

IDR 02/2020

February 19, 2020

Re: Management Discussion and Analysis (MD&A) for the year of 2019

To: The President

The Stock Exchange of Thailand

CP All Public Company Limited would like to clarify operating results for the year of 2019 which the Company and its subsidiaries reported net profit of Baht 22,343 million. The main reasons are as follows:

Total Revenues

In 2019, the Company and its subsidiaries' total revenues were Baht 571,110 million, increased 8.3% from last year. Sales revenue and services income of convenience store business, other supporting businesses and the cash & carry business under the name "Siam Makro" increased to Baht 550,901 million, or rose 8.4% from last year. 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, (Group 1) convenience store business accounted for 59 percent (Group 2) membership based Cash & Carry trade centers accounted for 34 percent, and (Group 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. Revenues contribution from each group maintained at the same level of last year.

Gross Profit

In 2019, the Company and its subsidiaries' gross profit was Baht 124,838 million, increased by 9.9 percent from last year, which was mainly due to improved performance of the convenience store business, Siam Makro's business, and other supporting businesses. The gross margin in the consolidated financial statement was at 22.7 percent, increased from 22.3 percent in 2018 on the back of higher sales growth from higher gross margin products from both convenience store business and Siam Makro's business.

Distribution Costs and Administrative Expenses

In 2019, the Company and its subsidiaries' distribution costs and administrative expenses rose to Baht 111,562 million, increased by 11.3 percent from last year.

Distribution costs were Baht 93,390 million or up 10.5 percent YoY. This was mainly due to expenses related to new store expansion of both convenience store business and Siam Makro business according to business strategic plan which led an increase of employee benefits from new staff, and an increase of rent expenses and asset depreciation, while store management fee increased due to higher sales revenue and

expansion of gross margin. In addition, during 2019 the membership program so-called “All Member” of convenience store business was introduced which led an increase of advertising and sale promotion expenses.

Administrative expenses were Baht 18,172 million or up 15.7 percent YoY mainly from business growth including a record of the provision for retirement benefits as well as past service costs.

In 2019, the Company and its subsidiaries have amended its retirement plan in compliance with the change of the Labor Protection Act in 2019. As a result of this change, the provision for retirement benefits as well as past service costs were recognized additionally amounting to Baht 809 million in the consolidated financial statement.

Profit Before Tax and Net Profit

In 2019, profit before tax was Baht 26,764 million, up 6.4 percent YoY. Net profit was Baht 22,343 million, up 6.8 percent from last year. The improvement in net profit was mainly due to revenue growth, as well as decrease of finance cost from last year. Although, the administrative expenses recorded one-time additional provision for retirement benefits as well as past service costs amounting to Baht 809 million. The Company’s earnings per share in the consolidated financial statement was Baht 2.38.

Profit before tax before elimination be contributed from three businesses in 2019 were (Group 1) convenience store business accounted for 66 percent (Group 2) membership based Cash & Carry trade centers accounted for 22 percent, and (Group 3) other businesses in Thailand accounted for 12 percent. Profit contribution from each group maintained at the same level of last year.

Operating Results by Business Segments

Convenience Store Business

In 2019, 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, store business partner (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 2019 the Company has successfully opened 724 new stores. At the end of 2019, CPALL operated 11,712 stores nationwide, which can be broken down into 5,215 corporate stores (45 percent of total stores), an increase of 321 stores, 5,687 SBP stores (48 percent of total stores), an increase of 351 stores, and 810 sub-area stores (7 percent of total stores) an increase of 52 stores.

Regarding products and services, the Company strived to become “the convenience food store of Thais” 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 2019, food and beverage products accounted for 71.2 percent of sales mix, while non-food items (excluding phone cards) accounted for 28.8 percent. The sales mix from food and beverage products were up from 70.1 in last year

due to a high sales growth from ready-to-eat and beverages, while low sales growth from non-food items i.e. cigarette.

On the back of the dynamic expansion and successful product strategy, in 2019 the convenience store business had total sales revenue and service income of Baht 334,061 million, increased by Baht 25,218 million or 8.2 percent YoY. Convenience store business has retained its resilient SSSG at 1.7 percent in 2019 and posted average sales of Baht 82,928 per store per day. In 2019, average spending per ticket was at Baht 70 and there were 1,187 customer visits per store per day

Gross profit amounted to Baht 93,827 million, increased by 7,784 million or 9.0 percent YoY, yet gross profit margin increased to 28.1 percent from 27.9 percent in 2018 owing to a higher sales growth from higher gross margin products.

Meantime, other income of the convenience store business increased to Baht 19,920 million in 2019, or an increase of Baht 1,415 million or 7.6 percent from last year as mainly from higher income on royalties and other fees relating to license income from an increase of SBP stores as well as higher sales promotion income from co-promotion campaigns with suppliers to boost sales such as premiums redemption and stamp collection campaign.

Distribution cost and administrative expenses were Baht 92,476 million in 2019, or an increase of Baht 8,777 million or 10.5 percent YoY. Higher expenses included employee benefit expenses due to store expansion together with an increase of number of new staffs, as well as an increase of variable expenses i.e. advertising and sale promotion expenses and store management fees. Also, rental fees and depreciation and amortisation expenses were up in relation to an increase of number of stores including larger selling area of new stores. In addition, during 2019, the Company have amended its retirement plan in compliance with the change of the Labor Protection Act in 2019. As a result of this change, the provision for retirement benefits as well as past service costs were recognized additionally amounting to Baht 489 million in the separate financial statement.

Operating profit of the convenience store business was Baht 28,323 million, decreased by 1.3 percent from last year, while net profit was Baht 20,180 million, increased by 1.2 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 the convenience store business. The Company remained active to develop new products or 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, as well as build up revenue growth in the future.

In 2019, profit before tax was Baht 4,151 million, increased by 16.8 percent from last year.

Cash & Carry Trade Centers

In 2019, Cash & Carry Trade Centers profit before tax was Baht 7,503 million increased by 5.9 percent YoY due to an increase of revenue from sales together with well management of operating expenses. (Note: investors can find additional details in MD&A for the year 2019 of Siam Makro)

As at December 31, 2019, the Company and its subsidiaries' net debt to adjusted equity according to definition of bond covenants was at 0.94 times, decreased from 1.04 times in 2018. Lower net debt to equity was mainly driven by larger shareholders' equity from an increase in profit from business operation and a repayment of the matured 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 2020

Store expansion	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 2020.
Sales and services revenue growth	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 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 11,500-12,000 million with details as follows (unit: million Baht)</p> <ul style="list-style-type: none"> ● Stores expansion 3,800 - 4,000 ● Stores renovation 2,400 - 2,500 ● Investment in new project, subsidiaries and DC 4,000 - 4,100 ● Fixed assets and IT system 1,300 - 1,400

Please be informed accordingly.

Sincerely yours,

(Mr. Kriengchai Boonpoapichart)

Chief Financial Officer

Authorized to sign on behalf of the Company