The Siam Cement Group

Management's Discussion and Analysis
Consolidated Financial Results: Q2/08 and H1/08

Business Overview

Q2/08 Net Profit of 7,195 MB, up +1% q-o-q, but down -18% y-o-y on higher operating costs.

The Siam Cement (SCC) reported Q2/08 Consolidated Net Profit of 7,195 MB, representing a decrease of 18% y-o-y, as there was a non-recurring after tax gain of approx 2,500 MB from divestments in Q2/07. Without the non-recurring after tax gain in Q2/07, the Q2/08 Consolidated Net Profit would have increased 13% y-o-y. The Q2/08 Consolidated EBITDA dropped 2% y-o-y to 12,779 MB, primarily due to higher production costs in most of the core businesses, and lower dividend received from associated companies. Consolidated Net Sales increased 26% y-o-y to 80,253 MB with increased sales volume and higher prices of major products.

On a q-o-q basis, Q2/08 Consolidated Net Profit increased 1% q-o-q, while Consolidated EBITDA gained 5% q-o-q, assisted by dividend income from investments (stakes of less than 20%), Consolidated Net Sales increased by 2% q-o-q on higher product prices in the most of the businesses.

For the first half of 2008 (H1/08), Net Profit decreased 16% y-o-y to 14,311 MB, and was attributed to a) the 2,500 MB non-recurring after tax gain from divestments in H1/07, and b) the 2.8 Bt/$ appreciation of the Thai Baht from the H1/07 average of 35.1 Bt/$ to the H1/08 average of 32.3 Bt/$. Similarly, EBITDA decreased 7% y-o-y to 24,970 MB. Consolidated Sales grew by 23% to 158,855 MB.

In summary, although the H1/08 financial results were very much resilient, it should be noted that strong headwinds are expected in H2/08, as energy prices remain high, and there are signs that domestic demand could slow down, due to inflationary pressure. Further, the global chemicals industry is expected to enter a cyclical trough in 2009, as the global demand is expected to be outpaced by additional supply from the Middle East.

Table 1 - Consolidated Results	**Q2/08** MB	**% Change** y-o-y	**% Change** q-o-q	**H1/08** MB	**% Change** y-o-y
Net Sales	80,253	26.2%	2.1%	158,855	23.2%
Net Profit	7,195	-18.4%	1.1%	14,311	-16.0%
Net Profit Without Non-recurring Gains	7,189	12.9%	4.6%	14,062	-3.0%
EBITDA	12,779	-1.9%	4.8%	24,970	-7.1%
EBITDA from Operations	11,540	13.1%	9.5%	22,080	-6.2%
EPS	6.0	-18.4%	1.1%	11.9	-16.0%
Dividend Paid (Baht per share)	-	-	-	5.5	-26.7%
Dividend Payout Ratio (% of Net Profit)	-	-	-	46%	-

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 H1/08 amounted to 4,518 MB, up 11% y-o-y, with details as follows:

Chemicals Associates: 3,612 MB, an increase of 33% y-o-y.
Other Associates: 906 MB, a decrease of 33% y-o-y.

Dividend Received

Total dividends received in H1/08 amounted to 3,995 MB, down 18% y-o-y with details as follows: a) 2,890 MB was from "Associated" companies (20%-50% stake), and b) 1,105 MB was from "Other" companies (less than 20% stake).

SCG Chemicals
HDPE–Naphtha price gap of $636/ton in Q2/08, while high naphtha costs have decreased the by-product credits.

Sector Summary

In Q2/08, the average price of Naphtha again hiked upwards, following higher crude oil prices. Q2/08 average price of Naphtha was $1,043/ton, up $353/ton y-o-y and $168/ton q-o-q.

Similarly, prices of Ethylene and Propylene continued their uptrend momentum, supported by reduced regional crackers operating rate due to high Naphtha price, and scheduled and unscheduled shut down of Asian crackers. Ethylene price registered $1,385/ton, an increased of $245/ton y-o-y and $148/ton q-o-q while Propylene price was $1,523/ton, up $380/ton y-o-y and $230/ton q-o-q.

HDPE prices in Q2/08 increased to average $1,679/ton, up $380/ton y-o-y and $73/ton q-o-q, following surging Naphtha prices. As a result, the Q2/08 average HDPE-Naphtha price gap registered $636/ton, an increase of $27/ton y-o-y. On a q-o-q basis, the HDPE-Naphtha price gap decreased $96/ton, due to lower seasonal demand.

PP prices in Q2/08 increased to average $1,740/ton, up $434/ton y-o-y and $222/ton q-o-q, due to tight Asian supply of propylene, and resulting in the Q2/08 PP-Naphtha price gap of $697/ton (up $80/ton y-o-y and $54/ton q-o-q).

PVC prices also increased, gaining $238/ton y-o-y and $114/ton q-o-q to $1,159/ton, as a result of firm demand from Europe and the Middle East while supply from the coal-based production units in China still limited. The average PVC margin in Q2/08 increased $117/ton y-o-y and $25/ton q-o-q to $444/ton.

Net Sales in Q2/08 was 38,982 MB, up 25% y-o-y and 4% q-o-q due to higher product prices and sales volume comparing to Q2/07. Polyolefins sales volume in Q2/08 amounted to 283,814 tons, an increase of 30,836 tons y-o-y, but decreased slightly q-o-q due to lower seasonal demand. EBITDA was 4,887 MB, a decline of 18% y-o-y and 7% q-o-q, as a result of lower dividend income received from associated companies. Similarly, Consolidated Net Profit registered 3,617 MB, a decrease of 17% y-o-y as there was the non-recurring gain in Q2/07, while dropping 7% q-o-q.

SCG Paper
Higher products prices, while raw materials and energy costs continue to escalate.

In the Packaging Paper business, Q2/08 total sales volume (Thailand and Philippines) decreased 1% y-o-y and 8% q-o-q, due to lower seasonal demand. For the Thailand based facilities, exports accounted for 24% of the total Q2/08 sales volume.

The regional average price of Packaging Paper increased $15/ton q-o-q to $495/ton, to cover higher raw material costs, which have rose steadily since mid-2007. The prices of Wastepaper averaged $245/ton, a temporary decrease of $15/ton q-o-q, the result of inventory de-stocking in China.

In the Printing & Writing Paper (P&W) business, Q2/08 total sales volume increased 13% y-o-y and 4% q-o-q, attributed to new capacity from the recently completed Khon Kaen plant (200,000 tons), in addition to strong demand from the copy paper segment. Export sales volume in Q2/08 amounted to 20% of the total sales volume, up from 14% in Q1/08.

The regional average price of P&W Paper increased $45/ton q-o-q to $975/ton, to cover the rising pulp prices. Short-fiber Pulp prices increased $50/ton q-o-q to $775/ton due to continued tight global supply and strong demand, while prices of Long-fiber Pulp remained stable at $760/ton.

Financially, the paper business posted Q2/08 Net Sales of 11,972 MB, up 12% y-o-y on higher product prices, but decreased 2% q-o-q on seasonality. EBITDA decreased 7% y-o-y and 6% q-o-q to 1,882 MB due to increased production costs (energy and raw materials). Net Profit increased 8% y-o-y to 687 MB, while dropping 7% q-o-q.

Table 2 - Sector Summary SALES	Q2/08 MB	Change % y-o-y	Change % q-o-q	H1/08 MB	Change % y-o-y
Consolidated	**80,253**	**26.2%**	**2.1%**	**158,855**	**23.2%**
Chemicals	38,982	25.0%	4.3%	76,339	25.6%
Paper	11,972	11.6%	-2.3%	24,229	11.9%
Cement	12,081	16.4%	-5.0%	24,793	13.6%
Building Materials	5,897	16.3%	-5.0%	12,102	13.3%
Distribution	27,995	40.0%	1.6%	55,553	29.8%
SCG Investment	154	600.0%	170.2%	211	174.0%
EBITDA	**Q2/08**	**% y-o-y**	**% q-o-q**	**H1/08**	**% y-o-y**
Consolidated	**12,779**	**-1.9%**	**4.8%**	**24,970**	**-7.1%**
Chemicals	4,887	-17.7%	-7.0%	10,144	-12.3%
Paper	1,882	-6.6%	-5.9%	3,881	-12.5%
Cement	2,800	16.1%	-9.4%	5,889	4.9%
Building Materials	1,105	-7.2%	1.1%	2,198	-1.7%
Distribution	634	103.2%	20.5%	1,160	54.5%
SCG Investment	1,632	29.2%	347.1%	1,997	-20.5%
EBITDA from Operation	**Q2/08**	**% y-o-y**	**% q-o-q**	**H1/08**	**% y-o-y**
Consolidated	**11,540**	**13.1%**	**9.5%**	**22,080**	**-6.2%**
Chemicals	4,375	11.2%	21.2%	7,986	-16.4%
Paper	1,873	-6.8%	-6.3%	3,872	-12.6%
Cement	2,800	16.1%	-9.4%	5,889	4.9%
Building Materials	979	21.2%	-10.4%	2,072	11.8%
Distribution	634	103.2%	21.7%	1,155	55.2%
SCG Investment	1,075	27.1%	194.5%	1,440	-8.9%
EBITDA MARGINS (%)	**Q2/08**	**Q2/07**	**Q1/08**	**H1/08**	**H1/07**
Consolidated	**14.4%**	**16.0%**	**13.4%**	**13.9%**	**18.2%**
Chemicals	11.2%	12.6%	9.7%	10.5%	15.7%
Paper	15.6%	18.7%	16.3%	16.0%	20.5%
Cement	23.2%	23.2%	24.3%	23.8%	25.7%
Building Materials	16.6%	15.9%	17.6%	17.1%	17.4%
Distribution	2.3%	1.6%	1.9%	2.1%	1.7%
Net Profit	**Q2/08**	**% y-o-y**	**% q-o-q**	**H1/08**	**% y-o-y**
Consolidated	**7,195**	**-18.4%**	**1.1%**	**14,311**	-16.0%
Chemicals	3,617	-17.3%	-6.6%	7,491	-9.6%
Paper	687	8.2%	-7.2%	1,427	-8.8%
Cement	1,500	15.4%	-11.0%	3,186	2.1%
Building Materials	220	47.7%	-31.3%	540	8.7%
Distribution	485	166.5%	43.1%	824	92.5%
SCG Investment	1,317	-48.2%	89.2%	2,013	-49.0%

Note: **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 Q2/08 total domestic demand of grey cement dropped 1.5% y-o-y.

Thailand's Q2/08 domestic demand of grey cement amounted to 6.0 MT, a decrease of 1.5% y-o-y, while dropping 14% q-o-q on lower seasonal demand and concerns over the domestic economy. This has resulted in the H1/08 total domestic demand of 13.0 MT, or flat y-o-y.

SCG's Q2/08 domestic sale volume was relative in-line with that of the industry's performance, with the realized grey cement price ranging between 1,800-1,900 Bt/ton during the period.

SCG's Q2/08 export sales volume registered 2.1 MT, an increase of 0.1 MT y-o-y and q-o-q, with the realized FOB price of $39.2/ton, a gain of $1.6/ton q-o-q due to the general rise in export market prices.

Net Sales in Q2/08 increased 16% y-o-y to 12,081 MB on higher domestic and export prices, but dropped 5% q-o-q due to lower seasonal sales volume. EBITDA increased 16% y-o-y with savings from the waste heat generators, but dropped 9% q-o-q on lower seasonal domestic sales volume. Similarly, Net Profit increased 15% y-o-y but dropped 11% q-o-q.

SCG Building Materials
y-o-y sales growth, driven by residential housing activity and new product offerings.

Demand of building materials in Q2/08 was better than expected, as SCG Building Materials registered Q2/08 Net Sales of 5,897 MB, an increase of 16% y-o-y. Similarly, Net Profit increased 48% y-o-y to 220 MB, benefiting from costs savings measures and the learning curve on product development.

With the total conversion away from asbestos-cement based roofing/siding products in 2007, SCG Building Materials is expected to rebuild its non-asbestos based roofing and sliding capacity to 80 million sqm by the end of 2008, and will have an eventual 100 million sqm by the end of 2009.

SCG Distribution
Growths from trading activities.

The Distribution Business registered Q2/08 Net Sales of 27,995 MB, up 40% y-o-y with increased trading transactional value of steel and coal. As a result, Q2/08 EBITDA increased 103% y-o-y to 634 MB, while Net Profit gained 167% y-o-y to 485 MB.

Financials

Net Debt
104.9 Billion Baht, up 4.9 Billion Baht from Q4/07.

Net Debt at the end of Q2/08 stood at 104,881 MB, up by 4,968 MB from the end of Q4/07. The Net Debt/EBITDA ratio registered 2.2 times.

Note, however, that the Net Debt of 104,881 MB includes an approximate 18,200 MB in debt for "on-going projects" which are under construction, and have yet to begin commercial operation. Without these capacity expansion projects, Net Debt would have otherwise dropped to the 86,600 MB level.

Interest Expense and Financial Charges for Q2/08 amounted to 1,671 MB, while the average cost of debt in Q2/08 was at 5.0%.

CAPEX

Total CAPEX and others for H1/08 amounted to 17,715 MB, up 71% y-o-y. For FY2008, total CAPEX is expected to be in the range of 35,000 – 40,000 MB (FY2007 CAPEX was 27,160 MB).

H1/08 Interim Dividend
5.5 Bt/Sh

The Board of Directors of SCC has approved an interim dividend payment of 5.5 Bt/Sh, amounting to 6,600 MB or 46% of the H1/08 Consolidated Net Profit, and is payable on Aug 21/08 with book closing on Aug 7/08.

Dividend Policy

Moreover, the Board of Directors has established SCC's dividend payout policy at 40% - 50% of the consolidated net profit after tax. However, when reviewing the dividend payout for any potential changes for the respective period, the company may take into account all irregular situations and uncontrollable factors, accordingly.

Table 3 - Debt Profile (MB)	Q2/08	Q1/08
Short Term	**7,608**	**4,659**
Foreign	520	523
Baht	7,088	4,136
% of Total Loan	6%	4%
Long Term	**109,967**	**108,312**
Foreign	2,903	2,839
Baht	107,064	105,473
% of Total Loan	94%	96%
Total Loan	117,575	112,971
Total Net Debt	**104,881**	**100,074**
Financial Ratios	**Q2/08**	**Q1/08**
EBITDA on Assets (%)	17.3%	16.5%
Current Ratio (times)	1.2	1.2
Quick Ratio (times)	0.6	0.5
Net Debt to EBITDA (times)	2.2	2.3
Interest Coverage (times)	9.0	11.1
Debt to Equity (times)	1.3	1.5
Return on Equity (%)	32.2%	33.5%

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)