

Management's Discussion and Analysis FY2016 ended February 28, 2017

AEON Thana Sinsap (Thailand) Public Company Limited ("the Company") already submitted the audited financial statements for the year ended February 28, 2017 which were audited by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The Company has net profit attributed to owners of the parent of 2,403 million baht, a decrease of 43 million baht or 2% compared to 2015, and earning per share (EPS) of 9.61 baht per share. The operating performance is summarized as follows;

Overview

Overall, the Thai economy in 2016 expanded by 3.2%, higher than 2.9% growth in 2015, according to data from Bank of Thailand and NESDB. This was mainly from acceleration of government expenditure and the recovery in both of farm income and export sector. In addition, the household consumption expanded by 3.1%, compared with 2.2% in the previous year, which was supported by the government stimulus measures at the end of 2016.

The Thai economy in 2017 is expected to recover gradually from last year, supported by the government's infrastructure investment, the recovery in both of export and tourism sectors. However, the Thai economy faces increased downside risks from external factors such as uncertainty in the U.S. economic policies may affect international trade, the slowdown of the Chinese and the EU economies and etc.

According to the Bank of Thailand data, at the end of December 2016, reported the total numbers of credit card industry amounted to 23.2 million cards, has grown by 6% more than last year. Credit Card Receivables was 358,413 million baht, with the growth of 6% from the same period last year. For personal loan industry, the numbers of account of personal loan under supervision amounted to 13.7 million accounts, 6% more than last year. Personal loan Receivables was 338,117 million baht, with the growth of 4% from the same period last year.

In the fiscal year 2016, the Company's total cards reached 7.81 million cards, increasing by 4% from last year, including 2.38 million credit cards increased by 3% y-y and 5.43 million member cards increased 4% y-y. For branch development network, the Company has opened 1 new branch and closed down 10 branches to save operation cost. As a result, the Company has 111 branches, opened AEON Lounge total 12 locations to facilitate gold card and platinum card members, 469 ATMs, and over 17,400 member dealers to provide quality financial services to AEON cardholders.

Operating Results

● Revenues

In the fiscal year 2016, the Company's consolidated revenues amounted to 17,759 million baht, an increase of 328 million baht or 2% from 17,431 million baht in the fiscal year 2015. For the fourth quarter 2016, revenues amounted to 4,624 million baht, increased by 6% from the previous quarter. This was resulted an increase in

credit cards income at 4%, personal loan income at 2% and the growth of subsidiaries in Thailand and overseas. In addition, the Company has continued marketing campaigns throughout the year. The Company has active billings of 3.44 million per month with active customers of 2.17 million, mainly from Bangkok 31%, and in up-country 69%. Details of each business can be described as follows:

- Credit Card

Credit card turnover in the fiscal year 2016 improved by 3% from last year and represented 54% of total turnovers. Revenues from credit card were 6,507 million baht, showing an increase of 232 million baht or 4% from last year. This was due to the Company has cooperated with many high-potential leading business partners to increase member base such as issuance of AEON M GEN Visa Card, AEON Royal Orchid Plus Platinum JCB Card and launched privileges and campaigns to AEON credit cardholders throughout the year. For example the campaign "AEON Happy Plan" which offering credit cardholders to convert the transaction from full payment to installment payment for up to 10 months, "AEON Gift 2017" AEON cardholders register via website or SMS in order to redeem the premiums, "AEON Shop Plus" campaign was launched for credit card customers to accumulate sales slips up to required amounts for premium redemption and etc. In addition, a subsidiary of company in Cambodia launched a credit card business in 2016, the key sector which make up the growth of credit card business.

Focusing on card recruitment activities, the Company has developed more card recruitment channels including setting booths in high traffic areas and encouraging card application on the Company's website and dealer network nationwide. In addition, the Company has focused to continue enhancing the relationship with our existing business partners to increase customer base.

- Loans

In the fiscal year 2016, loans shared 40% of total turnovers (shared 22% from personal loan and 18% from purposed loan for mobile phone, IT products, electrical appliances and etc. at over department stores and more than 17,400 dealers nationwide). Revenues from loans were 9,005 million baht, showing an increase of 183 million baht or 2% from last year. This was contributed from loan income from AEON Microfinance (Myanmar) Company Limited, which grew by 75% from last year and AEON Specialized Bank (Cambodia) Plc grew by 46% from last year. In addition, the Company has expanding more cashing service channels providing more convenience to customers and this also saved the Company's operation cost. AEON members can utilize the revolving loans service through many service channels; besides AEONTS ATMs, other major bank ATMs i.e. Kasikorn, Thanachart, Bangkok Bank, Krungsri, Krungthai, GSB, Government Saving Bank, Siam Commercial Bank, and Counter Service through 7-11 nationwide. Totalling, we have more than 60,000 cashing channels.

- Hire Purchase

In the fiscal year 2016, hire purchase (motorcycle, electrical appliances, mobile phone and etc.), sharing 1% of total turnovers, with revenues from hire purchase of 392 million baht, a decrease of 38 million baht or 9% from total hire purchase revenues last year. This was mainly contributed from hire purchase income from AEON SPECIALIZED BANK (CAMBODIA) PLC amounted to 219 million baht, increasing by 11% from last year and AEON Leasing (Lao) Company Limited amount to 40 million baht, increasing by 91% from last year. In addition, the company has continued launching promotions with motorcycle manufacturers and suppliers as well as increased distribution channels for motorcycle sales through our branches.

- Others

In the fiscal year 2016, the Company had other income of 1,855 million baht, a decrease of 48 million baht or 3% from the same period last year and sharing 10% of total revenue. The majority of other incomes came from bad debt recovery of 500 million baht and gain on sales of written-off accounts receivable of 346 million baht. Moreover, the income for the fiscal year 2016 of company's subsidiaries in Thailand, the Company had commission income of 471 million baht, the same as last year from AEON Insurance Service (Thailand) Co., Ltd. and collection service income of 209 million baht, increasing by 3% from last year from ACS Servicing (Thailand) Co., Ltd. accordingly and others. The Company has planed to generate more fee base incomes in the future.

● Expenses

The Company's expenses mainly consist of operating and administrative expenses, bad debt and doubtful accounts, and finance cost. In the fiscal year 2016, the Company had total consolidated expenses of 14,737 million baht, increased by 386 million baht or 3% from the previous fiscal year. For the fourth quarter 2016, the Company had total consolidated expenses of 3,581 million baht, decreasing by 5% from the previous quarter. Details of total expenses can be described as follows:

- Operating and Administrative Expenses

In fiscal year 2016, the Company's operating and administrative expenses were 7,509 million baht, increased 215 million baht or 3% from last year. This was as a result of an increase in personal expense by 4% caused by increasing employment of the Company's subsidiaries, increases in rental cost of the Company's subsidiaries as well as relocated South operation center to improve work efficiency. In terms of proportion to total revenues, operating and administrative expenses represented 42% of total revenues. Considering the Company's financial statement, the operating and administrative expenses as a percentage of revenues decreased to 40% in 2016.

- Bad debt and doubtful accounts

In the fiscal year 2016, the bad debt and doubtful accounts in the consolidated financial statement of the Company was 5,117 million baht, an increase of 363 million baht or 8% from the previous fiscal year. The increase was due to the Company increase the provision for bad debt to prevent uncertainty of economic fluctuation in the future i.e. economic slowdown, natural disaster and etc. However, for the fourth quarter of 2016, the bad debt and doubtful accounts was 1,200 million baht, decreasing by 12% from the previous quarter.

- Finance Cost

In the fiscal year 2016, the Company's finance cost recorded at 2,110 million baht, a decrease of 193 million baht or 8% from the previous fiscal year. However, finance cost in the fiscal year 2016 accounted for 12% of total revenues, slightly decreased from 13% in the fiscal year 2015. A decrease in finance cost was due to the ability to maintain low financial cost as well as the Company's policy is to manage liquidity risk and interest rates fluctuation risk by mainly locking in long-term borrowing, which is 71% of total borrowings and weight average funding cost for the fiscal year 2016 was decreased 3.62% from 3.96% in the fiscal year 2015.

● Net Income

In the fiscal year 2016, the Company's has net profit attributed to owners of the parent of 2,403 million baht, a decrease of 43 million baht or 2% from the previous fiscal year, and earning per share was 9.61 baht per share. Net profit in the fourth quarter of 2016 amount to 836 million baht, showing an increase of 194 million baht or 30% from last year, due to the Company ability to maintain low financial cost and a decrease in bad debt and doubtful account as well as the Company recorded extra revenue from gain on sales of written-off account receivable an amount of 346 million baht in this quarter. However, the Company has set aside higher allowance for doubtful accounts to reserve for economic uncertainty and natural disaster.

Financial Status

● Total Assets

As of February 28, 2017, consolidated total assets were 72,638 million baht, the same as last year of 72,451 million baht. Mainly, the assets were attributed to the portfolio of net accounts receivable, which was 88% of total assets.

- Accounts Receivable

For the year ended February 28, 2017, The Company had consolidated accounts receivable of 66,128 million baht, increasing by 4% y-y from 63,302 million baht in fiscal year 2015, driven by credit card receivable. This can be categorized by business type as follows: credit card receivable 28,711 million baht, increasing by 13%, loans receivable 35,827 million baht, the same as last year and hire purchase receivable 1,444 million baht and other receivables 146 million baht.

As of February 28, 2017, the Company provided allowance for doubtful accounts of 2,259 million baht or 3.42% of total accounts receivable, decreased from 3.81% at the end of previous fiscal year. The percentage account receivable 3 months overdue or non-performing loan ratio was 2.71% at February 28, 2017, decreased from 3.30% at the end of previous fiscal year. The Company has set aside higher allowance for doubtful accounts and the coverage ratio of allowance for doubtful accounts to accounts receivable overdue more than 3 months (NPLs) was 126% at February 28, 2017, increased from 115% at the end of fiscal year 2015.

- **Total Liabilities**

As of February 28, 2017, total liabilities amounted to 58,865 million baht, a decrease of 1,330 million baht or 2% from 60,195 million baht as of February 29, 2016. There were both short-term and long-term borrowings totally 55,648 million baht. The portion of long-term borrowings was 39,283 million baht or represented 71% of total borrowings.

To manage risk that might occur from the fluctuation in currency and interest rate of long-term debentures in foreign currencies, the Company has entered into cross currency interest rate swap contracts to hedge its debt.

- **Shareholders' Equity**

As of February 28, 2017, shareholders' equity was 13,773 million baht, representing the increase of 1,516 million baht or 12% from 12,257 million baht as of February 29, 2016. Consequently, Book value as of February 28, 2017 was 55.1 baht per share, increasing from that of 49 baht per share at the end of last fiscal year.

Debt to Equity ratio as of February 28, 2017, decreased to 4.3 times from 4.9 times in the fiscal year 2015. Return on Equity and Return on Asset are to 18.5% and 3.3 %, respectively.

In addition, the Board of Directors' meeting has approved the final dividend payment for the fiscal year ended February 28, 2017, at the rate of 1.85 baht per share, which will be paid after being approved from AGM on June 28, 2017. The Company already paid the interim dividend of 1.60 baht per share on November 7, 2016.

The total dividend for FY2016 will be 3.45 baht per share or 35.89% payout ratio. The company has set the record date on May 15, 2017 to determine the shareholders entitled to receive dividends, and setting the shareholder register book closing date on May 16, 2017, to compile the shareholder list pursuant to section 225 of the Securities and Exchange Act.