financial liabilities not measured at fair value								
Trade payables and accruals	–		(33,145)	(33,145)				
Amounts due to related parties	–		(1,181,244)	(1,181,244)				
	–		(1,214,389)	(1,214,389)				
2015								
Financial assets measured at fair value								
Derivative financial instruments	–	105	–	105	–	105	–	105
Financial assets not measured at fair value								
Amounts due from related parties	825,404	–	–	825,404				
Advances and other receivables	4,766	–	–	4,766				
Bank balances and other liquid funds	82,091	–	–	82,091				
	912,261	–	–	912,261				
Financial liabilities not measured at fair value								
Trade payables and accruals	–	–	(32,157)	(32,157)				
Amounts due to related parties	–	–	(646,016)	(646,016)				
	–	–	(678,173)	(678,173)				

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40. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value

The Group has an established approach with respect to the measurement of fair values.

The Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair value, then the Group assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of FRS, including the level in the fair value hierarchy the resulting fair value estimate should be classified.

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The following table shows the levels of fair value hierarchy and the respective valuation technique used in measuring the fair values, as well as significant unobservable inputs:

	Types of financial instruments	Valuation method
Level 1	**Available-for-sale** – Equity investments (quoted)	Determined by reference to their quoted bid prices for these investments as at balance sheet date.
	Fair value through profit or loss – Equity investments (quoted)	
Level 2	**Available-for-sale** – Bonds (unquoted)	Determined based on quoted market prices.
	Derivatives – Forward currency contracts – Cross currency interest rate swaps – Interest rate swaps – Embedded derivatives	Determined based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.
Level 3	**Available-for-sale** – Venture capital funds and limited partnership	Determined by reference to valuation provided by non-related fund managers based on non-observable data. Changing one or more of the inputs to reasonable alternative assumptions is not expected to have a material impact on the changes in fair value.

There were no transfers between Level 1, Level 2 and Level 3 during 2016 and 2015.

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40. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Movements in level 3 financial instruments measured at fair value

The following table presents the reconciliation for all financial instruments measured at fair value based on significant unobservable inputs (Level 3).

	Group	
	2016	2015
	$'000	$'000
Equity instruments (unquoted)		
Opening balance	**12**	12
Total gain or loss:		
– recognised in other comprehensive income	**–**	–
Closing balance	**12**	12

The following methods and assumptions are used to estimate the fair value of other classes of financial instruments:

Types of financial instruments	**Valuation method**
Bank balances, other liquid funds and short-term receivables Short term borrowings and other current payables	Carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.
Long-term receivables	Estimated based on the expected cash flows discounted to present value.
Long-term payables	Estimated based on present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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40. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Derivative financial instruments included in Balance Sheet are as follows:

		2016			2015		
		Contractual/ notional	**Estimated fair value**		Contractual/ notional	Estimated fair value	
	Note	**amount $'000**	**Asset $'000**	**Liability $'000**	amount $'000	Asset $'000	Liability $'000
Cash flow hedges							
Forward currency contracts:							
– to hedge confirmed sales in foreign currencies	(a)(i)	**559,209**	**370**	**(28,518)**	191,950	2,310	(4,464)
– to hedge firm purchase commitments in foreign currencies	(a)(i)	**148,701**	**2,871**	**(1,503)**	214,240	2,599	(4,708)
– to hedge accounts receivable in foreign currencies	(a)(i)	**64,495**	**2,122**	**(294)**	38,104	978	(334)
– to hedge accounts payable in foreign currencies	(a)(i)	**18,487**	**51**	**(397)**	5,564	3	(70)
Interest rate swaps	(b)	**223,944**	**221**	**(84)**	325,358	117	(475)
Embedded derivatives	(a)(i)	**277,606**	**–**	**(20,828)**	393,595	–	(20,497)
Fair value hedges							
Forward currency contracts:							
– to hedge confirmed sales in foreign currencies	(a)(i)	**51,221**	**2,397**	**(260)**	23,430	1,000	–
– to hedge firm purchase commitments in foreign currencies	(a)(i)	**–**	**–**	**–**	173	25	–
– to hedge accounts receivable in foreign currencies	(a)(i)	**30,490**	**–**	**(632)**	14,587	143	–
– to hedge accounts payable in foreign currencies	(a)(i)	**6,490**	**89**	**(1)**	190	–	(6)
Embedded derivatives	(a)(i)	**45,640**	**–**	**(3,245)**	–	–	–
Non-hedging instruments							
Forward currency contracts:							
– sales	(a)(ii)	**244,440**	**206**	**(13,776)**	208,163	2,117	(2,116)
– purchases	(a)(ii)	**24,500**	**4,420**	**–**	3,905	12	(18)
Cross currency interest rate swaps	(c)	**124,025**	**23,767**	**–**	124,025	22,135	–
Embedded derivatives	(a)(ii)	**8,137**	**501**	**–**	73,620	871	(2,944)
Total			**37,015**	**(69,538)**		32,310	(35,632)
Less: Current portion			**(4,048)**	**50,103**		(6,520)	24,017
Non-current portion			**32,967**	**(19,435)**		25,790	(11,615)

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40. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Forward currency contracts

(i) As at 31 December 2016, the Group has forward currency contracts and embedded derivatives separated from the foreign currency portion of sales contracts amounting to $1,202,339,000 (2015: $881,833,000) designated as hedges of confirmed sales in foreign currencies, firm purchase commitments in foreign currencies, accounts receivable in foreign currencies and accounts payable in foreign currencies.

The maturity dates of the forward currency contracts and embedded derivatives separated from the foreign currency portion of the sales contracts approximate the timing of the expected cash flows of their respective hedged items, which are on varying periods up to eight years (2015: five years) from the financial year-end.

(ii) As at 31 December 2016, the Group has outstanding forward currency contracts and embedded derivatives separated from the foreign currency portion of sales contracts amounting to $277,077,000 (2015: $285,688,000). These were not designated as accounting hedges, but were used to economically hedge confirmed sales in foreign currencies and firm purchase commitments in foreign currencies.

(b) Interest rate swaps

As at 31 December 2016, the Group has outstanding interest rate swaps amounting to $223,944,000 (2015: $325,358,000), which are designated as cash flow hedges.

The USD interest rate swaps are being used to hedge the exposure to variability in cash flows associated with the floating rate of the unsecured USD long-term loans. Under the USD interest rate swaps, the Group pays fixed rates of interest of 1.15% to 1.67% (2015: 0.61% to 1.63%) per annum and receives variable rates of interest equal to the LIBOR per annum on the notional amount. The USD interest rate swaps have the same maturity terms as the unsecured USD long-term loans with maturity periods ranging from 2018 to 2020 (2015: 2016 to 2020).

(c) Cross currency interest rate swaps

As at 31 December 2016, the Group has outstanding cross currency interest rate swaps amounting to $124,025,000 (2015: $124,025,000), which are not designated as hedging instruments.

The swaps are being used to economically hedge the foreign currency exposure of the US$500 million bond liability and convert the fixed USD bond interest rate of 4.8% (2015: 4.8%) per annum to floating SGD interest rate at 6-month SOR plus margins. The effective SGD interest rates range from 3.6% to 4.5% (2015: 3.2% to 3.6%) per annum.

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40. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Master netting or similar agreements

The disclosures set out in the tables below include financial assets and financial liabilities that are offset in the Group's and the Company's balance sheets; or are subject to an enforceable master netting arrangement, irrespective of whether they are offset in the balance sheets.

Financial instruments such as trade receivables and trade payables are not disclosed in the tables below unless they are offset in the balance sheets.

The derivative transactions that the Group and the Company enter into, are not subject to master netting arrangements. These derivative transactions are also not offset in the balance sheets as the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

The Group	Gross amounts of recognised financial instruments $'000	Gross amounts of recognised financial instruments offset in the balance sheets $'000	Net amounts of financial instruments presented in the balance sheets $'000	Related financial instruments that are not offset $'000	Net amount $'000
31 December 2016					
Financial assets					
Trade receivables	–	–	–	–	–
Financial liabilities					
Trade payables	2	–	2	–	2
31 December 2015					
Financial assets					
Trade receivables	1,419	1,419	–	–	–
Financial liabilities					
Trade payables	1,699	1,419	280	–	280

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the balance sheets that are disclosed in the above tables are measured at amortised cost.

The amounts in the above table that are offset in the balance sheets are measured on the same basis.

NOTES TO THE FINANCIAL STATEMENTS

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41. NON-CONTROLLING INTERESTS IN SUBSIDIARIES

The following table summarises the information relating to each of the Group's subsidiaries with material NCI, based on their respective financial statements prepared in accordance with FRS, modified for fair value adjustments on acquisition and differences in Group's accounting policies. The summarised financial information is not adjusted for percentage ownership held by NCI.

Name of NCI	ST Aerospace Services Co Pte. Ltd. $'000	EcoServices, LLC $'000	Elbe Flugzeuwerke GmbH $'000	STELOP Pte. Ltd. $'000	Guizhou Jonyang Kinetics Co., Ltd $'000	Jiangsu Huatong Kinetics Co., Ltd $'000	Other individually immaterial subsidiaries $'000	Intra-group elimination $'000	Total $'000
2016									
NCI percentage	**20%**	**49.9%**	**45%**	**49.95%**	**–**	**24.7%**			
Principal place of business/Country of incorporation	**Singapore**	**USA**	**Germany**	**Singapore**	**China**	**China**			
Revenue	248,788	29,183	427,702	46,181	24,801	12,754			
Profit/(loss)	37,714	3,850	14,127	553	(1,847)	(70,031)			
Other comprehensive income	(2,769)	1,248	1,319	–	(5,700)	(1,976)			
Total comprehensive income	34,945	5,098	15,446	553	(7,547)	(72,007)			
Attributable to NCI:									
– Profit/(loss)	7,543	1,921	6,357	276	(740)	(10,406)	3,189	209	8,349
– Other comprehensive income	(554)	623	594	–	(2,280)	(488)	(59)	(384)	(2,548)
– Total comprehensive income	6,989	2,544	6,951	276	(3,020)	(10,894)	3,130	(175)	5,801
Non-current assets	56,476	28,822	489,570	2,287	–	66,294			
Current assets	240,509	34,858	224,751	56,304	–	14,666			
Non-current liabilities	(14,303)	–	(215,829)	–	–	(31,154)			
Current liabilities	(83,353)	(5,264)	(135,876)	(46,042)	–	(49,806)			
Net assets	199,329	58,416	362,616	12,549	–	–			
Net assets attributable to NCI	39,866	29,150	163,177	6,268	–	–	22,730	743	261,934
Cash flows from operating activities	38,602	13,480	36,202	(1,817)	–	(12,538)			
Cash flows from investing activities	(3,453)	(509)	(12,912)	(23)	–	1,189			
Cash flows from financing activities *	(26,892)	(5,250)	22,087	(3,221)	–	9,724			
Net increase/(decrease) in cash and cash equivalents	8,257	7,721	45,377	(5,061)	–	(1,625)			
* including dividends to NCI	(6,000)	(1,348)	–	(605)	–	–			

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016
(CURRENCY – SINGAPORE DOLLARS UNLESS OTHERWISE STATED)

41. NON-CONTROLLING INTERESTS IN SUBSIDIARIES (continued)

Name of NCI	ST Aerospace Services Co Pte. Ltd. $'000	EcoServices, LLC $'000	STELOP Pte. Ltd. œ $'000	Guizhou Jonyang Kinetics Co., Ltd $'000	Jiangsu Huatong Kinetics Co., Ltd $'000	Other individually immaterial subsidiaries $'000	Intra-group elimination $'000	Total $'000
2015								
NCI percentage	**20%**	**49.9%**	**49.95%**	**40%**	**24.7%**			
Principal place of business/Country of incorporation	**Singapore**	**USA**	**Singapore**	**China**	**China**			
Revenue	234,571	24,997	17,270	140,804	31,862			
Profit/(loss)	31,899	795	229	(8,639)	(18,103)			
Other comprehensive income	1,930	3,302	–	149	1,683			
Total comprehensive income	33,829	4,097	229	(8,490)	(16,420)			
Attributable to NCI:								
– Profit/(loss)	6,380	397	114	(3,455)	(4,471)	4,226	(587)	2,604
– Other comprehensive income	386	1,648	–	546	366	(99)	(12)	2,835
– Total comprehensive income	6,766	2,045	114	(2,909)	(4,105)	4,127	(599)	5,439
Non-current assets	57,997	32,487	2,550	35,529	102,893			
Current assets	235,199	27,625	57,159	200,741	42,227			
Non-current liabilities	(15,981)	–	(8,080)	(9,379)	(31,592)			
Current liabilities	(82,438)	(4,091)	(38,422)	(177,938)	(70,766)			
Net assets	194,777	56,021	13,207	48,953	42,762			
Net assets attributable to NCI	38,955	27,954	6,597	19,581	10,562	22,894	2,332	128,875
Cash flows from operating activities	27,937	4,438	(8,149)	(23,531)	(39,938)			
Cash flows from investing activities	(30,956)	(1,240)	(236)	1,593	(51,554)			
Cash flows from financing activities *	(20,636)	(2,641)	(1,218)	(19,211)	64,772			
Net (decrease)/ increase in cash and cash equivalents	(23,655)	557	(9,603)	(41,149)	(26,720)			
* including dividends to NCI	(6,000)	(879)	–	–	–			

œ *Due to the changes to the shareholders' agreement, the Group has reclassified its investment in STELOP from a joint venture to a subsidiary with effect from 1 September 2015. The net assets of STELOP include cash and cash equivalents of $17,676,000.*

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016
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42. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy financial metrics in order to support its business and maximise shareholder value. Capital consists of total shareholders' funds and gross debts.

The Group manages its capital structure and makes adjustment to it, in the light of changes in economic and financial market conditions. The Group may adjust the dividend payout to shareholders, buy back or issue new shares to optimise capital structure within the Group.

The Group is currently in a net debt position after inclusion of present value of operating lease obligations. The Group will continue to be guided by prudent financial policies of which gearing is an important aspect. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements other than those imposed by local regulatory bodies.

	Group	
	2016	2015
	$'000	$'000
Gross debt		
Bank loans	**338,524**	466,140
Bonds	**721,098**	705,567
Capitalised lease obligations	**18,785**	19,436
Present value of operating leases	**330,585**	270,819 *
Other loans	**1,868**	2,088
Financial guarantees	**52,000**	83,706 *
	1,462,860	1,547,756
Shareholders' funds		
Share capital	**895,926**	895,926
Treasury shares	**(44,081)**	(66,870)
Other reserves	**56,557**	47,782
Retained earnings	**1,273,860**	1,255,214
	2,182,262	2,132,052
Non-controlling interests	**261,934**	128,875
	2,444,196	2,260,927
Gross debt/equity ratio	**0.6**	0.7
Cash and cash equivalents	**903,632**	944,119
Funds under management	**499,812**	501,181
	1,403,444	1,445,300
Gross debt (excluding bank overdrafts)	**(1,462,860)**	(1,547,756)
Net debt position	**(59,416)**	(102,456)

* *Restated*

During the financial year ended 31 December 2016, the Group has included the present value of operating lease commitments and financial guarantee in gross debt as part of its debt management, similar to rating agencies' approach. This would ensure the Group would have adequate access to liquidity to mitigate the effect of unforeseen events on cash flows.

NOTES TO THE FINANCIAL STATEMENTS

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43. SUBSEQUENT EVENT

On 18 January 2017, the Group entered into a conditional share purchase agreement to acquire a 51% equity interest in SP Telecommunications Pte Ltd from its related party for a purchase consideration estimated at $54 million, to be finalised post-closing, subject to a maximum of $60 million. Subject to regulatory approvals, the proposed transaction is expected to close by second quarter of 2017. The purchase consideration will be funded entirely in cash on closing.

SGX LISTING MANUAL REQUIREMENTS

31 DECEMBER 2016
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INTERESTED PERSON TRANSACTIONS

Interested person transactions carried out during the financial year pursuant to the Shareholders' Mandate obtained under Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX") by the Group are as follows:

	Aggregate value of all transactions excluding transactions conducted under a shareholders mandate pursuant to Rule 920 of the SGX Listing Manual		**Aggregate value of all transactions conducted under a shareholders mandate pursuant to Rule 920 of the SGX Listing Manual**	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Transactions for the Sale of Goods and Services				
CapitaLand Limited and its Associates	**–**	–	**157**	657
SembCorp Industries Ltd and its Associates	**–**	–	**5,394**	645
SembCorp Marine Ltd and its Associates	**–**	–	**746**	(178) *
SATS Ltd. and its Associates	**–**	–	**191**	–
StarHub Ltd and its Associates	**–**	–	**5,915**	591
Singapore Airlines Limited and its Associates	**–**	–	**1,528**	4,554
Singapore Telecommunications Limited and its Associates	**–**	–	**2,693**	4,239
SMRT Corporation Ltd and its Associates	**–**	–	**360**	31,137
Temasek Holdings (Private) Limited and its Associates (non-listed)	**–**	–	**7,680**	4,083
	–	–	**24,664**	45,728
Transactions for the Purchase of Goods and Services				
SATS Ltd. and its Associates	**–**	–	**2,345**	2,169
SembCorp Industries Ltd and its Associates	**–**	–	**260**	8,082
SembCorp Marine Ltd and its Associates	**–**	–	**–**	180
Singapore Airlines Limited and its Associates	**–**	–	**–**	143
Singapore Telecommunications Limited and its Associates	**–**	–	**4,006**	2,174
SMRT Corporation Ltd and its Associates	**–**	–	**122**	180
StarHub Ltd and its Associates	**–**	–	**1,700**	–
Mapletree Industrial Trust	**–**	–	**1,068**	–
Temasek Holdings (Private) Limited and its Associates (non-listed)	**–**	–	**10,068**	7,048
	–	–	**19,569**	19,976
Total Interested Person Transactions	**–**	–	**44,233**	65,704

* *This relates to a credit note*

SECTORAL FINANCIAL REVIEW – AEROSPACE

INCOME STATEMENT

	2016 $'000	2015 $'000
Revenue	**2,492,857**	2,095,614
Cost of sales	**(2,081,493)**	(1,732,054)
Gross profit	**411,364**	363,560
Distribution and selling expenses	**(12,059)**	(8,355)
Administrative expenses	**(118,873)**	(114,536)
Other operating expenses	**(40,001)**	(18,656)
Profit from operations	**240,431**	222,013
Other income	**22,736**	23,856
Other expenses	**(4,339)**	(578)
Other income, net	**18,397**	23,278
Finance income	**11,431**	25,596
Finance costs	**(12,038)**	(19,157)
Finance (costs)/income, net	**(607)**	6,439
Share of results of associates and joint ventures, net of tax	**42,097**	38,870
Profit before taxation	**300,318**	290,600
Taxation	**(49,102)**	(56,900)
Profit for the year	**251,216**	233,700
Attributable to:		
Shareholder of the Company	**234,385**	226,720
Non-controlling interests	**16,831**	6,980
	251,216	233,700

SECTORAL FINANCIAL REVIEW – AEROSPACE

BALANCE SHEET

	2016 $'000	2015 $'000
ASSETS		
Non-current assets		
Property, plant and equipment	**833,628**	820,145
Associates and joint ventures	**244,263**	311,473
Investments	**12**	12
Intangible assets	**433,294**	141,239
Advances and other receivables	**2,333**	64
Deferred tax assets	**27,356**	11,840
Derivative financial instruments	**221**	136
Employee benefits	**151**	–
	1,541,258	1,284,909
Current assets		
Inventories and work-in-progress	**475,477**	494,257
Trade receivables	**584,730**	489,856
Amount due from related parties	**24,301**	43,205
Advances and other receivables	**116,023**	93,225
Short-term investments	**364**	369
Bank balances and other liquid funds	**272,683**	234,274
	1,473,578	1,355,186
TOTAL ASSETS	**3,014,836**	2,640,095
EQUITY AND LIABILITIES		
Current liabilities		
Advance payments from customers	**98,760**	103,347
Trade payables and accruals	**640,341**	528,428
Amount due to related parties	**244,950**	379,553
Provisions	**61,503**	52,940
Progress billing in excess of work-in-progress	**165,426**	146,336
Provision for taxation	**60,941**	51,273
Borrowings	**64,805**	1,090
Employee benefits	**1,916**	–
Other payables	**700**	–
	1,339,342	1,262,967
NET CURRENT ASSETS	**134,236**	92,219
Non-current liabilities		
Advance payments from customers	**192,438**	184,081
Trade payables and accruals	**70,238**	149,332
Deferred tax liabilities	**158,831**	53,170
Borrowings	**83,771**	121,673
Employee benefits	**84,531**	–
Other payables	**–**	700
Derivative financial instruments	**6,734**	94
Amount due to related parties	**94,671**	102,207
	691,214	611,257
TOTAL LIABILITIES	**2,030,556**	1,874,224
NET ASSETS	**984,280**	765,871
Share capital and reserves	**740,805**	686,310
Non-controlling interests	**243,475**	79,561
	984,280	765,871
TOTAL EQUITY AND LIABILITIES	**3,014,836**	2,640,095

SECTORAL FINANCIAL REVIEW – AEROSPACE

STATEMENT OF CASH FLOWS

	2016 $'000	2015 $'000
Net cash from operating activities	**469,077**	350,010
Net cash used in investing activities	**(177,632)**	(175,280)
Proceeds from sale of property, plant and equipment	**3,237**	1,175
Dividends from associates	**33,906**	34,291
Dividends from investments	**4**	3
Purchase of property, plant and equipment	**(137,620)**	(199,059)
Acquisition of subsidiary (net of cash acquired)	**9,127**	(4,235)
Investment in an associate	**(34,776)**	–
Proceeds from disposal of a subsidiary	**10,911**	–
Development of intangible assets	**(62,421)**	(7,455)
Net cash used in financing activities	**(254,213)**	(190,682)
Capital contribution from non-controlling interests	**448**	588
Proceeds from bank loans	**154,578**	79,936
Repayment of bank loans	**(60,624)**	(6,938)
Repayment of lease obligations, net	**(947)**	(546)
Proceeds from loans with related parties	**2,140**	77,596
Repayment of loans with related parties	**(251,943)**	(240,988)
Dividends paid to shareholder	**(80,639)**	(81,764)
Dividends paid to non-controlling interests	**(8,024)**	(7,410)
Interest paid	**(9,202)**	(11,156)
Net increase/(decrease) in cash and cash equivalents	**37,232**	(15,952)
Cash and cash equivalents at beginning of the year	**234,274**	243,497
Exchange difference on cash and cash equivalents at beginning of the year	**1,177**	6,729
Cash and cash equivalents at end of the year	**272,683**	234,274

SECTORAL FINANCIAL REVIEW – AEROSPACE

FINANCIAL HIGHLIGHTS

	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000
Income Statement					
Revenue	**2,492,857**	2,095,614	2,071,464	2,088,105	2,025,627
Profit					
EBITDA	**353,419**	293,483	321,637	342,022	323,320
EBIT	**240,431**	222,013	261,471	291,828	274,306
PBT	**300,318**	290,600	282,999	319,442	297,840
Net Profit	**234,385**	226,720	220,144	259,214	253,242
Balance Sheet					
Property, plant and equipment	**833,628**	820,145	671,068	679,552	630,709
Intangible and other assets	**706,002**	465,133	470,953	469,284	298,485
Inventories and work-in-progress	**475,477**	494,257	560,001	666,523	603,391
Trade receivables, deposits and prepayments	**727,046**	626,286	579,149	551,883	614,346
Bank balances and other liquid funds	**272,683**	234,274	243,856	382,226	305,219
Current liabilities	**1,339,342**	1,262,967	1,139,953	1,519,751	1,374,363
Non-current liabilities	**691,214**	611,257	639,407	703,080	601,082
Share capital	**368,512**	368,512	368,512	152,512	152,512
Capital and other reserves	**(9,517)**	(18,560)	(41,493)	(37,753)	(73,513)
Retained earnings	**381,810**	336,358	341,402	338,557	341,709
Non-controlling interests	**243,475**	79,561	77,246	73,321	55,997
Financial Indicators					
Earnings per share (cents)	**50.03**	48.39	46.99	102.65	100.29
Net assets value per share (cents)	**210.09**	163.47	159.16	208.56	238.35
Return on sales (%)	**10.1**	11.2	11.1	12.7	12.7
Return on equity (%)	**28.1**	29.2	29.2	48.0	52.0
Return on total assets (%)	**8.3**	8.9	9.1	9.7	10.5
Return on capital employed (%)	**13.7**	16.9	15.7	19.6	20.1
Productivity Data					
Average staff strength (numbers)	**7,600**	7,126	7,314	7,370	7,307
Revenue per employee ($)	**328,008**	294,080	283,219	283,325	277,217
Net profit per employee ($)	**30,840**	31,816	30,099	35,172	34,657
Employment costs	**747,045**	625,475	607,228	648,113	657,440
Employment costs per $ of revenue ($)	**0.30**	0.30	0.29	0.31	0.32
Economic Value Added	**154,055**	169,548	162,092	217,064	189,716
Economic Value Added spread (%)	**7.9**	11.1	10.1	14.4	14.8
Economic Value Added per employee ($)	**20,270**	23,793	22,162	29,452	25,964
Value added	**1,178,284**	1,002,326	975,569	1,035,479	1,032,108
Value added per employee ($)	**155,037**	140,658	133,384	140,499	141,249
Value added per $ of employment costs ($)	**1.58**	1.60	1.61	1.60	1.57
Value added per $ of gross property, plant and equipment ($)	**0.72**	0.64	0.72	0.79	0.83
Value added per $ of revenue ($)	**0.47**	0.48	0.47	0.50	0.51

SECTORAL FINANCIAL REVIEW – ELECTRONICS

INCOME STATEMENT

	2016 $'000	2015 $'000
Revenue	**1,910,501**	1,743,174
Cost of sales	**(1,369,016)**	(1,222,376)
Gross profit	**541,485**	520,798
Distribution and selling expenses	**(95,215)**	(90,657)
Administrative expenses	**(164,522)**	(162,649)
Other operating expenses	**(89,902)**	(88,793)
Profit from operations	**191,846**	178,699
Other income	**19,400**	14,654
Other expenses	**(15)**	–
Other income, net	**19,385**	14,654
Finance income	**4,089**	3,683
Finance costs	**(7,827)**	(6,122)
Finance costs, net	**(3,738)**	(2,439)
Share of results of associate and joint ventures, net of tax	**305**	38
Profit before taxation	**207,798**	190,952
Taxation	**(33,194)**	(27,191)
Profit for the year	**174,604**	163,761
Attributable to:		
Shareholder of the Company	**174,546**	163,000
Non-controlling interests	**58**	761
	174,604	163,761

SECTORAL FINANCIAL REVIEW – ELECTRONICS

BALANCE SHEET

	2016 $'000	2015 $'000
ASSETS		
Non-current assets		
Property, plant and equipment	**212,030**	185,192
Associates and joint venture	**1,565**	1,397
Investments	**10,114**	9,902
Intangible assets	**347,989**	335,049
Long-term trade receivable	**966**	913
Deferred tax assets	**25,889**	29,726
Derivative financial instruments	**845**	40
	599,398	562,219
Current assets		
Inventories and work-in-progress	**589,492**	528,333
Trade receivables	**514,180**	424,681
Amounts due from related parties	**38,020**	20,743
Advances and other receivables	**79,149**	54,620
Bank balances and other liquid funds	**236,180**	271,435
	1,457,021	1,299,812
TOTAL ASSETS	**2,056,419**	1,862,031
EQUITY AND LIABILITIES		
Current liabilities		
Advance payments from customers	**204,375**	165,549
Trade payables and accruals	**474,434**	472,571
Amounts due to related parties	**101,719**	63,263
Provisions	**64,347**	70,243
Progress billings in excess of work-in-progress	**380,396**	300,451
Provision for taxation	**45,649**	42,201
	1,270,920	1,114,278
NET CURRENT ASSETS	**186,101**	185,534
Non-current liabilities		
Advance payments from customers	**148,317**	159,172
Trade payables and accruals	**34,620**	35,683
Deferred tax liabilities	**7,700**	7,040
Employee benefits	**669**	–
Deferred income	**3,108**	6,645
Derivative financial instruments	**–**	13
Amounts due to related parties	**318,603**	314,892
	513,017	523,445
TOTAL LIABILITIES	**1,783,937**	1,637,723
NET ASSETS	**272,482**	224,308
Share capital and reserves	**265,872**	217,088
Non-controlling interests	**6,610**	7,220
	272,482	224,308
TOTAL EQUITY AND LIABILITIES	**2,056,419**	1,862,031

SECTORAL FINANCIAL REVIEW – ELECTRONICS

STATEMENT OF CASH FLOWS

	2016 $'000	2015 $'000
Net cash from operating activities	**148,504**	65,846
Net cash used in investing activities	**(77,459)**	(33,151)
Proceeds from sale of property, plant and equipment	**66**	50
Proceeds from disposal of an associate	**731**	–
Proceeds from disposal of unquoted investments	**253**	6
Dividends from an associate and a joint venture	**137**	720
Purchase of property, plant and equipment	**(65,881)**	(32,154)
Purchase of investments	**(9)**	(5,281)
Acquisition of other intangible assets	**(12,756)**	(14,168)
Acquisition of controlling interests in a subsidiary, net of cash acquired	**–**	17,676
Net cash used in financing activities	**(106,209)**	(40,633)
Repayment of related parties loans	**(79,467)**	(2,723)
Repayment of loans by related parties	**17,500**	163,000
Repayment of loans to a joint venture	**(7,000)**	–
Proceeds from related parties loans	**117,719**	46,155
Proceeds of a loan from a joint venture	**2,000**	5,000
Loans to related parties	**(17,500)**	(83,000)
Acquisition of non-controlling interests in subsidiaries	**–**	(7,600)
Dividends paid to shareholder	**(133,274)**	(158,059)
Dividends paid to non-controlling interests	**(605)**	–
Interest paid	**(5,568)**	(2,827)
Deposits pledged	**(14)**	(579)
Net decrease in cash and cash equivalents	**(35,164)**	(7,938)
Cash and cash equivalents at beginning of the year	**270,221**	276,893
Exchange difference on cash and cash equivalents at beginning of the year	**(105)**	1,266
Cash and cash equivalents at end of the year	**234,952**	270,221

SECTORAL FINANCIAL REVIEW – ELECTRONICS

FINANCIAL HIGHLIGHTS

	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000
Income Statement					
Revenue	**1,910,501**	1,743,174	1,614,079	1,682,278	1,618,717
Profit					
EBITDA	**237,382**	218,570	212,733	194,652	185,659
EBIT	**191,846**	178,699	174,371	165,546	158,207
PBT	**207,798**	190,952	183,968	170,328	152,332
Net Profit	**174,546**	163,000	152,143	137,119	119,771
Balance Sheet					
Property, plant and equipment	**212,030**	185,192	179,704	170,244	104,672
Intangible and other assets	**388,241**	377,131	348,855	315,530	329,671
Inventories and work-in-progress	**589,492**	528,333	381,322	280,051	306,697
Trade receivables, deposits and prepayments	**630,476**	499,940	606,661	489,634	421,520
Bank balances and other liquid funds	**236,180**	271,435	277,528	478,062	398,136
Current liabilities	**1,270,920**	1,114,278	1,086,428	1,081,005	1,035,080
Non-current liabilities	**513,017**	523,445	510,536	457,767	372,975
Share capital	**52,522**	52,522	52,522	52,522	52,522
Capital and other reserves	**23,432**	15,802	(5,135)	(20,609)	(32,821)
Retained earnings	**189,918**	148,764	144,460	150,841	123,022
Non-controlling interests	**6,610**	7,220	5,259	11,995	9,918
Financial Indicators					
Earnings per share (cents)	**166.16**	155.17	144.84	130.53	114.02
Net assets value per share (cents)	**259.40**	213.54	187.64	185.40	145.31
Return on sales (%)	**9.1**	9.4	9.5	8.3	7.6
Return on equity (%)	**44.0**	46.8	47.1	43.7	43.7
Return on total assets (%)	**8.5**	8.8	8.5	8.1	7.8
Return on capital employed (%)	**23.1**	23.7	22.2	23.3	24.8
Productivity Data					
Average staff strength (numbers)	**6,568**	6,293	5,933	5,678	5,485
Revenue per employee ($)	**290,880**	277,002	272,051	296,280	295,117
Net profit per employee ($)	**26,575**	25,902	25,644	24,149	21,836
Employment costs	**622,933**	591,543	536,807	527,360	493,720
Employment costs per $ of revenue ($)	**0.33**	0.34	0.33	0.31	0.31
Economic Value Added	**138,891**	130,117	118,650	106,127	101,777
Economic Value Added Spread (%)	**17.0**	17.8	16.6	18.1	19.5
Economic Value Added per employee ($)	**21,147**	20,676	19,998	18,691	18,556
Value added	**887,570**	833,641	764,967	737,285	691,904
Value added per employee ($)	**135,136**	132,471	128,934	129,849	126,145
Value added per $ of employment costs ($)	**1.42**	1.41	1.43	1.40	1.40
Value added per $ of gross property, plant and equipment ($)	**1.95**	2.13	2.12	2.23	2.69
Value added per $ of revenue ($)	**0.46**	0.48	0.47	0.44	0.43

SECTORAL FINANCIAL REVIEW – LAND SYSTEMS

INCOME STATEMENT

	2016 $'000	2015 $'000
Revenue	**1,311,954**	1,401,019
Cost of sales	**(1,090,697)**	(1,133,748)
Gross profit	**221,257**	267,271
Distribution and selling expenses	**(57,164)**	(64,989)
Administrative expenses	**(98,126)**	(111,260)
Other operating expenses	**(77,167)**	(43,833)
(Loss)/Profit from operations	**(11,200)**	47,189
Other income	**25,101**	13,239
Other expenses	**(1,675)**	(1,645)
Other income, net	**23,426**	11,594
Finance income	**2,251**	2,880
Finance costs	**(7,199)**	(13,252)
Finance costs, net	**(4,948)**	(10,372)
Share of results of associates and joint ventures, net of tax	**14,896**	16,590
Profit before taxation	**22,174**	65,001
Taxation	**(18,015)**	(14,395)
Profit for the year	**4,159**	50,606
Attributable to:		
Shareholder of the Company	**12,693**	55,736
Non-controlling interests	**(8,534)**	(5,130)
	4,159	50,606

SECTORAL FINANCIAL REVIEW – LAND SYSTEMS

BALANCE SHEET

	2016 $'000	2015 $'000
ASSETS		
Non-current assets		
Property, plant and equipment	**297,172**	354,677
Associates and joint ventures	**126,737**	121,781
Investments	**86**	189
Intangible assets	**200,881**	208,201
Finance lease receivables	**–**	523
Deferred tax assets	**17,858**	25,993
Amounts due from related parties	**6,180**	6,049
Derivative financial instruments	**1,780**	1,138
	650,694	718,551
Current assets		
Inventories and work-in-progress	**547,083**	657,231
Trade receivables	**241,573**	279,305
Amounts due from related parties	**6,959**	18,635
Advances and other receivables	**73,892**	96,886
Finance lease receivables	**–**	3,173
Derivative financial instruments	**1,997**	3,562
Bank balances and other liquid funds	**160,686**	199,518
	1,032,190	1,258,310
TOTAL ASSETS	**1,682,884**	1,976,861
EQUITY AND LIABILITIES		
Current liabilities		
Advance payments from customers	**237,820**	217,493
Trade payables and accruals	**325,309**	427,597
Amounts due to related parties	**86,254**	120,792
Progress billings in excess of work-in-progress	**7,895**	9,594
Provisions	**100,206**	77,135
Provision for taxation	**26,603**	32,256
Borrowings	**11,064**	49,111
Derivative financial instruments	**12,614**	8,186
	807,765	942,164
NET CURRENT ASSETS	**224,425**	316,146
Non-current liabilities		
Advance payments from customers	**250,073**	356,379
Trade payables and accruals	**–**	1,150
Amounts due to related parties	**282,490**	295,941
Borrowings	**155**	310
Deferred income	**32,054**	42,460
Deferred tax liabilities	**63,329**	66,555
Derivative financial instruments	**6,437**	8,512
	634,538	771,307
TOTAL LIABILITIES	**1,442,303**	1,713,471
NET ASSETS	**240,581**	263,390
Share capital and reserves	**229,250**	221,847
Non-controlling interests	**11,331**	41,543
	240,581	263,390
TOTAL EQUITY AND LIABILITIES	**1,682,884**	1,976,861

SECTORAL FINANCIAL REVIEW – LAND SYSTEMS

STATEMENT OF CASH FLOWS

	2016 $'000	2015 $'000
Net cash from operating activities	**28,689**	47,525
Cash flows used in investing activities	**(7,766)**	(14,743)
Proceeds from sale of property, plant and equipment	**236**	580
Proceeds from sale of unquoted equity investment	**3**	–
Proceeds from disposal of a subsidiary	**18,615**	–
Repayment of short-term loan by joint ventures	**–**	272
Dividends from associates	**9,893**	7,652
Purchase of property, plant and equipment	**(34,941)**	(22,371)
Purchase of intangible assets	**(1,572)**	(876)
Cash flows used in financing activities	**(53,985)**	(117,118)
Interest paid	**(6,988)**	(10,414)
Repayment of short-term related party loans	**(11,952)**	(72,705)
Proceeds from short-term related party loans	**581**	46,752
Short-term loan to a related party	**–**	(20,000)
Repayment of short-term loan by a related party	**–**	20,000
Repayment of short-term immediate holding company loans	**(32,000)**	(65,500)
Proceeds from short-term immediate holding company loans	**15,200**	44,100
Repayment of long-term immediate holding company loans	**–**	(50,000)
Repayment of long-term related party loans	**(18,957)**	(710)
Repayment of short-term loans	**(161)**	(156)
Proceeds from short-term bank loans	**7,802**	40,540
Repayment of short-term bank loans	**(10,287)**	(30,802)
Proceeds of a short-term loan from non-controlling interest	**–**	1,615
Dividends paid to shareholder	**–**	(17,800)
Dividends paid to non-controlling interests	**(2,009)**	(3,403)
Acquisition of non-controlling interests in a subsidiary	**(167)**	–
Payment to non-controlling interests for reduction in share capital	**(1,178)**	–
Capital contribution from non-controlling interests	**–**	50
Deposits discharged	**6,131**	1,315
Net decrease in cash and cash equivalents	**(33,062)**	(84,336)
Cash and cash equivalents at beginning of the year	**193,357**	276,750
Exchange difference on cash and cash equivalents at beginning of the year	**361**	943
Cash and cash equivalents at end of the year	**160,656**	193,357

SECTORAL FINANCIAL REVIEW – LAND SYSTEMS

FINANCIAL HIGHLIGHTS

	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000
Income Statement					
Revenue	**1,311,954**	1,401,019	1,405,132	1,485,219	1,525,341
Profit					
EBITDA	**27,520**	86,170	76,780	129,555	139,979
EBIT	**(11,200)**	47,189	38,727	90,472	98,512
PBT	**22,174**	65,001	56,201	111,793	113,268
Net Profit	**12,693**	55,736	50,323	91,239	88,160
Balance Sheet					
Property, plant and equipment and investment property	**297,172**	354,677	372,275	330,063	311,761
Intangible and other assets	**349,339**	360,864	338,296	347,621	324,702
Inventories and work-in-progress	**547,083**	657,231	673,177	673,322	669,198
Trade receivables, deposits and prepayment	**328,604**	404,571	535,791	499,598	504,660
Bank balances and other liquid funds	**160,686**	199,518	284,226	251,846	247,386
Current liabilities	**807,765**	942,164	965,063	898,168	971,044
Non-current liabilities	**634,538**	771,307	966,263	880,972	936,491
Share capital	**194,445**	194,445	194,445	194,445	44,445
Capital and other reserves	**866**	9,630	8,655	18,204	(13,842)
Retained earnings	**33,939**	17,772	19,960	52,837	67,628
Non-controlling interests	**11,331**	41,543	49,379	57,824	51,941
Financial Indicators					
Earnings per share (cents)	**2.41**	10.60	9.57	17.35	73.12
Net assets value per share (cents)	**45.74**	50.08	51.80	61.47	124.56
Return on sales (%)	**0.3**	3.6	3.2	6.2	5.9
Return on equity (%)	**3.0**	15.1	13.6	22.2	36.1
Return on total assets (%)	**0.2**	2.6	2.1	4.4	4.4
Return on capital employed (%)	**1.6**	6.3	5.2	11.6	14.1
Productivity Data					
Average staff strength (numbers)	**5,337**	6,392	6,738	6,998	6,968
Revenue per employee ($)	**245,822**	219,183	208,538	212,235	218,907
Net profit per employee ($)	**2,378**	8,720	7,469	13,038	12,652
Employment costs	**345,385**	353,355	342,860	340,675	339,518
Employment costs per $ of revenue ($)	**0.26**	0.25	0.24	0.23	0.22
Economic Value Added	**(53,103)**	10,652	4,963	61,162	72,381
Economic Value Added spread (%)	**(7.8)**	0.3	(0.4)	6.4	8.8
Economic Value Added per employee ($)	**(9,950)**	1,666	737	8,740	10,388
Value added	**470,894**	485,166	483,896	517,685	532,146
Value added per employee ($)	**88,232**	75,902	71,816	73,976	76,370
Value added per $ of employment costs ($)	**1.36**	1.37	1.41	1.52	1.57
Value added per $ of gross property, plant and equipment ($)	**0.67**	0.67	0.67	0.80	0.88
Value added per $ of revenue ($)	**0.36**	0.35	0.34	0.35	0.35

SECTORAL FINANCIAL REVIEW – MARINE

INCOME STATEMENT

	2016 $'000	2015 $'000
Revenue	**841,160**	958,373
Cost of sales	**(727,591)**	(836,564)
Gross profit	**113,569**	121,809
Distribution and selling expenses	**(8,460)**	(5,979)
Administrative expenses	**(32,809)**	(35,068)
Other operating expenses	**(8,724)**	(8,967)
Profit from operations	**63,576**	71,795
Other income	**7,548**	7,482
Other expenses	**(124)**	(115)
Other income, net	**7,424**	7,367
Finance income	**3,866**	3,716
Finance costs	**(596)**	(103)
Finance income, net	**3,270**	3,613
Share of results of joint ventures, net of tax	**851**	5,500
Profit before taxation	**75,121**	88,275
Taxation	**(7,370)**	(2,558)
Profit for the year	**67,751**	85,717
Attributable to:		
Shareholder of the Company	**67,757**	85,725
Non-controlling interests	**(6)**	(8)
	67,751	85,717

SECTORAL FINANCIAL REVIEW – MARINE

BALANCE SHEET

	2016 $'000	2015 $'000
ASSETS		
Non-current assets		
Property, plant and equipment	**315,031**	332,533
Joint ventures	**8,666**	8,229
Intangible assets	**134**	84
Long-term receivables	**1,129**	4,363
Deferred tax assets	**21,334**	17,225
Amounts due from related parties	**4,806**	4,806
Derivative financial instruments	**2,397**	2,341
	353,497	369,581
Current assets		
Inventories and work-in-progress	**239,936**	205,539
Trade receivables	**96,598**	99,581
Amounts due from related parties	**153,011**	182,233
Advances and other receivables	**50,972**	67,313
Bank balances and other liquid funds	**81,860**	78,605
	622,377	633,271
TOTAL ASSETS	**975,874**	1,002,852
EQUITY AND LIABILITIES		
Current liabilities		
Advance payments from customers	**286,860**	289,630
Trade payables and accruals	**242,581**	234,454
Amounts due to related parties	**61,461**	2,885
Provisions	**47,042**	51,940
Progress billings in excess of work-in-progress	**65,811**	112,194
Provision for taxation	**304**	–
Borrowings	**11,558**	18,390
	715,617	709,493
NET CURRENT LIABILITIES	**(93,240)**	(76,222)
Non-current liabilities		
Advance payments from customers	**–**	1,276
Other long-term payables	**23,409**	29,281
Deferred income	**41,997**	42,947
Amounts due to related parties	**26,343**	26,343
Derivative financial instruments	**2,107**	1,387
	93,856	101,234
TOTAL LIABILITIES	**809,473**	810,727
NET ASSETS	**166,401**	192,125
Share capital and reserves	**166,375**	192,093
Non-controlling interests	**26**	32
	166,401	192,125
TOTAL EQUITY AND LIABILITIES	**975,874**	1,002,852

SECTORAL FINANCIAL REVIEW – MARINE

STATEMENT OF CASH FLOWS

	2016 $'000	2015 $'000
Net cash from/(used in) operating activities	**51,604**	(52,265)
Net cash used in investing activities	**(9,794)**	(10,850)
Proceeds from disposal of property, plant and equipment	**27**	853
Acquisition of other intangible assets	**(64)**	–
Purchase of property, plant and equipment	**(10,171)**	(17,133)
Dividends from joint ventures	**800**	5,430
Investment in a joint venture	**(386)**	–
Net cash used in financing activities	**(38,588)**	(83,827)
Proceeds from short-term bank loans	**37,097**	29,354
Repayment of short-term bank loans	**(43,856)**	(11,197)
Proceeds from related party loans	**52,929**	2,829
Repayment of related party loan	**–**	(2,852)
Loans to related parties	**(51,000)**	(199,128)
Repayment of loans by related parties	**61,000**	156,240
Dividends paid to shareholder	**(94,287)**	(59,023)
Interest paid	**(471)**	(50)
Net increase/(decrease) in cash and cash equivalents	**3,222**	(146,942)
Cash and cash equivalents at beginning of the year	**78,605**	224,027
Exchange difference on cash and cash equivalents at beginning of the year	**33**	1,520
Cash and cash equivalents at end of the year	**81,860**	78,605

SECTORAL FINANCIAL REVIEW – MARINE

FINANCIAL HIGHLIGHTS

	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000
Income Statement					
Revenue	**841,160**	958,373	1,341,951	1,238,847	1,011,092
Profit					
EBITDA	**91,998**	101,404	127,933	152,993	136,565
EBIT	**63,576**	71,795	100,835	134,479	122,226
PBT	**75,121**	88,275	122,780	146,310	127,582
Net Profit	**67,757**	85,725	108,086	109,955	95,013
Balance Sheet					
Property, plant and equipment	**315,031**	332,533	334,075	324,043	151,322
Intangible and other assets	**32,531**	30,219	28,776	70,050	38,058
Inventories and work-in-progress	**239,936**	205,539	110,445	112,178	280,740
Trade receivables, deposits and prepayment	**306,516**	355,956	416,932	301,487	196,915
Bank balances and other liquid funds	**81,860**	78,605	224,027	333,058	221,442
Current liabilities	**715,617**	709,493	856,315	846,639	624,457
Non-current liabilities	**93,856**	101,234	99,068	103,680	139,636
Share capital	**50,856**	50,856	50,856	50,856	50,856
Capital and other reserves	**9,863**	9,051	2,494	28,425	(6,920)
Retained earnings	**105,656**	132,186	105,484	111,178	80,907
Non-controlling interests	**26**	32	38	38	(459)
Financial Indicators					
Earnings per share (cents)	**34.65**	43.83	55.27	56.22	48.58
Net assets value per share (cents)	**85.09**	98.24	81.24	97.41	63.60
Return on sales (%)	**8.1**	8.9	8.1	8.9	9.4
Return on equity (%)	**35.2**	39.2	58.4	50.7	62.8
Return on total assets (%)	**6.9**	8.5	9.7	9.6	10.7
Return on capital employed (%)	**25.3**	41.3	42.9	63.3	74.1
Productivity Data					
Average staff strength (numbers)	**1,690**	1,822	1,884	1,871	1,834
Revenue per employee ($)	**497,728**	526,001	712,288	662,131	551,304
Net profit per employee ($)	**40,093**	47,050	57,370	58,768	51,806
Employment costs	**154,490**	173,487	180,390	197,545	186,990
Employment costs per $ of revenue ($)	**0.18**	0.18	0.13	0.16	0.18
Economic Value Added	**51,113**	76,544	93,593	114,848	91,402
Economic Value Added spread (%)	**19.7**	35.8	37.3	58.2	68.8
Economic Value Added per employee ($)	**30,244**	42,011	49,678	61,383	49,838
Value added	**264,414**	294,698	336,164	366,414	332,510
Value added per employee ($)	**156,458**	161,744	178,431	195,839	181,303
Value added per $ of employment costs ($)	**1.71**	1.70	1.86	1.85	1.78
Value added per $ of gross property, plant and equipment ($)	**0.37**	0.41	0.49	0.56	0.77
Value added per $ of revenue ($)	**0.31**	0.31	0.25	0.30	0.33

SHAREHOLDING STATISTICS

AS AT 27 FEBRUARY 2017

SHARE CAPITAL

Paid-Up Capital (including treasury shares)	:	S$895,925,583.405
Number of issued ordinary shares (excluding treasury shares)	:	3,110,015,218
Number of ordinary shares held in treasury	:	12,479,979
Percentage of such holding against the total number of issued ordinary shares (excluding ordinary shares held in treasury)	:	0.40%
Class of Shares	:	Ordinary Shares One Special Share held by the Minister for Finance
Voting Rights	:	One vote per share

SHAREHOLDING HELD IN HANDS OF PUBLIC

Based on the information available to the Company as at 27 February 2017, 48.93% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual issued by SGX-ST is complied with.

ANALYSIS OF SHAREHOLDINGS

Range of Shareholdings	No. of Shareholders	%	No. of Shares (excluding treasury shares)	%
1 --- 99	847	2.42	17,088	0.00
100 --- 1,000	4,825	13.81	4,018,701	0.13
1,001 --- 10,000	23,038	65.94	105,129,884	3.38
10,001 --- 1,000,000	6,195	17.73	239,279,782	7.69
1,000,001 and above	34	0.10	2,761,569,763	88.80
	34,939	100.00	3,110,015,218	100.00

	Number of Shares			
Substantial Shareholder	**Direct Interest**	**Deemed Interest**	**Total Interest**	**%***
Temasek Holdings (Private) Limited	1,554,764,574	31,157,474 [1]	1,585,922,048	50.99

Notes:

[1] *Includes deemed interests held through subsidiaries and associated companies.*

* *The percentage of issued ordinary shares is calculated based on the number of issued ordinary shares of the Company as at 27 February 2017, excluding any ordinary shares held in treasury as at that date.*

SHAREHOLDING STATISTICS

AS AT 27 FEBRUARY 2017

MAJOR SHAREHOLDERS LIST – TOP 20

No.	Name	No. of Shares Held	%*
1	Temasek Holdings (Private) Limited	1,554,764,574	49.99
2	Citibank Nominees Singapore Pte Ltd	325,006,772	10.45
3	DBS Nominees (Private) Limited	310,582,661	9.99
4	DBSN Services Pte. Ltd.	176,990,510	5.69
5	HSBC (Singapore) Nominees Pte Ltd	87,327,949	2.81
6	BNP Paribas Securities Services	85,248,357	2.74
7	United Overseas Bank Nominees (Private) Limited	61,978,786	1.99
8	Raffles Nominees (Pte.) Limited	43,720,162	1.41
9	Vestal Investments Pte. Ltd.	28,501,000	0.92
10	DB Nominees (Singapore) Pte Ltd	18,949,044	0.61
11	Lee Pineapple Company (Pte) Limited	15,000,000	0.48
12	OCBC Nominees Singapore Private Limited	6,930,781	0.22
13	DBS Vickers Securities (Singapore) Pte Ltd	5,989,350	0.19
14	Tan Pheng Hock	5,318,285	0.17
15	Mrs Lee Li Ming Nee Ong	3,500,000	0.11
16	Philip Securities Pte Ltd	3,249,197	0.11
17	Morgan Stanley Asia (Singapore) Securities Pte Ltd	2,357,381	0.08
18	Heng Siew Eng	2,301,000	0.07
19	OCBC Securities Private Limited	2,263,461	0.07
20	NTUC Fairprice Co-Operative Ltd	2,240,000	0.07
		2,742,219,270	88.17

* *The percentage of issued ordinary shares is calculated based on the number of issued ordinary shares of the Company as at 27 February 2017, excluding any ordinary shares held in treasury as at that date.*

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