

Management Discussion and Analysis

For the First Quarter 2016

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.

Upon the beginning of 2016, the advertising spending was slow down from economic recession together with low consumer consumption impacted from a severe drought, altogether posting a great challenge for media industry and entrepreneur to manage the business carefully. GMM Grammy has continued to operate the business through total media solution strategy with an integration of multiple platform including on-air, online and on ground in order to offer the alternatives with maximum benefits for customers. Altogether this strategic direction led to a sustainable growth in core business for 1Q16, music group performance was driven by digital music, while showbiz remained quite stable as previous year. The revenue and rating of digital TV in both channels continued to increase despite the downturn in advertising market and expected to improve further over the next quarter. At the same time, home shopping business managed to

grow despite the slowdown in retail trade, representing a high potential business.

Operating revenues, comprising sale of goods, service income, and revenue from copyright in 1Q16, declined by 12.2% 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. Normalized operating revenue in 1Q16 by excluding ONE digital TV, Publishing Group and Event Management Business resulted in a slight drop of 1.5% Y-o-Y, caused mainly by shrinking satellite platform and movie business.

1Q16 reported a net loss amounted to THB 144 million higher Y-o-Y because of the extraordinary items in 1Q15, including THB 72 million profits from sales of long-term investment in SE-ED shares and one-time gain amounting to THB 731 million recognized from the strategic arrangement of shareholding in the ONE Enterprise Company Limited. By excluding one-off items, the net loss in 1Q16 substantially improved by 63% Y-o-Y, which was mainly due to the investment in digital TV.

After two years from the commencement of digital TV broadcasting, the industry still experienced the delay transition towards digital platform. However, the entrepreneurs have been striving to provide quality contents leading to an organic growth in digital TV audiences and advertising spending. Upon the third year horizon, all operators planned for huge investment in content along with expansion of platform to cover nationwide targets through marketing activities and events to build the brand and reaching audiences across the regions.

From the second half of this year, the Company expects positive trend of advertising industry would improve to the normal situation in line with GDP of the country, and the outlook of digital TV next year will become clearer with exciting prospects from the upcoming general election, the expiry term of current members of NBTC Board, the nationwide coverage of digital TV network and the new multiscreen rating agency.

The fast developing technology and changing consumer behavior driven from growing internet users across all ages, together with the 4G services full provisioning this year will provide ease of access to mobile broadband for Thai people,

making it more convenient to use smart devices anytime anywhere across all platforms. Hence the Company has focused on the multi-screen marketing parallel to TV main screen. Online is now considered having a high potential to generate revenue through on-demand viewers. At present, the Company takes pride in becoming king of content provider with proven record in highest number of viewers, subscribers, downloads, and followers across all digital platform and social media including YouTube, Facebook, Line TV, Instagram. Even on the largest internet search engine

“google” revealed that in 2015 Thailand’s most searching keyword belonged to GMM Grammy contents, which reflecting the strength in our content creation to match customers taste and set trends for the entertainment industry with variety of contents across all platforms.

Strategic direction for 2016, the Company planned to fully penetrate digital platform to address the needs of customers and mass audiences with convergent lifestyles centered around multi-screen. Overall media advertising on digital and online platform is expected to

grow exponentially. Hence, the Company planned to invest in development of website and application that serves the digital contents for audiences by utilizing the strength in production resources capable of creating high quality contents for all platforms. The strategy will expand GMM Grammy footprint in online marketplace and create new source of revenue stream on digital era.

After business restructuring, the Company financial status remained healthy and strong, the interest-bearing debt to equity maintain at 0.89x by the end of 1Q16.

Operating Results

unit: THB thousand	1Q16	1Q15 (Restated)	Change (%)
Total operating revenues	1,971,074	2,246,200	-12.2
Other revenues	18,695	836,522	-97.8
Total Revenues	1,989,769	3,082,722	-35.5
Cost of sales and services	1,228,577	1,662,835	-26.1
Selling expenses	127,097	161,415	-21.3
Administrative expenses	599,825	791,617	-24.2
Total expenses	1,955,499	2,615,867	-25.2
Loss before share of income from investments in associates, finance cost, and corporate income tax	34,270	466,855	-92.7
Share of Profit from investments in associates	5,413	2,510	115.7
Share of Profit/(Loss) from investments in joint ventures	(144,359)	3,704	-3997.4
Loss before finance cost and corporate income tax	(104,676)	473,069	-122.1
Finance cost	(45,859)	(117,038)	-60.8
Loss before corporate income tax	(150,535)	356,031	-142.3
Corporate income tax	180	48,505	-99.6
Loss for the year	(150,355)	404,536	-137.2
Profit attributable to non-controlling interests of the subsidiaries	(6,113)	(12,503)	-51.1
Loss attributable to equity holders of the Company	(144,242)	417,039	-134.6

Gross profit margin (%)	37.7	26.0
SG&A to revenues (%)	36.5	30.9
Net profit margin (%)	(7.2)	13.5

In 1Q16, sales of goods and services and copyrights (Operating revenues) equal to THB 1,971 million, decreased by 12.2% Y-o-Y due mainly from deconsolidating ONE digital TV revenue following the changes to equity accounting method, together with the absence of revenue from divestment business last year. However, operating revenues from continued operations slightly dropped by 1.5% Y-o-Y from satellite platform and movie business, while growth in digital music, GMM25 digital TV, and home shopping still increased.

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 1Q16 was THB 922 million, decreased by 2.4% from

last year. Revenue from this business represented 47% of total operating revenues, increasing from 42% last year. The drop was due mainly to physical sales shrank following changes in music consumption towards multiple platforms. The Company has adjusted its business model to focus on growing digital music, for this year, the Company will head on social media platform to reach out music listeners base, as well as creating value added for each type of music and build loyal community on top of artists in order to expand further into showbiz, brand presenter, acting and merchandising.

Showbiz performance was maintained from last year with big concerts by "Bird-Thongchai" an all-time superstar live featuring under the theme "love brings about happiness", while more events lining up next quarter including "the battle of BFF concert" by New-Jew Divas featuring with Aof Pongsak. In the second half of year, showbiz is likely to improve from economic recovery, thereby restoring sponsor confidence with higher activities.

Digital TV Business:

Channel ONE 31- 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 1Q16, the Company reported THB 7 million revenue, representing a 97% drop Y-o-Y since the consolidated financial statements no longer including the financials of One digital TV operated under The One Enterprise, revenue was based only on existing content library.

Given the economic recession with depressed consumer spending and negative market sentiment, the operating performance of ONE 31 digital TV continued to improve substantially with revenue ramp-up and shooting audience rating, mainly driven by agency confidence in channel strength in quality contents leading to more than 50% presales in advance. Over this quarter, ONE channel premiered line-ups of quality

programs during 18.20-22.00 primetime, including top-rated dramas "Pue Ther", "Nang Bap", "Kor Tod Tee Rak Ter", and "Ruen Roi Rak" with peak rating up to 3.3, together with series and highlighted contents i.e. "Bangkok – the Love Metro", "4 to 4 Family Games", "4Spades Supershow", "The Star 12", "Suk Wan Duan Pleng" which was very popular at rating point 3. Moreover, the breathtaking live broadcast on world cup football championship between "Thai-Iraq" in March 2016 was a killer match with highest rating this quarter.

Upon 2Q16, ONE channel stepped forward to strengthen programming strategy at the right timing when digital TV coverage started reaching out the broader audience, with the right execution by leveraging drama production expertise as solid foundation for gearing towards more variety programming that matches audience lifestyles. With a phase approach to win higher advertisement spending, ONE channel expands airtime in new slots during mid-day and weekends, with special focus on lead-in program to maximize primetime exposure, while utilizing the production capability in dramas, series, sitcoms, varieties, game shows, reality shows to tap on the "modern mass" target audience.

Upcoming new projects included "Suk Wan Duan Pleng – Knock Out" aimed at intensifying the popularity of highest rating program during golden

primetime, in addition, ONE channel prepared to make a debut of top-rated U.S. reality show in Asia under "The Bachelor Thailand", together with parades of big-format dramas i.e. Pit Sa Wat, Petchakat Dao Jone, Songkram Nang Ngam 2, Sanae Ha Kam Sen, Rachinee Mor Lam, Ngao Asoke. Under total media solutions by spicing up magnet contents on-air every quarters, coupled with online marketing and on-ground live events "ONE Yok Chong", altogether expecting to keep the viewers stay tune and drive for a constant increase in revenue and channel rating to meet the target at 1.0 by 2016, hence enabling an increase in advertising rate accordingly.

Channel GMM 25 business comprising GMM25 digital TV channel, Radio business, Content creative business. In 1Q16 revenue totaled THB 420 million, increasing by 19.5% from last year due to the rise of digital TV business while the revenue of radio businesses decreased by 26% Q-o-Q, and 11% Y-o-Y in line with market situation where advertisement spending still decreased. However, radio business performance was expected to maintain as the Company has long established a strong branding.

Atime showbiz remained strong from distinctive formats and concepts underlying each concert theme. For this quarter, major shows included "Stage Fighter", "Sam Yak Pak Wan", while more events planned over the next

quarter i.e. "Christina Kingdom Concert", "Green Concert #19 The Lost Love Songs To Be Continued"

GMM 25 character and target viewers has been clearly seen as new generations across all ages and genders with active lifestyles, enthusiastic and vivid. The strong identity creates brand awareness and got a highly positive response from media agency and customers as the most preferred channel to engage new generations with high spending power through tailor-made production and programming that strikes a perfect balance across online and offline platform. The success was evident from half of advertising airtime presold in advance.

GMM25 planned to be aggressive in marketing its top-rated primetime drama especially "Club Friday the Series" that was based on true story, and topped up with "To be continued" chapters for the most popular episodes i.e. "San Ya Jai" "Puen Rak Puen Rai" which marked a phenomenal record in social platform. After posting an official trailer in facebook fanpage for an hour, the number of viewers surpassed 1.3 million, and then tripled to 3.6 million views within 15 hours, along with tremendous number of share-like-comment, which became talk-of-the-town and draw audience rating as high as 5.5. Indeed, the channel offered variety of differentiated contents under the slogan "Entertaining Drama & Great

Fun premiered at 8 pm" i.e. "Diary Tudsy the Series", "Kwan Pawar" thriller drama on air this quarter were also got very good responses. New maga projects coming up next quarter included "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, while news program would also be strengthened, and more contents were planned for airing in line TV application.

Merchandise Business includes Home Shopping and Satellite box business. Despite the slowdown economy and consumer spending, home shopping business reported 1Q16 revenue of THB 434 million, substantially grew 14% Y-o-Y, driven by increased lines of products to meet consumer preference and series of promotion and value-for-money campaigns to stimulate purchase decisions. Best selling items were kitchenware, household appliances, sports equipment, health care and fashion items.

In 2016 the industry witnessed the new entrants that would trigger aggressive price competition. The Company planned to tap virtually all prospects via TV O-shopping, online shoppers, and mobile applications, with continued investment in IT infrastructure to support growing number of online transactions

Satellite box business recognized revenue of THB 93 million, declining 44% from previous year with a total of 0.15 million units sold dropped mainly due to shrinking satellite TV market since 2H15, together with suspended consumer purchase decision following confusion on digital TV subsidy vouchers. To cope with strong competition and changing consumer behavior, the Company launched aggressive promotions and new product series with increased performance for high definition viewers and online streaming through internet connections

Movie Business the Company recorded the revenue of THB 41 million, decreased 52% Y-o-Y with no new film released this quarter, while there were two popular series on air "Diary Tudsy the Series" in GMM25 digital TV and "Gassohug Raktantang" in Line TV application.

The business plan for this year "GDH 559" continued to invest in series production for digital TV and Line TV i.e., "I See You", "Malee 2". In addition, movie production was underway with romantic-drama plots and drama-thriller plots expected to release in the second half of 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 1Q16, revenue amounted to THB 52 million,

represented 3% of total operating revenue.

Cost of sales and services in 1Q16 was THB 1,229 million, decreased by 26% Y-o-Y and representing 62% of total operating revenues, down from 74% last year. Businesses which reported cost decrease were ONE digital TV as a result of deconsolidating revenue following the changes to equity accounting method, while satellite box business cost decreased in line with revenue. At the same time, music group and home shopping kept cost under control while driving for revenue growth. Similarly, movie business generated higher gross margin despite lower revenue. In addition, GMM25 digital TV also succeeded with ramping up revenue and maintaining cost at the same level leading to substantial profitability improvement.

Gross profit for 1Q16 was THB 743 million, increased by 27% from previous year. It represented 38% of operating revenue, up from 26% last year due mainly to cost efficiency program for core business while maintaining sales growth.

SG&A expenses in 1Q16 amounted to THB 727 million, representing 36% of total revenue which rose Y-o-Y from 31% last year, since total revenue in 1Q15 was exceptionally high from sales of SE-ED shares together with one-time gain recognized from the strategic arrangement of shareholding in GMM One TV Trading at 51%.

Excluding one-off items, SG&A per total revenue normalized to 42% in 1Q15, much higher than that of 1Q16, indicating a strong efficiency improvement

Net loss in 1Q16 amounted to THB 144 million, higher from last year since net profit in 1Q15 included sales of SE-ED shares together with one-time gain recognized from the strategic arrangement of shareholding in GMM One TV Trading at 51%. Excluding one-off items, 1Q16 net loss substantially improved by 63% Y-o-Y mainly attributed from digital TV business during the investment period

Total Assets as of 1Q16 was THB 7,321 million, decreasing by 3.5% from the end of 2015 from redemption of current

investment, lower receivables and inventories, while the investments in joint ventures decreased from net loss proportionate from the One Enterprise Company Limited

Total Liabilities Interest-bearing debt at the end of 1Q16 was THB 1,686 million, increased from THB 1,629 million at the end of 2015 from higher short-term loans, while trade payables and unearned income decreased in line with revenue, altogether led to a decrease in total liabilities at the end of 1Q16 stood at THB 5,434 million, decreasing by 2% from last year. Shareholders' equity amounted to THB 1,886 million, dropped by 7% from interim net loss. Moreover, the interest-bearing debt to equity ratio slightly rose from 0.80x at

the end of 2015 to 0.89x by end of 1Q16.

In 1Q16, cash flow used in operating activities amounted to THB 40 million, cash flow from investing activities totaled THB 50 million, and cash flow from financing activities amounted to THB 54 million.

This resulted in an increase of net cash by THB 65 million. At the end of 1Q16, cash on hand and cash equivalents amounted to THB 1,124 million.

Unit: THB Million	1Q16	2015
Cash and equivalents	1,124	1,059
Other current assets	2,027	2,288
Non-current assets	4,170	4,243
Total assets	7,321	7,590
Current liabilities	2,441	2,567
Non-current liabilities	2,994	2,989
Total liabilities	5,434	5,556
Shareholders' equity	1,886	2,034
Total liabilities and shareholders' equity	7,321	7,590
Net interest-bearing debt to equity ratio (x)	0.89	0.80

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