

Management Discussion and Analysis

For the First Quarter 2015

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.

Upon the beginning of 2015 overall economic recession persistently impacted on advertisement spending with media industry undergone through a structural change from analog platform towards digital platform. GMM Grammy has proactively moved forward to reinforce the core business operation by streamlining total music management, strengthening an alliance with strategic partners to utilize technology and expertise in content development which are all key success factors to Digital Terrestrial TV business. In 1Q15 total revenue performance improved significantly by 16.6% driven by music, digital business, showbiz, and home shopping which continued to expand despite the downturn in retail trade.

In this quarter, the Company recorded an extraordinary profit THB 72 million from sales of long-term investment in SE-ED shares together with one-time gain amounting to THB 654 million recognized from the

strategic arrangement of shareholding in GMM One TV Trading at 51% (See notes 1.2 in consolidated interim financial statements), altogether resulting in a net profit for 1Q15 at THB 377 million.

Revenue from music and digital business has turnaround this quarter from series of new albums, while monthly YouTube sharing reached THB 12.8 million by the end of quarter. Revenue from copyrights and artist management also increased, with GMM strength in pool of talent offers a perfect match with product and brand characters, leading to another source of income to potentially compensate for the declining trends in physical sales, especially for the top stars in Grammy Gold Record like “Ying Lee Sri Chumpon”, and “Got Chakraphan” with a strong fan base in upcountry.

Showbiz performed well this quarter with big concerts by “Bird-Thongchai” an all-time superstar live featuring with top five original divas, while A-time showbiz organized “The One & Only Concert 10-Year Aof Pongsak” and “The Masterpiece 30-Year Nitipong Hornak”, both gaining big applauds from the mass audience.

Following the commencement of Digital Terrestrial TV (DTT)

broadcasting over a year, the transition from analog platform still incompleting, with challenges remained on MUX coverage and coupon subsidy, resulting in slow advertising revenue while DTT competitive landscape has turned aggressive this year, especially on the mainstream “drama”. Since the last quarter of year 2014, ONE channel became very successful with the new release drama in late night period, followed by magnet contents of 2 prime-time dramas after news program during weekdays, accompanied by news, talent shows and popular sit-coms, all lined up to keep the audience stay tuned all day. This resulted in a skyrocketing channel rating from month to month driven by larger viewer base especially in Bangkok and Urban, leading to the top five position in new DTT channels. For 2015 ONE channel plans to head on promoting the brand, emphasize marketing communication and customer relationship under the slogan “Yours ONE, all day, every day”

In this quarter, GMM 25 launched the full channel program under slogan “Fun every day, Together all the time”, with prime-time and variety contents including talk shows, travel and dining, news, music, law, moral, education. Indeed the channel launched

event marketing to reinforce brand awareness under lucky draw campaign “GMM 25 Giveaway Toyota Altis”.

From the second quarter onwards, the Company expects a positive development in political situation and rising overall media advertising, based on the high seasonality of brand marketing and promotion to stimulate sales, it is most likely that DTT media will catch up the agency spending accordingly. Also there is a bright prospect next year fuelled by larger viewer base and ramp-up advertising rate, together with

countrywide MUX coverage and economic recovery.

Both DTT channels are core businesses for GMM Grammy with top priority in order to become the leader in total media and entertainment business. The Company plans to constantly fulfil new programs and expand brand awareness via roadshow, event marketing in rural and upcountry this year.

Regarding other line of business, home shopping revenue still kept increasing in spite of the slowdown in retail trade and decreased consumer purchasing power. Daily sales rose to THB

4.8 million, and reached THB 6.9 million from extra promotion with value for money offering. So far subscription accounted for 0.57 million subscribers. The Company plans to expand broadcasting on digital TV and online channel in line with rising number of mobile internet users.

The Company financial status for the first quarter of 2015 remained healthy and strong, following the great success from an increase in the registered capital, the interest-bearing debt to equity improved significantly to 0.72 by the end of 1Q15.

1Q15 Operating Results

unit: THB thousand	1Q15	1Q14	Change (%)
Total operating revenues	2,246,200	1,927,220	16.6
Other revenues	759,495	63,867	1089.2
Total Revenues	3,005,695	1,991,087	51.0
Expenses			
Cost of sales and services	1,674,367	1,256,819	33.2
Selling expenses	161,415	206,914	(22.0)
Administrative expenses	791,617	710,035	11.5
Total expenses	2,627,399	2,173,768	20.9
Profit/(Loss) before share of income from investments in associates, finance cost, and corporate income tax	378,296	(182,681)	307.1
Share of income from investments in associates	6,214	(11,722)	153.0
Profit/(Loss) before finance cost and corporate income tax	384,510	(194,403)	297.8
Finance cost	59,506	47,436	25.4
Profit/(Loss) before corporate income tax	325,004	(241,839)	234.4
Corporate income tax	(39,305)	19,532	301.2
Profit/(Loss) for the period from continuing operations	364,309	(261,371)	239.4
Profit/(Loss) for the period from discontinued operations	-	(531,325)	na.

Profit/(Loss) for the period	364,309	(792,696)	146.0
Profit/(Loss) attributable to non-controlling interests of the subsidiaries	(12,503)	(993)	(1,159.1)
Profit/(Loss) attributable to equity holders of the Company	376,812	(791,703)	147.6

Financial Ratios

Gross profit margin (%)	25.5	34.8
SG&A to revenues (%)	31.7	46.1
Net profit margin (%)	12.5	(39.8)

In 1Q15, sales of goods and services and copyrights equal to THB 2,246 million, increased by 16.6% Y-o-Y from music, digital business, showbiz and home shopping. From now on, the performance of each segment will be categorized based on corporate administration structure. In addition, based on the accounting principles used in considering whether control exists for the Company over investees, the management determined that the Company had only joint control over Index Creative Village Public Company Limited, formerly considered a subsidiary. Thus, the Company classifies the investment in Index Creative Village Public Company Limited as the investment in joint venture and start to account for by using the equity method (See Note 1.5 in consolidated interim financial statements)

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, showbiz, and free-to-air satellite under Fan TV channel; total revenue of 1Q15 was THB 945 million, increased by 56% from last year. Revenue from this business represented 42% of total operating revenues, increasing from 31% last year. The main increase was driven by many concerts and showbiz including revenue stream from MuangThai GMM Livehouse, together with increased revenue from copyrights and artist event shows, while music streaming via YouTube still kept rising with monthly revenue sharing reached THB 12.8 million by the end of quarter. Regarding satellite TV channel, the Company has merged GMM Music channel with Fan TV channel, and refreshing the brand under concept "GMM One Stop Music Channel" offering variety of songs for both urban and country folk music lovers with interactive marketing, artists meet-and-greet activities throughout the year.

Digital TV Channel ONE business is mainly comprising ONE digital TV channel,

production/sales/marketing units who support ONE channel including Exact, MeeMiti, Acts Studio, and Free to air satellite under Acts channel. The Company reported 1Q15 revenue of THB 226 million, decreasing by 44% Y-o-Y from the Company's strategy to focus on digital TV business where the Company moved most TV programs from analog channel to own digital TV channel.

For content programs in this quarter, ONE channel launched numerous new programs to affirm the "Lifestyle Marketing" channel concept and to match viewer preference in each time slot. The samples of the programs were "Wan Nee" Variety show, "Game Jak Keng" Game show, "Jan Dai Jai" Talk show, "Sai Lab Kayub Yim" Entertainment Variety show and "4 Poh Dum" Show. Also, the reality show "The Star 11" which was moved from previous analog channel received the highest program rating of all ONE channel programs with rating really close to analog rating. Furthermore, magnet contents of ONE channel which

was prime-time drama series can satisfy mass audiences throughout the country. This positive feedback was the major factor to drive ONE channel to be in Top 10 Free TV. Additionally, the rating increase may result in a significant ramp-up in advertising rate much higher than the present rate around 20,000 – 30,000 Baht per minute. Major customers of ONE channel were mass products such as car and FMCG.

Channel ONE targets to stay on the highest rank among new DTT channels. The new program release are scheduled in May with highlights on big format drama “Ban-Lang-Mek” starred by top rated artists, followed by a brand new sit-com “Kook Kook Koo Buster” indeed, the Channel also joined hand with top production house “JSL” to excite the market with the return of legendary “Jaw-Jai” talk show, coupled with “Love Wonder” international format variety show. Moreover, the Company plans to join hands with Bethel Global Media Contents (BGMC), an international strategic partner with variety of premium contents for exclusive on air at ONE to expand viewer base in family and series fan club.

Digital TV Channel GMM 25 business comprising GMM25 digital TV channel, Radio business, Free analog television business and Free to Air satellite channel under Bang Channel. In 1Q15, revenue totaled THB 356 million, increasing by 25% from

the same period last year due to the rise of Atime showbiz revenue and Radio business as advertising spending is gradually picking up. In addition, the radio stations have been continuously creating and organizing the activities, campaign and events. Also, the Company have developed Atime Online application for using on smartphone and computer aiming to expand customers’ base. Thus, Radio business is likely to have positive performance since radio is still the media that can reach wide area.

GMM 25 conducted the press conference to showcase the content program for 2015 earlier this year after noticing the upward trend of digital TV advertising spending together with more awareness of viewers. The channel rating, then, continue to rise. In term of sale strategy, the Company focuses on providing the package that in the needs of customers such as TV advertisement, promotional activities, and marketing TV programs. However, the criteria for agencies to consider using advertisement is not only the channel rating but also the viewing platforms. As many agencies is considering to spend on advertising in multi-platform. Therefore, contents are the key factor. In this regard, GMM 25 programs contain entertaining and trendy contents under the slogan “Fun every day, Together all the time” targeting young and young at heart segments whose

viewing channel on multiscreen. As a consequence, many product owners are giving positive feedback, especially for “Club Friday the Series”, top-rated program that became talk of the town, leading to a relatively high advertising rate. This series has been warmly welcomed from students, teenagers as well as office workers who fancy true-story from famous radio station. Besides, the Company joined hands with GTH who produced the popular “Hormones the Series” launching talk of the town series “Num Ta Kammathep”. The most important strategy for this channel is to continuously develop quality contents both from local and international production in order to conform to evolving consumers’ lifestyle.

Other Businesses

Merchandise Business includes Home Shopping and Satellite box business. Home Shopping business reported 1Q15 revenue of THB 383 million, increasing 71% Y-o-Y. Apart from expanding sale channel through digital TV channels, O-Shopping has recently introduced the mobile application coupled with boosting up product variety. The installment program also attracted more on-line shoppers.

Satellite box business showed the revenue of THB 167 million, declining 34% from previous year, due mainly to the digital TV transformation. The volume of set-top-box sold for the whole market shrank by almost 20%.

However, GMM Z continues to organize marketing activities, for example, Exclusive Travel Trip, Lotto and reward in several distribution channels such as modern trade, 7-eleven and hypermarket. The Company target to increase the "GMM Z" boxes from approximately 3 million boxes at the end of 2014 to 4 million boxes within 2015.

Movie Business Although there was no new movie this quarter, the Company recorded the revenue of THB 87 million, decreasing by 2% Y-o-Y. It accounted for 4% of total operating revenues which was at the same level as previous year.

Publishing and Other business In 1Q15, revenue amounted to THB 23 million, contracting by 20% from unpleasant market situation. As for other business, 1Q15 revenues was THB 62 million, increasing by 50% Y-o-Y from the record of management fee of digital TV platform.

Cost of sales and services in 1Q15 was THB 1,674 million, increased by 33% Y-o-Y and representing approximately 75% of total operating revenues, up from 65% from the same period of last year. Businesses which reported the cost decrease are Publishing and Satellite box business in line with 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. Likewise, cost of sales and

services of Music and Home Shopping businesses rose in line with revenue growth.

Gross profit for 1Q15 was THB 572 million, decreased by 15% from previous year. It represented 25% of total revenue, down from 35% from the same period of last year as a result of the decline of advertising revenue in media business together with cost of sales and services of Digital TV Business such as production cost.

SG&A expenses in 1Q15 amounted to THB 1,013 million, increasing by 5% from last year, representing 45% of total revenue due mainly to marketing and administration expenses together with financial costs of Digital TV and Merchandising businesses.

Net profit in this quarter amounted to THB 377 million, increasing by 148% from the same period of last year from a recovery of Music business together with the profit from selling SE-ED shares, shareholding arrangement in ONE channel along with the decline in loss from Home Shopping business.

Total Assets as of 31 March 2015 was THB 11,596 million, decreasing by 23% from the end of 2014 due mainly to the shareholding arrangement in ONE channel and the decrease of long term investment on SE-ED shares.

Total Liabilities Interest-bearing debt at the end of 1Q15

was THB 2,815 million, declined from THB 4,319 million at the end of 2014 from repayment of short-term loans from banks and the THB 2,384 million decrease of liabilities from Digital TV spectrum licenses as a consequence of shareholding arrangement in ONE channel. Thus, total liabilities at the end of 1Q15 stood at THB 7,660 million, decreasing by 34% from the end of last year. Shareholders' equity amounted to THB 3,936 million, increased 10% from reporting net profit this quarter. Moreover, the interest-bearing debt to equity ratio decreased from 1.21x at the end of 2014 to 0.72x at the end of 1Q15.

Unit: THB Million	Q1/2015	2014 (Restated)
Cash and equivalents	789	865
Other current assets	4,160	4,428
Non-current assets	6,647	9,813
Total assets	11,596	15,106
Current liabilities	3,299	4,491
Non-current liabilities	4,361	7,032
Total liabilities	7,660	11,523
Shareholders' equity	3,936	3,583
Total liabilities and shareholders' equity	11,596	15,106
Net interest-bearing debt to equity ratio (x)	0.72	1.21

In 1Q15, cash flow from operating activities amounted to THB 275 million, cash flow from investing activities totaled THB 166 million, and cash flow from financing activities amounted to THB 33 million. This resulted in a decrease of net cash inflow by THB 75 million. At the end of 1Q15, cash on hand and cash equivalents amounted to THB 789 million

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