

Management discussion and analysis

Overview

The operating results of the SET group for the year ended December 31, 2017 were:

(Unit: THB million)	For the year ended December 31			
	2017	2016 *	Increase /(Decrease)	
			Amount	%
Operating revenue	5,007	5,099	(92)	(1.80)
Other income	280	181	99	54.70
Investment income	1,045	767	278	36.25
Operating expenses	(3,818)	(3,694)	124	3.36
Contributions to The Stock Exchange of Thailand Foundation (Foundation)	(221)	(401)	(180)	(44.89)
Income tax expense	(504)	(231)	273	118.18
Revenue over expenses	1,833	1,759	74	4.21

* Change in presentation of deferred tax on change in value of available-for-sale of investment

For the year ended December 31, 2017, revenue over expenses amounted to THB 1,833 million and increased by THB 74 million, compared to 2016. The increase was mainly resulted from investment income from the gain on investment both domestic equity funds and foreign funds by THB 278 million, other income from marketing activities by THB 50 million and transfer of rights for building utilization by THB 36 million. Operating revenue dropped by THB 92 million due to the decrease in daily average trading volume of both equity and derivatives for the SET50 Index Futures. Operating expenses increased by THB 124 million as a result of increasing of employee expenses, marketing expenses and technology - related expenses. Contributions to Foundation significantly decreased since reducing contribution rate from 33% to 13% of revenues over expenses before income tax, starting from August 9, 2016. Income tax expense sharply increased due to the fact that SET has to pay income tax effective from August 9, 2016 as announced by the Director-General of the Revenue Department Notification on Income Tax (No. 271) on July 13, 2016 to be company or juristic partnership under section 39 of the Revenue Code.

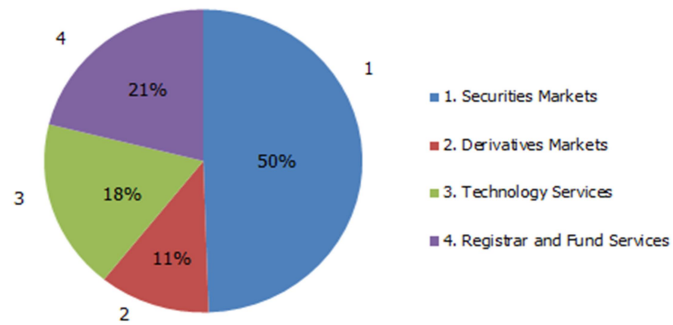
1. Analysis of operating results

1.1 Operating revenue

Operating revenue by segment

Operating revenue is classified by business segment as follows: Securities market, Derivatives market, Technology services and Registrar and fund services.

Operating revenue by segment



For the year ended December 31, 2017 (Unit: THB million)

Securities Market	
- Trading	1,223
- Listing	576
- Clearing and settlement	337
- Depository	322
- Membership	44
Total	2,502
Derivatives Market	
- Trading	332
- Clearing	144
- Membership	43
Total	519
Technology Services	
- Member services	426
- Information services	343
- IT support	150
Total	919
Registrar and Fund Services	
- Securities registrar	1,065
- Fund services	2
Total	1,067
Total operating revenue	5,007

1.1.1 Securities Market

(Unit: THB million)	2017	2016	Increase /(Decrease)	
			Amount	%
Revenue - Securities Market	2,502	2,526	(24)	(0.95)
Trading fees	1,223	1,282	(59)	(4.60)
Listing fees	576	539	37	6.86
Clearing and settlement fees	337	339	(2)	(0.59)
Depository fees	322	290	32	11.03
Membership fees	44	76	(32)	(42.11)
Key market indicators				
SET Index at the end of the year (point)	1,754	1,543	211	13.67
Daily average trading value - Equity (THB million)	50,114	52,526	(2,412)	(4.59)
Average market capitalization (THB trillion)	16.36	14.33	2.03	14.17
No. of listed securities at the end of the year (securities)	2,286	2,016	270	13.39

Operating revenue from securities market dropped by THB 24 million or 0.95%, compared to 2016. This decrease mainly resulted from the drop in trading fee as decreased in the daily average trading value. In addition, membership fees also decreased because there were no new members during the year. However, listing fees and depository fees increased by THB 37 million and THB 32 million, respectively in proportion to the increase of the number of listed securities and increase of average market capitalization.

1.1.2 Derivatives Market

(Unit: THB million)	2017	2016	Increase /(Decrease)	
			Amount	%
Revenue - Derivatives Market	519	584	(65)	(11.13)
Trading fees	332	368	(36)	(9.78)
Clearing fees	144	159	(15)	(9.43)
Membership fees	43	57	(14)	(24.56)
Key market indicators				
Daily average trading volume - Derivatives (contracts)	324,216	285,189	39,027	13.68

Operating revenue from derivatives market dropped by THB 65 million or 11.13%, compared to 2016, resulting from the drop in daily average trading volume of key derivatives, especially from SET50 Index Futures. Most of the trading volume was from single stock futures with fewer fees than the key derivatives.

1.1.3 Technology services

(Unit: THB million)	2017	2016	Increase /(Decrease)	
			Amount	%
Revenue - Technology services	919	971	(52)	(5.36)
Member services fees	426	509	(83)	(16.31)
Information service fees	343	340	3	0.88
Customization and IT support fees	150	122	28	22.95

Operating revenue from technology services decreased by THB 52 million or 5.36%, compared to 2016. This decrease was mainly from the decrease in the daily average trading volume of both equity and derivative instruments of the SET50 Index Futures.

1.1.4 Registrar and fund services

(Unit: THB million)	2017	2016	Increase/(Decrease)	
			Amount	%
Revenue - Registrar and fund services	1,067	1,018	49	4.81
Securities registrar fees	1,065	1,018	47	4.62
Fund services	2	-	2	100.00

Operating revenue from registrar services rose by THB 49 million or 4.81%, compared to 2016. This was contributed by the rise in annual fee from securities registrar as number of listed securities increased. During 2017, SET expanded fund services (Fund Connex).

1.2 Other income

(Unit: THB million)	2017	2016	Increase/(Decrease)	
			Amount	%
Other income	280	181	99	54.70
Educational activities income	75	73	2	2.74
Revenue from marketing events	53	3	50	1,666.67
Revenue from fees and management funds	28	25	3	12.00
Revenue from rental and utilities	17	12	5	41.67
Revenue from fines	14	21	(7)	(33.33)
Revenue from transfer rights of membership	10	1	9	900.00
Others	83	46	37	80.43

Other income increased by THB 99 million or 54.70%, compared to 2016 due to the rescheduling of marketing activities, such as the SET in the City event and SET award event that were originally scheduled in the fourth quarter of 2016 and had been postponed to the first quarter of 2017. In addition, there was a certain amount of income from the transfer of rights for building utilization which is a one-time payment, recorded as other income.

1.3 Investment income

(Unit: THB million)	2017	2016	Increase/(Decrease)	
			Amount	%
Investment income	1,045	767	278	36.25
Interest income	200	208	(8)	(3.85)
Dividend income	216	405	(189)	(46.67)
Realized gain from investments	596	192	404	210.42
Unrealized gain (loss) from investments	13	(38)	51	134.21
Gain on exchange rate and others	20	-	20	100

Investment income rose by THB 278 million or 36.25% from 2016, mostly gained from sales on investment. Most of the funds came from local equity funds and foreign funds.

1.4 Operating expenses

(Unit: THB million)	2017	2016	Increase /(Decrease)	
			Amount	%
Operating expenses	3,818	3,694	124	3.36
Employee benefit expenses	1,569	1,466	103	7.03
The SEC fees	491	536	(45)	(8.40)
Depreciation and amortization	463	467	(4)	(0.86)
Direct service expenses	292	286	6	2.10
Marketing expenses	222	159	63	39.62
Technology expenses	213	191	22	11.52
Building and office expenses	200	232	(32)	(13.79)
Educational activities expenses	162	179	(17)	(9.50)
Fees and compensation expenses	87	76	11	14.47
Others	119	102	17	16.67

In 2017, operating expenses amounted to THB 3,818 million increased by 3.36% from 2016. This increase was mainly from employee benefit expenses, marketing expenses for the postponement of marketing activities from the end of 2016 to 2017, and the higher technology expenses for IT operating systems development.

2. Analysis of financial position

(Unit: THB million)	Dec 31,	Dec 31,	Increase /(Decrease)	
	2017	2016	Amount	%
Total assets	45,196	39,539	5,657	14.31
Total liabilities	17,821	14,141	3,680	26.02
Fund balances	27,375	25,398	1,977	7.78

Significant movements in assets, liabilities and funds of the SET group as at December 31, 2017 when compared with the balance as at December 31, 2016, were as follows:

2.1 Analysis of assets

As at December 31, 2017, total assets of the SET group amounted to THB 45,196 million, an increase of THB 5,657 million or 14.31%, in comparison with the balance as at December 31, 2016. Significant details are as follows:

2.1.1 Cash and cash equivalents, cash at banks for financial benefits payable and investments were THB 16,457 million or 36.41% of total assets, a THB 2,815 million or 14.61% decreases, categorized as follows:

(Unit: THB million)	Dec 31,	Dec 31,	Increase /(Decrease)	
	2017	2016	Amount	%
Cash and cash equivalents	1,261	717	544	75.87
Cash at banks for financial				
benefits payable	68	66	2	3.03
Investment portfolio	15,128	18,489	(3,361)	(18.18)
Trading	3,351	7,828	(4,477)	(57.19)
Available-for-sale	9,965	8,521	1,444	16.95
Held-to-maturity	1,792	2,103	(311)	(14.79)
General investments	20	37	(17)	(45.95)
Total	16,457	19,272	(2,815)	(14.61)

The value of trading securities in 2017 decreased by THB 4,477 million, mainly from the transfer of the SET Reserve Fund, totaling THB 5,047 million to "Reserve fund for clearing and settlement" under Thailand Clearing House Co., Ltd., with the objectives to strengthen the security of both the securities settlement and delivery system and the derivatives contracts settlement system as well as to comply with international standards, according to the resolution of the Board of Directors.

2.1.2 Assets for margin deposits and benefits, and assets for clearing system protection and benefits recorded as THB 15,300 million or 33.85% of total assets, up by THB 3,419 million or 28.78%. This margin deposits and benefits of Thailand Clearing House Co., Ltd. increased in accordance with the increase in trading volume of derivatives. Members of the clearing house are obliged to place the required margin deposits as a guarantee according to the specified rate, and also to secure the clearing system of the clearing house against any damage caused by defaults by members or other incidents.

2.1.3 Reserve fund for clearing and settlement amounted to THB 5,124 million or 11.34% of total assets. Reserve for clearing and settlement on SET's part was established in 2017 as a source of funds for the clearing houses. Such reserve has been transferred from SET in accordance with Clause 2.1.1.

2.2 Analysis of liabilities

As at December 31, 2017, total liabilities of the SET group amounted to THB 17,821 million, up by THB 3,680 million or 26.02%, in comparison with the balance as at December 31, 2016. Significant details are:

2.2.1 Margin deposits and assets for clearing system protection and benefits payable amounted to THB 15,158 million or 85.06% of total liabilities, a THB 3,417 million, or 29.10% increase, in accordance with the increase in trading volume of derivatives.

2.3 Analysis of funds

As at December 31, 2017, total funds of the SET group amounted to THB 27,375 million, up by THB 1,977 million or 7.78%, in comparison with the balance as at December 31, 2016. This resulted from the revenue over expenses for 2017 reaching THB 1,833 million, and an increase in the market value of investment in equity fund on available-for-sale securities, net of income tax expense, of THB 263 million, while a loss from re-measurements of post-employment benefits obligations, net of tax, of THB 118 million.

3. Analysis of liquidity

Cash flows of the SET group for the year ended December 31, 2017 and 2016 can be summarized as follows:

(Unit: THB million)	2017	2016	Increase /(Decrease)	
			Amount	%
Cash flows from operating activities	763	1,217	(454)	(37.30)
Cash flows from investing activities	(217)	(2,157)	1,940	89.93
Cash and cash equivalents at the end of year	1,329	783	546	69.73

Cash and cash equivalents as at December 31, 2017 amounted to THB 1,329 million, a THB 546 million or 69.73% increase, in comparison with 2016. The details of the sources and uses of funds are as follows:

- Net cash receipts from operating activities totaled THB 763 million.
- Net cash used in investing activities totaled THB 217 million. This was mainly from an investment in financial instruments of THB 1,430 million and payment for new operating systems development of THB 267 million. However, there was investment income of THB 1,042 million and the gain on sales of assets of THB 412 million.