

November 12, 2019

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

To: The President

The Stock Exchange of Thailand

CP All Public Company Limited (the Company or CPALL) would like to clarify operating results for the third quarter of 2019 which the Company and its subsidiaries reported net profit of Baht 5,612 million.

The main reasons are as follows:

Total Revenue

In 3Q19, the Company and its subsidiaries' total revenue were Baht 141,072 million. An increase of 8.2 percent from the same period last year was mainly driven by higher sales revenue and service income of convenience store business and 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 customer demand.

Gross Profit

The Company and its subsidiaries' gross profit in the third quarter of 2019 was Baht 31,177 million, increased by 11.0 percent from the same period last year. Gross margin to sales and service income in the consolidated financial statement was 23.0 percent in 3Q19, increased from 22.4 percent in 3Q18, mainly from higher sales mix of the high-margin products in convenience store business and cash & carry business could retain its gross profit margin satisfyingly.

Distribution Costs and Administrative Expenses

In 3Q19, the Company and its subsidiaries' distribution costs and administrative expenses breakdown is as follows:

Costs and Expenses	3Q19
Employee Benefits	27.7%
Store management fees	18.5%
Rental and depreciation and amortization	17.1%
Advertising and sale promotion	13.5%
Utilities and others	23.2%
Total	100.0%

The Company and its subsidiaries' distribution costs and administrative expenses rose to Baht 28,052 million, increased by 12.2 percent from 3Q18. In 3Q19, distribution costs were Baht 23,639 million, increased by 11.7 percent YoY mainly related to store expansion, expenses that rose in relative to higher sales revenue such as advertising and sale promotion expense as well as international expansion of Siam Makro. Meanwhile, administrative expenses rose to Baht 4,390 million, or 14.7 percent YoY due to business expansion.

Profit Before Interest and Tax Expenses, and Net Profit

In 3Q19, profit before interest and tax expenses was Baht 8,435 million, up 4.4 percent YoY. Net profit was Baht 5,612 million, increased by 8.3 percent from the same period last year. Earnings per share reported in the consolidated financial statements in 3Q19 was Baht 0.60. The improvement in net profit was mainly driven by decent business operations and lower interest expenses due to a repayment of matured debentures.

Operating Results for the First Nine Months of 2019

In 9M19, the Company and its subsidiaries' total revenues amounted to Baht 423,184 million, increasing 9.1 percent from the same period of last year as mainly driven by higher sales revenue and services income. Net profit was Baht 16,176 million, up by 5.2 percent YoY. Earnings per share reported in the consolidated financial statements were Baht 1.72 in 9M19.

The Company and its subsidiaries had amended its retirement plan in compliance with the change of the Labor Protection Act in the second quarter of 2019. As a result of this change, the provision for retirement benefits as at 30 June 2019 as well as past service costs were recognized additionally amounting to Baht 809 million in the consolidated financial statement.

Business Segment Performance

In 9M19, total revenue before elimination contributed from major businesses were, (1) convenience store business and other businesses accounted for 66 percent and (2) Siam Makro cash & carry business accounted for 34 percent. The revenue composition of both businesses was at the similar level compared to the same period of last year.

Profit before tax before elimination contributed from major businesses in 9M18 were, (1) convenience store business and other businesses accounted for 81 percent and (2) Siam Makro cash & carry business accounted for 19 percent. The Profit before tax composition of both businesses was at the similar level compared to the same period of last year.

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 the quarter. In 3Q19, the Company has successfully opened 112 new stores in all types including corporate, store business partner (SBP) and sub-area. At the end of 3Q19, CPALL operated 11,640 stores nationwide, which can be broken down into:

- (1) 5,249 corporate stores (45 percent of total stores), or a net new store of 38 stores,
- (2) 6,391 SBP and sub-area stores (55 percent of total stores), or a net new store of 74 stores

Majority of our stores were stand-alone, making 85 percent of total stores, while the others were in PTT gas stations.

As mainly driven by dynamic store expansion and successful product strategy, in 3Q19 the convenience store business reported revenue from sales and services of Baht 83,229 million, increased by Baht 6,378 million or 8.3 percent YoY. In 3Q19, convenience store business has retained its positive SSSG at 2.0 percent and posted average sales of Baht 80,714 per store on a daily basis in this quarter. In 3Q19, average spending per ticket was approximately at Baht 70 and there were 1,153 customer visits per store per day.

In 3Q19, sales of both food and non-food categories (excluding phone cards) grew at a decent level YoY. In 3Q19, sales growth of food products outpaced sales growth of non-food products (excluding phone cards) due to great potential for sales growth in ready-to-eat products and beverage. As a result, food products sales mix accounted for 71.1 percent of total sales, while non-food products (excluding phone cards) accounted for 28.9 percent.

In 3Q19 gross profit amounted to Baht 23,349 million, increased by Baht 2,073 million or 9.7 percent YoY. Gross margin increased to 28.1 percent in 3Q19 from 27.7 percent in 3Q18, mainly owing to higher sales mix of higher-margin products.

Meantime, other income rose to Baht 5,358 million in 3Q19, up Baht 414 million or 8.4 percent YoY largely from higher sales promotion income from co-promotion campaigns with suppliers to boost sales.

In 3Q19, distribution costs and administrative expenses were Baht 23,168 million, increased by Baht 2,458 million or 11.9 percent YoY, mainly related to store expansions, as well as expenses that rose in relative to higher sales revenue such as advertising & sale promotion expenses

In 3Q19, profit before finance costs and income tax expense of the convenience store business was Baht 7,680 million, increased by 0.3 percent from 3Q18, while net profit was Baht 5,615 million, increased by 3.6 percent YoY.

For 9M19, convenience store business posted total revenues of Baht 270,400 million, increasing 8.6 percent from the same period of last year as mainly driven by growth in sales revenue and services income. Meanwhile, net profit was Baht 16,952 million, increased 0.5 percent from the same period of last year. The Company had amended its retirement plan in compliance with the change of the Labor Protection Act in the second quarter of 2019. As a result of this change, the provision for retirement benefits as at 30 June 2019 as well as past service costs were recognized additionally amounting to Baht 489 million in the separated financial statement.

As at September 30, 2019, the Company and its subsidiaries' net debt to adjusted equity according to definition of bond covenants was at 1.06 times, decreased from 1.19 times in the same period of last year. Lower net debt to equity was mainly driven by repayment of matured ordinary debentures and larger shareholders' equity base resulted from an increase in profit from business operation. 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 not exceeding 2.0 times in 2018 onwards.

Management Outlook for Convenience Store Business in 2019

Store expansion	Following our plan to reach 13,000 stores by 2021, the Company 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, the Company plans to open approximately 700 new stores in 2019.
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