

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, 2009.

1. Analysis of operating results

1.1 Overall

The operating results of The Stock Exchange of Thailand and its subsidiaries for the years ended December 31, 2009 are as follows:

(Unit: THB million)

	For the year ended December 31			
	2009	2008	Increase/(decrease)	
Operating revenues	3,209	2,821	388	13.7%
Operating expenses	2,599	2,482	117	4.7%
Non-operating items	129	84	45	53.6%
Revenues over expenses	457	205	252	122.9%

Operating revenues increased by THB 388 million or 13.7% in comparison with 2008 mainly due to the increase of trading fees, clearing and depository fees and member services fees. Revenues over expenses for the year ended 31 December 2009 increased by THB 252 million or 122.9% in comparison with 2008 mainly due to the increase of investment rate of return, the development of overall work patterns and cost control.

1.2 Operating revenues

The significant movements were as follows:

Unit: THB million)

	2009	2008	Increase/(decrease)	
Trading fees	630	535	95	17.7%
Clearing and depository fees	215	203	12	5.9%
Stock registrar fees	530	539	(9)	(1.7%)
Listing fees	235	238	(3)	(1.3%)
Member services fees	215	158	57	36.1%
Investment income, net	876	613	263	42.9%
Other income	508	535	(27)	(5.0%)
Total	3,209	2,821	388	13.7%

- Trading fees increased by THB 95 million mainly due to the following:

Trading of equity securities

- Trading fees increased as daily average trading volume rose by 13.1% from THB 16,118 million per day in 2008 to THB 18,226 million per day in 2009.
- Trading of new products launched in 2009, including derivatives warrants (PTT13CA, KBAN13CA and PTTE13CA) and ETFs (ThaiDEX FTSE SET Large Cap ETF).

Trading of derivatives securities

- Trading fees increased as daily average trading volume rose by 44.5%, from 8,837 contracts in 2008 to 12,771 in 2009.
- New products launched in 2009, including gold futures and the second batch of stock futures.

- Member services fees increased by THB 57 million, mainly due to internet trading fees as trading of derivatives and equity securities through Settrade.com Co., Ltd. as a percentage of total trading rose.
- Investment income, net increased by THB 263 million, or 42.9%, mainly due to the following:
 - The increase of THB 200 million from dividend income received from mutual funds and THB 40 million from net gains from sales of investments.
 - The reversal of impairment loss from investment in associates, which was recorded in 2008 as the recovery of the business and the better of operating results.

1.3 Operating expenses

Significant movements were as follows:

(Unit: THB million)

	2009	2008	Increase/(decrease)	
Employees' benefits expenses	1,239	1,025	214	20.9%
Direct services expenses	134	130	4	3.1%
Fees and compensation expenses	114	109	5	4.6%
Technology expenses	120	109	11	10.1%
Contributions to the office of SEC	159	171	(12)	(7.0%)
Depreciation and amortization	341	356	(15)	(4.2%)
Other expenses	492	582	(90)	(15.5%)
Total	2,599	2,482	117	4.7%

Employees' benefits expenses increased by THB 214 million mainly due to the cost of early retirement programs which attracted 98 participants and cost THB 168 million.

Technology expenses increased by THB 11 million, mainly due to the professional fees for new product development system, the ASEAN Linkage and studies to improve the technology infrastructure (IT Master Plan).

Other costs, comprised of marketing and media production expenses, building and office expenses, etc. The decrease of THB 90 million was due to the development of overall work patterns and cost control.

1.4 Non-operating items

The increase is THB 45 million, or 53.6%, due to the appropriation of one-third of revenues over expenses of SET to The Stock Exchange of Thailand Foundation as donation and social contribution. In 2009 SET has appropriated the amount of THB 135 million, increased by THB 77 million.

2. Analysis of financial status

The significant movements in assets, liabilities and funds of the SET and its subsidiaries as at December 31, 2009 when compared with the balance as at December 31, 2008 were as follows:

(Unit: THB million)

	Dec 31, 2009	Dec 31, 2008	Increase/(decrease)	
Total assets	20,692	18,000	2,692	14.9%
Total liabilities	4,928	3,808	1,120	29.4%
Fund balances	15,764	14,192	1,572	11.1%

2.1 Analysis of assets

2.1.1 Investments

Details of investments of THB 11,437 million classified by category can be summarized as follows:

(Unit: THB million)

	Dec 31, 2009	Dec 31, 2008	Increase/(decrease)	
Trading	2,187	2,786	(599)	(21.5%)
Available-for-sale	3,815	3,845	(30)	(0.8%)
Hold-to-maturity	1,253	943	310	32.9%
Treasury bills	1,182	300	882	294.0%
General investments	3,000	2,176	824	37.9%
Total	11,437	10,050	1,387	13.8%

Investments increased by THB 1,387 million, or 13.8%, mainly due to revaluation in fair value of securities totaling THB 1,114 million.

2.1.2 Assets for margin deposits and benefits

Assets for margin deposits and benefits of THB 2,835 million, an increase of THB 933 million or 49.1%, represents margin deposits and benefits of the Thailand Clearing House Co., Ltd. Part of this rise was from the increase of futures derivatives transactions.

2.1.3 Investment in associated and jointly controlled entities

Investment in associated and jointly controlled entities of THB 496 million increased by THB 336 million, or 210.1%. Significant movements were as follows:

- An increase of THB 250 million was from the acquisition of new associated entities. These entities grant credits for buying securities and borrowing and lending securities.
- An increase of THB 36 million is from the reversal of an impairment loss on investments which was recorded in 2008.
- An increase of THB 31 million was from recognition of profits under the equity method.

2.2 **Analysis of liabilities**

2.2.1 Margin deposits and benefits payable

As margin deposits and benefits were presented as cash at banks and liabilities of the same amount, the significant increase of margin deposits and benefits payable are as mentioned in the section on margin deposits and benefits.

2.2.2 Accounts payable and accrued expenses

Accounts payable and accrued expenses of THB 473 million up by THB 127 million or 36.9%. The significant movements were as follows:

- An increase of employees' benefits expenses of THB 39 million.
- An increase of financial advisory fees of THB 28 million.
- An increase of donation to The Stock Exchange of Thailand Foundation of THB 77 million.

Contributions and benefits to the Securities Investor Protection Fund

The contribution amounted of THB 190 million, an increase of THB 45 million or 10.2% was from members' portions, which increased following the rise of trading volume of equity securities.

2.3 **Analysis of funds**

Funds reached THB 15,764 million, up by THB 1,572 million or 11.1% since end 2008. Significant movements were:

- Revenues over expenses of THB 457 million.
- An increase of THB 1,114 million in unrealized gains in the value of available-for-sale securities, due to higher stock prices.

3. Analysis of liquidity

Cash flows of SET and its subsidiaries for the year ended December 31, 2009 and 2008 are summarized as:

(Unit: THB million)

	2009	2008	Cash flows Increase/(decrease)	
Net income from operations before changes in operating assets and liabilities	(79)	12	(91)	(758.3%)
Net changes in working capital	30	(225)	255	113.3%
Cash flows from operating activities	(49)	(213)	164	77.0%
Cash flows from investing activities	99	185	(86)	(46.5%)
Net increase (decrease) in cash and cash equivalents	50	(29)	79	272.4%

Cash flow from operations

Significant movements in cash flow from operating activities and operating assets and liabilities are as mentioned in the analysis of operating results and financial status, above.

Cash flow from investing

Net cash flow from investing decreased by THB 86 million, or 46.5%, mainly due to a rise in dividend income from mutual funds of THB 200 million, whereas cash paid for investment in associates rose by THB 250 million.

Patareeya Benjapolchai (Ms.)
President