

(Translation)

Management Discussion and Analysis for the 3rd Quarter ended November 30, 2017

AEON Thana Sinsap (Thailand) Public Company Limited (“The Company”) has already submitted the reviewed Q3/2017 financial statements as of November 30, 2017 which were reviewed by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The operating performance is summarized as follows;

Overview

The Thai economy in the third quarter of 2017 expanded by 4.3% y-y compared to 3.8% in the previous quarter, according to data from Bank of Thailand and NESDB. The Thai economy continued to recover, driven mainly by exports sector, private consumption, government spending and investment. In the fourth quarter, Thai economic growth is expected to be driven by government initiatives such as Low-income welfare, Tax deduction for domestic tour package and shopping.

As of November 30, 2017, the Company’s total cards reached 8.06 million cards (including 2.48 million credit cards and 5.58 million member cards), net increasing by 250,000 cards from February 28, 2017. Covering networks nationwide, the Company has 106 branches, 473 ATMs, and over 17,600 member dealers to provide quality financial services to AEON cardholders.

Summary of Operation Results

1. Operating Results

Revenues

The Company reported 13,607 million baht of total consolidated revenues for the nine-month period of 2017, showing an increase of 467 million baht or 4% y-y. For the third quarter of 2017, revenues amounted to 4,677 million baht, increasing by 317 million baht or 7% y-y and 3% q-q, due to an increase in credit card and personal loan revenues and higher bad debt recovery. In addition, in September the Company launched “AEON Thai Mobile Application” which is new financial innovation to meet lifestyle in digital era and provide more convenient for AEON credit card and member card holder such as card activation, checking credit amount, receiving updated news and promotions, and real time online payment.

As of November 30, 2017, the Company has total billings of 3.33 million accounts with number of active customers of 2.15 million, mainly from Bangkok 31%, and up-country 69%. Details of each business can be described as follows:

- Credit Card

For nine-month period, credit cards turnover comprised of 57% of total turnovers, with the revenue of 5,017 million baht, increasing by 3% y-y. In the third quarter of 2017, credit card revenue reached 1,692 million baht, increasing by 4% y-y. This is because the Company reviewed customers credit line to inline with their incomes as well as launched new campaigns and benefits to encouraged customer's spending through AEON credit cards. The Company launched a special campaign "AEON 25th Years Anniversary 25 Cars" to celebrate our success and thanks to all customers for their support over 25 years with Toyota Yaris as a highest prize. For AEON Royal Orchid Plus Platinum card holder, campaign is round trip tickets to Japan and Vienna, Austria to celebrate 5th year anniversary partnership with Thai Airways. Focusing on card recruitment activities, the Company has enhanced on AEON card recruitment events through online channel and dealer network nationwide. In addition, AEON Specialized Bank (Cambodia) Plc, a subsidiary company provides credit card, personal loan, and hire purchase services. The total new loan spending is growing 27% y-y. They have a plan to develop "AEON Riel Pay" which is E-money system on mobile application. Thus, the customers will be able to download applications into their phones which will allow them to top up money and make direct purchase by QR code at our dealer network.

- Loans

For nine-month period, loans shared 38% of total turnovers (shared 25% from personal loan and 13% from purposed loan for mobile phone, IT products, electrical appliances and etc. through more than 17,600 dealers nationwide) with the revenue of 7,035 million baht, increasing by 4% y-y. For the third quarter, loans income amounted to 2,474 million baht, increasing by 11% y-y. This was contributed from loan income from AEON Microfinance (Myanmar) Company Limited, which grew by 60% y-y and AEON Specialized Bank (Cambodia) Plc grew by 21% y-y. Moreover, the Company also provides several promotions with dealers for installment loans. The Company also has expanding more online services for customers' convenience and this also saved the Company's operation cost as well. Therefore, AEON members can utilize the revolving loans service through many service channels.

- Hire Purchase

Hire purchase (motorcycle, electrical appliances, mobile phone and etc.) for the nine-month shared 1% of total turnovers, with revenue of 282 million baht, decreasing by 6% y-y. In terms of revenue in the third quarter of 2017, the Company reported 90 million baht of hire purchase, decreasing by 2% y-y. This was mainly contributed from hire purchase income from AEON Specialized Bank (Cambodia) Plc of 161 million baht at the same level as last year and AEON Leasing (Lao) Co., Ltd of 53 million baht grew by 96% y-y. The oversea subsidiaries are continue growing in the future. However, the company has continued launching promotions with motorcycle manufacturers and suppliers, i.e., Honda and Suzuki.

- Others

For the nine-month period, the Company had other income of 1,273 million baht, increasing by 8% from the same period last year which accounted for 9% of total revenues. An increase in other income mainly came from bad debt recovery of 440 million baht or 3% of total revenues and increasing by 19% y-y. In the third quarter of 2017, income from others amounted to 422 million baht, increasing by 3% y-y due to an increase in bad debt recovery since the first quarter as well as commission income and gain on currency exchange.

Moreover, the income for the nine-month period of company's subsidiaries in Thailand, the Company had commission income of 362 million baht, increasing by 3% y-y from AEON Insurance Service (Thailand) Co., Ltd. and collection service income of 172 million baht, decreasing by 5% y-y from ACS Servicing (Thailand) Co., Ltd. accordingly. In the third quarter of 2017, commission income amounted 119 million baht, and collection service income of 58 million baht respectively. The Company has planed to generate more fee base incomes in the future.

Expenses

In the nine-month period, the consolidated expenses that consisted of operating and administrative expense, bad debt and doubtful accounts, and finance cost amounted to 11,058 million baht, decreasing by 103 million baht or 1% y-y. For the third quarter, the consolidated expenses were 3,729 million baht, decreasing by 28 million baht or 1% y-y. This mainly came from declining of bad debt and doubtful accounts. Details of total major expenses can be described as follows:

- Operating and Administrative Expenses

For the nine-month period of 2017, the consolidated operating and administrative expenses were 6,020 million baht, increasing by 7% y-y, and accounted for 44% of total revenue. In the third quarter of 2017, the Company recorded operating and administrative expenses of 2,018 million baht, increasing by 8% y-y. This is a result of promotion campaigns with Big C since the first quarter and increase in personal expense to support sales growth as well as business expansion of oversea subsidiaries. In terms of proportion to total revenues, operating and administrative expenses represented 43% of total revenues, improving from 45% of previous quarter.

- Bad Debts and Doubtful Accounts

The consolidated bad debts and doubtful accounts, in the nine-month period of 2017, amounted to 3,471 million baht, decreasing by 11% y-y. For the third quarter of 2017, the Company recorded bad debts and doubtful accounts of 1,185 million baht, decreasing by 13 % y-y. This is a result of improving asset quality and also collection operation had more improvement and effective.

- Finance Cost

The Company recorded finance cost of 1,568 million baht for nine-month period, decreasing by 2% y-y. For the third quarter, finance cost was 527 million baht, increasing by 2% y-y. However, finance cost in the nine month 2017 accounted for 12% of total revenues, which is at the same level as last year. The average funding cost decreasing from 3.62% in Q3/2016 to 3.30% in Q3/2017.

Net Profit

For nine-month period of 2017, the Company had consolidated operating income of 2,547 million baht, increasing by 29%y-y, and reported net profit attributed to owners of the parent of 2,038 million baht, increasing by 471 million baht or 30% y-y. In the third quarter of 2017, the Company had consolidated operating income of 948 million baht, increasing by 57%y-y, and reported net profit attributed to owners of the parent of 750 million baht, increasing by 270 million baht or 56% y-y and 12% q-q. Earnings per share (EPS) for the nine-month and the third quarter of 2017 were 8.15 baht per share and 3.00 baht per share respectively. An increase in net profit is mainly due to higher revenues from credit card, personal loan and bad debt recovery as well as improving of cost of fund and asset quality respectively.

2. Financial Status

Total Assets

As of November 30, 2017, the Company had 80,207 million baht of consolidated total assets, showing an increase of 7,568 million baht or 10% as of February 28, 2017. Mainly, the assets were attributed to the portfolio of net accounts receivable, which was 91% of total assets.

-Accounts Receivable

As of November 30, 2017, the Company had consolidated accounts receivable of 75,437 million baht, increasing by 14% from that of 66,128 million baht as of February 28, 2017, which driven by credit card and loans receivable. These can be categorized by credit card business of 34,268 million baht, increasing by 19%, loans business of 39,789 million baht increasing by 11%, hire purchase business of 1,256 million baht, decreasing by 13% and others of 124 million baht.

-Allowance for doubtful account

The Company and subsidiary companies have increased allowance for doubtful accounts from 2,259 million baht as at the end of fiscal year 2016 to 2,345 million baht as of November 30, 2017, or 3.11% of total accounts receivable. The percentage account receivable 3 months overdue or non-performing loan (NPLs) ratio was 2.23% of total account receivable, decreased from 2.71% at the end of previous fiscal year. The Company efficiently controls account receivable overdue more than 3 months. The coverage ratio of allowance for doubtful accounts to NPLs was 140% in the third quarter of 2017 increased from 126% at the end of fiscal year 2016, reflecting the adequacy of the Company's provision for doubtful accounts.

Liabilities

As of November 30, 2017, the Company consolidated total liabilities were 65,308 million baht, showing an increase of 6,442 million baht or 11% from the end of fiscal year 2016 due to an increase in borrowing from 55,648 million baht at the end of fiscal year 2016 to 60,661 million baht, increasing by 9%. The portion of long-term borrowing was 38,212 million baht or 63% of total borrowings decreased from 71% at the end of previous fiscal year due to the current portion of long-term liabilities increased by 2,094 million baht.

On December, 15, 2017, the Company has issued two tranches of debentures for Private Placement to institutional investors and high net-worth investors at the amount of 3,000 million baht comprise; (1) Tranche 1: Debenture term is 3 years and fixed interest rate at 2.37% per annum (2) Tranche 2: Debenture term is 5 years and fixed interest rate at 2.93 % per annum.

To manage risks 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 all borrowings.

Shareholder Equity

As of November 30, 2017, the Company's shareholder equity reached 14,899 million baht, showing an increase of 1,126 million baht or 8% from the end of fiscal year 2016. Consequently, Book value as of November 30, 2017 was 59.6 baht per share, increasing from that of 55.1 baht per share as of February 28, 2017.

For nine month period of 2017, the Company recorded return on equity (ROE) at 19.0% and return on asset (ROA) at 3.6% and equity ratio of 18.6%. Debt to Equity ratio as of November 30, 2017 was 4.4 times, the same level as previous fiscal year.