Risks from sluggish demand recovery and changing business landscapes

Scenario and Risk Assessment:

The outbreak of COVID-19 in 2020 caused the global and ASEAN economies to contract sharply, resulting in decline in employment and investor confidence. This eroded household income and purchasing power. Despite signs of economic recovery, it is expected to be more protracted as there remain uncertainties surrounding the COVID-19 situation, which may leave longer-lasting effects from the pandemic on the economy and depress the market demand to remain at a low level for at least in the medium run.

The pandemic has also brought about expedited changes in business landscapes, such as transformation of business strategies and accelerated technology advancement and shift in consumer behaviors. These could have significant impacts on SCG’s businesses:

**Chemicals Business:** With a decline in both demand and oil prices and the structural changes from the transition to renewable energy resources in replacement of conventional fossils in the long run, these could accelerate major global oil producers to join the petrochemical industry, leading to higher fluctuation of naphtha prices and increased supply of petrochemical products. In addition, the self-reliant policy in China that drives more petrochemicals production output could put pressure on the product-to-feedstock price spreads to be below the industry’s long-term averages.

**Cement and Building Materials Business:** The Business has witnessed more intense competition owing to the economic slowdown and declining demand. Other challenges include shift in consumers’ lifestyles and needs, especially home owners who are conscious for their health and well-being, and look for comfort and convenience in buying a wide array of building products anywhere and anytime. They also opt for total solutions and services from designing, constructing to fast and flexible delivery, allowing them to control construction or home improvement time and reduce construction cost.

**Packaging Business:** The COVID-19 pandemic has accelerated consumers to move more toward online shopping while many businesses have also jumped in online sales, resulting in a growing demand for packaging solution that can help prevent product damage during shipment and come in smaller sizes. Moreover, with consumers increasingly use food delivery services as a result of pandemic-control measures and greater health awareness, this has led to a growing demand for safe food packaging that minimizes contamination risks, and packaging for health and wellness products.
Impact:

SCG strives to actively transform and adapt to these readjustments to capture opportunities and tackle challenges from impacts of the pandemics and changes in business landscapes, as well as mitigate impacts that the Company could face within three to five years. Potential impacts include increased competition in the industries and raw material procurement, higher costs of productions and provisions of services, decrease of profits and reduced competitive advantage if the Company could not appropriately and timely transform business strategies and operations.

Mitigating Action and How to Convert to Opportunities:

**Chemicals Business:** Actively adjusts its portfolio to target customers in the industries that have been less impacted by the pandemic such as food & beverage packaging, medical equipment, or health-related industries. This runs concurrently with analyzing market demand and collaborating with product owners to accelerate development of high value-added products and services that can offer solutions to better accommodate needs to customers. Added to this are development of solutions based on the circular economy principles such as recycling plastic materials for reuse, and expansion into a new business such as offering one-stop integrated industrial solutions. Moreover, the Company continuously improves facilities and production process to increase feedstock flexibility to reduce costs as well as deploys advanced digital technology in the manufacturing process and value chain management to enhance competitive advantage.

**Cement and Building Materials Business:** Enhances distribution channel by integrating technologies, offline and online marketing strategies, ecosystem and collaboration with business partners together. Emphasis is also put on rapid development of solutions that address consumers’ health and wellness needs, as well as solutions that are diversified and offer value for money (Good, Better, Best) and can provide end-to-end products and services. These include Construction Solution that utilizes technology to ensure construction efficiency and help with troubleshooting; Renovation Solution that offers home improvement services by skilled technicians; Smart Building Solution that provides energy-saving solutions and solutions for the healthy living of residents. Furthermore, the Business is dedicated to driving innovative and eco-friendly products (SCG Green Choice) together with streamlining production and work processes, using technology to enhance corporate efficiency.

**Packaging Business:** Increases sales to customers in the consumer product sector, which has been less affected by the pandemic along with working closely with customers to improve production process and transportation, and developing packaging solutions to meet specific application needs of each customer, especially those in the e-commerce industry with the considerably increasing demand for packaging. Moreover, various measures have been taken to
ensure the food packaging is safe and hygienic, and meets the highest standards in compliance with good manufacturing practices (GMP). The efforts also extend to managing the supply chain to ensure continuous delivery of packaging to consumers by coordinating the procurement of raw materials and logistics management in every operation. The endeavors have enabled the Business to have a closer relationship with customers and better understand their business needs.

Source: 2020 SCG Annual Report (Page 70 – 72)