The Siam Cement Group

Management's Discussion and Analysis
Consolidated Financial Results: Q3/08 and 9M/08

Business Overview

Q3/08 Net Profit of 5,940 MB, down 17% q-o-q, and 21% y-o-y.

The Siam Cement (SCC) reported Q3/08 Consolidated Net Profit of 5,940 MB, a decrease of 21% y-o-y, as there was a non-recurring after tax gain of approx 1,920 MB from divestments in Q3/07. Without the non-recurring after tax gain in Q3/07, the Q3/08 Consolidated Net Profit would have increased 6% y-o-y. The Q3/08 Consolidated EBITDA increased 3% y-o-y to 11,899 MB, primarily due to increased capacity in the paper business, in addition to savings from energy related CAPEX in the cement business. Consolidated Net Sales increased 15% y-o-y to 79,313 MB with increased sales volume and strong cement exports.

On a q-o-q basis, Q3/08 Consolidated Net Profit dropped 17% q-o-q on lower contribution from the Chemicals business in addition to decreased Other Income from investments (stakes of less than 20%). Consolidated EBITDA dropped 7% q-o-q while Consolidated Net Sales was flat q-o-q.

For the 9M/08 period, Net Profit decreased 18% y-o-y to 20,251 MB, and was attributed to the 4,458 MB non-recurring after tax gain from divestments in 9M/07. EBITDA dropped 4% y-o-y to 36,869 MB on lower contribution from the Chemicals business, while Consolidated Sales grew 20% y-o-y to 238,168 MB.

Table 1 - Consolidated Results	Q3/08 MB	% Change y-o-y	% Change q-o-q	9M/08 MB	% Change y-o-y
Net Sales	79,313	14.7%	-1.2%	238,168	20.2%
Net Profit	5,940	-21.3%	-17.4%	20,251	-17.6%
Net Profit Without Non-recurring Gains	5,939	5.5%	-17.4%	20,001	-0.6%
EBITDA	11,899	2.5%	-6.9%	36,869	-4.2%
EBITDA from Operations	10,747	3.7%	-6.9%	32,827	-3.2%
EPS	5.0	-21.3%	-17.4%	16.9	-17.6%

Note: **EBITDA** = Earnings before interest, tax, depreciation, and amortization, plus dividends.
EBITDA from Operations = Earnings before interest, tax, depreciation, and amortization.

Equity Income

Equity Income for 9M/08 amounted to 6,304 MB, up 6% y-o-y, with details as follows:

Chemicals Associates: 4,964 MB, an increase of 23% y-o-y.
Other Associates: 1,340 MB, a decrease of 30% y-o-y.

Dividend Received

Total dividends received in 9M/08 amounted to 5,222 MB, down 19% y-o-y with details as follows: a) 4,042 MB was from "Associated" companies (20%-50% stake), and b) 1,180 MB was from "Other" companies (less than 20% stake).

Sector Summary

SCG Chemicals
Healthy Q3/08 margins for polyolefins business, while the PTA operation was loss making.

In Q3/08, naphtha prices tracked the decline in crude oil prices as global economic slow down, and averaged $1,015/ton, up $325/ton y-o-y but down $28/ton q-o-q.

Ethylene began Q3/08 at $1,675/ton, but collapsed to $1,075/ton at the end of the quarter due to polymer market crash, resulting in the Q3/08 average of $1,379/ton, an increase of $176/ton y-o-y, but flat q-o-q.

Propylene prices witnessed the same pricing pattern of ethylene in Q3/08, and average $1,572/ton, an increase of $444/ton y-o-y while gaining $49/ton q-o-q with limited supply from Asian cracker turndown.

HDPE prices decreased from $1,825/ton to $1,415/ton over the quarter, average $1,709/ton in Q3/08, up $327/ton y-o-y and $30/ton q-o-q. As a result, the Q3/08 average HDPE-naphtha price gap was $694/ton, flat y-o-y while increasing $58/ton q-o-q.

Likewise, PP prices in Q3/08 followed the same pattern drop from $2,095/ton to $1,375/ton, average $1,807/ton, up $429/ton y-o-y and $67/ton q-o-q. Consequently, the Q3/08 PP-Naphtha price gap was $792/ton, up $104/ton y-o-y and $95/ton q-o-q.

Benefiting from the momentum of limited supply at the beginning of Q3/08, PVC prices averaged $1,237/ton, an increase of $243/ton y-o-y and $78/ton q-o-q, while the PVC margin in Q3/08 registered $524/ton, up $160/ton y-o-y and $35/ton q-o-q.

Net Sales in Q3/08 was 38,953 MB, up 14% y-o-y but flat q-o-q, attributed to higher product prices. Polyolefins sales volume in Q3/08 amounted to 245,800 tons, a decrease of 25,200 tons y-o-y and 38,000 tons q-o-q, due to inventory de-stocking and weak domestic demand. EBITDA in Q3/08 declined by 13% y-o-y as a result of lower sales volume, but increased slightly 1% q-o-q due to higher dividend income received from associated companies. Consolidated Net Profit registered 3,004 MB, a decrease of 43% y-o-y as there was a 1,920 MB non-recurring gain from the divestment of shares in ATC in Q3/07, while dropping 17% q-o-q with decreased sales volume and the loss from the 400 MB loss (SCG 50% portion) in the PTA operations.

SCG Paper
Slight improvement in margins, in addition to volume growth.

In the Packaging Paper business, Q3/08 total sales volume (Thailand and Philippines) decreased 10% y-o-y and 6% q-o-q, mainly from the slowdown in the food and beverage segments. For the Thailand based facilities, exports accounted for 25% of the total Q3/08 sales volume.

The regional average price of Packaging Paper decreased $5/ton q-o-q to $490/ton, while prices of Wastepaper averaged $230/ton, a decrease of $15/ton q-o-q, the result of softer demand from China and South East Asia.

In the Printing & Writing Paper (P&W) business, Q3/08 total sales volume increased 21% y-o-y and 12% q-o-q, attributed to new capacity from the Khon Kaen plant (200,000 tons start-up in Q2/08), in addition to strong demand from the year-end printing and pocketbook segments. Export sales volume in Q3/08 amounted to 25% of the total sales volume, compared to 20% in Q2/08.

The regional average price of P&W Paper increased $15/ton q-o-q to $990/ton, to cope with the increase in production costs. Short-fiber Pulp prices decreased $5/ton q-o-q to $770/ton due to lower demand and increased capacity from Indonesia and Latin America. Likewise, prices of Long-fiber Pulp declined $20/ton q-o-q to $740/ton.

Financially, the paper business posted Q3/08 Net Sales of 12,395 MB, up 12 % y-o-y and 4% q-o-q due to higher selling prices and printing & writing sales volume. This has contributed to the gain in EBITDA by 21% y-o-y and 8% q-o-q to 2,031 MB. Similarly, Net Profit increased 69% y-o-y to 620 MB, but dropped 10% q-o-q due to increased depreciation and interest expenses from the new printing and writing paper plant.

Table 2 - Sector Summary SALES	Q3/08 MB	Change % y-o-y	Change % q-o-q	9M/08 MB	Change % y-o-y
Consolidated	**79,313**	**14.7%**	**-1.2%**	**238,168**	**20.2%**
Chemicals	38,953	13.8%	-0.1%	115,292	21.4%
Paper	12,395	12.3%	3.5%	36,624	12.1%
Cement	12,962	16.1%	7.3%	37,755	14.4%
Building Materials	5,914	8.2%	0.3%	18,016	11.6%
Distribution	26,449	20.1%	-5.5%	82,002	26.5%
SCG Investment	52	85.7%	-66.2%	263	150.5%
EBITDA	**Q3/08**	**% y-o-y**	**% q-o-q**	**9M/08**	**% y-o-y**
Consolidated	**11,899**	**2.5%**	**-6.9%**	**36,869**	**-4.2%**
Chemicals	4,934	-12.9%	1.0%	15,078	-12.5%
Paper	2,031	20.7%	7.9%	5,912	-3.4%
Cement	3,074	27.5%	9.8%	8,963	11.7%
Building Materials	1,211	26.9%	9.6%	3,409	6.8%
Distribution	565	27.8%	-10.9%	1,725	44.6%
SCG Investment	207	-64.7%	-87.3%	2,204	-28.9%
EBITDA from Operation	**Q3/08**	**% y-o-y**	**% q-o-q**	**9M/08**	**% y-o-y**
Consolidated	**10,747**	**3.7%**	**-6.9%**	**32,827**	**-3.2%**
Chemicals	3,956	-14.4%	-9.6%	11,942	-15.8%
Paper	2,031	20.7%	8.4%	5,903	-3.4%
Cement	3,074	27.5%	9.8%	8,963	11.7%
Building Materials	1,037	20.3%	5.9%	3,109	14.5%
Distribution	565	27.8%	-10.9%	1,720	45.0%
SCG Investment	207	-57.1%	-80.7%	1,647	-20.2%
EBITDA MARGINS (%)	**Q3/08**	**Q3/07**	**Q2/08**	**9M/08**	**9M/07**
Consolidated	**13.6%**	**15.0%**	**14.4%**	**13.8%**	**17.1%**
Chemicals	10.2%	13.5%	11.2%	10.4%	14.9%
Paper	16.4%	15.2%	15.6%	16.1%	18.7%
Cement	23.7%	21.6%	23.2%	23.7%	24.3%
Building Materials	17.5%	15.8%	16.6%	17.3%	16.8%
Distribution	2.1%	2.0%	2.3%	2.1%	1.8%
Net Profit	**Q3/08**	**% y-o-y**	**% q-o-q**	**9M/08**	**% y-o-y**
Consolidated	**5,940**	**-21.3%**	**-17.4%**	**20,251**	-17.6%
Chemicals	3,004	-42.8%	-16.9%	10,495	-22.5%
Paper	620	68.5%	-9.8%	2,047	5.9%
Cement	1,672	28.9%	11.5%	4,858	10.0%
Building Materials	318	-8.6%	44.5%	858	1.5%
Distribution	416	39.6%	-14.2%	1,240	70.8%
SCG Investment	445	-36.1%	-66.2%	2,458	-47.0%

<u>Note</u>: **EBITDA** = Earnings before interest, tax, depreciation, and amortization, plus dividends.
EBITDA from Operation = Earnings before interest, tax, depreciation, and amortization**.**
EBITDA Margin = Operating EBITDA, to Net Sales.

SCG Cement
Thailand's Q3/08 domestic cement demand dropped 12.5%y-o-y.

Thailand's Q3/08 domestic demand of grey cement amounted to 5.6 MT, a decrease of 12.5% y-o-y on concerns over the domestic and global economy and 6.7% q-o-q on lower seasonal demand. This has resulted in the 9M/08 total domestic demand of 18.6 MT, a decrease of 4.1% y-o-y. SCG's Q3/08 domestic sales volume was relatively in-line with that of the industry performance.

SCG's Q3/08 export sales volume registered 2.3 MT, an increase of 0.2 MT y-o-y and q-o-q, with the realized average FOB price of $40.9/ton, a gain of $1.7/ton q-o-q due to the general rise in export market prices.

Net Sales in Q3/08 increased 16% y-o-y and 7% q-o-q to 12,962 MB on higher export sales. EBITDA increased 28% y-o-y and 10% q-o-q with savings from the waste-heat generators and increased export sales. Similarly, Net Profit gain of 29% y-o-y and 12% q-o-q.

SCG Building Materials
y-o-y sales growth, on higher capacity and new product offerings.

Despite the stagnant domestic residential housing sector, SCG Building Materials registered Q3/08 Net Sales of 5,914 MB, an increase of 8% y-o-y, attributed to increased production capacity and sales of high-valued products. Similarly, EBITDA increased 27% y-o-y to 1,211 MB, while Net Profit dropped 9% y-o-y to 318 MB, as there were non-recurring restructuring gains from an associated company in Q3/07.

SCG Distribution
Growths from trading activities.

The Distribution Business registered Q3/08 Net Sales of 26,449 MB, up 20% y-o-y with increased trading transactional value of steel and coal. As a result, Q3/08 EBITDA increased 28% y-o-y to 565 MB, while Net Profit gained 40% y-o-y to 416 MB.

Net Debt
123.3 Billion Baht, up 23.4 Billion Baht from Q4/07.

Financials

Net Debt at the end of Q3/08 stood at 123,321 MB, up by 23,408 MB from the end of Q4/07. The Net Debt/EBITDA ratio registered 2.6 times.

Note, however, that the Net Debt of 123,321 MB includes an approximate 27,000 MB in debt for "on-going projects" which are under construction, and have yet to begin commercial operation. Without these in progress capacity expansion projects, Net Debt would have otherwise dropped to the 96,321 MB level, and would have resulted in the Net Debt/EBITDA of 2.0 times.

Interest Expense and Financial Charges for Q3/08 amounted to 1,325 MB, while the average cost of debt in Q3/08 was at 4.9%.

CAPEX

Total CAPEX & Investment for 9M/08 amounted to 29,200 MB, up 57% y-o-y. Moreover, total CAPEX & Investment for FY2008 is estimated in the range of 40,000 – 45,000 MB, while the remaining committed CAPEX for FY2009-2010 is approximately 35,000 – 40,000 MB.

Table 3 - Debt Profile (MB)	Q3/08	Q2/08
Short Term	**12,368**	**7,608**
Foreign	517	520
Baht	11,851	7,088
% of Total Loan	10%	6%
Long Term	**117,468**	**109,967**
Foreign	2,690	2,903
Baht	114,778	107,064
% of Total Loan	90%	94%
Total Loan	129,836	117,575
Total Net Debt	**123,321**	**104,881**
Financial Ratios	**Q3/08**	**Q2/08**
EBITDA on Assets (%)	16.9%	17.3%
Current Ratio (times)	1.2	1.2
Quick Ratio (times)	0.5	0.6
Net Debt to EBITDA (times)	2.6	2.2
Net Debt to EBITDA (excluding debt in project under construction)	2.0	1.8
Interest Coverage (times)	9.0	9.0
Debt to Equity (times)	1.4	1.3
Return on Equity (%)	30.5%	32.2%

Note:

Net Debt	= Total debt (interest bearing), less cash on hand and short term investments
EBITDA on Assets	= Annualized EBITDA, to Total Consolidated Assets
Current Ratio	= Current assets, to current liabilities
Quick Ratio	= Cash + short term securities + receivable, to current liabilities
Net Debt to EBITDA	= Net debt, to annualized EBITDA
Interest Coverage	= EBITDA, to interest expense
EBITDA	= Earnings before interest, tax, depreciation, and amortization, plus dividends.
Debt to Equity	= Total Liabilities, to total shareholders' equity & minority interest
Return on Equity	= Annualized Net profit, to average total shareholders' equity (not including minority interest)