

ENVIRONMENTAL MANAGEMENT REVIEW

PERFORMANCE SCORECARD (\$ million)

| | 2007 | 2006 | Change (%) |
|----------------------|--------------|--------|------------|
| Turnover | 207.5 | 211.9 | (2) |
| EBITDA | 9.0 | (21.7) | NM |
| EBIT | 1.7 | (28.1) | NM |
| PATMI before EI | 13.6 | (18.4) | NM |
| PATMI after EI | 13.6 | (16.8) | NM |
| Return on Equity (%) | 7 | (13) | NM |

OPERATIONS REVIEW

In 2007, Sembcorp's Environmental Management business recorded a turnover of S\$207.5 million. The unit turned around to profitability with profit after tax and minority interest (PATMI) at S\$13.6 million compared to a negative S\$16.8 million the previous year.

During the year, we continued our focus on the pre-disposal treatment and waste-to-resource businesses with the development of a solid waste treatment and recycling facility in Tuas, Singapore. The facility allows an increased recovery of recyclables and will assist in achieving higher recycling rates. An efficient way of extracting recyclable materials from general solid waste, the facility features an environmentally friendly wood boiler where locally-recovered wood chips are used. In reducing the quantity of waste to be incinerated and lowering the cost of waste disposal, the facility would also contribute towards improving the performance of our municipal waste collection business in Singapore where we continue to serve four out of nine municipalities.

Our Australian associate, SITA Environmental Solutions, performed well during the year and also successfully expanded its post-collection/treatment business. Four businesses specialising in alternative waste treatment, paper recycling, green waste composting and the recycling of construction & demolition waste to produce refuse-derived fuel were acquired during the year.

In India, our subsidiary SembRamky Environmental

KEY DEVELOPMENTS

- Development of a solid waste treatment and recycling facility in Singapore.
- Australian associated company expands post-collection/treatment business with four new acquisitions, including a waste-to-alternative-fuel facility.

COMPETITIVE EDGE

- A leading environmental management player that provides integrated waste management services in Singapore with a strong focus on pre-disposal treatment and waste-to-resource businesses in the Asia-Pacific region.
- Ability to offer comprehensive integrated environmental management services to municipal, industrial and commercial customers.
- Development and ownership of differentiating technology and solutions, including treatment methods and waste-to-resource know-how.

Management acquired a new biomedical waste facility in West Bengal. The facility started operations in September 2007. We now operate eight biomedical waste treatment facilities in India, with a total incineration capacity of 12.5 tonnes per day.

During the year, we continued to review and rationalise our businesses. In October, we divested our entire shareholding in SembEnviro KK Asia.

MARKET REVIEW AND OUTLOOK

The Singapore waste collection sector for all types of waste is expected to continue to be competitive. However, there remains considerable market space for the introduction of new waste management methods and technologies such as pre-disposal treatment and the innovative use of recovered resources, including the development of alternative fuels. 2008 will see our solid waste treatment and recycling facility in Singapore fully ramped up. Our priority for the year ahead would be to ensure its successful operations and advance the application of our pre-disposal treatment and waste-to-resource activities.

Abroad, our Australian associate is expected to continue performing well. Selective growth opportunities would also be pursued to expand its existing collection and post-collection/treatment businesses.

Global demand for environmental management services is expected to continue growing driven by stricter regulations as well as increasing environmental awareness and legal enforcement. In particular, developing countries are moving towards the treatment and recovery of recyclables from waste prior to disposal. There is also an increased focus in deriving renewable energy sources from waste in view of rising oil and resource prices as well as technological advancements. In light of these market trends, our business focus continues to be on pre-disposal treatment and waste-to-resource.

Barring unforeseen circumstances, the performance of our Environmental Management business in 2008 is expected to be better than that of 2007.