

Management Discussion and Analysis

For the Third Quarter 2014

Executive Summary

GMM Grammy has taken lead in media and total entertainment business for more than 30 years, with solid foundation for future growth and sustainable returns to its shareholders. At the same time, it is always committed to its responsibilities to all stakeholders.

Performance outlook for 3Q14 has shown major improvement from economic recovery and better political situation. Sale of goods, service income, and revenue from copyrights (“operating revenues”) rose from last quarter and increased 3.4% from the same period last year. Revenue from new businesses increased significantly by 40% Y-o-Y, representing 32% of total operating revenues together with SG&A decreasing by 6.3% Y-o-Y. The strategic divestment in loss-making Pay TV operation has significantly contributed to the bottom line results. However, the proportion of revenue and profit from music and media especially TV advertising still dropped along with the high investment during startup period altogether had resulted in a net loss for 3Q14 of THB 164 million.

The challenges remained for Digital Terrestrial TV (DTT) business with MUX coverage, viewership, and standard rating system resulted in slow advertising revenue. However

with the first lot of 4.1 million subsidized coupons already distributed and the rest planned during Nov 2014 - Mar 2015, together with set-top-box operators offering variety of campaigns for customers, the competition among DTT channels become stronger with new programs and attractive contents to win audience rating. As the economy gradually recovers from recession, advertising spending will be rising accordingly. In 2015 the competitive landscape in DTT business will be more intensive with full visibility on ratings and channel programs.

Upon the beginning of Oct, GMM Grammy has kick-started to launch the magnet contents and continuously fulfill the new programs. GMM channel has been very successful with the teen series “Hormone Season II” which was very well-known both in BKK and upcountry, while the new release drama “Songkram Nang Ngam” under Channel ONE and “Club Friday the Series” became virally hot in social network. The Company focused on establishing the audience base with clearly defined channel characters and target customers. During the last quarter of 2014 throughout next year the advertising revenue would ramp-up in line with expanded DTT viewer base

following the redemption of most subsidized coupons.

Indeed the Company is confident in NBTC plan to foster the DTT transition, notably the proposed changes in DTT channel number ordering the same for all platform, the 63.5 million baht public relations budget to promote awareness and understanding of DTT, the additional investment to expand MUX coverage, as well as the waiving and postponement of DTT license fee to relieve the financial burden for all DTT channels. Given the positive regulatory support, the Company prepares to fully develop both DTT channels to become the top five operators. From now on, GMM Grammy core business will be driven by DTT channels and total music management.

Regarding satellite business in this quarter the revenue increased by 17% Y-o-Y with GMM Z platform sales continued to rise for both STB Mini and HD Lite Bundle Content, driven by larger audiences of Premier League football during this period, leading to total cumulative sales of 3 million boxes so far. Furthermore, over the fourth quarter we expect revenue boost-up from the latest launch of “GMM Z Zeason by Loxley” T2 premium set-top-box based

on the strategic partnership with Loxley.

Home Shopping business continued to grow substantially this quarter, with a steady rise in daily sales driven by the unique program format under concept “Shopfotainmen: Shopping, Informative, Entertainment” which descriptive product features packed with entertainment to meet customer needs. Key strategy focused on product line variety selection, high quality, convenient mode of payment and delivery service everywhere free of charge.

Revenue from Media business especially in TV advertising still dropped over the passing quarters. While consumer confidence has improved, purchasing power slowly regained, and customer preference diverged to smart device anywhere anytime, as a result, media planning must adopt the new approach with integrated media to reach the target customers. At the same time, the traditional media especially publishing will be gradually faded out. During the high season’s last quarter, total

advertising revenue expected to maintained from last year.

Music business faced a declining growth as well from economic slowdown and changing technology. GMM Grammy moved on to develop new services for Music and Digital business, and promote music marketing through new channel as evident from the cooperation with YouTube Thailand and partnering with AIS for music streaming service, both of which keeps growing steadily. Now GMM Grammy has taken the step to launch innovative “G World” 3D social network to interact with fan base online, offering virtual experiences for subscriber to access a full range of GMM exclusive contents, paving way to strengthen the relationship with loyal customers through digital platform.

During the last quarter of year, GMM Grammy plans to organize several big concerts and music events, namely Rocker tour concert “Dam-ma-cha-ti” by Body Slam, New & Jew Duo Featuring Concert, Tei Fair Festival Carnival, Glow in

the Dark Party by Paradox, 25 Year Patiparn Party Concert, Retrospect Sweet Mullet vs. the World, Give Me Five by A-time showbiz, together with a grand year-end farewell Big Mountain Music Festival. Over next year, showbiz business expected to rebound as GMM Grammy has opened “Muang Thai GMM Live House” concert hall in the middle of downtown Bangkok on 8th floor Central World to promote artists, accommodate events and show performance, and enhance revenue for both showbiz and music business.

According to the Extraordinary General Meeting of Shareholders on 24 September 2014, approval was given to increase the Company’s registered capital, which is expected to complete by the last quarter of this year.

Subsequent to the increase in registered capital, GMM Grammy equity base would be strengthened, leading to a significant improvement in financial leverage and debt to equity measurement.

Operating Results

unit: THB thousand	3Q14	3Q13	Change (%)
Total operating revenues	2,565,977	2,480,979	3.43
Other revenues	100,282	151,800	-33.94
Expenses			
Cost of sales and services	1,803,157	1,602,082	12.55
Selling expenses	180,898	239,671	-24.52
Administrative expenses	774,789	779,837	-0.65
Total expenses	2,758,844	2,621,590	5.24

Profit before share of income from investments in associates, finance cost, and corporate income tax	-92,585	11,189	n.m.
Share of income from investments in associates	13,307	6,234	113.46
Profit before finance cost and corporate income tax	-79,278	17,423	n.m.
Finance cost	-91,641	-31,906	n.m.
Profit before corporate income tax	-170,919	-14,483	n.m.
Corporate income tax	35,757	-39,697	n.m.
Profit for the period from continuing operations	-135,162	-54,180	n.m.
Profit for the period from discontinued operations		-230,217	n.m.
Profit for the period	-135,162	-284,397	n.m.
Profit attributable to non-controlling interests of the subsidiaries	28,847	1,503	1819.29
Profit attributable to equity holders of the Company	-164,009	-285,900	42.63

Financial Ratios

Gross profit margin (%)	29.73	35.43
SG&A to revenues (%)	35.84	38.72
Net profit margin (%)	-6.15	-10.86

In 3Q14, sales of goods and services and copyrights equal to THB 2,566 million, increased 3.4% Y-o-Y especially from Showbiz, Movie, Home Shopping, and Satellite business. However, due to the investment period of new businesses specifically from Digital Terrestrial TV business, the Company reported net loss of THB 164 million.

Operating results from each business segment can be summarized as follows.

Existing businesses

Music business comprises sale of physical products, collection of copyright/ licensing fees, and showbiz; total revenue of this quarter is THB 510 million, decrease 5% from last year. Revenue from this business represented 20% of total

operating revenues, declining from 22% last year.

Digital business is mainly the sale of music in digital format via download on mobile phone and music streaming. The revenue amounted to THB 99 million, declining 25% from previous year. Revenue from this business represented 4% of total operating revenues. After the Company has adjusted strategy to music streaming for online listening and downloads, it helped boost the circulation. Also, with AIS campaign promotion offering free trials to Serenade customers, the customer base expected to reach beyond 100,000 subscribers. While YouTube Thailand also increased up to 14 million subscribers, watching through GMM Channel and its alliances totaling 50 channels, therefore

there is a constant increase in revenue stream from the number of viewers both music contents and others.

Media business comprises radio, television, and publishing businesses. In 3Q14, revenues totaled THB 578 million, decreasing by 32% from last year. Because of the downturn in total media expenditure, TV, radio and magazine declined by 39%, 13% and 24% respectively. Total media revenue is proportionated by TV 63%, radio 32%, and magazine 4%. Revenue from this business accounted for 23% of total operating revenue, declining from 34% last year.

Movie business For 3Q14 revenue amounted to THB 199 million, increase 290% Y-o-Y. There was a movie released "The swimmers", generated box

office revenue at THB 71 million. With the media tie-in strategy and the support of Hormones the Series season 2's sponsors, contributed to the successful performance in this segment. Revenue from this business represented 8% of total operating revenues, increasing from 2% last year.

Event management business in 3Q14, it generated revenue at THB 252 million, slightly declining 1% compared to previous year. Revenue from this business represented 10% of total operating revenues.

New Businesses

Home Shopping business operates under a joint venture with CJ Group from South Korea. In 3Q14, it generated total revenue of THB 304 million, a 74% increase from last year and a 12% of total revenue. Breakeven is expected in the fourth quarter, with strategy in the second half aiming to expand customers toward boys and men while IT products and exercise machines are popular. Moreover, there is a plan to expand the channels through Cable-TV to cover more audiences. For the plan of next year, O Shopping is interested in fashion product that corresponding to the lifestyle of Thais by being a trend setter selecting the products that meet the needs of most customers and to become the leader in Thailand's Home Shopping.

Satellite TV business comprises satellite TV media business, satellite TV platform business GMM Z. Revenues from satellite TV business totaled to THB 495 million, up by 17% Y-o-Y. Also, revenue from this business represented 19% of total operating revenues, increasing from 17% last year.

The sale of set-top-box "GMMZ" was approximately 340,000 boxes sold, mostly from the sales of set-top-box "Mini" and "HD-Lite Bundle" which has gained popularity from the opening of the new season of Premier League football. In the meantime, the channel satellite TV (Free-to-air) during this quarter, the revenue was maintained close to the previous quarter. But a whole year performance was affected from the slowdown of advertising market and the launch of Digital TV in conjunction with the Must-Carry regulations, causing satellite TV channels to adjust the strategy and content to make a difference.

Digital Terrestrial TV business The revenue for 3Q14 was THB 33 million. In this quarter, GMM Channel conducted the press conference to showcase the content program for the first phrase, targeted at mass of people and young people of all ages under the concept of "Fun every day, Together all the time" with the contents such as varieties, dramas, entertainments, movies, and series. At the same time, ONE HD Channel was also opened

the new program for quarter four to fascinate audiences such as "Song-Karm-Nang-Ngam" with differentiated style from other dramas and target audiences of 18 years old above. Also, the sitcom "Pen-Tor" new season stayed very popular.

Cost of sales and services in 3Q14 amounted to THB 1,803 million, increasing 12.6% from the same period of last year due to amortization cost on digital TV spectrum licenses and MUX, together with production cost. Moreover, the sales volume of satellite set-top-box also increased, along with the increased cost of sales and service for Home Shopping business in line with revenues. While cost of sale and service of existing business declined from decreased revenue at 8%, representing 59% of total revenue in music business, media business, movie and animation business, including event management business.

Gross profit in 3Q14 turned positive at THB 763 million which consists of gross profit from existing business at THB 671 million and new business at THB 92 million, overall decreased by 13% from 3Q13 for due to declining advertising revenue from media business, as well as a drop in both physical product and digital download under music business.

SG&A expenses in 3Q14 amounted to THB 956 million, down 6% from last year, representing 36% of total

revenues due to the decreased expenses in media and satellite TV business according to lower sales. While Home Shopping recorded higher marketing expenses along with the increase of administrative expense for Digital TV.

Net loss in 3Q14 was THB 164 million, improved by 43% from previous year because of investment restructuring resulting in no loss record from PAY TV.

Total assets at the end of 3Q14 amounted to THB 15,950, increasing 27% from year end 2013 due to Digital TV spectrum licenses. Meanwhile, the decrease in short-term investment was resulted from redemption of fixed deposits for short-term loan payment and working capital in the business while other long-term investment increased from investment in ordinary shares of CTH. Intangible assets were

reduced from amortization during the period and the disposal of a subsidiary.

Liability in 3Q14 the interest-bearing debt was THB 6,481 million, close to the previous period, which consisted of loan for digital TV and record of undue liabilities from Digital TV spectrum licenses cost which resulted in the increase of total liabilities to THB 13,918 million, or 61% from last year end 2013.

Shareholders equity was THB 2,032 million, increased by 49% from last year end 2013 due to incremental accumulated losses. Interest-bearing debt to equity increased from 1.17 at year end 2013 to 3.19 at 3Q14. It is expected that after the capital increase of the Company, the rate of interest-bearing debt to equity shall be improved significantly.

In 3Q14, cash flow from operating activities was THB 292

million, while cash flow from investing activities decreased by THB 430 million. Cash flow from financing activities increased by THB 22 million. These resulted in a decrease of net cash flow by THB 699 million. At the end of 3Q14, cash on hand and cash equivalents amounted to THB 1,056 million.

Unit : million	3Q14	3Q13
Cash and equivalents	1,056	3,190
Other current assets	4,879	4,929
Non-current assets	10,015	3,775
Total assets	15,950	11,894
Current liabilities	4,623	6,680
Non-current liabilities	9,295	711
Total liabilities	13,918	7,391
Shareholders' equity	2,032	4,503
Total liabilities and shareholders' equity	15,950	11,894
Net interest-bearing debt to equity ratio (x)	3.19	0.74

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