

Management Discussion and Analysis for the 2nd Quarter 2018 ended August 31, 2018

AEON Thana Sinsap (Thailand) Public Company Limited (“the Company”) has already submitted the consolidated reviewed the 2nd quarter financial statements as of August 31, 2018 which were reviewed by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited. The operating performance is summarized as follows.

Overview

According to the Bank of Thailand and Office of the National Economic and Social Development Board data, the Thai economy in the second quarter of 2018 expanded by 4.6%, decreased from 4.8% in the previous quarter. However, the Thai economy is expected to grow continually from last year, thanks to the expansion of exports and tourism sectors as well as an increase in government consumption. In addition, the private consumption and total investment were constantly expanding. However, Thai economy still faces external risk such as U.S. monetary and trade policy and global economic uncertainty.

As of August 31, 2018, the Company's total cards reached 8.34 million cards (including 2.56 million credit cards and 5.78 million member cards), increased by 2% from the end of fiscal year 2017. Covering networks nationwide, the Company has 104 branches, 448 ATMs, and over 17,870 member dealers to provide quality financial services to AEON cardholders.

Summary of Consolidated Financial Results

1. Operating Results

Revenues

In the first half of fiscal year 2018, the total consolidated revenues were 10,110 million baht, showing an increase of 1,180 million baht or 13% y-y. In second quarter of 2018, the Company's revenues were 5,093 million baht, an increase of 553 million baht or 12% y-y. This is the result of an increase in credit card and personal loan incomes as well as bad debt recovery continue to improve. As of August 31, 2018, the Company has active billings of 3.21 million transaction per month and 2.14 million IDs which came from up-country 69% and Bangkok 31%. Details of each business can be described as follows:

- Credit Card

In the first half year of 2018, credit cards turnover accounted 63% of total turnovers with revenue of 3,732 million baht, an increase of 406 million baht or 12% y-y. In the second quarter of 2018, credit card revenue was 1,878 million baht, an increase of 172 million baht or 10% y-y and the same level as

the previous quarter. The increase of credit card revenue was contributed by AEON ROP card and AEON Gold card. Thus, the Company has focused on promotion activities to encourage customer's spending and increase market share. For example the campaign AEON Shop Plus 2018 and offered premiums for credit card purchase that reach specific amount, new special discount for Big C Platinum payWave cardholders when spending at Big C Supercenter, Big C Extra, Big C Market, Mini Big C and Big C Shopping Online. In addition, AEON Specialized Bank (Cambodia) Plc had credit card revenue of 15 million baht, grew by 69% y-y.

- Loans

In the first half year of 2018, loans shared 30% of total turnovers (shared 19% from personal loan and 11% from purposed loan for mobile phones, IT products, electrical appliances and etc. at department stores and over 17,870 dealers nationwide) with the revenue of 5,243 million baht, an increase of 682 million baht or 15% y-y. In the second quarter of 2018, loans revenue was 2,639 million baht, an increase of 351 million baht or 15% y-y. This is because the Company reviewed credit line for customers who never have cash revolving credit line to inline with their new income that resulted an increase of the new revolving loans spending 27% from previous quarter. In August 2018, the Company launched an instant card for cash withdrawal service at our branches to facilitate customers and also launched "AEON Happy Pay", which the customers were able to withdraw cash and installment loans for purchasing a variety of products and services up to 48 months. Thus, the Company provides more channels to facilitate financial services to customers and reduce Company's operation cost. Moreover, loan income from AEON Microfinance (Myanmar) Company Limited grew by 64% y-y and AEON Specialized Bank (Cambodia) Plc grew by 26% y-y.

- Hire Purchase

In the first half of 2018, motorcycle and used car hire purchase in Thailand and electrical appliances, mobile phone and etc. in oversea business, with the revenues of 190 million baht, the same level as last year and hire purchase sales from overseas business grew by 10% y-y. In second quarter of 2018, the Company had hire purchase revenue 99 million baht, increased by 5% y-y and 9% q-q. This was mainly contributed by auto loans business that launched in February 2018. In addition, the Company had hire purchase income from AEON Specialized Bank (Cambodia) Plc that increased 2% y-y and AEON Leasing Service (Lao) Company Limited that increased 35% y-y.

- Others

In the first half of 2018, other incomes were 945 million baht, showing an increase of 94 million baht or 11% y-y and represented 9% of total revenues. The increase was mainly from the continued

growth of bad debt recovery that increased 21% y-y and 8% q-q. In second quarter of 2018, other incomes were 477 million baht, increased by 6% y-y. Moreover, the income for the first half year of 2018 of company's subsidiaries in Thailand, the Company had commission income of 252 million baht, increasing by 4% y-y from AEON Insurance Service (Thailand) Co., Ltd. and collection service income of 131 million baht, increasing 15% y-y from ACS Servicing (Thailand) Co., Ltd. The Company has plans to increase fees base 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 first half of 2018, the Company had total consolidated expenses of 7,855 million baht, an increase of 526 million baht or 7% y-y. For the second quarter of 2018, the consolidated expenses were 4,008 million baht, an increase of 313 million baht or 8% y-y. Details of expenses are shown as follows:

- Operating and Administrative Expenses

In the first half of 2018, the consolidated operating and administrative expense were 4,286 million baht, increasing by 7% y-y and represented 42% of total revenues. For the second quarter of 2018, the consolidated operating and administrative expenses were 2,198 million baht, increasing by 8% y-y, 5% q-q and represent 43% of total revenues. The expenses increase came from an increase in administrative expenses and oversea business expansion. Considering the Company's separate financial statement, the operating and administrative expenses as a percentage of revenues represented 40% in the second quarter of 2018 and 39% in the first half of 2018.

- Bad debt and Doubtful accounts

The consolidated bad debts and doubtful accounts, in the first half of 2018, amounted to 2,460 million baht, increasing by 8% y-y. For the second quarter of 2018, the Company recorded bad debts and doubtful accounts of 1,254 million baht, increasing by 11% y-y and 4% q-q. The increase of bad debt and doubtful accounts was mainly from higher growth of total portfolio.

- Finance Cost

In the first half of 2018, The Company recorded finance cost of 1,106 million baht, increasing by 6% y-y. For the second quarter of 2018, the finance cost was 554 million baht, increasing by 7% y-y and the same level as previous quarter and accounted for 11% of total revenues. The average funding cost was at 3.32%, the same level as previous quarter. This is a result of the increase in short-term portion.

Net Profit

For the first half of 2018, consolidated operating income was reported at 2,259 million baht, showing an increase of 660 million baht or 41% y-y. However, net profit from the Company was 1,789 million baht showing an increase of 501 million baht or 39% y-y, and earning per share was 7.16 baht. For the second quarter of 2018, the Company had consolidated operating income of 1,088 million baht, an increase of 243 million baht or 29% y-y. The Company reported net profit attributed to owners of the parent of 862 million baht, an increase of 191 million baht or 28% y-y and earning per share was 3.45 baht. The net profit in the second quarter of 2018 increased mainly from an increase in core business revenues by 13% y-y and continued growth of bad debt recovery by 21% y-y and account receivable by 5% from the end of last year.

2. Financial Status

Total Assets

As of August 31, 2018, consolidated total assets were 84,404 million baht, an increase of 3,633 million baht or 4% from 80,771 million baht as of February 28, 2018. The main assets were attributed to the portfolio of net account receivables which shared 91% of total assets.

- Accounts Receivable

The Company has gross accounts receivable of 79,632 million baht (both current assets and non-current assets) as of August 31, 2018, increasing 5% from as of February 28, 2018. This can be categorized by business type as follows: credit card receivable 36,497 million baht, increasing by 6% y-y; loans receivable 41,485 million baht, increasing by 4% y-y; hire purchase receivable 1,500 million baht, increasing by 18% y-y and other receivable 150 million baht.

- Allowance for doubtful accounts

As of August 31, 2018, the Company provided allowance for doubtful accounts of 2,737 million baht or 3.44% of total accounts receivable, comparing to that of 2,416 million baht or 3.19% of total accounts receivable at the end of previous fiscal year. The percentage account receivable 3 month's overdue or non-performing loan ratio was 2.67%, increased from 2.35% at the end of last year. The Company could managed account receivable overdue more than 3 months. The coverage ratio of allowance for doubtful accounts to accounts receivable overdue more than 3 months (NPLs) was 129% in the second quarter of 2018, slightly lower from the end of fiscal year 2017 of 136%.

Liabilities

The consolidated liabilities of the Company as of August 31, 2018 totaling 67,111 million baht, an increase of 2,161 million baht or 3% from 64,950 million baht at the end of fiscal year 2017. This is a result of both short-term and long-term borrowings totally 62,370 million baht, increasing 5% from the end of fiscal year 2017. The portion of long-term borrowings was 40,031 million baht or represented 64% of total borrowings, decreasing from 69% of fiscal year 2017.

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

Shareholders' Equity

As of August 31, 2018, total shareholders' equity amounted to 17,294 million baht, an increase of 1,472 million baht or 9% over the end of fiscal year 2017. Consequently, book value as of August 31, 2018 was 69.2 baht per share, increased from 63.3 baht per share as of February 28, 2018.

Debt to Equity ratio as of August 31, 2018 remained constant at 3.9 times. Return on Equity (ROE) and Return on Asset (ROA) for six month period are 21.6% and 4.3%, respectively.

The Company also announces to pay interim dividend of six month performance at the amount 2.35 baht per share or 32.8% payout ratio. The shareholder register book for the right to receive dividends shall be recorded on October 19, 2018 (XD will be posted on October 18, 2018) and dividend will be paid on November 1, 2018.