

Management Discussion and Analysis

For the Second 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.

Over the first half of 2016, the advertising spending remained soft in line with economic slowdown, while low seasonality and national holidays in the second quarter also impacted media performance. However, the mainstream media and advertising spending still belongs to TV platform to reach out the mass audiences. The digital TV industry witnessed growing advertising budget over the terrestrial-based analog TV, following digital TV operators focus on quality contents with lower advertising rate and efficient reach to audience. Meanwhile, the rising trend in online channel also contributed to the performance of digital TV channels with broaden viewer base in online platform.

In the second quarter, music remained key contributors to the Company revenues and operating profits, driven by digital music and showbiz. While both digital TV channels of the Company posted a strong growth in channel rating and

revenue generated following each channel's unique character positioning successfully drawing larger viewer base with core strengths in creative contents and quality production, topped up with total content solutions to address customer demand effectively. As a result, 2Q16 operating performance posted a strong recovery in reported net loss amounted to THB 109 million trending better Q-o-Q and lower 20% Y-o-Y, with net losses mainly caused by digital TV investment.

Operating revenues, comprising sale of goods, service income, and revenue from copyright in 2Q16, declined by 13.6% from previous year, due mainly to the fact that substantial revenue from airing contents in analog TV platform was recognized in 2Q15, while the financial performance of ONE digital TV was deconsolidated in 2Q16 and accounted for by using the equity method under the Investment in Joint Venture. In addition, revenue from movie business dropped following the restructuring by the end of 2015, leading to a new company formation early this year with no new films premiered in this quarter. Moreover, music revenue was impacted from physical sales transforming to digital music consumption,

which not yet fully compensate for the reduction in revenues but improved profits significantly as evident from higher operating profits from music this quarter despite a 3% drop in revenue from last year.

For the second half of this year, the Company expects positive trend of media industry would stabilize. While consumer remains cautious in spending, advertising budget will be competed among operators, focusing on adding magnet contents while maintaining the rating of existing programs. Under the current situation, prudent cost control is essential to fuel a sustainable growth in revenue, which led to substantial profitability improvement by 20% this quarter.

After business restructuring, the Company financial status remained healthy and strong, the interest-bearing debt to equity stood at 1.28x by the end of 2Q16.

Operating Results

unit: THB thousand	2Q16	2Q15 (Restated)	Change (%)
Total operating revenues	1,799,237	2,083,533	-13.6
Other revenues	44,338	175,534	-74.7
Total Revenues	1,843,575	2,259,067	-18.4
Cost of sales and services	1,067,866	1,347,812	-20.8
Selling expenses	150,138	165,038	-9.0
Administrative expenses	620,770	689,965	-10.0
Total expenses	1,838,774	2,202,815	-16.5
Loss before share of income from investments in associates, finance cost, and corporate income tax	4,801	56,252	-91.5
Share of Profit from investments in associates	5,822	6,170	-5.6
Share of Profit/(Loss) from investments in joint ventures	(87,558)	(115,614)	-24.3
Loss before finance cost and corporate income tax	(76,935)	(53,192)	44.6
Finance cost	(46,289)	(55,833)	-17.1
Loss before corporate income tax	(123,224)	(109,025)	13.0
Corporate income tax	4,933	(37,577)	-113.1
Loss for the year	(118,291)	(146,602)	-19.3
Profit attributable to non-controlling interests of the subsidiaries	(9,559)	(11,349)	-15.8
Loss attributable to equity holders of the Company	(108,732)	(135,253)	-19.6
Gross profit margin (%)	40.6	35.3	
SG&A to revenues (%)	41.8	37.8	
Net profit margin (%)	(5.9)	(6.0)	

Sales of goods and services and copyrights (Operating revenues) 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 2Q16 was THB 726 million, decreased by 3.1% from last year. Revenue from this business represented 40% of total operating revenues, increasing from 36% last year. The drop was due mainly to physical sales shrank following changes in

music consumption behavior. The Company has focused on music streaming to offer new experience across all platforms, and also joined hands with partner to expanding music community and merchandising i.e. 'The Iconic Collection' exclusively designed in collaboration with popular artists and fashion icon 'Greyhound' Showbiz continued to excite the market with upcoming concerts in the second half of year including 'Kim-Rab Kak' 'Green Concert-The Lost Love Songs to be continued' '30 Year Asanee-

Wasan Sawasdee Krab' 'Concert 1 Million Records'. Indeed, Muangthai GMM Livehouse concert hall at Central World also fully booked for events throughout the year, with doubling revenue and number of activities from last year.

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, which reported 2Q16 revenue at THB5 million, representing a 98% drop Y-o-Y as it was earned from existing content library only.

Over this quarter, the operating performance of ONE 31 digital TV improve substantially from super-primetime programming strategy with magnet dramas premiered 'Petchakat Dao Jone' 'Songkram Nang Ngam 2' 'Sanae Ha Kam Sen' and 'Pit Sa Wat' which marked viral social waves immediately right after the first episode was aired, while 'The Star 12' got a highly positive response as before. Indeed, 'Suk Wan Duan Pleng' remained popular with rating shoot at point 4. During the second half of year, more line-ups include new dramas, sitcoms 'Sue Chanee Keng', variety and game show 'Suk Wan Duan Pleng – Knock Out', 'Roo Mai Krai Sod' '4:4 Celebrity' and reality show 'Duet' 'The Bachelor Thailand', together with on-ground live events 'ONE Yok Chong' to expand upcountry urban fan bases, altogether expecting to drive channel revenue and rating to meet this year target.

Channel GMM 25 business comprising GMM25 digital TV channel, Radio business, Content creative business. In 2Q16 revenue totaled THB 469 million, increasing by 10.6% from last year due to the rise of digital TV business while the revenue of radio business trended better Q-o-Q but dropped 10% Y-o-Y in line with market situation. The Company headed on providing creative contents to match listening preferences, and developing multiple platforms covering both website and mobile application.

GMM 25 has successfully launched popular dramas and series this year, including 'Club Friday the Series 7 – Caused by Love' 'Love Song Love Stories' 'To Be Continued - Puen Rak Puen Rai' which marked a phenomenal record in social platform and draw audience rating as high as 5. Indeed, new maga projects coming up next quarter included 'U-Prince Series' portraying love sensation from college, "Pleung Krisana – Lai Hong, Peek Thong, Pa Kamatep", together with fresh variety programs 'Stage Fighter Mai-Moo-Soo-Fad'. This quarter, GMM25 made a debut for new content creator 'GMM Bravo' with distinctive mission to create hit contents that strike the heart of new generations. The first project launched was the transformation of 'music' into 'series' under theme 'Melodies of Life' 'Encore 100 million view' and 'Idol series' aimed to strengthen super-primetime slots Monday-Friday starting August,

along with the new season of 'Club Friday 8 – True love exists or not' and 'To be continued – Song Kram Yang Poo...'

Merchandise Business includes Home Shopping and Satellite box business. Despite the slowdown economy and consumer spending, home shopping business reported 2Q16 revenue of THB 450 million, grew 9% Y-o-Y. Upon its 4th anniversary, O-Shopping launched lucky draw for the big prize – Toyota Yaris. During the second half of year, the Company will focus on online platform via website and mobile application with increased selections from global sourcing up to 2,000 lines to meet various consumer preferences and offer value-for-money campaigns to stimulate purchase decisions, as well as uplifting quality of broadcast program. Overall home shopping industry is expected to grow well following the consumer behavior shifting more to non-traditional shopping channel.

Satellite business reported THB 47 million revenue, declining 25% from previous year mainly due to shrinking satellite TV

Movie Business the Company recorded the revenue of THB 45 million, decreased 58% Y-o-Y with no new film released this quarter. Over the second half of year, two films premiered 'Fan Day' in September and 'New Year's Gift' in December. Moreover, GDH kicked off new projects 'Diary Tudsy the Series Season 2' and 'Project-S' the

series to inspire teenagers opt for sporting activities.

Other business In 2Q16, revenue total THB 58 million, represented 3% of total operating revenue.

Cost of sales and services in 2Q16 was THB 1,068 million, decreased by 21% Y-o-Y and representing 59% of total operating revenues, down from 65% 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 and movie cost decreased with lower revenue. At the same time, music group and home shopping kept cost well under control while driving for revenue growth. Similarly, GMM25 digital TV also succeeded with ramping up revenue and maintaining cost leading to greater profitability.

Gross profit for 2Q16 was THB 731 million, fairly stabled from last year despite lower revenue. It represented 41% of operating revenue, up from 35% last year reflecting higher profitability.

SG&A expenses in 2Q16 amounted to THB 771 million, dropped 10% Y-o-Y, representing 42% of total revenue which rose from 38% last year, as 2Q15 total revenue was exceptionally high from sales of L-T investments.

Net loss in 2Q16 at THB 109 million, improved 20% Y-o-Y. Normalized net loss excluding one-off gain in 2Q15 led to profit improvement by 60% Y-o-Y.

Total Assets as of 2Q16 was THB 7,387 million, decreasing 3% from the end of 2015 from net loss proportionated from ONE digital TV which was recorded as investments in joint ventures.

Total Liabilities Interest-bearing debt at the end of 2Q16 was THB 2,257 million, increased from THB 1,629 million at the end of 2015 from higher bank loans to service license fee 3rd installment, while trade payables decreased from repayment. Total liabilities at the end of 2Q16 stood at THB 5,620 million, increasing 1% from last year. Shareholders' equity amounted to THB 1,767 million, dropped by 13% from interim net loss.

Unit: THB Million	2Q16	2015
Cash and equivalents	1,257	1,059
Other current assets	2,107	2,288
Non-current assets	4,023	4,243
Total assets	7,387	7,590
Current liabilities	2,765	2,567
Non-current liabilities	2,855	2,989
Total liabilities	5,620	5,556
Shareholders' equity	1,767	2,034
Total liabilities and shareholders' equity	7,387	7,590
Net interest-bearing debt to equity ratio (x)	1.28	0.80

Moreover, the interest-bearing debt to equity ratio fairly rose from 0.80x at the end of 2015 to 1.28x by end of 2Q16.

In 2Q16, cash flow used in operating activities amounted to THB 67 million, cash flow used in investing activities totaled THB 370 million for payment of digital TV license fee, and cash flow from financing activities amounted to THB 570 million. This resulted in an increase of net cash by THB 133 million. At the end of 2Q16, cash on hand and cash equivalents amounted to THB 1,257 million.