

Sharper focus and innovative technologies for growth.



(Pictured) SembCorp Environmental Management's recycling facility in Tuas, Singapore, where the collection, automated sorting and baling, as well as bulk trading of various types of recyclable paper, is handled.

SembEnviro conducted a review of its business, streamlining existing divisions and identifying new strategies to reduce costs and extract value from waste.

Operations Review

The performance of our Environmental Engineering arm was subdued in 2005. Turnover at SembCorp Environmental Management (SembEnviro) was S\$218.7 million and Profit After Tax and Minority Interest (PATMI) was S\$4.7 million in 2005 as compared to S\$202.5 million and S\$14.4 million respectively in the previous year.

Several factors contributed to the weak performance of the business in 2005, with the main impact due to a write-off of an amount receivable from a customer as part of the settlement of a dispute. Provision was also made for a one-off disposal cost at our construction and demolition waste premises. High fuel costs as well as start-up costs for our new operations overseas in China and India also contributed to the weak performance.

A review of the business was conducted in 2005. The waste collection and recovery businesses were streamlined into three business divisions – Collection, Recovery and Treatment – so as to optimise resources and improve synergy within our operations. To focus on profitable business sectors, we also decided to exit the environmental consultancy business as well as the electronic waste business in Singapore. In addition, we will be intensifying our focus on the development of innovative pre-disposal treatment methods and waste-to-resource technologies to reduce the cost of waste disposal, improve recyclable materials yield and extract value from waste.

In 2005, we maintained our position as the largest integrated environmental solutions provider in Singapore, with major shares in the municipal and biomedical waste sectors.

Between April to December 2005, we re-secured contracts to serve four out of the six municipal sectors up for re-tender. The contracts were for the Clementi, City, Hougang-Punggol and Woodlands-Yishun sectors. Commencing in mid-2006 and lasting between seven to eight years each, these contracts will provide a stable revenue base going forward.

In addition, we also clinched new contracts to strengthen our steadily growing commercial, car park management and conservancy businesses. In March 2005, we were awarded five car park management contracts totalling S\$11 million, each for a four-year term with an option to renew for a further two years. We also secured two three-year parking enforcement services contracts in May 2005 worth a total of S\$13.8 million.

The total orderbook for our Singapore operations stood at S\$548.4 million as at December 31, 2005, compared to S\$403.0 million in the previous year.

2005 also marked several milestones with regard to our expansion into the growing Chinese waste management market.

In January, our subsidiary SembEnviro Tay Paper became the first Singapore company to enter the

waste paper market in China when we formed a 60:40 joint venture with established Shanghai waste paper recycler XiangHong Waste Paper Recycling. The joint venture, Shanghai SembTay XiangHong Recycling, will collect waste paper for supply to paper mills in the Yangtze River Delta, with possible future expansion to Suzhou in 2006.

With a focus on the waste management market in Shanghai, we also formed a 40:60 joint venture, Shanghai SEI SembCorp-Enviro Solutions, with state-owned enterprise Shanghai Environment Investment in February 2005 for S\$8.0 million. Shanghai SEI SembCorp-Enviro Solutions will serve as a platform to participate in the newly corporatised waste collection market in Shanghai. This new venture strengthens our presence in the fast-growing Shanghai waste management market, where we are currently serving the industrial and commercial sector through our joint venture Shanghai SembEnviro Reliance.

Our associate SembSITA Australia also continued to perform well during the year, maintaining our position as a leading player in the Australian market.

Outlook

Singapore continues to be a highly competitive market, particularly in the municipal, industrial and commercial waste sectors. However, there remains considerable market space for the introduction of new waste management practices and technologies such as our pneumatic waste conveyance system. In addition, concerted efforts will also be made to increase recycling rates through measures such as enhanced door-to-door collection systems and centralised recycling stations.

In the year ahead, we will continue to pursue selective opportunities for growth overseas. In particular, we will capitalise on waste management opportunities through our current joint ventures in China and India,

leveraging on our partnerships with key local players in these markets. In China, the pace of privatisation of waste management services continues to pick up speed with more districts in Shanghai set for waste collection privatisation in 2006. Heavy emphasis has also been placed on encouraging a recycling economy in the country’s Eleventh Five-Year Plan. In India, the government continues to be focused on the regulatory environment for waste management, with a drive towards compliance in sectors such as municipal solid waste and biomedical waste. Strong growth in the industry is expected over the next few years as privatisation and regulatory improvements occur in this sector, coupled with rapid economic growth. The Middle East is also undergoing rapid development in the area of integrated waste management, particularly in countries like Qatar, Bahrain and the UAE.

Meanwhile, we also aim to further consolidate our market position and expand into post-collection in Australia.

Underpinned by contributions from our overseas operations, we expect the performance of our Environmental Engineering business to improve over 2005.

Performance indicators (S\$ million)		
	2005	2004
Turnover	218.7	202.5
PATMI	4.7	14.4