

## Management's Discussion and Analysis

### Fiscal year ended February 28, 2018

AEON Thana Sinsap (Thailand) Public Company Limited ("the Company") already submitted the audited financial statements for the year ended February 28, 2018 which were audited by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The Company has net profit attributed to owners of the parent of 2,966 million baht, an increase of 563 million baht or 23% compared to fiscal year 2016, and earning per share (EPS) of 11.87 baht per share. The operating performance is summarized as follows;

#### Overview

According to Bank of Thailand and NESDB, overall Thai economy in 2017 expanded by 3.9%, higher than 3.3% growth in 2016. This was mainly from acceleration of private consumption, export sector, and private investment in the second half of the year. However, government expenditure was slightly decline as well as the contraction on agricultural and construction sector.

The Thai economy in 2018 is expected to expand more than in 2017 which mainly supported by acceleration of global economy growth. Moreover, expansion in private consumption, export growth, and private investment from last year was due to higher consumer confidence. There is also expansion in government expenditure or public investment from infrastructure investment. However, Thai economy still facing external risk such as U.S. monetary and trading policy which may affect international trade and exchange rate fluctuation.

According to the Bank of Thailand data, at the end of December 2017, reported the total numbers of credit card industry amounted to 20.3 million cards, has grown by 1% more than last year. Credit Card receivable was 394,123 million baht, with the growth of 9% from the same period last year. For personal loan industry, the numbers of account of personal loan under supervision amounted to 12.8 million accounts, 5% more than last year. Personal loan receivable was 354,294 million baht, with the growth of 6% from the same period last year.

In the fiscal year ended February 28, 2018, the Company's total cards reached 8.15 million cards, increasing by 4% from last year, including 2.50 million credit cards increased by 5% y-y and 5.65 million member cards increased 4% y-y. For branch development network, the Company has opened 2 new branch and closed down 6 branches to save operation cost. As a result, the Company has 107 branches, opened AEON Lounge total 12 locations to facilitate gold card and platinum card members, 472 ATMs, and over 17,700 member dealers to provide quality financial services to AEON cardholders.

## Operating Results

### ● Revenues

In the fiscal year ended February 28, 2018, the Company's consolidated revenues amounted to 18,663 million baht, an increase of 871 million baht or 5% from 17,792 million baht in the fiscal year 2016. For the fourth quarter 2017, revenues amounted to 5,056 million baht, increased by 8% from the previous quarter and 9% from last year. This was the result of an increase in credit cards income at 5%, personal loan income at 6%, bad debt recovery at 21% as well as the growth of subsidiaries in Thailand and overseas by 15%. This is because the Company has continued launching new marketing campaigns throughout the year. The Company also launched AEON Thai Mobile Application in 2017 to provide more convenient for customers and has planned to develop application platform to be more practical and attractive.

The Company has active billings of 3.26 million per month with active customers of 2.14 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 2017 improved by 21% from last year and represented 58% of total turnovers. Revenues from credit card were 6,807 million baht, showing an increase of 300 million baht or 5% from last year. This was the result of the Company has cooperated with many high-potential leading business partners to increase member base such as issuance of Big C Platinum payWave Credit Card, and launched privileges and campaigns to AEON credit cardholders throughout the year. For example the campaign 5<sup>th</sup> year anniversary partnership with Thai Airways for AEON royal orchid plus platinum card holder, and a big awarded campaign "AEON 25<sup>th</sup> year Anniversary for 25 Cars." In addition, AEON Specialized Bank (Cambodia) Plc, that launched a credit card business in 2016, credit card revenue grew significantly from last year.

Focusing on card recruitment activities, the Company has developed more card recruitment channels including setting booths in high traffic areas and encouraging card applications on the Company's website and dealers 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 ended February 28, 2018, loans shared 36% of total turnovers (shared 23% from personal loan and 13% from purposed loan for mobile phone, IT products, electrical appliances and etc. at over department stores and more than 17,700 dealers nationwide). Revenues from loans were 9,573 million baht, showing an increase of 568 million baht or 6% from last year. This was contributed from loan incomes from AEON Microfinance (Myanmar) Company Limited, and AEON Specialized Bank (Cambodia) Plc which grew by 61% and 17% respectively. In addition, the Company has expanded 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, Government Saving Bank, Siam Commercial Bank, and Counter Service through 7-11 nationwide. Totaling, we have more than 60,000 cashing channels.

#### - Hire Purchase

In the fiscal year ended February 28, 2018, hire purchase (motorcycle, electrical appliances, mobile phone and etc.), sharing 1% of total turnovers, with revenues from hire purchase of 370 million baht, a decrease of 22 million baht or 6% from total hire purchase revenues last year. This was mainly contributed from hire purchase income from AEON Specialized Bank (Cambodia) Plc amounted to 210 million baht and AEON Leasing (Lao) Company Limited amount to 76 million baht, increasing by 88% from last year. Moreover, In February 2018, the Company launched new business model "AEON Auto Loan" or used car loan to expand new target customers.

#### - Others

In the fiscal year ended February 28, 2018, the Company had other incomes of 1,914 million baht, an increase of 26 million baht, which is the same level as last year, and sharing 10% of total revenue. The majority of other incomes came from bad debt recovery of 603 million baht, increasing by 21% and gain on sales of written-off accounts receivable of 179 million baht. For performances of company's subsidiaries in Thailand, the Company had commission income of 492 million baht, increasing by 4% from AEON Insurance Service (Thailand) Co., Ltd. and collection service income of 234 million baht, increasing by 12% 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 ended February 28, 2018, the Company had total consolidated expenses of 14,950 million baht, increased by 181 million baht, which at the same level as previous fiscal year. For the fourth quarter 2017, the Company had total consolidated expenses of 3,892 million baht, increasing by 4% from Q3/2017 and 8% from previous year. Details of total expenses can be described as follows:

#### - Operating and Administrative Expenses

In fiscal year ended February 28, 2018, the Company's operating and administrative expenses were 8,167 million baht, increased 626 million baht or 9% from last year. This was a result of an increase in marketing expense by 26% from BigC campaign since the beginning of the year and increase in personal expense by 12% caused by increasing employment of the Company's subsidiaries. In terms of proportion to total revenues, operating and administrative expenses represented 44% of total revenues. Considering the Company's financial statement, the operating and administrative expenses as a percentage of revenues represented 42%

#### - Bad debt and doubtful accounts

In the fiscal year ended February 28, 2018, the bad debt and doubtful accounts in the consolidated financial statement of the Company was 4,679 million baht, a decrease of 438 million baht or 9% from the previous fiscal year. This is the result of development in new collection system which leads to more efficient improvement in collection operation and continuously improving asset quality as well as positive sign of economic recovery.

#### - Finance Cost

In the fiscal year ended February 28, 2018, the Company's finance cost recorded at 2,104 million baht, which is the same level as last year. However, finance cost accounted for 11% of total revenues, slightly decreased from 12% in the fiscal year 2016. A decrease in finance cost was due to the ability to maintain low financial cost as well as the Company's policy to manage liquidity risk and interest rates fluctuation risk by mainly locking in long-term borrowing, which is 69% of total borrowings and weight average funding cost for the fiscal year 2017 was decreased 3.37% from 3.62% in the fiscal year 2016.

#### ● Net Income

In the fiscal year ended February 28, 2018, the Company's has net profit attributed to owners of the parent of 2,966 million baht, an increase of 563 million baht or 23% from the previous fiscal year, and earning per share was 11.87 baht per share. Net profit in the fourth quarter of 2017 amount to 928 million baht, showing an increase of 92 million baht or 11% from last year and 24% from Q3/2017, due to higher revenues from credit cards, personal loan, and bad debt recovery. 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 179 million baht in this quarter. Therefore, when excluding both gain on sale of written off account receivables, our net profit increased 35% from last year.

## Financial Status

- **Total Assets**

As of February 28, 2018, consolidated total assets were 80,771 million baht, increasing by 8,133 million baht or 11% from 72,638 million baht 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

For the year ended February 28, 2018, The Company had consolidated accounts receivable of 75,824 million baht, increasing by 15% y-y from 66,128 million baht in fiscal year 2016, driven by credit card receivable. This can be categorized by business type as follows: credit card receivable 34,588 million baht, increasing by 20%, loans receivable 39,797 million baht, increasing by 11% and hire purchase receivable 1,267 million baht and other receivables 172 million baht.

As of February 28, 2018, the Company provided allowance for doubtful accounts of 2,416 million baht or 3.19% of total accounts receivable, decreased from 3.42% at the end of previous fiscal year. The percentage account receivable 3 months overdue or non-performing loan ratio was 2.35% at February 28, 2018, decreased from 2.71% 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 136% at February 28, 2018, increased from 126% at the end of fiscal year 2016.

- **Total Liabilities**

As of February 28, 2018, total liabilities amounted to 64,950 million baht, an increase of 6,085 million baht or 10% from 58,865 million baht as of February 28, 2017. There were both short-term and long-term borrowings totally 59,334 million baht. The portion of long-term borrowings was 41,034 million baht or represented 69% 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, 2018, shareholders' equity was 15,822 million baht, an increase of 2,049 million baht or 15% from 13,773 million baht as of February 28, 2017. Consequently, Book value as of February 28, 2018 was 63.3 baht per share, increasing from that of 55.1 baht per share at the end of last fiscal year.

Debt to Equity ratio as of February 28, 2018, decreased to 4.1 times from 4.3 times in the fiscal year 2016. Return on Equity and Return on Asset are 20% and 3.9 %, respectively.

In addition, the Board of Directors' meeting has approved the final dividend payment for the fiscal year ended February 28, 2018, at the rate of 2.25 baht per share (regular dividend 2 baht and 0.25 baht for special dividend to celebrate 25 years of the Company), which will be paid after being approved from AGM on June 22, 2018. The Company already paid the interim dividend of 1.60 baht per share on November 6, 2017.

The total dividend for FY2017 will be 3.85 baht per share or 32.4% payout ratio. The company has set the record date on May 16, 2018 to determine the shareholders entitled to receive dividends (XD will be posted on May 15, 2018).