

Management Discussion and Analysis

For the Year 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.

For 2015 overall economy remained in recession particularly from the second half year until beginning of 2016, business sector carefully planned for advertisement spending. Following low seasonality in January, total advertisement spending in the first quarter of 2016 tended to stable from last year, posting a great challenge for business to compete based on value proposition and full range offering to customers.

Operating revenues, comprising sale of goods, service income, and revenue from copyright in 2015, declined by 2.9% from previous year, due mainly from the classification of investment in The One Enterprise Company Limited as the Investment in Joint Venture and started to account for by using the equity method, so the financial information of ONE digital TV was deconsolidated since 2Q15. Nevertheless, overall operating revenue excluding ONE digital

TV rose by 5.8% Y-o-Y, driven by a strong growth in music and digital music, as well as home shopping achieved operating results as planned, while revenue from digital TV trended upward every quarter.

By the end of 2016 the Company made accounting adjustments by setting up a provision for impairment of long-term investment in Pay TV business up to THB 1,030 million (See Note 16 in consolidated financial statements), together with recognition of digital TV spectrum licenses at present value in compliance with accounting principles published on February 8th, 2016 by Accounting Standards Board, leading to THB 92 million loss incurred (See Note 4 in consolidated financial statements), altogether resulted in a net loss for 2015 at THB 1,145 million. Excluding one-off, post-business restructuring and stringent cost control led to the decrease of selling and administration expenses by 7% Y-o-Y, with bottom line results improved 98% Y-o-Y.

As a leader in Music market GMM Grammy created the new phenomenon to Thai music industry in 2015 especially in social media that created widely

talking, sharing, watching and following new singles. GMM Grammy's song success in digital media was overwhelming as proven by several songs gaining significant amount of viewer surpassing 100 million views in YouTube such as "Leave Me Behind" by Potato, "Cheuak Wiset" by Labanoon, "Please" by Atom, "Yoo Trong Nee Nhan Gwah Nee" by Getsunova and "A Question Without A Person To Answer" by Getsunova. Moreover, "How Far Is Near" by "Getsunova" is the first Thai song to reach 200 million views in Youtube. Another proven success in digital media was the 4 song of GMM Grammy stood on the Top Five Most Popular Song ranked by YouTube in 2015.

In 2015 GMM Grammy produced a total of 299 singles both string and country folk songs, with more than 370 albums released to serve all consumer target groups. This year the Company successfully laid foundation for a sustainable growth further.

Having participated in digital TV resolution team comprising digital TV operators, network providers, banks, government bureau and regulators, since digital TV industry

transformation was still incomplete with many pending issues i.e. distribution of coupon subsidy for every household, MUX coverage and quality expansion, public awareness on digital TV, multi-screen rating, all led to slower development of digital TV industry below expected. However, the Company started to witness positive signs including changes in digital TV channel number ordering the same for all platforms, new multi-screen rating agency, all of which hopefully brought about mutual benefits for both private and public sector and the industry over long term.

GMM Grammy's digital TV had created outstanding personality and character, leading to strong branding and rising rating every quarter, driven by highlighted programs in prime-time dramas, series, sitcoms and varieties. Indeed the Company got a highly positive response from media agency as there were multiple broadcasting channels for customers to match target audience.

In 2016 the Company continued to invest in high quality contents to fulfill programming timeslot and keep the viewers stay tune, along with strategic direction under "Total Media Solution" bringing about top contents

integrated with one-stop-service in digital and multi-platform era.

From the second half of this year, Company expects positive trend of advertising industry would improve to the normal situation in line with GDP of the country. From now on, both digital TV channels will be a key growth driver for GMM Grammy to become the leader in media industry over the long term

After business restructuring, the Company financial status remained healthy and strong, the interest-bearing debt to equity improved significantly to 0.8 by the end of 2015.

Operating Results

unit: THB thousand	2015	2014 (Restated)	Change (%)
Total operating revenues	8,598,322	8,857,384	-2.9
Other revenues	1,105,255	406,559	171.9
Total Revenues	9,703,577	9,263,943	4.7
Cost of sales and services	5,742,911	6,223,409	-7.7
Selling expenses	638,895	815,162	-21.6
Administrative expenses	2,889,156	2,979,107	-3.0
Other expenses	1,030,340	-	-
Total expenses	10,301,302	10,017,677	2.8
Loss before share of income from investments in associates, finance cost, and corporate income tax	(597,725)	(753,734)	-20.7
Share of Profit from investments in associates	4,513	14,351	-68.6
Share of Profit/(Loss) from investments in joint ventures	(337,734)	10,152	-3426.7
Loss before finance cost and corporate income tax	(930,946)	(729,230)	27.7
Finance cost	(271,593)	(458,532)	-40.8
Loss before corporate income tax	(1,202,538)	(1,187,762)	1.2
Corporate income tax	67,307	71,387	-5.7
Loss for the year from continuing operations	(1,135,232)	(1,116,374)	1.7
Profit/(Loss) for the year from discontinued operations	-	(1,228,996)	-100.0

Loss for the year	(1,135,232)	(2,345,371)	-51.6
Profit attributable to non-controlling interests of the subsidiaries	10,252	67,147	-84.7
Loss attributable to equity holders of the Company	(1,145,484)	(2,412,517)	-52.5
Gross profit margin (%)	33.2	29.7	
SG&A to revenues (%)	36.4	41.0	
Net profit margin (%)	(11.8)	(26.0)	

In 2015, sales of goods and services and copyrights (Operating revenues) equal to THB 8,598 million, decreased by 2.9% Y-o-Y due mainly from deconsolidating ONE digital TV revenue following the changes to equity accounting method. However, operating revenues from other lines of business altogether rose by 5.8% Y-o-Y from growth in music, GMM25 digital TV, home shopping and others.

In compliance with the accounting principles related to recognition of digital TV spectrum licenses, the Company adjusted the recordings of granted licenses to segregate inherent financing costs over the payment terms from total license obligations, and recognize the spectrum licenses at present costs using discounted cash flow valuation.

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

Music business comprises sale of physical products, collection of copyright/ licensing fees, showbiz, and free-to-air satellite under Fan TV channel; total revenue in 2015 was THB 3,252

million, increased by 14.4% from last year. Revenue from this business represented 38% of total operating revenues, increasing from 32% last year.

Underlying the growth of music group this year was fueled by digital music marketing and showbiz with high activities all year round totaling 22 concerts including major events i.e. Jim Lai Music Festival 2, Big Mountain Music Festival 7, and Gannes Film & Music Festival 6. Artist management revenue also grew from more events organized this year.

Digital music successfully launched new service SMS Song2U and expanded marketing channel via YouTube which contributed revenue sharing of THB 195 million this year. GMM Grammy official account in YouTube now ranked number one with highest number of viewers and subscribers over 6.1 million. For 2016 the Company planned to move forward with social media platforms covering Facebook, Instagram, YouTube, iTunes Music Store, KK-Box, Line Music which directly connected to a huge fan base with ever-growing number of followers and viewers

indicating the success of artist performance. In addition, the Company made the debut of a brand new record label "MBO" (Embryo) paving the way for Thailand's number one teen entertainment platform, in order to recruiting and developing youth talents to meet target group lifestyles and preferences.

Digital TV Business:

Channel ONE - Following the changes in ONE shareholding structure together with 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 classified this shareholding as an investment in joint venture and started to account for by using the equity method, therefore what remained in this segmental reporting was EXACT business unit holding the library and copyrights of TV contents prior to the shareholder restructuring.

In 2015, the Company reported THB 687 million revenue,

representing a drop by 50% Y-o-Y since the consolidated financial statements no longer including the financials of One digital TV operated under The One Enterprise. In addition, EXACT revenue foregone as a result of migrating most TV programs from analog TV to ONE digital TV channel.

Regarding the operating performance of ONE digital TV, there was upward trending revenue in line with increased rating stood at top five of new digital TV ranks. During the last quarter, ONE channel premiered killer content "Hormones 3 the Final" which got a highly positive response as expected. Upon the beginning of 2016 ONE channel prepared line-ups of exclusive contents to expand the "modern mass" target audience in urban and regional area as well as collaborating with top production house and famous stars to create wholly fresh contents to fulfill and enrich airtime program especially during prime time. Upcoming top-rated dramas included "Ruen Roi Rak", "Nang Bap", "Kor Tod Tee Rak Ter", "Bangkok – the Love Metro" which was the very first occasion ONE channel joined hands with Warner Brothers studio to bring very popular international series from the U.S. "The O.C." into Thai dramas format. Indeed, ONE channel lighted up the golden prime time during 6 pm - 8 pm with series of killer contents as appetizers for the audience to stay tune earlier prior to drama airtime including

"The Star Daily", "Suk Wan Duan Pleng", "4 to 4 Family". Moreover, to prolong the audience stay after the drama finished, ONE channel selectively loaded variety programs to satisfy late-night viewers - "4Spades Supershow", "The Star 12", "Song Kram Nang Ngam", "Sua Tid Peek" – the latest innovative game show for start-up entrepreneurs with not-for-profit business idea to join the contest and win such a generous financial support to run the business successfully. In addition, the mid-day airtime slot was strengthened with variety news program from professional reporters' team readily serving news update all day long. For sports lover, do not miss the breathtaking match between "Thai-Iraq" on world cup football championship live broadcast in March 2016. Indeed, ONE channel planned to parade tons of variety contents for weekend period as well, altogether expecting to keep the viewers stay tune and drive for a constant increase in channel rating to meet the target at 1.0 by 2016, hence enabling an increase in advertising rate accordingly.

With regard to marketing plan, ONE channel emphasized on providing contents across all platforms especially online i.e. the channel website, YouTube. Now the channel had 2.4 million subscribers in YouTube. Since ONE channel is a leading content provider across multi-channel both online and offline, reaching virtually all audiences lifestyles, over last year ONE channel

initiated the new concept to develop exclusive contents for online platforms i.e. developing special episodes from top hit series for YouTube viewers only. For this year, closer and more active collaboration with YouTube was underway to enhance revenue stream from online platform. Besides online and on-air, ONE channel organized on-ground activities "ONE Yok Chong" festival bringing out famous artists and stars to meet and greet regional fan base all year round.

Channel GMM 25 business comprising GMM25 digital TV channel, Radio business, Content creative business, and Free to Air satellite Bang Channel. In 2016 revenue totaled THB 1,680 million, increasing by 6.4% from last year due to the rise of digital TV business's revenue while the revenue of radio businesses decreased by 7% Y-o-Y in line with market. However, radio business performance was expected to maintain as the Company established strong brand image. For 2016 the Company planned to strengthen program contents together with on-ground activities to engage and penetrate the listener base, as well as integrating digital platform via Atime Online Application to address the growing trends of online listeners on digital platform which was fueled by upcoming 4G communication technology making it faster, and more convenient to streaming at high quality.

Atime showbiz remained strong from distinctive formats and concepts underlying each concert theme which continued to be unique selling points to drive for sustainable growth further.

GMM 25's target viewers clearly are new generations across all ages and genders with active lifestyles, enthusiastic and vivid. In order to meet the preference of consumer behavior, it was necessary to make prime contents full of variety with continuous development under creative concepts that integrated channel format with total marketing solutions across multi platforms. By seamlessly exposing contents to reach out the targets through an integrated approach, the channel brand was strengthened with a sharp increase in audience base and ratings. Indeed GMM25 got a highly positive response from media agency and customers as the most preferred channel to engage new generations effectively and efficiently.

In 2016 GMM25 planned to be aggressive in marketing its top-rated primetime dramas especially "Club Friday the Series" with "To be continued" chapters for the most popular episodes i.e. "Puen Rak Puen Rai", "San Ya Jai", together with mega drama projects like "O Negative", "Pleung Krisana", "Love Song Love Stories" based on all-time favorite love songs by famous song writer, topped up with new variety programs i.e. "Rai Kan Chae", "Samorapoom

Prom Dang", "M Countdown" from Korea.

Merchandise Business includes Home Shopping and Satellite box business. Home Shopping business reported 2015 revenue of THB 1,738 million, substantially grew 53% Y-o-Y, driven by increased lines of products and series of promotion and value-for-money campaigns throughout the year especially during the last quarter festive season targeting virtually all prospects via TV O-shopping, online shoppers, and mobile applications, all of which positively accepted by the market. In 2016 O-shopping planned to emphasize on product TV showcase with frequent and hot promotions, in parallel with expanding the broadcast over multi-platforms to reach out consumers at the right time and place, as well as partnering with digital TV to promote home shopping. The business outlook for 2016 had a growth potential in connection with retail trade market value, and the entrance of new players would inevitably trigger strong competition on both product quality and service.

Satellite box business recognized revenue of THB 391 million, declining 63% from previous year with a total of 0.65 million units sold dropped by half from last year mainly due to the economic slowdown with suspended consumer purchase decision following confusion on digital TV subsidy vouchers, altogether caused the

entrepreneurs to miss sales target despite aggressive promotions to clear aging stocks and launch new product series with increased performance i.e. Mini Gold to add value and meet consumer demand. Nevertheless, overall set-top-box business was expected to rebound in 2016 from major sports league including World Cup and Euro football championship.

Movie Business the Company recorded the revenue of THB 596 million, decreased 5.3% Y-o-Y with two movies released in 2015. During the last quarter, "May Who?" generated box office revenue by THB75 million.

The suspension of GTH operation was announced this year but no material impact was resulted. Upon the beginning of 2016, GMM Grammy partnered with Hub Ho Hin to establish the new film company "GDH 559".. In 2016 the Company planned to invest in series production for digital TV and Line TV i.e. "Diary Tudsy series", "I See You", "Malee 2", "Gassohug Raktemtang". In addition, movie production was underway with romantic-drama plots and drama-thriller plots for this year. Movie business was considered having high potential derived from best-in-class production resource and regional appeal to expand market in China, Korea, and ASEAN.

Other business In 2015, revenue amounted to THB 255 million, represented 3% of total operating revenue.

Cost of sales and services in 2015 was THB 5,743 million, decreased by 8% Y-o-Y and representing 67% of total operating revenues, down from 70% last year. Businesses which reported cost decrease were satellite box business, while music group succeeded with driving revenue growth under stringent cost control. Similarly, movie business kept costs well under control in spite of lower revenue, which led to an improvement in profitability. However, cost of sales and services of digital TV business increased from MUX expense and content costs, and Home Shopping costs rose in line with revenue growth.

Gross profit for 2015 was THB 2,855 million, increased by 8.4% from previous year. It represented 33% of operating revenue, up from 30% last year due mainly to cost efficiency program for core business while maintaining sales growth.

SG&A expenses in 2015 amounted to THB 3,528 million, representing 36.4% of total revenue which dropped Y-o-Y from 41.0% last year mainly from improved sales and cost performance in Music, together with media business costs dropped in line with revenue, while there was higher selling cost for Home Shopping following strong competition in the market.

Net loss in 2015 amounted to THB 1,145 million, improved by 53% from last year from a strong recovery of Music business together with Home shopping reached the breakeven point, while net loss mainly attributed from digital TV business during the investment period.

Total Assets as of year-end 2015 was THB 7,590 million, decreasing by 48% from the end of 2014 due to debt repayment, redemption of current investment, sales of long term investment in SE-ED shares, disposal of investment in publishing, Index Creative Village, K-Arena, lower receivables and inventories, installment of the 2nd year digital TV license fee, together with the shareholding arrangement in ONE channel and the recognition of spectrum licenses at present costs in compliance with accounting principles. Moreover, the investments in joint ventures increased from additional investment in ordinary shares of The One Enterprise Company Limited

Total Liabilities Interest-bearing debt at the end of 2015 was THB 1,629 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 2015 stood at THB 5,556 million, decreasing

by 49% from last year. Shareholders' equity amounted to THB 2,034 million, dropped by 42% from interim net loss. Moreover, the interest-bearing debt to equity ratio decreased from 1.24x at the end of 2014 to 0.80x by end of 2015.

In 2015, cash flow from operating activities amounted to THB 164 million, cash flow from investing activities totaled THB 1,002 million, and cash flow used in financing activities amounted to THB 973 million.

Unit: THB Million	2015	2014 (Restated)
Cash and equivalents	1,059	865
Other current assets	2,288	4,428
Non-current assets	4,243	9,169
Total assets	7,590	14,461
Current liabilities	2,567	4,468
Non-current liabilities	2,989	6,509
Total liabilities	5,556	10,977
Shareholders' equity	2,034	3,484
Total liabilities and shareholders' equity	7,590	14,461
Net interest-bearing debt to equity ratio (x)	0.80	1.24

This resulted in an increase of net cash by THB 192 million. At the end of 2015, cash on hand and cash equivalents amounted to THB 1,059 million.

For additional information,
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