

IDR 14/2017

August 10, 2017

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

To: The President
The Stock Exchange of Thailand

CP All Public Company Limited would like to clarify operating results for the second quarter of 2017 which the Company and its subsidiaries reported net profit of Baht 4,647 million. The main reasons are as follows:

Total Revenues

In 2Q17, the Company and its subsidiaries' total revenues were Baht 120,652 million, increased by Baht 6,023 million or 5.3 percent from the same period of last year. Total revenues growth was mainly driven by higher sales revenue and services income of convenience store business and cash & carry business under the name "Siam Makro", which grew by Baht 6,136 million or 5.6 percent YoY.

Gross Profit

The Company and its subsidiaries' gross profit in 2Q17 was Baht 25,801 million, increased by 7.7 percent from the same period of last year largely from higher sales participation of higher-margin products. Thus, gross margin to sales and service income advanced from 21.8 percent in 2Q16 to 22.2 percent in 2Q17.

Selling and Administrative Expenses

In 2Q17, the Company and its subsidiaries' selling and administrative expenses rose to Baht 22,763 million, increased by 6.1 percent from 2Q16. An increase in operating expenses such as personnel expenses, rental expenses and depreciation and amortisation were in related to new store expansions.

Profit Before Interest and Tax Expenses, and Net Profit

In 2Q17, profit before interest and tax expenses was Baht 7,556 million, up 5.8 percent YoY. Net profit was Baht 4,647 million, increased by 10.8 percent from the same period of last year. Earnings per share reported in the consolidated financial statements in 2Q17 was Baht 0.50. The improvement in net profit was mainly driven by decent business operations as well as lower income tax expenses as the Company continued to benefit from government's tax advantage on certain capital expenditure incurred in 2016 and 2017.

Operating Results for the First Half of 2017

In 1H17, the Company and its subsidiaries' total revenues amounted to Baht 238,159 million, increasing 6.6 percent from the same period of last year as mainly driven by 6.7 percent growth in sales revenue and services income. Net profit was Baht 9,412 million, up by 13.9 percent YoY. Earnings per share reported in the consolidated financial statements were Baht 1.02 in 1H17.

Business Segment Performance

In 1H17, total revenues before elimination contributed from major businesses were, (1) convenience store business and other businesses accounted for 64 percent and (2) Siam Makro cash & carry business accounted for 36 percent. The revenue contributions from these businesses were at a similar level as in 1H16.

Profit before tax before elimination contributed from major businesses in 1H17 were, (1) convenience store business and other businesses accounted for 77 percent, decreased from 78

percent in 1H16 and (2) Membership based cash & carry trade centers accounted for 23 percent, up from 22 percent from the same period of last year, which the YoY change in contribution mix was a result of improving operation of Siam Makro.

Operating Results of the Convenience Store Business

In order to move toward our long-term goal of having 13,000 stores by 2021, new stores expansion has progressed on track. During 2Q17 the Company has successfully opened 219 new stores in all types including corporate, store business partner (SBP) and sub-area. During 1H17 the Company has successfully opened 465 new stores, aligning with our target. At the end of 2Q17, CPALL operated 10,007 stores nationwide, which can be broken down into:

- (1) 4,491 corporate stores (45 percent of total stores)
- (2) 5,516 SBP and sub-area stores (55 percent of total stores),

Majority of our stores were stand-alone, making 86 percent of total stores, while the others were in PTT gas stations.

Following dynamic store expansion and successful product strategy, in 2Q17 the convenience store business reported revenue from sales and services of Baht 69,377 million, increased by Baht 3,725 million or 5.7 percent YoY. In 2Q17, SSSG for convenience store business contracted by 1 percent with average sales of Baht 79,613 per store on a daily basis. Average spending per ticket was at Baht 67 and there were 1,194 customer visits per store per day.

In 2Q17, sales of both food and non-food categories (excluding phone cards) grew approximately at similar pace. For that reason, product sales mix remained at the same level as in the same period of last year, having food products accounted for 71.2 percent of sales mix, while non-food products (excluding phone cards) accounted for 28.8 percent. Nevertheless, product margin improved to 26.6 percent in 2Q17 from 26.5 percent in 2Q16.

In 2Q17 gross profit amounted to Baht 19,616 million, increased by Baht 874 million or 4.7 percent YoY. Gross profit margin was at 28.3 percent in 2Q17, declined from 28.5 percent in 2Q16 owing to higher oil prices which pressured logistics cost and partly from lower service income.

In addition, convenience store business had other income of Baht 7,672 million in 2Q17, increased by Baht 381 million or 5.2 percent YoY mainly from higher dividend income from subsidiaries.

SG&A expenses were Baht 18,941 million in 2Q17, increasing Baht 657 million or 3.6 percent YoY mainly in related to new store expansions while higher store management fee resulted from higher sales revenue and numbers of store business partner stores.

In 2Q17, operating profit of the convenience store business was Baht 8,346 million, increased by 7.7 percent from 2Q16, while net profit was Baht 5,931 million, increased by 12.3 percent YoY.

For 1H17, convenience store business posted total revenues of Baht 146,742 million, increasing 6.4 percent from the same period of last year as mainly driven by 6.3 percent growth in sales revenue and services income. Meanwhile, net profit was Baht 8,616 million, increased by 11.7 percent from the same period of last year.

As at June 30, 2017, the Company and its subsidiaries' net debt to adjusted equity according to definition of bond covenants was at 2.22 times, decreased from 2.79 times in the same period of last year. Lower net debt to equity was mainly driven by larger shareholders' equity base from increase in profit from business operation and issuance of subordinated perpetual debentures in 2016. The Company is obligated to comply with bond covenants with net debt to equity ratio calculated 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 2017

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 2017.
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 proportion 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 3,400 - 3,600• Stores renovation 2,300 - 2,400• Investment in new project, subsidiaries and DC 3,000 - 3,100• Fixed assets and IT system 800 - 900

Please be informed accordingly.
Sincerely yours,

(Mr. Supot Shitgasornpongse)
Company Secretary
Authorized to sign on behalf of the Company