

Management Discussion and Analysis

For the Year 2014

Executive Summary

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

In 2014 the Company has made a strategic refocus on its core businesses driven by Digital Terrestrial TV (DTT) channels and total music management, as well as enhancing other supporting businesses that contribute to achieve corporate targets; including media, movie, event management, home shopping and satellite broadcasting business.

Overall revenue performance for 2014 stood at THB 10,251 million, decreased by 7% from last year, mainly due to macro-economic recession, political unrest, and the transition from Analog TV towards Digital Terrestrial TV has caused media agency to postpone advertising spending, altogether resulted in a net loss for 2014 of THB 2,314 million,

representing a drop by 80% Y-o-Y since the loss making Pay TV business was recognized during the first half of year along with the start-up investment in DTT operation. Nevertheless there was a strong recovery in the bottom line following the divestment in Pay TV from July 2014 onwards with a substantial improvement by 64% in the second half year result compared to the first half of 2014.

Music and Digital business had stepped forward with new services aligned to changing consumer behaviors. The Company promoted music marketing in new channels from the cooperation with YouTube Thailand through GMM official accounts and more than 50 associated channels since May 2014 the Company witnessed a sharp increase in viewers and advertising spending with continuously rising trends. Indeed, Grammy has opened "Muang Thai GMM Live House" 2,000 seats concert hall in the middle of downtown Bangkok to promote artists, accommodate events and

show performance, and enhance revenue for both showbiz and music business.

The challenges remained for Digital Terrestrial TV (DTT) business with MUX coverage, viewership, and standard rating system resulted in slow advertising revenue. However during the last quarter of year the DTT landscape became clearer with GMM Grammy constantly fulfilling new programs and focusing on expanding the audience base, especially under ONE channel became very successful with the new release drama in late night period "Songkram Nang Ngam", followed by prime-time drama after news program launched in November "Fan-Feung" and "Tiger", both having highly positive response and driving a substantial increase in channel rating. While GMM 25 launched the new fresh and variety programs under slogan "Fun every day, Together all the time".

In addition to the Company business plan with a strong potential and competency to operate both DTT channels,

NBTC regulatory support also played an important role to foster the DTT transition, including expanding MUX coverage, ordering of DTT channel number the same for all platform, and establishing a standard rating system, leading to the solid growth and sustainable development for the entire DTT industry.

Regarding other line of business, home shopping and movie had been very successful. The revenue from home shopping rapidly doubled by 103% from last year, and reached the break-even point by November which was two years well ahead of the initial investment projection. While movie

business launched three films in 2014 notably “The Teacher’s Diary”, “Swimmers”, and “I Fine Thank You Love You” all of which were very popular and marked a record-high on the box-office revenue.

Revenue from Media business covering TV, radio and publication was affected by a decrease in advertising spending this year. In 2015 economic outlook is expected to be more positive, leading to higher consumer confidence along with purchasing power and advertising spending. The Company aimed to focus on service development to stay ahead of competition in the market.

The Company financial status for the year end 2014 remained healthy and strong, with the great success from an increase in the registered capital as evident by institutional investor’s oversubscription as high as 1.20x, reflecting the confidence in GMM Grammy business operation having a high growth prospect. After the capital increase, the interest-bearing debt to equity improved significantly to 1.06 at year end 2014. The Company strongly believe that the healthier financial position will greatly support the Company operation and lead to continuous growth in 2015.

Operating Results

unit: THB thousand	2014	2013	Change (%)
Total operating revenues	9,821,541	10,612,151	-7.5
Other revenues	429,323	377,675	13.7
Total Revenues	10,250,864	10,989,826	-6.7
Expenses			
Cost of sales and services	6,963,108	6,990,753	-0.4
Selling expenses	827,709	1,006,545	-17.8
Administrative expenses	3,186,776	3,185,432	0.0
Total expenses	10,977,594	11,182,730	-1.8
Profit before share of income from investments in associates, finance cost, and corporate income tax	-726,730	-192,904	-276.7
Share of income from investments in associates	17,556	15,976	10.0
Profit before finance cost and corporate income tax	-709,173	-176,928	-300.8
Finance cost	307,173	134,565	128.3
Profit before corporate income tax	-1,016,346	-311,492	-226.3
Corporate income tax	-31,654	91,211	-134.7

Profit for the period from continuing operations	-984,693	-402,703	-144.5
Profit for the period from discontinued operations	-1,228,996	-818,449	-50.2
Profit for the period	-2,213,689	-1,221,152	-81.3
Profit attributable to non-controlling interests of the subsidiaries	100,326	61,558	63.0
Profit attributable to equity holders of the Company	-2,314,015	-1,282,710	-80.4

Financial Ratios

Gross profit margin (%)	29.1	34.1
SG&A to revenues (%)	39.2	38.1
Net profit margin (%)	-22.6	-11.7

In 2014, sales of goods and services and copyrights equal to THB 9,822 million, decreased 7.5% Y-o-Y. The business that contributed to revenue growth included movie, home shopping, and Digital Terrestrial TV, whereas the loss making Pay TV business was recognized during the first half of year along with the start-up investment in DTT operation, leading to a net loss of THB 2,314 MB reported in 2014.

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

Core businesses

Music business comprises sale of physical products, collection of copyright/licensing fees, and showbiz; total revenue of 2014 was THB 2,419 million, decrease 4% from last year. Revenue from this business represented 25% of total operating revenues, increasing from 24% last year. The main reason for revenue

drop was caused by physical sales in retail channels, while showbiz revenue improved from higher activities with artist performance shows.

Digital business is mainly the sale of music in digital format via download on mobile phone, music streaming and Youtube sharing started in May 2014. The revenue amounted to THB 466 million, declining 18% from previous year, mainly due to mobile downloads. After the Company has adjusted strategy towards music streaming for online listening and downloads, and sharing in Youtube through GMM official accounts and more than 50 associated channels, the revenue ramped-up, though not yet fully compensated for the drop, but there has been a constant increase from the number of viewers both music contents and others. Revenue from this business represented 5% of

total operating revenues stabled from last year.

Digital Terrestrial TV business

The Company was granted the licenses to operate two DTT channels, namely ONE channel under high definition, and GMM 25 under standard definition. The commencement was started in April 2014 for ONE channel, and since then new programs were constantly fulfilled, especially in 4Q14 ONE channel was very successful with the launch of new drama series "Song-Karm-Nang-Ngam" with differentiated style from other dramas and target audiences of 18 years old above. Also the channel focused on quality drama under slogan "Good Drama on air at ONE", such as "Fan-Feung" and "Tiger", both having highly positive response and driving a substantial increase in channel rating. While GMM 25 emerged with the concept "Fun every day, Together all

the time” focusing on fresh and variety programs including news, game shows, dramas and series such as “Club Friday the Series”

Other Businesses

Media business comprises radio, television, and publishing businesses. In 2014, revenues totaled THB 2,280 million, decreasing by 33% from last year in line with the downturn in total media expenditure, as well as unstabled political and economic situation, together with the transition towards DTT causing media agency to postpone the advertisement spending. TV, radio and magazine declined by 8%, 11% and 14% respectively. Total media revenue is proportionated by TV 67%, radio 28%, and magazine 5%. Revenue from this business accounted for 23% of total operating revenue, declining from 32% last year.

Movie business In 2014 revenue amounted to THB 628 million, increased by 21% Y-o-Y from three movies released, namely “The Teacher’s Diary”, “Swimmers”, “I Fine Thank You Love You” all of which were very popular, especially “I Fine Thank You Love You” marked a record-high of grand opening day revenue, with total box-office revenue at THB 330 million and also it

was planned to sell abroad in many countries. Revenue from this business represented 6% of total operating revenues, increasing from 5% last year.

Event Management business in 2014, it generated revenue at THB 1,011 million, declining 14% compared to previous year. Revenue from this business represented 10% of total operating revenues, decreased from 11% last year as a result of economic recession and political situation causing most activities to postpone both private and public sectors.

Home Shopping business operates under a joint venture with CJ Group from South Korea. In 2014, it generated total revenue of THB 1,135 million, a 103% increase from 2012. It accounted for 12% of total operating revenues, up from 5% last year. Home Shopping business presented a significant revenues growth despite the economic slowdown. As a result, the business reached breakeven much faster than expected. In term of strategy, the Company aim to expand customers’ base to over all age groups, increase high quality product lines together with expanding the platforms to cover more audiences such as Internet channel.

Satellite TV business comprises satellite TV platform business GMM Z and satellite TV media business. Revenues from satellite TV business in 2014 totaled THB 1,456 million, down 6% Y-o-Y, represented 15% of total operating revenues. The decrease of revenues was mainly from advertising revenue of satellite TV media business as a consequence of the slowdown of advertising market, the launch of Digital TV coupled with the reformation of satellite TV channels in order to be consistent with the Company’s strategy.

Cost of sales and services in 2013 was THB 6,963 million, decreased by 0.4% Y-o-Y and representing approximately 71% of total operating revenues, up from 66% from the same period of last year. Businesses which reported a decline in cost of sales and services were Music, Media, Event management and Satellite TV due mainly to lower operating revenues. While cost of sales and services of DTT business increased from amortization cost on digital TV spectrum licenses and MUX, together with production cost. Moreover, cost of sales and services of Home Shopping business rose in accordance to higher sales

Gross profit in 2014 was THB 2,858 million, dropped 21% from the same period of last year. Gross profit margin for the year was 28%, declining from 33% in 2013 mainly due to lower advertising revenue of Media business and increased operating expenses such as production cost of DTT business.

SG&A expenses in 2014 amounted to THB 4,015 million, declining by 4% Y-o-Y, representing 39% of total revenues due mainly to lower marketing expenses of Music, Media and Satellite TV businesses. On the contrary, Home shopping and DTT businesses reported the increase.

Net loss in this year amounted to THB 2,314 million, increasing by 80% from a year ago as a result of the recognition of loss from Pay TV in 1st half of 2014, loss from new businesses such as Home Shopping and DTT businesses together with the increase of financial cost.

Total assets at the end of 2014 was THB 15,989 million, up 27% Y-o-Y due mainly to Digital TV spectrum licenses and other long-term investment from investment in ordinary shares of CTH. On the other hand, cash and cash equivalents declined as a result of loan repayment and a decrease of other current asset. Furthermore, interest-bearing debt at the end of 2014 was THB 4,347 million dropped from THB 4,639 million at the end of 2013. In addition, total liabilities was THB 11,906 million, rising by 38% from last year as a result of undue liabilities from Digital TV spectrum licenses. Shareholders' equity amounted to THB 4,082 million, increased 3% from capital increase. Moreover, the interest-bearing debt to equity ratio decreased from 1.16x at the end of 2013 to 1.06x at the end of 2014.

In 2014, cash flow from operating activities amounted to THB 2,031 million, cash flow from investing activities

totalled THB 742 million, and cash flow from financing activities amounted to THB 2,081 million. This resulted in a decrease of net cash inflow by THB 693 million. At the end of 2014, cash on hand and cash equivalents amounted to THB 960 million

Unit: THB Million	2014	2013
Cash and equivalents	960	1,653
Other current assets	4,914	7,125
Non-current assets	10,114	3,826
Total assets	15,989	12,604
Current liabilities	4,810	7,917
Non-current liabilities	7,097	710
Total liabilities	11,906	8,627
Shareholders' equity	4,083	3,977
Total liabilities and shareholders' equity	15,989	12,604
Net interest-bearing debt to equity ratio (x)	1.06	1.16