Annual General Meeting to be held on 15 May 2020
Responses to Substantial and Relevant Questions

Singapore Technologies Engineering Ltd (ST Engineering) would like to thank all shareholders who submitted their questions in advance of our Annual General Meeting (AGM) to be held by electronic means this afternoon at 2:30pm.

Responses to substantial questions relevant to the Resolutions

We received several questions relating to the 2019 financials, the COVID-19 impact on the Group and the Group's business strategy/outlook. In addition, we received a list of questions from Securities Investors Association (Singapore).

As there are areas of overlap in the scope of the questions asked, we are not providing response to every question received. Instead, where the questions overlap, we have grouped related and similar questions together and provided our corresponding responses to them.

Please refer to our responses as set out in Appendix 1.

CEO presentation at AGM

Vincent Chong, President & CEO will deliver a presentation to shareholders at the AGM. Please refer to the 2020 AGM Presentation as set out in Appendix 2.

The documents in the appendices can also be found on our Investor Relations page on https://www.stengg.com/en/investor-relations/annual-general-meetings/

By Order of the Board

Tan Wan Hoon
Joint Company Secretary
Singapore, 15 May 2020

Appendix 1

COVID-19 Impact

1. What is the impact of COVID-19 on the Group? Which of the sector or geography is most impacted? What is the impact on revenue and profitability?

- Many of our subsidiaries in Singapore and around the world have been classified as a provider of essential services, and will continue to be able to operate from our premises (including our aerospace hangars, shipyards, automotive factories and electronics workshops) during this period. In the U.S., many states have required their residents to observe 'Shelter in Place' orders in the past weeks. Nevertheless, our U.S. businesses continue to operate as essential businesses with the necessary safeguards including safe-distancing measures and telecommuting arrangements.

- Broadly, the COVID-19 pandemic has impacted the Group in three areas: reduction in customer demand, supply chain and workforce disruptions.

- While we are not immune to the pandemic, we are helped by mitigating factors that will see us through this challenging period. These are:

  a. Diversified revenue streams, in terms of business sectors, defence versus commercial customer types, and geographies.
  b. Efficiency and cost reduction initiatives
  c. Support from various government aids and stimulus packages
  d. Robust order book providing revenue visibility for the next few years

- Overall, we expect the Aerospace and Electronics sectors to experience more impact than Land Systems and Marine sectors. The latter two sectors have a higher portion of defence related projects, which collectively have provided revenue stability to the Group.

  - Aerospace: refer to our response to Q2 for details.
  - Electronics: we are experiencing deferments in some projects across business lines due to travel and movement restrictions imposed in the countries we serve. Tenders previously launched are now being placed on hold as government agencies are redirecting their resources to ensure business continuity, and the health and safety of their citizens.
  - Land Systems: the sector's higher level of defence related projects continues to provide revenue stability. Some projects in its commercial business, for example, the delivery of electric buses is deferred and the project milestone of its autonomous bus is delayed.
  - Marine: our yards in Singapore and the U.S. are still operating, albeit on a reduced scale in Singapore mainly due to the workforce (lockdown of migrant workers' dormitories) disruption. Capital programmes for new vessels are on hold as ship owners conserve cash, and the projects under environmental engineering business are being deferred.

- In February 2020, we disclosed that for the full year 2020, $5.9b from the order book of $15.3b as of 31 December 2019, would be recognised as revenue. Today, we have updated that for the nine months from April to December 2020, we expect to recognise $4.5b from the order book of $16.3b as of 31 March 2020, after delivery for the first quarter.

- Like most global companies, we take the view that no one company can forecast or quantify with reasonable accuracy the financial magnitude of COVID-19 impact. We continue to monitor the rapidly evolving COVID-19 situation, and will adjust our measures and approaches accordingly.

- Please refer to the 1Q2020 Market Updates presentation deck, which we published on 15 May 2020 for more details.

2. What is the impact of COVID-19 on the Aerospace sector?

- Our Aerospace sector has three business segments, with each experiencing varying degree of impact caused by the slowdown in the aviation industry as a result of the COVID-19 pandemic.

- On airframe and engine & component MRO, we expect foreseeable lower demand for these MRO services, although calendar-time based maintenance remains. Within these segments, impact on the various airline customers also differs, depending on whether it is full-service airlines, low cost carriers or cargo airlines. While these segments served largely commercial customers, it has a steady income stream from military customers.

- On Original Equipment (OE) manufacturing business, largely the engine nacelle manufacturing and composite floor panel manufacturing, we have to adjust the production rate in accordance with our customers' production schedules.

- Overall, we expect slowdown in our Aerospace sector as MRO services are being deferred, and OE production rates being lowered as production timelines are shifted to the right to be in line with that of our customers'. We are in active dialogues with our customers on changes in schedule.

- The expected slowdown in the Aerospace sector will be mitigated by various factors, including the Group's diversified revenue streams, buffered by a stable defence business; efficiency and cost reduction initiatives; various government aid support and stimulus packages and a robust order book.

3. In view of the COVID-19 pandemic and the potential structural shifts in the global economy, would the board be reviewing and fine-tuning its strategy?

- The Group shared its five-year growth strategy at the 2018 Investor Day conference. Since then, we continue to review and adjust the strategy and have been actively communicating progress made through various channels, including results announcements/briefings, investor meetings, press releases and annual reports.

- The COVID-19 pandemic has impacted the global economy, leading to disruptions in the business operating landscape. While the Group is not immune to the impact, we are helped by mitigating factors that will see us through this challenging period, as highlighted in our response to Q1.

- Any actions that we take will consider the long-term view of the Group, while addressing structural changes to operating landscapes.

- We will continue to update the investing community of our developments at appropriate junctures.

4. Please update on the level of productivity given COVID-19 measures, especially with regard to the foreign worker quarantine measures. What proportion of your workers are foreign workers?

- Across our global offices, we are implementing business continuity plans, and adopting guidelines and measures of local governments.

- Many of our subsidiaries in Singapore and around the world have been classified as a provider of essential services, and will continue to be able to operate from our premises (including our aerospace hangars, shipyards, automotive factories and electronics workshops) during this period.

- Employees in Singapore who are desk-bound and office-bound are working from home, with a portion of them supporting operational activities at our premises. We are able to support remote working with minimal issue given our existing robust network and communication infrastructures, enabling us to step up our requirements for telecommuting quickly.

- That said, the disruption caused by the new way of working will have some impact on the Group's productivity as our worksites cannot operate at their optimal capacity. We will continue to pursue efficiency initiatives across our businesses to mitigate such impact.

- On foreign (migrant) workers, they form less than 15% of our Singapore workforce. Majority of them work in our Marine sector in Singapore. With the help of the local authorities, we have decanted some of the migrant workers from their dormitories to other locations where stringent measures, as stipulated by the government, are in place to ensure their health and safety. These decanted workers have been back to work, progressively as and when they complete their stay-home-notice (issued by the Singapore's Ministry of Health). For the rest of the workers who have not been decanted from their dormitories, we are in close contact with the authorities to determine when these workers will be able to return to work.

- As the COVID-19 situation evolves, we will undertake necessary actions, and adjust our responses to maintain operational resilience, so that we can continue to withstand, respond and recover from the Covid-19 crisis.

Business Strategy/Outlook

5. Would the board restate its strategy in the annual report for the benefit of new and long-standing shareholders?

- We have been regularly updating investors on our strategy as well as financial and operating performance. As we evaluate the longer term trends on our businesses, any material changes in our strategy and plans will also be shared with the investing community at an appropriate time.

6. What steps are you taking to grow a new growth pillar and lessen the dependence on the Aerospace sector? Can the Group share any promising updates in this area?

- We continue to strengthen our strategic lines of business, including our Aerospace sector so that it moves further up the value chain. In the last few years, particularly since 2019, the sector has expanded its revenue stream from non-MRO segments to include Original Equipment manufacturing business.
- We continue to grow our Smart City business, intensifying our drive to provide needed solutions in our Smart City verticals of mobility, security and environments.
- Using our satellite communications (satcom) business as an example of investing for the future, we are now integrating the two newly acquired satcom businesses i.e. Newtec, now known as iDirect Europe and Glowlink (with its advanced satcom anti-jamming technologies) with our U.S. based satcom business, iDirect. When the adoption rate of satellites as a mainstream connectivity technology increases, along with the various use cases of satcom-enabled 5G Smart City applications, we will be ready with a robust technology and product offerings to lead the transformation of the satcom industry.
- Our international defence business is another strategic business line for the Group. We are focused on executing the Polar Security Cutter contract that we secured in 2019, and the various ship building projects that we are undertaking for the U.S. Navy.
- As we seek growth in our strategic thrusts, we will continue to hone our competitive strengths and prioritise initiatives central to our growth. We will continue to streamline and rationalise our business portfolio so that we can sharpen our management focus, unlock value and recycle capital to growth businesses that can yield us better returns.

7. **What are the new opportunities for the Group arising from the new ways of doing things post COVID-19 pandemic. Which of your business sectors are likely to benefit?**

- In the last two months in Singapore, we have deployed many of our products and solutions in areas such as surveillance and monitoring, safe access control management, infrared fever scanning systems, command, control and communications systems, as well as robotics and unmanned systems to support the nation's drive to fight COVID-19. These solutions are implemented in locations such as hospitals and Community Care Facilities.

- In addition to these deployments, opportunities arising from COVID-19 include higher demand for our cybersecurity and secured digital solutions, as well as data centres as businesses adopt remote working practices. We also see opportunities for command centres as government agencies and large institutions seek to improve command and control for operational and logistic efficiency, leveraging on sharing of real-time information for integrated situational awareness.

- While we have extensive capabilities and proven solutions in many of these areas as part of our Smart City business, it may take time for businesses to adopt or implement these solutions.

8. **Has the board determined the optimal asset allocation among its four core sectors, namely aerospace, electronics, land systems and marine?**

- The Group's capital allocation policy is to allocate resources towards optimising growth and shareholder returns in strategic areas across the sectors where we see long-term growth potential. In addition to investments through capital expenditure and R&D spending, the Group is prepared to grow through mergers & acquisitions (M&A) to achieve sustainable long-term growth.

  We aim to reap the most value-add from our investments while managing risks and sustaining dividend payout at the same time.

9. **Can we have an update on New Enterprises and Ventures business?**

- Our New Enterprises and Ventures (NEV) team is responsible for exploring new areas of growth and pursuing value-accretive opportunities with a strong synergistic fit with the Group's competencies.

- Over the last two years, the NEV team had actively pursued M&A opportunities in the healthtech space. However, after much judicious evaluation, the Group could not find suitable M&A targets in this space, at a price that would be value-accretive. We continue to maintain a disciplined approach in exploring various strategic options.

- Meanwhile, the Group continues to grow the healthtech business organically, having already deployed operational efficiency solutions in numerous local and overseas hospitals, specifically in operations command centers and autonomous mobile robots.

10. Can we have an update of the B-52 re-engine contract?

- The U.S. Air Force plans to re-engine its B-52 fleet with commercial, off-the-shelf, in-production engine. However, specifics have not been released.

11. Any specific M&A opportunity in Aerospace?

- We continue to evaluate M&A opportunities which would help to strengthen our business portfolio. There are currently no active M&A discussions.

<u>Financials</u>

12. Glowlink and iDirect contributed net loss of $825k and $5m in 2019 respectively. When are both acquisitions expected to turnaround?

- The net loss incurred by Glowlink and iDirect Europe (formerly known as Newtec) in FY2019 was primarily due to transaction and integration costs. During our past quarterly results briefings, we had shared that integration costs on these acquisitions would taper down from FY2021 onwards.

- At the time of the Newtec acquisition, we expected the acquisition to be earnings accretive from the second year post acquisition (the transaction was closed on 1 Oct 2019).

- With the current COVID-19 situation disrupting customer demand and supply chain, we are working to mitigate the impact and reassessing our outlook.

13. Performance of CityCab has been declining, will it be a drag for 2020? What are the plans to improve the performance? Was there any impairment charge in 2019? Are there any plans to divest it?

- We are a minority shareholder of CityCab, and our share of the CityCab's profits is not material to the Group's financials. For FY2019, there was no impairment charge to our investment in CityCab (please refer to page 227 of FY2019 Annual Report).

- As with any of our investment companies, we engage their management regularly and actively on their business plans.

- On divestment opportunities, the Group carries out continual reviews that seek to optimise our business portfolio across the business sectors. If and when there is any development, we will make the relevant disclosure through SGXNet.

14. With the COVID-19 situation, are there customers who have asked for deferred payments? How has the trend of payment receivables been affected?

- The Group is closely monitoring the rapidly evolving nature of the pandemic, and we are in constant dialogue with our customers. So far, there has been a number of requests for deferred payments which have to be evaluated according to our credit control policy.

- The Group is assessing the credit risk of our customers across all the sectors, with a focus on Aerospace sector where some of the airline customers are more at risk.

- The Group has reduced the credit limits of some of its customers to minimise exposure, and stepped up collection efforts for all customers.

<u>Capital Structure</u>

15. Has the board determined the optimal asset allocation among its four core sectors, namely aerospace, electronics, land systems and marine?

- The Group's capital allocation policy is to allocate resources towards optimising growth and shareholder returns in strategic areas across the sectors where we see long-term growth potential. In addition to investments through capital expenditure and R&D spending, the Group is prepared to grow through M&A to achieve sustainable long-term growth.

  We aim to reap the most value-add from our investments while managing risks and sustaining dividend payout at the same time.

16. While the low cost of the U.S. Commercial Paper (USCP) is an attractive way to grow, has the board, especially the risk and sustainability committee (RSC), determined if the volatility and the short duration of the USCP would make it an appropriate source of funding for the group's long-term expansion plans?

- The Group had tapped the USCP programme to issue short-term commercial papers at competitive rates as bridge financing for our acquisitions last year. The plan was to term out part of the short-term commercial papers into longer term financing to optimise our short-term to long-term debt mix and better match the maturity of the funding with the long term nature of the acquisitions.

- The Group has since accomplished the above with the setup of a S$5b Multi-Currency Medium Term Note (MTN) Programme in March 2020 and the issuance of US$750m 1.50% Notes due 2025 (around S$1.1b equivalent) on 29 April 2020. The proceeds from the Notes issuance were used mainly to refinance the short-term commercial papers.

17. Total borrowing and net gearing have been increasing. Will this be a concern? What is the purpose of the MTN and are we expecting more large M&A in the near term?

- In 2019, the Group made three acquisitions at a total consideration of about $1.2b. These are MRAS, Newtec (now known as iDirect Europe) and Glowlink.

- The Group funded these acquisitions in 2019 wholly through debt, after reviewing our capital structure or debt/equity mix. As at 31 Dec 2019, the Group's net debt was S$2.0b which translates into a net debt to equity ratio of 0.8 times, which is quite healthy.

- Excluding lease obligations per SFRS (I) 16, the Group's net debt drops to S$1.6b comprising mainly short-term commercial papers issued under the US Commercial Paper programme at competitive financing costs.

- The Group has since established a S$5.0b multi-currency medium term note programme in March 2020 and issued US$750m of 5-year notes at 1.50% coupon in 29 April 2020.

- The objective of the MTN Programme is to support the Group's long-term strategy to enhance shareholder value. The Programme will also enable the Group to tap the debt capital market for longer tenor financing to optimise our shot-term to long-term debt mix and capital structure. The proceeds from the Notes issuance were used mainly to refinance the short-term commercial papers, thereby improving the short-term to medium-term debt mix and bolstering our liquidity position.

- We do have the capacity to borrow if and when investment opportunities, including M&A opportunities, arise. Nevertheless, any potential M&A target must fulfil our stringent criteria of strategic fit, synergy and adjacency to our capability. We will be judicious and prudent in this endeavour.

- The rating agencies, Standard & Poor's and Moody's have reaffirmed ST Engineering's credit rating at AAA/stable and Aaa/Stable on 18 March 2020 and 9 April 2020 respectively. This signifies that the Group's balance sheet is still very strong and not overly geared.

- We will continue to evaluate our leverage with prudence and borrow on committed needs. We remain as a quality investment grade company, with sufficient resources to grow our business to maintain long-term value creation for shareholders.

18. Has the board determined an upper limit to the leverage the Group can take on as it grows via acquisitions?

- We do have room to borrow if and when investment opportunities including M&A opportunities arise. Nevertheless, any potential M&A target must fulfil our stringent criteria of strategic fit, synergy and sustainable value creation. We will be judicious and prudent in this endeavour.

- The rating agencies, Standard & Poor's and Moody's, have recently reaffirmed the ST Engineering's credit rating at AAA/stable and Aaa/Stable on 18 March 2020 and 9 April 2020 respectively. This signifies that the Group's balance sheet is still very strong and not overly geared.

- We will continue to evaluate our leverage with prudence and borrow on committed needs. We remain as a quality investment grade company, with sufficient resources to grow our business to maintain long-term value creation for shareholders.

19. Will shareholders be expecting a lower dividend payout over the next financial year?

- The Group has a record of steady and consistent payout. For the past seven years, the Group has been consistently paying out 15 cents per share. The Group has a strong balance sheet to sustain long-term growth, the Group will want to continue rewarding its shareholders by creating long-term shareholders' value.

<u>Director Fees</u>

20. Are directors taking a cut in their fees for FY2020?

- We refer to the Group's SGX statement posted on 14 Apr 2020 titled "ST Engineering COVID-19 Update - Providing essential services". The Board fees would be reduced by 10% with effect from 1 May 2020. Below is an extract of the statement release:

  "To lend support and solidarity as it weathers this pandemic together with its partners and stakeholders, the Board has decided to reduce Board fees by 10%. The President & CEO will also reduce his salary by 10%, while the senior management team will reduce their salaries by percentages ranging between 5% and 10%. These changes will take effect from 1 May 2020."

<u>Sustainability</u>

21. Would the board/RSC consider providing a list of the key targets and the appropriate performance indicators in each material factor to help shareholders understand the progress made over the years?

- ST Engineering recognises the sustainability imperative, and will continue to take steps in our sustainability journey to improve our efforts, both in terms of scope and quality of reporting. The setting of targets for material ESG factors is important. For the past few years, we have been providing the targets and achievements of each of the material ESG factor. We will continue to identify opportunities to improve our performance on each of the material factor to help shareholders understand the progress made.

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