

Management Discussion and Analysis

To comply with good corporate governance practices, The Stock Exchange of Thailand (SET) releases to the public its audited financial statements along with a management discussion and analysis within 60 days of the year-end. This is the same principle that listed companies follow.

This report discusses principal changes in the audited consolidated financial statements for the year ended December 31, 2008.

1. Operational Results in 2008

In 2008, SET and its subsidiaries' revenues exceeded expenses by THB 205 million, a 278% year-on-year (y-o-y) increase of THB 151 million. Revenues decreased by THB 234 million while expenses dropped by THB 385 million.

1.1 Analysis of Income

In 2008, SET and its subsidiaries realized THB 2,833 million in total revenues, a decline of THB 234 million year on year (y-o-y), or 8%. The main reasons were:

1.1.1 Operating revenues reached THB 2,208 million, a y-o-y increase of THB 199 million, or 10% comprised of:

Derivatives trading

- Trading fees of SET50 Index Futures rose by THB 58 million as daily average trading volume jumped by 3,485 contracts, or 70% (from 5,013 contracts in 2007 to 8,498 contracts in 2008) due to the expansion of trading channels and marketing campaigns to increase investor base. In addition, the global financial crisis emphasized investors the importance of using derivatives as a risk management tools.
- Membership fees increased by THB 15 million because 11 new members join.

Equities trading

- Trading fees dropped by THB 29 million. Daily average trading volume went down by THB 1,318 million, or 8%, from THB 17,436 million per day in 2007 to THB 16,118 million per day in 2008 resulted from the global financial crisis and the slow down of Thai economy.
- Broker seat admission fees decreased by THB 13 million, as two members who joined in 2005 paid the last installment of their fees.

Member services

- Internet trading fees, through SET subsidiary, Settrade.com Co., Ltd.'s platform, increased by THB 33 million. THB 24 million of this rise came from trading of derivatives securities and THB 9 million from trading of equity securities.

Clearing house services

- Clearing house fees from derivatives securities grew by THB 26 million, in line with the increases in trading volume and new members.

Other revenues

- In 2008, SET recorded a compensation of THB 69 million from land lease contracts as revenues.
- Revenues from Thailand Securities Institute increased by THB 26 million.
- Revenue from IT outsourcing services increased by THB 11 million.

1.1.2 The 2008 net investment income of THB 614 million was a y-o-y decrease of THB 421 million, or 41% comprised of:

- Gains from investments in mutual funds - stock dropped by THB 213 million and dividend income from investment in mutual funds - stock went down THB 177 million as the return rates from investment condition decreased, while unrealized gain from private funds - debt instruments went up THB 42 million.
- Losses from SET's impaired investment in TSFC Securities Ltd. THB 50 million in 2008 because TSFC has significant losses due to provision requirements for its margin loans and losses on its securities portfolio.
- Interest income decreased by THB 24 million as a result of the lower of interest rates.

1.2 Analysis of Expenses

In 2008, SET and its subsidiaries recorded THB 2,627 million in consolidated expenses, a decline of THB 385 million y-o-y, or 13%. The reasons were:

1.2.1 Operating expenses were THB 2,482 million, a y-o-y decrease of THB 442 million, or 15% because:

- Land rental accounted in 2007 totaling THB 291 million, which was the rental from the year 1994 to 2007 according to the agreement with SET and landlord to settle the lease contract case.
- Staff costs decreased by THB 136 million and marketing and media production expenses dropped by THB 124 million as a result of tightened operating expenses management.

On the other hand

- Depreciation and amortization grew by THB 70 million from new systems development.
- The consultation fee for studying of the SET Group demutualization came to THB 40 million.

1.2.2 Charity and corporate social responsibility (CSR) expenses rose by THB 47 million, or 95% mainly from contributions appropriated from SET's excess of revenues over expenses to The Stock Exchange of Thailand Foundation increased by THB 52 million, from THB 5 million in 2007 to THB 57 million in 2008.

2. Financial Position as of December 31, 2008

Changes in the financial status of SET and its subsidiaries in 2008 compared to those in 2007 are explained by the following transactions:

2.1 Analysis of Assets

As of December 31, 2008, SET and its subsidiaries reported total assets of THB 18,000 million. The majority of assets were accounted for as follows:

- (1) Cash and cash equivalents held for working capital amounted THB 232 million, or 1% of total assets, and investments totaling THB 10,049 million, or 56% of total assets, as summarized:
 - Available-for-sale securities (investments in mutual funds): THB 3,844 million
 - Trading securities (investments in private funds): THB 2,786 million
 - General investments (booked at cost): THB 2,176 million, comprised of:
 1. Cash at banks and promissory notes: THB 1,553 million
 2. Cash at banks by M.O.U. (used as security for housing loan to employees by a bank under of a Memorandum of Understanding): THB 408 million
 3. Investments in specific-purpose funds: THB 203 million
 4. Investment in TRIS Corporation Co., Ltd.: THB 12 million
 - Hold-to-maturity securities: THB 1,243 million
- (2) Fixed assets of THB 4,048 million, or 22% of total assets.
- (3) Cash at banks for margin deposits and benefits of the Thailand Clearing House Co., Ltd. (TCH) amounting to THB 1,902 million, which was also recorded as liability of the same amount.
- (4) Assets and benefits for the clearing system protection of TCH amounting to THB 776 million.
- (5) The Securities Investor Protection Fund (SIPF) of THB 494 million.

2.2 Analysis of Liabilities

As of end-2008, SET and its subsidiaries had THB 3,808 million in total liabilities. The major liabilities include:

- (1) Margin deposits and benefits payable of TCH of THB 1,902 million.
- (2) Accounts payable and accrued expenses amounting to THB 346 million. They are mainly comprised of:
 - Payable for contributions to The Stock Exchange of Thailand Foundation and capital market institutions totaling THB 77 million.

- Accrued staff costs of THB 47 million.
 - Acquisition of hardware and software, repair and maintenance expenses totaling THB 41 million.
 - Accrued office building expenses and construction of car park totaling THB 37 million.
 - Consulting fees for projects amounting to THB 21 million.
 - Accrued marketing expenses of THB 22 million.
- (3) Fees received in advance amounting to THB 344 million.
- (4) Members' portions of assets and benefits for the clearing system protection of TCH payable totaling THB 660 million.
- (5) Members' portions of contributions and benefits to the Securities Investor Protection Fund (SIPF), amounting to THB 145 million.
- (6) Provision for retirement benefits of THB 134 million.

2.3 Analysis of Funds

As of December 31, 2008, SET's total funds were THB 14,192 million, a decline of THB 1,879 million, or 12% from the previous year-end. The major reasons for the changes were:

- (1) The General Fund, valued at THB 11,545 million, expanded by THB 207 million, mainly from operational gains in 2008.
- (2) Unrealised gain (loss) on available-for-sale securities decreased by THB 2,084 million.

3. Cash Flows

Cash and cash equivalents as of December 31, 2008 were THB 232 million, a decrease of THB 28 million from 2007. The fall was mainly due to changes in cash flows from operating and investing activities as follows:

- (1) Net cash outflow from operation amounted to THB 214 million, a y-o-y decrease of THB 207 million. This was mainly because of an increase in the operational results of THB 151 million (the Operational Results were: a gain in 2008 of THB 205 million, vs. a gain in 2007 of THB 54 million).
- (2) Net cash inflow from investing activities was THB 185 million, a y-o-y decrease of THB 148 million mainly due to the decrease of investment income.

Patareeya Benjapolchai (Ms.)
President