

## ENVIRONMENTAL MANAGEMENT REVIEW

<b>AT A GLANCE</b>	<b>2006</b>	<b>2005</b>	<b>Change (%)</b>
Turnover (S\$ million)	211.9	218.7	(3)
EBITDA (S\$ million)	(21.7)	4.2	NM
EBIT (S\$ million)	(28.1)	(4.5)	(524)
PATMI after EI (S\$ million)	(16.8)	4.7	NM
ROE (%)	(13)	3	NM

### COMPETITIVE EDGE

- Ability to offer comprehensive integrated services in the municipal, industrial, commercial, healthcare, recovery and treatment sectors
- Proven management systems and technology for waste management
- Development and ownership of differentiating technology and know-how, including treatment methods and waste-to-resource technologies
- Strong partnerships with key local players in growing regional markets

### OPERATIONS REVIEW

In 2006, SembCorp Environmental Management (SembEnviro) focused on streamlining its operations and executing a strategy to develop pre-disposal treatment methods and waste-to-resource businesses. However, increased competitive pressures in the Singapore municipal waste collection sector significantly weakened the performance of the unit during the year.

SembEnviro's turnover was S\$211.9 million and its earnings before interest, tax,

depreciation and amortisation (EBITDA) was negative S\$21.7 million compared to S\$4.2 million in 2005. Profit after tax and minority interest (PATMI) was a loss of S\$16.8 million, due to an impairment of S\$21 million made for plant and equipment and a provision for contracts relating to the Singapore municipal waste collection sector. Out of five municipalities served previously, SembEnviro secured four in bids held in 2005. Given intense competition and lower than expected recycling rates at source, the four contracts, lasting seven to eight years starting mid-2006, were assessed to be loss making. Hence an impairment provision for the duration of the four contracts was made in the third quarter of 2006. Aside from municipal, the other sectors of our business in Singapore are similarly operating in a highly competitive environment.

On the other hand, our operations in Australia performed well. Our associate, SITA Environmental Solutions successfully acquired two composting facilities through SITA-CEC Environmental Solutions, enhancing our position as the leader in green recovery in Australia. Acquired for S\$25.3 million, the facilities convert municipal, commercial and industrial waste into green compost and recover materials for reuse, using the Bedminster biotechnology. Located in Cairns, Queensland and Port Stephens, New South Wales, the facilities have capacities of 90,000 tonnes per year and 35,000 tonnes per year. SITA-CEC Environmental Solutions is a 50:50 joint venture between SITA and the CEC Group.

In December 2006, our subsidiary in India, SembRamky Environmental Management acquired an additional biomedical waste treatment facility in Kalyani, West Bengal

for S\$1.7 million. We now operate seven biomedical waste treatment facilities in India, with a total installed capacity of 14 tonnes per day.

### **Transforming through innovation**

In 2006, advances were made in the development of innovative pre-disposal treatment methods and waste-to-resource businesses. In Singapore, we began construction of an 800 tonnes per day pre-disposal treatment facility that will allow us to extract recyclable content from waste. This will help to reduce the quantity of waste to be incinerated, lowering the cost of waste disposal, while improving the yield of recyclable materials.

In March 2006, SembEnviro established an S\$80 million 50:50 partnership with the Chunxing Alloy Group. Chunxing Alloy is an established name in lead recycling in China and the only waste metal recycling company among the first group of companies selected for China's national recycling economy pilot programme. The waste-to-resource joint venture undertakes the recovery and sale of used lead acid batteries (ULAB) to battery manufacturers in China and will cater to the country's rapidly rising demand for lead to support its growing automotive and motorised bicycle industries. Still in the initial stages, the joint venture has commenced operations with two plants in Chongqing and Xuzhou. Progressively, more plants will be added in 2007 and 2008.

SembEnviro also embarked on waste plastics recycling, its second waste-to-resource project in the year. It acquired a 90% stake in SembEnviro KK Asia, a Singapore plastics recycler for S\$3.4 million. The joint venture recovers plastic resin

from waste plastics for sale throughout the region. The company has the capacity to recycle up to 50,000 tonnes per year in its facility.

### **MARKET REVIEW AND OUTLOOK**

The Singapore waste collection business for all types of wastes is expected to remain highly competitive. Our 800 tonnes per day pre-disposal treatment facility is scheduled to commence operation in the second half of 2007. Overseas, our Australian associate, SITA Environmental Solutions is expected to continue to perform well. We will also selectively pursue opportunities for growth through our current joint ventures in Australia, China and India.

In the year ahead, our priority is to advance the waste-to-resource businesses that we have established in the past year. The outlook for ULAB recycling in China continues to be strong, underpinned by China's increasing automotive and motorised bicycle population and the government's drive to encourage the recycling economy.

Barring unforeseen circumstances, SembEnviro's performance in 2007 is expected to improve over that of 2006.