

Operating Financial Review



# Electronics

## Electronics

### TRANSFORMING THE WORLD WITH INTELLIGENT SOLUTIONS

Established in 1969, ST Electronics is a leading electronics and Information Communications Technology (ICT) systems house in the region. Currently marketing to more than 60 countries, the sector identified growth areas in e-Government and ICT, satellite communications and digital media.

Its Homeland Security (HLS) solutions, digital animation capability, intelligent building management and intelligent transportation solutions for infrastructure build up have become internationally accepted. In 2006, ST Electronics continued to extend its market reach into Qatar, Dubai, Albania and new regions in China.

Leveraging on China's growth, ST Electronics has set up operations in more than eight cities in China, including Beijing, Chengdu, Guangzhou, Yichun, Hong Kong, Shanghai, Shenyang and Shenzhen. It now targets second tier cities such as Nanjing, Ningbo, Suzhou and Wuxi. A production plant was set up by its Chengdu office and it is seeking new opportunities in the central-western region. ST Electronics also continued to tap on infrastructural opportunities in Dongbei, Huadong, Huanan and Huabei, as cities in these areas start to develop.

ST Electronics is part of a consortium with Hewlett-Packard, Cisco Systems, Microsoft and Accenture, that was shortlisted by the Infocomm Development Authority of Singapore for its \$2b IT outsourcing Standard ICT Operating Environment project for 60,000 civil servants, expected to be awarded in 2007.

ST Electronics' core business activities are organised into three key business groups.

#### Large-Scale Systems Group (LSG)

Over the years, ST Electronics has won rail transportation projects in China, the Philippines, Singapore, Taiwan and Thailand. This year, it further strengthened its foothold in China with new rail projects.

In the area of intelligent building management and security systems, ST Electronics won international contracts for the Grand Indonesia Jakarta, Thai Airways Building in Bangkok and a parking guidance system in Sydney. Recent awards for building security systems were for CCTV, fire protection and camera surveillance systems for Doha's old Souq for the 2006 Asian Games.

On the homefront, ST Electronics secured contracts for various combat systems for the Singapore Navy's frigates programme.

#### Communication & Sensor Systems Group (CSG)

ST Electronics continued to lend its transport management expertise in international events. Its cetrac® fleet telematics solution was used by buses to ferry delegates during Singapore 2006 in September. The highlight of this event was the annual meetings of the Boards of Governors of the International Monetary Fund and World Bank Group.

Together with iDirect, ST Electronics will support SingTel in its newly launched maritime satcom solutions for the Asian market. iDirect was selected to provide a communications platform for 600 sites in Mexico for Farmacias Similares' pharmacy chain.

*The Full Mission Ship Handling Simulator can be configured to handle all types of vessels.*



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VT Miltope received a contract for the F/A-22 integrated maintenance information system portable maintenance aid for the US Air Force.

### Software Systems Group (SSG)

ST Electronics' e-Government and ICT solutions surged ahead during the year. It will be providing an information network system to the 16-member Regional Cooperation Agreement On Combating Piracy And Armed Robbery Against Ships In Asia (ReCAAP) – the first regional government-to-government agreement to combat piracy in Asia.

Together with CrimsonLogic, ST Electronics will be implementing the TradeXchange – a neutral and secure trade platform facilitating the exchange of information within Singapore's trade and logistics community.

The state-owned Qatar Security Services Company appointed ST Electronics to provide HLS consultancy.

The Electronics sector's digital animation focus has earned recognition from renowned names like Nelvana, Promenade Pictures and Weta. The Ten Commandments, its jointly produced digital animation movie with Promenade Pictures, will be launched in the US in 2007.

### PERFORMANCE OF THE ELECTRONICS SECTOR

#### Half Yearly Performance

The turnover of \$527m recorded in 2H2006 was higher than that of 1H2006 by 24% or \$103m. All three business groups, namely LSG, CSG and SSG, contributed to the increased turnover.

The PBT of \$59.7m for 2H2006 was higher than that of 1H2006 by 33% or \$14.8m. At the business group level, the increase in profit was contributed by LSG due mainly to higher sales and better overall performance of overseas subsidiaries. CSG's profit was higher due mainly to higher sales, but this was partially offset by lower investment income. The increased profit for SSG was in line with its higher sales.

#### Full Year Performance

FY2006 turnover of \$951m for the Electronics sector was higher than that of FY2005 by 36% or \$250m. All three business groups contributed to the higher turnover with major contribution from CSG for the sales of satellite communication products and electro-optics equipment. Turnover for SSG was higher with the delivery and installation of educational multimedia laboratory systems in Kazakhstan and the milestone completions of a command and control system project, while milestone completions of the Land Transport Authority's (LTA) Circle Line project and Taipei and Kaohsiung MRT projects accounted for the higher turnover in LSG.

The Electronics sector's PBT for FY2006 at \$104.6m was 38% or \$28.6m higher than that of FY2005. Both CSG and SSG recorded higher PBT, while LSG had a lower PBT in FY2006 vis-à-vis FY2005. The higher PBT in CSG was due to increased turnover and investment income, while the higher PBT in SSG was in line with its higher turnover. LSG's lower PBT was due to higher loss incurred by an overseas subsidiary. Overall, the sector recorded higher investment and interest income in FY2006 vis-à-vis FY2005.

#### Major Acquisitions

ST Electronics acquired 80% of US-based MÄK Technologies, Inc in a bid to strengthen its simulation and digital media capability. MÄK's tools and toolkit will allow ST Electronics to market its simulation solutions for desktop training and digital animation games.



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ST Electronics acquired the remaining stake in TranSys to widen its transportation system capability. STELCOMMS was set up with the objective of growing its HLS business for communications systems in Asia Pacific. Fifty-one percent owned Brightspot Interactive Learning will provide an avenue for online e-training business in China and the region, while 70% owned PM-B will offer mission-critical and command and control capabilities for command/data centres, business continuity and disaster recovery sites.

### Major Projects

ST Electronics continued to secure projects in new markets. These include an integrated tower information system and navigational aids for Kukes Airport of Albania, in addition to security systems in Qatar and China.

Its foothold in the Chinese rail market has expanded with two new contracts. A first-of-its-kind integrated traffic command centre system will enable the efficient management of major rail lines in Beijing, making ST Electronics the first Singapore company to win a major Beijing Olympics related contract. In December, it won a contract to provide automatic fare collection systems for Guangzhou MRT Lines 2 and 8 and Line 4 North extensions.

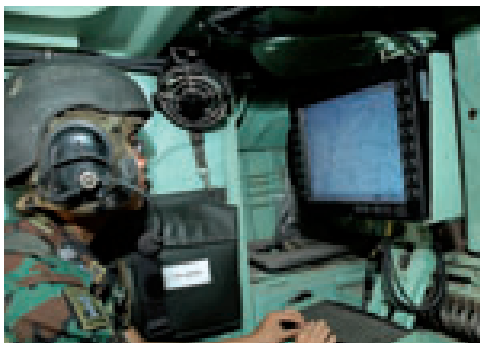
In Singapore, Comfort Transportation Pte Ltd appointed ST Electronics to provide a new wireless GPRS-based telematics system for its fleet of 15,300 taxis. This new system will be integrated into an existing system used by its CityCab fleet, implemented by ST Electronics in 2003.

The Singapore Prison Service will realise its long term goal of centralising all prison institutions network infrastructure for its new Changi Prison Complex Cluster B by 2008 with a system to be provided by ST Electronics. It will also be providing the Ministry of Home Affairs with electro-optics payloads for its Police Coast Guard vessels to aid in the surveillance of waters around Singapore.

The Singapore Civil Defence Force appointed ST Electronics to develop a HazMat incident management system, which will facilitate secured communications between fixed sites, mobile command posts, commanders and first responders on scenes to ensure comprehensive response to chemical threats.

ST Electronics was awarded a contract to deliver a 360-degree virtual aerodrome control simulator to the Singapore Aviation Academy, the training arm of the Civil Aviation Authority of Singapore.

In defence, the Electronics sector was instrumental in transforming the Singapore Armed Forces into a 3rd Generation networked fighting force. Its pioneering, multi role advanced combat simulator system was commissioned by the Republic of Singapore Air Force, enabling its pilots to train as an integrated force. ST Electronics' Battle Management System (BMS), which has been deployed on the BXII platform, was also commissioned this year. The BMS networks the fighting forces, providing a network-centric wireless communications systems for a truly 3rd Generation networked force.



*(from left to right)  
HazMat management systems facilitate vital and secured communications for comprehensive response to chemical threats.*

*ST Electronics provides electronics systems and solutions for major rail systems in China, the Philippines, Singapore, Taiwan and Thailand.*

*iDirect's solutions augment the group's end-to-end satcom offerings.*

*The Battlefield Management System deployed in the BXII provides better situational awareness for engagement.*