

Management Discussion and Analysis

For the Year 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.

Throughout 2016, the prevailing economic recession has resulted in depressed consumer purchasing power and impacted advertising industry as business sector kept control over media spending while demanding for wider reach of consumers, putting together these factors led to a negative growth in total advertising spending especially over the last quarter of year. Nevertheless, TV media continues to be the mainstream with highest share of advertising spending based on the capacity to reach out mass audiences nationwide, hence digital TV business remains attractive to investors.

Both of the digital channels operated by the Group Company experienced a sharp growth in revenue and rating this year, reflecting the strength of GMM competency in content creation. The Company takes a step ahead to introduce an innovation under “New Content Solution” by

transforming and monetizing GMM massive library across multiple platforms, in line with the strategic direction to delivering total contents solution through mastering contents with an effective communication catered for different target groups to enhance brand exposure and viewer base across all screens.

Music business remains the flagship and key contributor to the Group performance amidst the widening opportunities through digitization for Thai music to gain more market exposure. By placing an emphasis on addressing today’s audience digital lifestyle, the Company has constantly evolved music marketing strategy and streamlined operating structure for each music category including pop, rock, youth, and local Thai folk songs, as well as focusing on digital music and digital platform development to provide services that are more up-to-date and expand more channels on top of YouTube service which continues to gain high popularity among Thailand youtubers who ranked in the world’s top ten youtube times. While showbiz was affected from activity suspension in the last quarter and the situation is expected to continue for a while.

Operating revenues, comprising sale of goods, service income, and revenue from copyright in 2016 was THB 7,295 million, declined by 15.2% from previous year, due mainly from the impact during the fourth quarter of year, while other revenue dropped Y-o-Y from the absence of gains from sales of investment and subsidiary share restructuring within the Group Company over previous year. Regarding cost development in 2016, the Company has succeeded with efficient management of SG&A expenses, resulting in a significant decrease by THB 666 million from previous year. Nevertheless, the Company recognized other extraordinary items in 2016 comprising allowances for returned goods at THB 80 million to handle the probable return of goods sold through various trade channels; coupled with the impairment amounting to THB 38 million of investment in GTH which was closed down and in liquidation process; together with the interest costs incurred this year at THB 76 million following an adjustment in present value of digital TV license cost according to the accounting standard. Altogether, the company recorded a net loss for 2016 at THB 520 million, better off by THB 625 million or

54.6% from 2015 which posted a deep loss at THB 1,145 million.

In 2017, the media industry and digital TV is expected to recover with media agency and brand customers gradually resumed advertising spending. The rising trend is expected to continue forward with upcoming positive industry developments including the commencement of new multi-screen rating system that reflects true performance of digital TV operators; the government supportive measures to extend payment terms for digital TV license fee and also subsidize the satellite uplink costs for all operators under the must carry rules; coupled with several macro-economic stimulus packages through mega project investment started to materialize while the nation prepares for an upcoming general election; altogether showing a positive outlook for media business over the next

year, resulting in a significant turnaround for advertising industry. The new digital TV channels especially the Top Five ranking and the ones with clearly defined target positioning will draw the most attention from creative contents in variety of entertainment formats for the mass audience, leading not only to growing viewership but also higher advertising expenditure on overall digital TV and media industry.

The financial status of the Group Company remains viable following execution of business plan to attain growth with prudent cost control, leading to a substantial improvement in operating performances.

Specifically, the bottom line results in 2016 for digital TV channel ONE31 and GMM25 showed a substantial improvement by 35% and 50%, respectively. Nevertheless, the digital TV industry development

has fallen short of expectations from the auction plan, causing EBITDA performance and interest-bearing debt capacity in 2016 to differ from previous estimation, thereby leading to non-conformance of certain financial ratios as of December 31st, 2016 to the rate prescribed in the credit facility agreements. However, on February 24th, 2017 the bank has already issued the waiver for such non-compliance to both digital TV channels.

In adherence to the generally accepted accounting principles, the incident specified above was taken into account by classifying the loan as Current portion of long term debt over the duration from the end of reporting period up to the waiver date granted from the bank. At present, the specified loans has been reclassified into Long-term loans net of current portion as stated previously.

Operating Results

unit: THB thousand	2016	2015	Change (%)
Total operating revenues	7,294,638	8,598,322	-15.2
Other revenues	135,404	1,105,255	-87.7
Total Revenues	7,430,042	9,703,577	-23.4
Cost of sales and services	4,586,306	5,742,911	-20.1
Selling expenses	526,497	638,895	-17.6
Administrative expenses	2,335,081	2,889,156	-19.2
Other expenses	-	1,030,340	-100.0
Total expenses	7,447,885	10,301,302	-27.7
Loss before share of income from investments in associates, finance cost, and corporate income tax	(17,843)	(597,725)	-97.0
Share of Profit from investments in associates	16,616	4,513	268.2
Share of Profit/(Loss) from investments in joint ventures	(353,130)	(337,734)	4.6

Loss before finance cost and corporate income tax	(354,357)	(930,946)	-61.9
Finance cost	(188,174)	(271,593)	-30.7
Loss before corporate income tax	(542,531)	(1,202,538)	-54.9
Corporate income tax	9,129	67,307	-86.4
Loss for the year	(533,402)	(1,135,232)	-53.0
Profit attributable to non-controlling interests of the subsidiaries	(13,253)	10,252	-229.3
Loss attributable to equity holders of the Company	(520,149)	(1,145,484)	-54.6
Gross profit margin (%)	37.1	33.2	
SG&A to revenues (%)	38.5	36.4	
Net profit margin (%)	(7.0)	(11.8)	

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 2016 was THB 2,876 million, decreased by 11.5% from last year. Revenue from this business represented 39% of total operating revenues, increasing from 38% last year.

This year showbiz organized a total of 17 large-scale concerts, including Ruam Wong THONGCHAI Concert, 30 Years of Asanee & Wasan Concert, Green Concert: The Lost Love Songs, Bie Sukrit 10 Years of Love Concert, A Million Record Concert, Pack4 Turn Back Concert, and White Haus Concert, as well as grand music festivals including Nung Lenn Festival; while the events and activities during the fourth quarter was cancelled.

From technology disruption and changing consumer behavior, the revenue from digital music contents kept rising with sales proportion catching up with physical products. Over this year, the use of YouTube and Streaming for watching contents and listening to music through mobile phone and smart device becomes more popular; therefore, GMM joined hands with partners to extend online music streaming via more applications i.e. JOOX, Line Music, and Apple Music. GMM also put greater emphasis on social media to popularize music tracks, and engage listeners on new media platforms for more interaction as shown by growing number of viewers and shares that could further generate revenue from advertising and sponsors. Over the year, GMM Grammy has been successful with a lot of singles surpassing 100 million views on YouTube including “Aow” by Atom Chonnakan, “Plew” by Ploychompoo, “Mai Mee Kaw

Mae Tung Tae Rerm Ton” by Phai Pongsathorn. There is also a high potential to expand into music community and merchandising.

Indeed the Group emphasizes on monetization of the invaluable GMM content library possessing a strong branding and unlimited potential to generate service revenue across all platforms in the multiscreen era, with this regard, “GMM Bravo” the new business unit was formed as a content creator to transform massive library including music and artists and developed into exclusive contents both TV series and variety shows across multiple platforms covering digital TV, Line TV, and exclusive partner deal for live streaming and on-demand viewing application.

Digital TV Business:

Channel ONE - Following the changes in ONE shareholding structure since 1Q15 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 share holding as an investment in joint venture and started to account for by using the equity method.

In 2016, digital TV channel ONE experienced a significant growth in channel rating, partly driven by the overwhelming success of prime-time drama “Pit Sa Wat”, which served as a springboard for ONE31 to rank among the Top Five most popular digital TV channels this year.

For 2017 ONE31 has planned to achieve the target as a leading free TV station riding on core competency in creative quality contents including dramas, series and sit-coms, which served as key strengths to drive for the channel popularity among the mass audiences.

Channel GMM 25 business comprising GMM25 digital TV channel, radio business, media and A-time showbiz. In 2016 revenue totaled THB 1,772 million, an increase of 7.7% from previous year from growing revenue of digital TV GMM25 channel, while revenues from the radio business fell by 16% from last year. By excluding the impact during the last quarter of 2016, revenues generated from radio business over the first nine months stabled from last year despite shrinking advertising

spending in radio media, this was due mainly to the strength in listener bases of the three radio stations operated by the Company with total audiences at 19 million listeners across all platforms covering on-air and online website, application, YouTube and social media i.e. Facebook. A-Time media has taken lead in developing online radio streaming application with the highest number of subscribers and downloads surpassing 4.5 million times.

With reference to GMM25 digital TV operating results in 2016, the channel posted a strong growth in revenue and rating ranked at Top Ten most popular channel among the main target group people aged 15-34, thanks to the success of “Club Friday To Be Continued – Puen Rak Puen Rai” with nationwide rating shoot at 5.5, reflecting the channel strength in creating outstanding contents with differentiated formats to reach the new generation audiences.

Merchandise Business includes Home Shopping and Satellite box business. Home Shopping business reported 2016 revenue of THB 1,710 million, a fall of 1.6% Y-o-Y. This year O-shopping celebrated subscribers reaching 1 million, with an emphasis on data analytics to gain consumer insights and incorporated to sales and marketing promotion, as well as expansion of trade channels to reach for wider group of customers, together with high quality product

selection to meet with customer demand.

This year, Satellite TV business revenue totaled THB 243 million, a decrease of 37.8% from previous year, in line with softer advertising spending on satellite and cable TV platform. By redirecting sales strategy to focus on the product lines that address the preferences of today’s consumers i.e. GMM Z STREAM the internet protocol TV box, as well as providing good customer services and focusing on efficient merchandising management to keep costs under control, altogether effectively mitigating the impact from the slower trend in cable TV platform.

Movie Business the Company recorded the revenue of THB 320 million this year, decreased 46.2% Y-o-Y from the shift of new films premiere towards next year. In 2016 GDH559 achieved its business plan from a total of two films released “Fanday” with generated box office revenue at THB 111 million, and “A Gift” co-presented by GDH559 and Singha Corporation. For 2017, GDH559 moves forward to capitalize on its unique capability to produce variety of films and high quality contents, promoted by aggressive marketing communications to address the audiences in digital era with an upside for additional revenue earned through exporting content internationally.

Other business In 2016, revenue amounted to THB 325 million, represented 4% of total operating

revenue. For this year, the Group also recorded revenue from granting the broadcasting rights of the European Qualifiers for 2018 FIFA World Cup to air on alliances platform, which started on September 2016 and continued to 2017.

Cost of sales and services in 2016 was THB 4,586 million, decreased by 20.1% Y-o-Y and representing 63% of total operating revenues, down from 67% last year attributable to digital TV business succeeded with driving revenue growth under stringent cost control, while movie business kept costs well under control and generated higher gross profit margins despite lower revenue; and home shopping improved gross margins from effective product selection and sales strategy

Gross profit for 2016 was THB 2,708 million, fairly decreased 5.2% Y-o-Y but representing 37% of operating revenue, improved from 33% last year. The magnitude of a drop in revenue versus gross margin was disproportionate, reflecting an efficient execution of business plan to attain growth with prudent cost control.

SG&A expenses in 2016 amounted to THB 2,862 million, lower by 18.9% Y-o-Y in the

absence of the impairment in pay TV investment last year, together with the streamlined business structure and ongoing cost efficiency control program.

Net loss in 2016 amounted to THB 520 million, improved by 54.6% from last year from stronger revenue performance in digital TV, along with efficient management of sales and costs for Music and other businesses.

Total Assets as of year-end 2016 was THB 7,249 million, decreasing by 4.5% from the end of 2015 due to installment of the 3rd year digital TV license fee, content costs, lower receivables, asset disposal of inactive business unit, coupled with the recognition of spectrum licenses at present costs in compliance with accounting principles, while the investments in joint ventures decreased from losses realized in the One Enterprise Company Limited this year

Total Liabilities Interest-bearing debt at the end of 2016 was THB 2,421 million, increased from THB 1,629 million at the end of 2015, due to additional bank loans drawn for digital TV operation and making payment in digital TV license. Shareholders' equity amounted to THB 1,468 million, dropped by 27.8% from interim net loss.

In 2016, cash flow used in operating activities was THB 402 million covering repayments to trade creditors and content costs for European Qualifiers on 2018 FIFA World Cup, while cash used in investing activities stood at THB 563 million covering the digital TV license payment during the year. Cash flow from financing activities totaled THB 775 million

This resulted in a decrease of net cash by THB 190 million. At the end of 2016, cash on hand and cash equivalents amounted to THB 869 million.

Unit: THB Million	2016	2015
Cash and equivalents	869	1,059
Other current assets	2,376	2,288
Non-current assets	4,004	4,243
Total assets	7,249	7,590
Current liabilities	4,179	2,567
Non-current liabilities	1,601	2,989
Total liabilities	5,780	5,556
Shareholders' equity	1,468	2,034
Total liabilities and shareholders' equity	7,249	7,590
Net interest-bearing debt to equity ratio (x)	1.65	0.80

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