

Management Discussion and Analysis

For the Third 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.

The competitive situation in media industry during the second half of 2016 tends to intensify especially for digital TV business with aggressive rating competition among rivals to stay in Top Ten channel ranking which stand a higher chance to earn more advertising revenue. In the digital TV battle, contents remain the most important factor, while planning this year has by far been the most challenging for all operators, following consumer changing behavior and more fragmented media in TV business. In the third quarter, music remained key contributors to the Company revenues and operating profits. While both digital TV channels of the Company posted a strong growth in channel rating and revenue generated. Underlying total media solutions, the Company integrated high quality production capability

with multi-media platform to fulfill customer experience and engage consumers to brand exposure across all platform - on-air, online, on-ground, making it worthwhile for customer advertising spending. As a result, 3Q16 operating performance witnessed a strong recovery in reported net loss amounted to THB 11 million trending lower 92% Y-o-Y, with net losses mainly caused by digital TV investment, and satellite set top box.

Operating revenues, comprising sale of goods, service income, and revenue from copyright in 3Q16, increased by 0.7% from previous year, comprising 23% growth in music, 56% growth in GMM25, while revenue dropped by 44% for GMM Z, and 30% for GDH. Indeed, ONE31 digital TV business revenue dropped over the same period last year following the share restructuring and deconsolidation of the ONE Enterprise early 2015 financial performance of ONE digital TV was accounted for by using the equity method under the Investment in Joint Venture. So the remaining revenue belongs to Exact whose earning dropped from its content library was less

popular now and the company headed on with ONE 31 activities. Hence, normalized growth in operating revenue excluding the One Enterprise stood at 9.8% Y-o-Y, signaling a strong business turnaround this year

Over the last quarter of year, advertising spending is expected to decline including most events being cancelled, altogether leading to a possible drop in advertising this year.

The Company believes in a positive outlook for 2017 driven by new rating systems that reflect actual performance, together with the strong competition among digital TV operators for high quality program would contribute to the expansion of industry advertising spending.

With high business potential and solid direction, the Company is confident to drive for a sustained growth in its bottom line results. After business restructuring, the Company financial status remained healthy and strong, the interest-bearing debt to equity stood at 1.32x by the end of 3Q16.

Operating Results

unit: THB thousand	3Q16	3Q15 (Restated)	Change (%)
Total operating revenues	2,034,491	2,019,355	0.7
Other revenues	27,692	44,070	-37.2
Total Revenues	2,062,183	2,063,425	-0.1
Cost of sales and services	1,237,103	1,269,134	-2.5
Selling expenses	143,532	156,585	-8.3
Administrative expenses	571,129	602,361	-5.2
Total expenses	1,951,764	2,028,080	-3.8
Loss before share of income from investments in associates, finance cost, and corporate income tax	110,419	35,345	212.4
Share of Profit from investments in associates	5,014	8,890	-43.6
Share of Profit/(Loss) from investments in joint ventures	(51,930)	(118,711)	-56.3
Loss before finance cost and corporate income tax	63,503	(74,476)	-185.3
Finance cost	(47,356)	(51,344)	-7.8
Loss before corporate income tax	16,147	(125,820)	-112.8
Corporate income tax	(14,429)	2,323	-721.1
Loss for the year	1,718	(123,497)	-101.4
Profit attributable to non-controlling interests of the subsidiaries	12,695	15,869	-20.0
Loss attributable to equity holders of the Company	(10,977)	(139,366)	-92.1
Gross profit margin (%)	39.2	37.2	
SG&A to revenues (%)	34.7	36.8	
Net profit margin (%)	(0.5)	(6.8)	

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 3Q16 was THB 791 million, increased by 22.6% from last year. Revenue from this business represented 39% of total operating revenues, increasing from 32% last year. In this quarter, music business maintained a growing trend,

driven by continuously developing digital platform and monetizing digital music content by matching service with consumer digital lifestyles through a strong partnership i.e. with AIS where GMM Grammy video contents are offered to AIS customers exclusively via live streaming or on demand in application AIS Play and AIS Playbox. This strategic alliance will expand new channel to consume GMM contents in addition to YouTube which is very popular in Thailand as Thais ranks among top-ten heavy users of YouTube platform in the world. At

present, GMM official account in YouTube has the highest number of fan bases over 8 million subscribers, and there are also tremendous followers in the partner accounts in YouTube. Showbiz and artist management continued to excite the market with many events and concerts organized this quarter including "Pack4 Turn Back Concert", "White Haus Concert", "Sala Kunawut Concert" "30 Year Asanee-Wasan".

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 3Q16 revenue at THB8 million, representing a 95% drop Y-o-Y as it was earned from existing content library only.

Over this quarter, the primetime drama of ONE 31 digital TV "Pit Sa Wat" became very successful with a phenomenal record-high in nationwide 15+ rating at 5.33 and Bangkok 15+ rating at 9.37, the latter hits the target group of the channel. In addition, the number of viewers of this drama in Live TV surpassing 100 million views, with the widespread viral comments and hashtag #Pit Sa Wat Gun Tung Muang. Big applause goes to artists performance, scripts, and production location behind the success story. Indeed, 'Suk Wan Duan Pleng' remained hot with rating shoot at point 5. Putting together these served as springboard to push overall channel rating of ONE31 digital TV to rank at number 4.

Next step, the channel aims to stabilize its rating and strengthen its ranking by expanding the primetime slots starting from 16.00-20.30 with top-rated variety programs and situation comedies under the theme "Comedy at 2 pm" aimed at expanding the audience base to family and teenagers, while keeping viewers stay tune to the super-primetime period with killer drama contents, followed by variety shows and series for late night viewers i.e. "Sode Stories". In addition, new slot in Saturday evening was premiered with classic drama "Salak Jit", together with more programs on weekends i.e. "The Bachelor Thailand" and live sports to attract men audience urban and rural "MX Thai Boxing" "Ratchadamnurn Boxing" and "Football Euro Qualifier 2016".

Channel GMM 25 business comprising GMM25 digital TV channel, Radio business, Content creative business. In 3Q16 revenue totaled THB 542 million, increasing by 32.5% from last year, with GMM25 digital TV and showbiz together representing 70% of total revenue in GMM25 group and the remaining 30% belongs to radio business

This quarter the operating performance of GMM 25 continued to improve further from prudent cost control while popular dramas and series launched including "Club Friday the Series 8" "Club Friday To Be Continued – Ther Plian Pai" "Pleung Krisana – Lai Hong,

Peek Thong" "U-Prince Series" In an attempt to strengthen super-primetime slots, new music series were launched under the new concept to transform music DNA into drama and series i.e. "Love Rhythms" "Melodies of Life" "Encore 100 million view" together with fresh variety programs 'Stage Fighter Mai-Moo-Soo-Fad'. New line-ups drama "O-Negative" was warmly welcome by sponsors fully pre-booking and gone viral since the teaser was released. This drama was expected to be popular and drive for further rating shoot for the channel, in addition, CSR activity "O-Negative Blood Sharing" contributed to engage the audiences with a good deed to help sacrifice for human fellow.

The target of GMM25 focused on differentiation by creating channel character as a living brand close to target audience lifestyles with emotional contents and sales package by project based. Indeed GMM25 puts an emphasis on online engagement to draw participation of users in the channel and connect online platform to main screen to enhance branding rating and revenue potential i.e. Club Friday being very popular and could mesh well across all platform. Moreover the channel offers GMM25 application to make channel contents readily accessible and also joined hands with LineTV platform that brings about an increased revenue.

Merchandise Business includes Home Shopping and Satellite box business. Home shopping business reported 3Q16 revenue of THB 443 million, decreased 1.7% Y-o-Y. due to the slowdown economy and consumer spending, and the new entrants making industry competition more aggressive with similar products and price cut. Also there are product owners joined hands with celebrity and compete on direct marketing.

In this quarter, O-shopping celebrated subscribers reaching 1 million. The marketing move will focus on both TV and online channel to expand customer base. After streamlining organization, staff competency increase, while logistics cost control is very crucial to improve profitability. In addition, the company coped with strong competition by focusing on product variety and program production, together with promotion events i.e. O-Caravan to give information on new products and services to market, as well as launching CSR program promoting sports for rural children.

Satellite business reported THB 57 million revenue, declining 44% from previous year mainly due to shrinking satellite TV market. Over the last quarter, the Company plans to launch new products "GMM Z Stream"

internet TV box, aimed to boost higher sales.

Movie Business the Company recorded the revenue of THB 130 million, decreased 30% Y-o-Y with new film "Fan Day" released this quarter generating 111 million baht box office revenue and planned to hit theatres in 10 neighboring countries. While at the same period last year, there was a new film released "Freelance" generated 88 million baht box office revenue together with the popular series "Hormones 3 The Final". In the last quarter this year, GDH planned to premiere a new film "New Year's Gift" in December. Moreover, GDH continued to produce drama and series contents for digital TV and Line TV i.e. "I See You", "Diary Tudsy the Series Season 2" and "I Hate You I Love You" all got very good responses from the market.

Other business In 3Q16, revenue total THB 58 million, represented 2.8% of total operating revenue.

Cost of sales and services in 3Q16 was THB 1,237 million, decreased by 2.5% Y-o-Y and representing 61% of total operating revenues, down from 63% 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 movie

business cost decreased with lower revenue. At the same time, music group and GMM25 manage the cost increase in line with revenue.

Gross profit for 3Q16 was THB 797 million, increased 6.3% from last year given revenue at the same level. It represented 39% of operating revenue, up from 37% last year reflecting higher profitability in music, GMM25 and home shopping business.

SG&A expenses in 3Q16 amounted to THB 715 million, dropped 6% Y-o-Y, representing 35% of total revenue down from 37% last year from implementing internal cost efficiency program.

Net loss in 3Q16 at THB 11 million, improved 92% Y-o-Y.

Total Assets as of 3Q16 was THB 7,681 million, increasing 1.2% from the end of 2015 from contents recorded as intangible assets.

Total Liabilities Interest-bearing debt at the end of 3Q16 was THB 2,331 million, increased from THB 1,629 million at the end of 2015 from higher bank loans to service license fee 3rd installment, and use in digital TV operation. Total liabilities at the end of 3Q16 stood at THB 5,916 million, increasing 6.5% from last year. Shareholders' equity amounted to THB 1,765 million, dropped by 13% from interim net loss.

Moreover, the interest-bearing debt to equity ratio fairly rose from 0.80x at the end of 2015 to 1.32x by end of 3Q16.

In 3Q16, cash flow used in operating activities amounted to THB 345 million, cash flow used in investing activities totaled THB 188 million for payment of digital TV license fee, and cash flow from financing activities amounted to THB 71 million. This resulted in a drop of net cash by THB 461 million. At the end of 3Q16, cash on hand and cash equivalents amounted to THB 796 million.

Unit: THB Million	3Q16	2015
Cash and equivalents	796	1,059
Other current assets	2,603	2,288
Non-current assets	4,282	4,243
Total assets	7,681	7,590
Current liabilities	2,826	2,567
Non-current liabilities	3,090	2,989
Total liabilities	5,916	5,556
Shareholders' equity	1,765	2,034
Total liabilities and shareholders' equity	7,681	7,590
Net interest-bearing debt to equity ratio (x)	1.32	0.80