

Management Discussion and Analysis

For 1Q14

Executive Summary

GMM Grammy has been conducting a total entertainment business, encompassing existing businesses – music, media, movie, event management and animation, and new businesses – satellite TV, home shopping and digital terrestrial TV. GMM Grammy has been conducting its businesses and accumulating the expertise, with an aim to generate sustainable growth and returns to its shareholders. At the same time, it is committed to its responsibilities to all stakeholders.

In 1Q14, the revenue of new businesses especially Home Shopping Business which has dramatically increased in revenue 181% from previous year. GMMZ Platform Business also increased 26% and made sale circulation of 2.7 million boxes sold as well as Pay TV Business, has its subscribers approximately 180,000 which showed another success of investing in new businesses. Currently, the proportion of new business revenue increased to 27% of total revenue. While the

income of existing business, decreased from 1Q13. Due to unstable politics, the delay of purchasing media, also the shows were postponed to the second half of the year; affected operating results to the net loss of THB 791 million which is the normal course of invest period of new businesses as expected. However, the revenue would expectedly be back to normal in the second half of the year.

However, GMM Grammy was preparing to transmit Digital Terrestrial TV (DTT) after won in auction of two licenses for the use in the broadcasting of 2 DTT channels; the Variety-HD named “ONE”, number 31 and the Variety-SD named “BIG”, number 25.

The Company planned to invest in DTT Business carefully by producing quality contents and broadcasting in phases in order to match the revenues with the expenses. News and varieties will be launched in July 2014. The Company believes that new businesses can continue to grow constantly. Besides, the distribution of 22 million DTT coupons by NBTC, will be

advantage for GMM Grammy to expand our GMMZ platform.

For music streaming which joined hand with AIS named “KK BOX” was getting customer attention continuously.

The showbiz was slowdown in first quarter due to political situation but the alleviate of situation respectively, the showbiz would be back to normal shortly. In 2Q14 would be more revenue from many shows such as “Genie Fest, 16 years of rock” and “Klom Krung” also Media Business and Event Management Business which were affected in the first quarter.

Besides, the proof of being total entertainment business leader is to obtain rating from Fitch Rating which rated the nation long-term and nation short-term at BBB+(tha) and F2(thai) respectively. The interest-bearing debt to equity ratio was 1.61, slightly higher from 2013. It reflected The Company’s strong financial position despite high investment in new businesses.

Operating Results

unit: THB thousand	1Q14	1Q13	Change (%)
Total revenues	2,178,220	2,592,886	-15.99
Expenses			
Cost of sales and services	1,873,995	1,754,546	6.81
Selling expenses	210,070	232,723	-9.73
Administrative expenses	822,525	775,759	6.03
Total expenses	2,906,590	2,763,028	5.20
Profit before share of income from investments in associates, finance cost, and corporate income tax	-728,370	-170,142	n.m.
Share of income from investments in associates	-2,794	11,921	n.m.
Profit before finance cost and corporate income tax	-731,164	-158,221	n.m.
Finance cost	-53,208	-34,975	n.m.
Profit before corporate income tax	-784,372	-193,196	n.m.
Corporate income tax	-19,187	-19,605	n.m.
Profit for the period	-803,559	-212,801	n.m.
Profit attributable to non-controlling interests of the subsidiaries	-11,854	12,733	n.m.
Profit attributable to equity holders of the Company	-791,705	-225,534	n.m.
Financial Ratios			
Gross profit margin (%)	11.28	30.39	
SG&A to revenues (%)	47.41	38.89	
Net profit margin (%)	-37.48	-8.95	

In Q1-14, the total revenues was THB 2,178 million, declining 16%. Media business and Event management business decreased resulting from unstable in politics. While the new business which comprises of Home shopping business and Satellite TV business, has the overall proportion 27% of total revenue and 59% of growth. However, due to the investment period in new businesses of GMM Grammy, it generated a net loss of THB 791 million. Operating results from each business segment can be summarized as follows.

Existing businesses

Music business comprises sale of physical products, publishing management and showbiz. In this first quarter, revenues from music business totaled THB 491 million, declining 23% from last year due to the closure of some retail stores. Revenue from showbiz was less than last year. Due to political crisis, many shows were postponed to be the second half of 2014, consequently this quarter revenue would be acknowledged to the second half of the year.

Digital business is mainly the sale of music in digital

format via download on mobile phone and music streaming, joined hand with AIS named "KK Box" which has started since the end of 2013. Total revenue amounted to THB 114 million, declining 25% from previous year due to the change in behavior of digital music consumption from casual mobile phone to smart phone. However, the music streaming service and the sale of music via itune would increase revenue in the future.

Media business comprises radio, television, and publishing businesses. In

1Q14, revenues totaled THB 3,395 million, decreasing by 29% from last year. Because of unstable in politics, many businesses including advertising agency thoroughly reduced the use of marketing.

27% of media revenue was from the sale of products and services by the sale of TV media had a higher proportion than publishing and radio.

Movie business in 1Q14, there was only one movie released, "Teacher's Diary" on March 20, 2014. The movie generated box office revenue more than THB 100 million as usual but in 1Q14, there was revenue sharing with cinema and other revenue totaled up to THB 88 million, decreasing by 21% from last year.

Event management business generated revenue from domestic and foreign event management. In 1Q14, it generated revenue THB 178 million, declining 44% compared to previous year. The influence of politic crisis caused private sector and government sector to decrease in event activity.

New Businesses

Home Shopping business operates under a joint venture with CJ Group from South

Korea. In 1Q14, it generated total revenue of THB 223 million, a 181% increase from previous year was resulted from increasing of demand and expanding in product line. Thus, the revenue of selling product in average was THB 2.5 million per day.

The new era of digital terrestrial TV and the increase of viewers would be advantage for Home shopping business to be expanded.

Satellite TV business comprises satellite TV media business, satellite TV platform business, and satellite Pay TV business. Revenues from satellite TV business in 1Q14 totaled THB 365 million, up 26% from last year. Mainly from the sale of set-top-box "GMMZ HD LITE", the new model which the price is lowered than "GMMZ HD". Besides, some customer bought set-top-box in order to watch the digital terrestrial TV. Therefore, 270,000 boxes were sold; its revenue was THB 198 million. For Pay TV business, the growth of selling set-top-box expanded number of subscriber. The transmission of English Premier League (EPL) helped increase subscribers to 180,000; its revenue was THB 48 million.

In the coming future, the government declares to distribute DTT coupon which would generate opportunity to increase our customer base.

Revenue from satellite TV business in 1Q14 was THB 119 million.

Digital Terrestrial TV business

GMM Grammy won the auction for 2 DTT licenses, Variety – HD named "ONE", number 31 and Variety – SD named "BIG", number 25). The commencement of broadcasting DTT was on April 25, 2014. However, in 2014 GMM Grammy was during preparation for broadcasting, the revenue was not generated yet.

For our production plan for 2 DTT channels, the contents would be arranged and produced according to its revenue. Therefore, it would be profitable in a short while.

Cost of sales and services in 1Q14 amounted to THB 1,873 million, up 3% YoY, and was 86% compared to total revenue. The high cost of Pay TV in achieving content license, transponder expenses, and cost of set-top-box which came from the investment period in new businesses. Meanwhile the cost of sales in the existing businesses declined as sales

volume in Music Business, Media Business and Event Management Business.

Gross profit in 1Q14 totaled THB 238 million, down 69% from last year. This was due to the decrease of total operating revenue and cost of Pay TV. While Home Shopping Business increased in operating revenue respectively to 173% compared to last year.

SG&A expenses in 1Q-14 amounted to THB 1,032 million, up 2% YoY from new businesses comprises Home Shopping Business, Satellite TV Business and the preparation for Digital Terrestrial TV Business. SG&A expenses which were 47% of total revenues, higher 39% from last year.

Net loss in 1Q14 was THB 791 million, compared to last year that was THB 225 million. The result was from sale and service revenue decrease to 16% compared to last year and the increase in expense of new businesses. Furthermore, the loan interest that was higher from increasing liability to THB 53

million, up 52% from last year.

Total assets at the end of 1Q14 amounted to THB 12,179 million, down 3% from 1Q13. The auction won for 2 DTT licenses, Variety – SD and Variety – HD. The license fee costed THB 2,290 million and THB 3,320 million respectively. First installment -THB 1,319 million was paid to NBTC by cash and loans. For next quarter, there is only the annual license fee paid to NBTC at 2% of revenue and other 2% of revenue paid for public advantage. Furthermore, the repayment from debtors decreased 16% compared from last year. Thus, the decrease in asset

Liability at the end of 1Q-14, the interest increased from THB 4,639 million to THB 5,093 million mostly from company subsidiaries borrowed loan, therefore the total liability was THB 9,006 million increased from 1Q13 that was THB 8,626 million, or 4%.

Shareholders at the end of 1Q14 was THB 3,172 million, decreased from 1Q-13 at THB

3,976 million or down 20% due to the loss of THB 791 million caused shareholder's equity decreased. Interest-bearing debt to equity increased from 1.17 to 1.61

In 1Q14, cash flow from operating activities decreased to THB 1,816 million, cash flow from investing activities increase total THB 499 million, and cash flow from financing activities amounted to THB 430 million.

Unit : million	1Q14	1Q13
Cash and equivalents	766	1653
Other current assets	6,388	7,125
Non-current assets	5,025	3,825
Total assets	12,179	12,603
Current liabilities	8,292	7,916
Non-current liabilities	714	710
Total liabilities	9,006	8,626
Shareholders' equity	3,172	3,976
Total liabilities and shareholders' equity	12,179	12,603
Net interest-bearing debt to equity ratio (x)	1.61	1.17

Cash on hand and cash equivalents at the end of 1Q14 amounted to THB 766 million, decreased THB 886 million from the end of 2013.

For additional information, please contact

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