

IDR 18/2017

November 13, 2017

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

To: The President
The Stock Exchange of Thailand

CP All Public Company Limited would like to clarify operating results for the third quarter of 2017 which the Company and its subsidiaries reported net profit of Baht 4,970 million. The main reasons are as follows:

Total Revenues

In 3Q17, the Company and its subsidiaries' total revenues were Baht 123,215 million, increased by Baht 10,187million or 9.0 percent from the same period of last year. Total revenues growth was mainly driven by higher sales revenue and services income which grew by Baht 9,600 million or 8.8 percent YoY from convenience store business and cash & carry business under the name "Siam Makro".

Gross Profit

The Company and its subsidiaries' gross profit in 3Q17 was Baht 26,500 million, increased by 10.2 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 22.1 percent in the same period of last year to 22.4 percent.

Selling and Administrative Expenses

In 3Q17, the Company and its subsidiaries' selling and administrative expenses rose to Baht 23,624 million, increased by 11.0 percent YoY. An increase in operating expenses were from advertising and promotional expenses from 7-Eleven stamp campaign and store management fee as a results of higher numbers of store business partner (SBP) of the convenience store business, while rental expenses, depreciation and amortisation, and personnel expenses were in related to new store expansions.

Profit Before Interest and Tax Expenses, and Net Profit

In 3Q17, profit before interest and tax expenses was Baht 7,848 million, up 9.8 percent YoY. Net profit was Baht 4,970 million, increased by 20.8 percent from the same period of last year. Earnings per share reported in the consolidated financial statements in 3Q17 was Baht 0.53. The improvement in net profit was mainly driven by decent business operations of the Company and its subsidiaries, lower interest expense as a result of issuance of perpetual debenture to refinance matured ordinary debenture, 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 Nine Months of 2017

In 9M17, the Company and its subsidiaries' total revenues amounted to Baht 361,370 million, increasing 7.4 percent from the same period of last year as mainly driven by 7.4 percent growth in sales revenue and services income. Net profit was Baht 14,383 million, up by 16.2 percent YoY. Earnings per share reported in the consolidated financial statements were Baht 1.55 in 9M17.

Business Segment Performance

In 9M17, total revenues before elimination contributed from major businesses were, (1) convenience store business and other businesses accounted for 65 percent and (2) Siam Makro cash & carry business accounted for 35 percent. The revenue contributions from convenience store

business and other businesses and Siam Makro business were at 64 percent and 36 percent respectively in 2016.

Profit before tax before elimination contributed from major businesses in 9M17 were, (1) convenience store business and other businesses accounted for 77 percent and (2) Membership based cash & carry trade centers accounted for 23 percent. The contributions from convenience store business and other businesses and Siam Makro business were at 75 percent and 25 percent respectively in 2016.

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 3Q17 the Company has opened 145 new stores in all types including corporate, store business partner (SBP) and sub-area. During 9M17 the Company has successfully opened 610 new stores, aligning with our target. At the end of 3Q17, CPALL operated 10,152 stores nationwide, which can be broken down into:

- (1) 4,536 corporate stores (45 percent of total stores)
- (2) 5,616 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 3Q17 the convenience store business reported revenue from sales and services of Baht 70,845 million, increased by Baht 5,880 million or 9.1 percent YoY. In 3Q17, SSSG for convenience store business increased by 2.4 percent with average sales of Baht 79,472 per store on a daily basis. Average spending per ticket was at Baht 67 and there were 1,178 customer visits per store per day.

In 3Q17, 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 70.5 percent of sales mix, while non-food products (excluding phone cards) accounted for 29.5 percent. Nevertheless, product margin improved to 26.4 percent in 3Q17 from 26.1 percent in 3Q16.

In 3Q17 gross profit amounted to Baht 19,787 million, increased by Baht 1,611 million or 8.9 percent YoY. Gross profit margin was at 27.9 percent in 3Q17, similar to 3Q16 at 28.0 percent as the Company was able to maintain favourable product sales mix.

In addition, convenience store business had other income of Baht 6,982 million in 3Q17, increased by Baht 884 million or 14.5 percent YoY partly from higher dividend income from subsidiaries and income from promotional support from suppliers.

SG&A expenses were Baht 19,702 million in 3Q17, increasing Baht 1,759 million or 9.8 percent YoY mainly from advertising and promotional expenses from stamp campaign and higher store management fee resulted from higher sales revenue and numbers of SBP stores.

In 3Q17, operating profit of the convenience store business was Baht 7,067 million, increased by 11.6 percent YoY, while net profit was Baht 4,789 million, increased by 22.8 percent YoY.

For 9M17, convenience store business posted total revenues of Baht 224,569 million, increasing 7.5 percent from the same period of last year as mainly driven by 7.3 percent growth in sales revenue and services income. Meanwhile, net profit was Baht 13,406 million, increased by 15.4 percent from the same period of last year.

As at September 30, 2017, the Company and its subsidiaries' net debt to adjusted equity according to definition of bond covenants was at 1.62 times, decreased from 2.84 times in the same period of last year. Lower net debt to equity was mainly driven by larger shareholders' equity base

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