

IDR 02/2018

February 22, 2018

Re: Management Discussion and Analysis (MD&A) for the year of 2017

To: The President
The Stock Exchange of Thailand

CP All Public Company Limited would like to clarify operating results for the year of 2017 which the Company and its subsidiaries reported net profit of Baht 19,908 million. The main reasons are as follows:

Total Revenues

In 2017, the Company and its subsidiaries' total revenues were Baht 489,403 million. An increase of 8.3 percent from that of 2016 was mainly driven by higher sales revenue and services income of convenience store business, other supporting businesses and the cash & carry business under the name "Siam Makro". Resilient revenue growth was a result of the Company's strategy to remain vigorous in store expansion to correspond to the change in consumer lifestyle, to serve convenience to all communities, and to offer products and services that accommodate to customers demand.

Total revenues before elimination contributed from three businesses were, (1) convenience store business accounted for 57 percent (2) membership based Cash & Carry trade centers accounted for 36 percent, and (3) other businesses in Thailand such as manufacturing and sales of convenience food, payment service, distributing and maintenance of retailing equipment accounted for 7 percent. The revenue contribution from three businesses were at a similar level in 2016

Gross Profit

In 2017, the Company and its subsidiaries' gross profit was Baht 105,067 million, increased by 10.6 percent from last year, which was mainly due to improved performance of the convenience store business, Siam Makro's business, and other supporting businesses. In addition, the Company has developed product strategy to customize products that respond to customer's needs, as well as increasing sales participation of higher-margin products such as ready-to-eat food, health and beauty products, and Makro's fresh food products. Thus, gross margin in the consolidated financial statement increased from 21.9 in 2016 to 22.3 percent in 2017.

Selling and Administrative Expenses

In 2017, the Company and its subsidiaries' selling and administrative expenses rose to Baht 91,902 million, increased by 9.8 percent from last year. Selling expenses were Baht 77,300 million or up 8.6 percent YoY. Detail of selling expenses with significant changes as follows:

1) Store management fees expenses were Baht 17,632 million, up 10.5 percent from last year, mainly from higher revenue from sales and gross profit margin. In addition, store business partner (SBP) stores also increased according to the Company's store management strategy to expand more in SBP format.

2) Sales personnel expenses were Baht 15,779 million, up 8.0 percent from last year, mainly due to an increase in numbers of personnel from store expansion of both convenience store business and Siam Makro business.

3) Rental and depreciation and amortization expenses were Baht 6,729 million and Baht 6,874 million, up 11.6 percent and 13.0 percent from last year respectively mainly due to expenses related to new store expansion, existing store renovation, as well as investment in other supporting businesses.

4) Other expenses such as advertising and sale promotion expenses, utility expenses and other expenses including service fee and supplies costs also increased in accordance with sales growth and increase in number of stores.

In addition, administrative expenses were Baht 14,602 million, which an increase by 17.1 percent YoY was largely owed to higher personnel expenses, rental expenses, and depreciation and amortization expenses.

Profit before Tax and Net Profit

In 2017, profit before tax was Baht 23,506 million, up 16.7 percent from last year. Net profit was Baht 19,908 million, up 19.4 percent from last year and earnings per share was Baht 2.14. The improvement in net profit was mainly due to revenue growth, better cost and expense control resulting in improving margins as well as decrease of finance cost from refinancing and lower income tax expenses from the windfall from government's tax advantage on the Company's certain capital expenditure incurred during 2016-17.

Profit before tax before elimination be contributed from three businesses were (1) convenience store business accounted for 63 percent (2) membership based Cash & Carry trade centers accounted for 25 percent, and (3) other businesses in Thailand such as manufacturing and sales of convenience food, payment service, distributing and maintenance of retailing equipment accounted for 12 percent. The revenue contribution from three businesses was at a similar level in 2016.

Operating Results by Business Segments

Convenience Store Business

The Company continued to expand "7-Eleven" stores to serve convenience to all communities in Bangkok and provincial areas. The new stores were in various store type including corporate, SBP, and sub-area, where some were stand-alone stores and other were in PTT gas stations. The Company has planned to open 700 new stores per year, which during 2017 the Company has successfully opened 726 new stores in various formats. At the end of 2017, the Company operated 10,268 stores nationwide, which can be broken down into (1) 4,530 corporate stores (44 percent of total stores), an increase of 325 stores from last year, (2) 5,017 SBP stores (49 percent of total stores), an increase of 372 stores from last year, and (3) 721 sub-area stores (7 percent of total stores) an increase of 29 stores from last year.

Regarding products and services, the Company strived to become the convenience food store with the continuous improvement in food and beverages and new products. These products has received great feedback from customer as lifestyles get busier and looking for convenience. In 2017, food and beverage products accounted for 70.6 percent of sales mix, while non-food items (excluding phone cards) accounted for 29.4 percent. As sales of both food and non-food categories grew largely at the same pace, product mix remained relatively the same with last year.

On the back of the dynamic expansion and successful product strategy, in 2017 the convenience store business had total sales revenue and service income of Baht 278,751 million, increased by Baht 22,350 million or 8.7 percent YoY. Convenience store business has retained its resilient SSSG at 1.6 percent in 2017 and posted average sales of Baht 79,786 per store per day. In 2017, average spending per ticket was at Baht 67 and there were 1,184 customer visits per store per day.

In 2017, gross profit margin was at 28.1 percent, which dropped from 28.3 percent in 2016 due to higher oil prices that pressured logistics cost and partly from lower service income.

Nevertheless, the Company was able to maintain sales participation of higher-margin products at a satisfactory level.

Meantime, other income of the convenience store business increased to Baht 17,997 million in 2017, or an increase of Baht 931 million or 5.5 percent from last year as mainly from higher income on royalties and other fees relating to license income as well as higher sales promotion income from co-promotion campaigns with suppliers to boost sales such as premiums redemption and stamp collection campaign.

Selling and administrative expenses were Baht 76,244 million in 2017, or an increase of Baht 5,706 million or 8.1 percent YoY. Higher expenses included personnel expenses, store management fee and depreciation expense are in related to store expansion in which most of are in larger size than existing stores and renovation of existing stores.

Operating profit of the convenience store business was Baht 25,825 million, increased by 8.2 percent from last year, while net profit was Baht 16,618 million, increased by 17.9 percent YoY.

Other Businesses

Other businesses comprise of bill payment services, manufacturing and sale of ready-to-eat food and bakery products, distribution and maintenance of retail equipments and other businesses that mainly support 7-Eleven stores. The Company remained active to develop new products and services that match with customer demand such as negotiating with the business partners to expand service channels of Counter Service or e-commerce retailing to provide convenience to customer.

In 2017, profit before tax before elimination was Baht 3,312 million, increased by 17.6 percent from last year.

Cash & Carry Trade Centers

In 2017, Siam Makro's profit before tax before elimination was Baht 7,271 million increased by 15.9 percent YoY. (Note: investors can find additional details in MD&A for the year 2017 of Siam Makro)

As at December 31, 2017, the Company and its subsidiaries' net debt to adjusted equity according to definition of bond covenants was at 1.44 times, decreased from 2.08 times in 2016. Lower net debt to equity was mainly driven by larger shareholders' equity from an increase in profit from business operation and the issuance of subordinated perpetual debentures. The Company is obligated to comply with bond covenants with net debt to equity ratio a based on the consolidated financial statements for the period ended 31 December of each year, which covenants is at 2.5 times in 2017 and 2.0 times in 2018 onwards.

Management Outlook for Convenience Store Business in 2018

<p>Store expansion</p>	<p>Following our plan to reach 13,000 stores by 2021, we will remain active in our new store rollouts following the growth of communities, various infrastructures, tourist destinations and other high potential areas in order to serve convenience to all communities. Thus, we plan to open approximately 700 new stores in 2018.</p>
<p>Sales and services revenue growth</p>	<p>The Company expects to continue delivering sales and services revenue growth as driven from contribution from new store and positive SSSG, which we forecast to grow in line with the projected economic</p>

	growth in Thailand (GDP growth). However, this is subjected to other factors including inflation rate and private consumption growth.
Gross profit margin	Gross profit margin advancement is expected to continue on the back of our product strategy in order to cater to consumer demand. We also continue to drive higher sales participation of the higher-margin products in both food and non-food categories.
CAPEX	<p>CAPEX is projected to be approximately Baht 9,500-10,000 million with details as follows (unit: million Baht)</p> <ul style="list-style-type: none"> • Stores expansion 3,600 - 3,800 • Stores renovation 2,000 - 2,100 • Investment in new project, subsidiaries and DC 3,100 - 3,200 • Fixed assets and IT system 800 - 900

Please be informed accordingly.

Sincerely yours,

Mr. Kriengchai Boonpoapichart
Vice President
Authorized to sign on behalf of the Company