

IDR 03/2019

February 21, 2019

Re: Management Discussion and Analysis (MD&A) for the year of 2018

To: The President

The Stock Exchange of Thailand

CP All Public Company Limited would like to clarify operating results for the year of 2018 which the Company and its subsidiaries reported net profit of Baht 20,930 million. The main reasons are as follows:

Total Revenues

In 2018, the Company and its subsidiaries' total revenues were Baht 527,860 million. An increase of 7.9 percent from that of 2017 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, (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 (Group 2) dropped from last year due to growth of revenue from sales from (Group 1) was higher than (Group 2) as well as a record of gain on sale of investment in a certain subsidiary.

Gross Profit

In 2018, the Company and its subsidiaries' gross profit was Baht 113,235 million, increased by 7.8 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 22.3 similar to the same level of last year.

However, the gross margin of convenience store business decreased from 28.1 percent in 2017 to 27.7 percent on the back of higher sales growth from lower gross margin products such as cigarette, alcohol beverages, and online-gamecards. Meanwhile, Siam Makro gross margin maintained at the decent level continually.

Distribution Costs and Administrative Expenses

In 2018, the Company and its subsidiaries' distribution costs and administrative expenses rose to Baht 100,195 million, increased by 9.0 percent from last year. Distribution costs were Baht 84,486 million or up 9.3 percent YoY. Detail of distribution costs with significant changes as follows:

Store management fees expenses were Baht 19,341 million, up 9.7 percent from last year, mainly from higher revenue from sales and gross profit margin. In addition, SBP stores also increased according to the Company's store management strategy to expand more in SBP format.

Employee benefit expenses were Baht 18,015 million, up 14.2 percent from last year, mainly due to an increase in numbers of staff from store expansion of both convenience store business and Siam Makro business, as well as an impact from the minimum wage increase which was effective from 1 April 2018 onwards.

Rental and depreciation and amortization expenses were totaling of Baht 14,825 million, up 9.0 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.

Other expenses such as 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 15,709 million, which an increase by 7.6 percent YoY was largely owed to employee benefit expenses, rental expenses, and depreciation and amortisation expenses.

Profit Before Tax and Net Profit

In 2018, profit before tax was Baht 25,152 million, up 7.0 percent from last year. Net profit was Baht 20,930 million, up 5.1 percent from last year. The improvement in net profit was mainly due to revenue growth, better cost and expense control, as well as decrease of finance

cost. However, on 28 March 2018, the Company sold 4.8 percent of issued and paid-up shares of Siam Makro Public Company Limited, reducing its ownership interest from 97.9 percent to 93.1 percent. The Company's earnings per share was Baht 2.22.

Profit before tax before elimination be contributed from three businesses in 2018 were (Group 1) convenience store business accounted for 67 percent (Group 2) membership based Cash & Carry trade centers accounted for 22 percent, and (Group 3) other businesses in Thailand accounted for 11 percent. The contribution of profit before tax from (Group 1) increased, but (Group 2) decreased from last year due to an high growth of revenues from (Group 1) comparing to (Group 2) as well as as a record of gain on sale of investment in a certain subsidiary.

Operating Results by Business Segments

Convenience Store Business

In 2018, 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, which during 2018 the Company has successfully opened 720 new stores. At the end of 2018, CPALL operated 10,988 stores nationwide, which can be broken down into (1) 4,894 corporate stores (45 percent of total stores), an increase of 364 stores from last year, (2) 5,336 SBP stores (49 percent of total stores), an increase of 319 stores from last year, and (3) 758 sub-area stores (6 percent of total stores) an increase of 37 stores from last year.

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 2018, food and beverage products accounted for 70.1 percent of sales mix, while non-food items (excluding phone cards) accounted for 29.9 percent. The sales mix from non-food items (excluding phone cards) up from 29.4 in last year due to a high sales growth from cigarette resulting from an increase in excise tax since September 2017. However, revenue from sales of food and beverage products remained grow well.

On the back of the dynamic expansion and successful product strategy, in 2018 the convenience store business had total sales revenue and service income of Baht 308,843 million, increased by Baht 30,092 million or 10.8 percent YoY. Convenience store business has retained its resilient SSSG at 3.2 percent in 2018 and posted average sales of Baht 81,788 per store per day. In 2018, average spending per ticket was at Baht 69 and there were 1,185 customer visits per store per day

Gross profit amounted to Baht 85,697 million, increased by 7,462 million or 9.5 percent YoY, yet gross profit margin dropped to 27.7 percent from 28.1 percent in 2017 owing to a higher sales growth from lower gross margin products such as cigarette, alcohol beverages, and online-gamecards.. However, the Company was able to maintain sales mix of higher-margin products, such as ready to eat and drink, at a satisfactory level.

Meantime, other income of the convenience store business increased to Baht 18,850 million in 2018, or an increase of Baht 853 million or 4.7 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 83,699 million in 2018, or an increase of Baht 7,456 million or 9.8 percent YoY. Higher expenses included employee benefit expenses due to store expansion together with an increase of minimum wage, store management fee due to an increase of SBP stores, and depreciation expense 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 28,688 million including record of gain on sale of investment in a certain subsidiary net of expenses of Baht 801 million, increased by 11.1 percent from last year, while net profit was Baht 19,944million, increased by 20.0 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 2018, profit before tax was Baht 3,554 million, increased by 7.3 percent from last year.

Cash & Carry Trade Centers

In 2018, Cash & Carry Trade Centers profit before tax was Baht 7,082 million decreased by 2.6 percent YoY due to an pre-operating expenses from its international business expansion. (Note: investors can find additional details in MD&A for the year 2018 of Siam Makro)

As at December 31, 2018, the Company and its subsidiaries' net debt to adjusted equity according to definition of bond covenants was at 1.04 times, decreased from 1.44 times in 2017. 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, as well as 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 2019

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 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