Q&A Summary 3Q21 Analyst Conference

Cement-Building Materials (CBM)

Q: What is SCG's coal hedging policy at CBM and what is the impact from the recent surge in coal cost?

A: CBM's normal practice is to lock in both, the price and the volume of its coal requirement 6-9 months ahead of time. This combined with existing coal inventory means the business is well supplied and is in no hurry to buy more coal at its peak. The business is in wait-and-see mode and can afford to wait for a more attractive entry in H2/22. Based on fuel cost management strategies it has implemented, CBM expects its coal cost in 2022 to be US$20/Ton higher than in 2021. This magnitude of coal cost increase translates into expected increase in cement production cost of approximately 10, which in turn implies the production cost per ton of cement will rise by about US$5/ton in 2022. CBM believes this magnitude of cost increase is manageable. To stabilize its EBITDA, the business is already deploying several commercial strategies aimed at compensating for the cost increase. Management expects to be able to close the cost gap and protect its EBITDA and profit in 2022.

Q: What is CBM's strategies and targets towards the use of alternative fuel?

A: SCG aims to increase the portion of alternative fuel use to the tune of 40-50%. Increase use of alternatively directly helps replace the coal consumption. The benefit from doing so is two-fold. First, it contributes to the company's ESG policy as using alternative fuel directly curbs carbon emissions. Second, replacing coal with locally sourced alternative fuel such as agricultural waste helps increase the business' cost competitiveness. To achieve this target, a further investment for around 3,000 MB will be needed for plant modification. However, payback period on this investment is highly attractive at 5-6 years. Self-generated power also helps the company achieve its ESG target as well as cost competitiveness. Currently, CBM has power generation capacity of 67 MW in the form of Solar and waste heat generation. An additional 27 MW will be launched in Q4/21. Other alternative energy used in the production process included biomass as well as selective RDF and industrial waste like carbon black.

Q: What is the contribution of retail and solutions business to CBM's overall performance and how do their profitability compare to normal Cement business?

A: CBM offers a diverse portfolio of products, services, and solutions that are geared towards HVA. This kind of solutions do contribute higher product margin than commodities. Retail business has room for growth. Retail margin is higher than the traditional wholesale margin gotten from traditional trade.

Chemicals

Q: Can management explain the reason behind lower-than-expected EBITDA and Profit amid the record-high sales volume, as well as the outlook for chemical spreads in Q4/21?

A: In Q3/21, ASEAN demand deteriorated from COVID-19 resurgence and resulting lockdowns as well as economic restrictions. The situation necessitated portions of sales to be diverted to non-Asian countries, where the selling prices were at a discount. The high freight cost, while manageable, added salt to the injury. Achieving record sales volume allowed the Chemicals business to defend its share of market. Looking ahead, the business sees sign of profit recovery as regional demand landscape is improving amid the reopening of Thailand and countries around the region. This will be against the backdrop of still robust global demand thanks to global economic recovery, which is still expected to grow further in 2022. While new supply addition will come, chemicals capacity in this region will be reduced by China's dual control policy. High coal prices make CTO/MTO production in China uneconomic which makes supply more restrictive. We also expect PVC spread to remain healthy from good demand.

Q: How important is the contribution from Chemical associates' equity income? How should one think about this portion of profit?

A: Chemical associates' equity income consistently makes up 30-40% of Chemicals Business' overall profit. Our associate portfolios are in various end markets with solid demand growth such as renewable energy and automotive industry. Close to half of our chemical associates' products are categorized as HVA which has higher margin and earnings contribution than commodity products.

Q: Can management elaborate more on the MOU which Chemicals Business recently signed with Braskem?

A: Chemicals Business is exploring the feasibility of partnering and investing with Braskem to bring the production of bio-based polyethylene to Asia. This would help SCG to meet the pledge to become "Chemicals Business for Sustainability" by producing green ethylene and green polymers.

ESG

Q: Regarding SCG's announcement of its new target to reduce the absolute level of its GHG emission by 20% in 2030 compared to the base year of 2020, can management elaborate more on the strategies to achieve such target?

A: Five key strategies will be deployed to reduce GHG emission from existing operations, as well as to help SCG achieve a 20% net GHG reduction by 2030. They include;

1) Energy efficiency improvement using the best available technologies;

2) Expansion of low GHG energy sources via increased use of biomass and other renewable energy;
3) Speeding up low-carbon products development using circular economy principle-based innovations;
4) Investment in carbon capture to scale up carbon capture utilization and storage (CCUS) technologies; and
5) Implementation of natural climate solution via collaboration with communities and government agencies on forestation and rehabilitation activities as carbon sink.