

Management Discussion and Analysis

For the Second Quarter 2015

Executive Summary

GMM Grammy has taken the 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.

As the advertising industry having impact from economic recession together with low seasoning by end of 2Q15, those created challenging situation for GMM Grammy. The Company has carefully managed its investment by focusing on growing digital TV and strengthening music businesses. In 2Q15 total revenue performance improved slightly by 2.3% driven by music, digital business, showbiz, and home shopping, which continued to expand as an efficient channel for retail trade.

The Company has introduced a cost control program, which resulted in the decrease of selling and administration expenses by 9.2% Y-o-Y, generating more cash flow from operation, and improving financial leverage for investment in core business. In 2Q15, the Company recognized extraordinary profits THB 137 million, mainly from sales of long-term investment in Index Creative Village. However, the profitability of music and media business during the transition of

TV platform has been significantly reduced, while Digital Terrestrial TV was also still in investment stage, altogether resulting in a net loss for 2Q15 at THB 115 million.

The Company mainly focused on development of drama and variety contents, which are the most attractive to audiences. Channel rating of Dramas on ONE channel and GMM 25 were among top of the chart. Though overall economic condition was not in favor of operators, DTT business was still under competitive situation. All players needed to improve their programs, invest more in production, and creating magnet contents to attract the viewers. From the second half of 2015 onwards, the Company expects a positive development in government spending and rising overall media advertising, based on the high seasonality of brand marketing and promotion to stimulate sales. The Company continues to invest in content development for both channels, and expand viewer base to mass market throughout this year.

The growth of digital media platforms and rising number of smartphone users posted a great business opportunity for the Company, as evident from online music marketing via cooperation with YouTube since last year through “GMM

Grammy Official”, the Company gained over THB 100 million revenue from more than 5 million subscribers, having more than 100 million views per month. In term of viewers, “GMM Grammy Official” ranked No. 1 in Thailand, and No. 17 worldwide resulting in significant advertisement spending through this platform.

Showbiz performed well since beginning of the year with several big concerts. In 2Q-2015, Grammy organized “Body Slam 13”, and “Cocktail the Heartless Life”, while A-time showbiz organized “10 Years A-time Showbiz”. The Company is planning to have more concerts during the second half of year namely “Big Hero”, “Seven Wonders”, “Jim Lai Festival 2”, “Bands on the Run”, and closing year end with “Big Mountain Music Festival 7”, which is expecting 50,000 fans participated. Number of concerts expects to be double next year with Co-Creator concept, concerts organized based on sponsors’ demand as On Ground activities.

O-Shopping has achieved half year revenue target with over 600k customer base. The average daily sales increased to THB 5.1 million, with ranking No. 2 in terms of market share. The Company has intended to be No.1 in home shopping business

by 2017. Market size of home shopping is expected to expand during these 3-5 years following a strong growth of online retail market.

Besides, the establishment of Home Shopping Association in Thailand would soon enhance consumer confidence, and uplift industry standard to international level. New players

are expected to enter home shopping business as well.

As the leader in media and total entertainment business with massive content libraries, Grammy has planned to continue its success via "Total Media Marketing Solutions" networking with strategic partners to delivering contents to mass audiences across varieties

of platforms in line with changing customers' behavior, reflecting the sustainable and continued growth for the Company over the long-term.

After business restructuring, the Company financial status remained healthy and strong, the interest-bearing debt to equity improved significantly to 0.59 by the end of 2Q15.

2Q15 Operating Results

unit: THB thousand	2Q15	2Q14 (Restated)	Change (%)
Total operating revenues	2,083,533	2,036,307	2.3
Other revenues	175,534	212,023	-17.2
Total Revenues	2,259,067	2,248,330	0.5
Expenses			
Cost of sales and services	1,353,319	1,447,218	-6.5
Selling expenses	165,038	223,358	-26.1
Administrative expenses	689,965	718,311	-3.9
Total expenses	2,208,322	2,388,887	-7.6
Profit/(Loss) before share of income from investments in associates, finance cost, and corporate income tax	50,745	(140,557)	-136.1
Share of income from investments in associates	6,170	8,561	-27.9
Share of income from investments in joint ventures	(109,726)	(400)	27,331.5
Profit/(Loss) before finance cost and corporate income tax	(52,811)	(132,396)	-60.1
Finance cost	(31,802)	(83,013)	-61.7
Profit/(Loss) before corporate income tax	(84,613)	(215,409)	-60.7
Corporate income tax	(41,282)	(13,120)	214.6
Profit/(Loss) for the period from continuing operations	(125,895)	(228,529)	-44.9
Profit/(Loss) for the period from discontinued operations	-	(697,671)	na.
Profit/(Loss) for the period	(125,895)	(926,200)	-86.4
Profit/(Loss) attributable to non-controlling interests of the subsidiaries	(11,349)	(13,254)	-14.4
Profit/(Loss) attributable to equity holders of the Company	(114,546)	(912,946)	-87.5

Financial Ratios

Gross profit margin (%)	35.0	28.9
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SG&A to revenues (%)	37.8	41.9
Net profit margin (%)	(5.1)	(40.6)

In 2Q15, sales of goods and services and copyrights equal to THB 2,084 million, increased by 2.3% 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 joint control over "The One Enterprise Company Limited" (Formerly named "GMM One TV Trading") Thus, the Company classifies this shareholding as an investment in joint venture and start to account for by using the equity method, therefore, the consolidated financial statements in this quarter has excluded financials of One Digital TV.

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 2Q15 was THB 749 million, increased by 24% from last year. Revenue from this business represented 36% of total

operating revenues, increasing from 30% last year.

This year music group has undergone through restructuring by combining business units and record team to create synergies, enhance operation efficiency and greater flexibility to respond changing customer needs in line with corporate direction. Indeed the Company constantly recruits and promotes new talents based on idol business model to generate 360 degree of revenue stream covering records, concerts, brand presenters and merchandising, which led to higher contribution from copyrights revenue and artist management, together with showbiz performance and online music marketing via YouTube performing well with monthly revenue share reaching THB 14 million by the end of 2Q15.

The launch of concert hall MuangThai GMM Livehouse received a very good response with 80% utilization rate higher than expected and reserved throughout the second half of year, mostly accommodating concerts both local and international performances, parties, events, TV shows i.e. The Star talent singing contest.

Digital TV Channel ONE business mainly comprising ONE digital TV channel, production/sales/marketing units who support ONE channel including Exact, MeeMiti, Acts

Studio. The Company reported 2Q15 revenue of THB 239 million, excluding financial statement of The One Enterprise, representing a drop by 40%Y-o-Y as a result of moving most TV programs from analog channel to own digital TV channel. Although advertising fee dropped initially, the Company believed that the premium contents will strengthen channel competitiveness to capture mass audience base and eventually drive for an increase in advertising rate as evident from skyrocketed channel rating for several months after the launch of prime-time drama, especially "Sue Risaya" and "Leh Ratee" on air during this quarter with high response from TV viewers. Then ONE channel continued to excite the market with several drama line-ups, including highlight on big format drama "Ban-Lang-Mek" starred by top rated artists, "Roi Leh Sanae Rai", "Tawan Tad Burapa" and "Jad Rak Viva Luang", together with famous sitcoms coming up in October "Heng Heng Heng", "Poo Kong Chao Sanae".

Furthermore, ONE channel planned to expand viewer base in rural area by conducting series of events and marketing communication in parallel with new contents and variety programs on top of current news and prime dramas.

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 2Q15, revenue totaled THB 424 million, increasing by 30% from the same period last year due to the rise of Atime showbiz revenue and Radio business as advertising spending improved by 7%, driven by high activities to strengthen listener base through event marketing and lifestyle campaign with unique selling points to attract brand and advertisers. Also, the Company have developed Atime Online application for using on smartphone and computer aiming to expand customers base further.

GMM 25 has clearly defined its target group focusing on new generations, teenagers, and young professionals, with differentiated contents and positioning under concept “Fun Variety” to keep viewers stay tuned for a full range of contents covering news talk, entertainment show, game show, international format show, cartoon 18+ and drama “Club Friday the Series Season 6 – Love is not wrong” which is the highest rating channel program measured through TV screen and other smart devices. In this quarter GMM25 conducted the press conference to showcase the new programs under prime-time slots under slogan “Entertaining Drama & Great Fun premiered at 8 pm” bringing about 25 top-

rated dramas to hit teenagers and mass audiences i.e. “Mint & Mew to be continued” and fulfill musical program, variety show, and news such as A-time concert, “4 Ma-Ti”, “Opal Law Firm”, “Hollywood Station”, “Chae-Tae-Chao”, “Fang-Pleng-Ban-Leng-Dhamma”.

GMM25 operating performance in 2Q15 showed an improvement with doubled channel rating and higher airtime utilization, even though spot rate of advertising remained low, the Company focused on building distinctive contents to attract sponsorship with mutual trust in GMM branding, as well as targeting products and agency who wants to engage teenager audience group. Based on content marketing approach, the Company planned to distribute massive contents libraries across multi-platforms including YouTube, online TV website, mobile application, all of which proven successful in maximizing revenue and brand exposure.

Other Businesses

Merchandise Business includes Home Shopping and Satellite box business. Home Shopping business reported 2Q15 revenue of THB 413 million, increasing 72% Y-o-Y. The Company is planning to penetrate online shoppers by developing mobile application to showcase products, while expanding product line up to 1,000 items. During the second half of year, more campaigns would be launched with value-for-money

bundling package to stimulate consumer purchase decisions, while O-shopping branding will be fine-tuned to get closer to target group just like a neighboring mate. In addition, the Company continued to expand broadcasting platform via rental timeslot in digital TV channels, or partnering in co-production, tie-ins, and engaging sponsorship.

Satellite box business showed the revenue of THB 63 million, declining 78% from previous year, due mainly to the economic slowdown along with decreased consumption and purchasing power. Over next quarter, the Company plans to expand product lines and launched marketing activities to stimulate sales and drive for further growth in platform base from existing 3 million boxes in 2014.

Movie Business Although there was no new movie this quarter, the Company recorded the revenue of THB 107 million, increasing by 15% Y-o-Y. It accounted for 5% of total operating revenue, contributed the same level as previous year.

In 2015, GTH has planned to launch 2 movies: “Freelance ... Leave, Rest, Love Not Allowed” in Sep-15, and another in 4Q15.

Recently movie industry has turning into digital era, and online platforms. It is an opportunity for GTH to tap into content creation business by using its strengths in creativity and production.

With overwhelming success of 2 seasons of Hormones Series, GTH's brand are being attractive and outstanding among young generation. GTH has increased its series production to 3 series per year broadcasting on Grammy's digital TV channels, GTH on Air channel, and applications, i.e. Line TV, being watched by smart devices. The Company has also distributed series, such as, "My Safari Girl", "Stay", "Stupid Cupid", and "Hormones" into ASEAN.

Other business In 2Q15, revenue amounted to THB 89 million, slightly increased 9% Y-o-Y.

Cost of sales and services in 2Q15 was THB 1,353 million, decreased by 6.5% Y-o-Y and representing 65% of total operating revenues, down from 71% in the same period last year. Businesses which reported cost decrease were satellite box business in line with lower sales, together with an absence of content cost bundling with set-top-boxes after the divestment of Pay-TV business, while cost of sales and services of DTT business increased from MUX expense, 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 2Q15 was THB 730 million, increased by 24% from previous year. It represented 35% of total revenue, up from 29% from the same period of last year due mainly to an absence of content cost bundling with set-top-boxes after the divestment of Pay-TV business.

SG&A expenses in 2Q15 amounted to THB 855 million, representing 38% of total revenue which rose Q-o-Q mainly from selling and administrative costs of satellite platform in an attempt to stimulate sales under economic slowdown. While comparing with same period last year, SG&A decreased 9% from better cost control in Music and Home shopping business.

Net loss in this quarter amounted to THB 115 million, improved by 88% from the same period of last year from a strong recovery of Music business together with Home shopping reached the breakeven point, and the profits from sales of long-term investment in Index Creative Village Pcl shares. Indeed net loss mainly attributed from Digital TV business.

Total Assets as of 30 June 2015 was THB 10,136 million, decreasing by 33% from the end

of 2014 due to debt repayment, installment of the 2nd year Digital TV license fee, and the shareholding arrangement in ONE channel, together with decrease of long term investment on SE-ED shares.

Total Liabilities Interest-bearing debt at the end of 2Q15 was THB 2,228 million, declined from THB 4,319 million at the end of 2014 from repayment of loans from banks and the decrease of liabilities from Digital TV spectrum licenses after the shareholding arrangement in ONE channel. Thus, total liabilities at the end of 2Q15 stood at THB 6,364 million, decreasing by 45% from the end of last year. Shareholders' equity amounted to THB 3,772 million, increased 5%. from interim net profit. Moreover, the interest-bearing debt to equity ratio decreased from 1.21x at the end of 2014 to 0.59x by end of 2Q15.

In 2Q15, cash flow from operating activities amounted to THB 35 million, cash flow from investing activities totaled THB 963 million, and cash flow from financing activities amounted to THB 630 million. This resulted in an increase of net cash by THB 367 million. At the end of 2Q15, cash on hand and cash equivalents amounted to THB 1,157 million.

Unit: THB Million	Q2/2015	2014 (Restated)
Cash and equivalents	1,157	865
Other current assets	2,868	4,428
Non-current assets	6,111	9,813
Total assets	10,136	15,106
Current liabilities	3,016	4,491
Non-current liabilities	3,348	7,032
Total liabilities	6,364	11,523
Shareholders' equity	3,772	3,583
Total liabilities and shareholders' equity	10,136	15,106
Net interest-bearing debt to equity ratio (x)	0.59	1.21

For additional information, please contact Ms. Anchalee Jieratham,
Investor Relations Tel: 02 669 9952, E-mail: ir@gmmgrammy.com