

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, 2011.

Overall

The operating results of SET Group for the years ended December 31, 2011 and 2010 were as follows:

(Unit: THB million)	For the year ended December 31			
	2011	2010	Increase/(decrease)	
			Amount	%
Operating revenues	3,245	2,639	606	22.96
Investment income	752	867	(115)	(13.26)
Other income	137	594	(457)	(76.93)
Operating expenses	2,545	2,482	63	2.54
Non-operating items	346	456	(110)	(24.12)
Income tax	158	68	90	132.35
Revenues over expenses	1,110	1,128	(18)	(1.60)

Revenues over expenses for the year ended December 31, 2011 decreased by THB 18 million, or 1.60% in comparison with 2010. Operating revenues increased by THB 606 million or 22.96% mainly due to the increase in trading volume, especially that of derivatives which increased by 120.31%. Investment income decreased by THB 115 million, or 13.26%, mainly due to the decrease in profit from sales of investments, as some investments were sold in 2010 to adjust SET's portfolio. Other income decreased by THB 457 million, or 76.93%, mainly due to gain from disposal of a parcel of Capital Market Project land in 2010. Operating expenses rose by THB 63 million, or 2.54%, mainly due to the increase in contribution to the SEC, based on the increase in trading volume. Non-operating items decreased by THB 110 million, or 24.12%, due to the decrease in appropriation of one-third of revenues over expenses to The Stock Exchange of Thailand Foundation as a one-time income of gain from disposal of land.

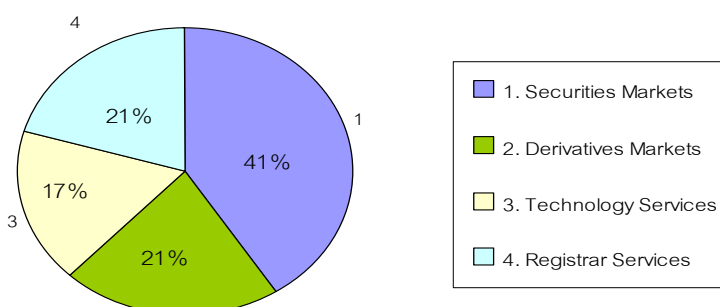
1. Analysis of operating results

1.1 Operating revenues

Operating revenues by segment

Operating revenues by segment mainly comprised of Securities Markets, Derivatives Markets, Technology Services and Registrar Services.

Operating revenues by segment



Securities Markets	
- Trading fees	719
- Clearing and settlement	161
- Listing	280
- Depository	137
- Membership	31
Total	1,328
Derivatives Markets	
- Trading fees	415
- Clearing	178
- Membership	89
Total	682
Technology Services	
- Member services	352
- Information service	172
- IT support	40
Total	564
Registrar Services	
- Stock registrar	621
- Fund registrar	50
Total	671
Total operating revenues	3,245

1.1.1 Securities Markets

	2011	2010	Increase/(decrease)	
			Amount	%
Revenues - Securities Markets (unit: THB million)	1,328	1,236	92	7.44
Trading fees	719	704	15	2.13
Clearing and settlement fees	161	158	3	1.90
Listing fees	280	241	39	16.18
Depository fees	137	101	36	35.64
Membership fees	31	32	(1)	(3.13)
Key market indicators				
SET Index (Point)	1,025.32	1,032.76	(7.44)	(0.72)
Daily avg. trading value - Equity (THB million)	29,473	29,066	407	1.40
Market Capitalization (THB billion)	8,490	8,390	100	1.19
No. of listed companies (company)	545	541	4	0.74

Operating revenues from securities markets rose by THB 92 million, or 7.44%, in comparison with 2010. This was mainly due to the increase in listing fee as the number of Derivative Warrants listed and traded on Stock Exchange increased to 166 securities, up from 42 securities in 2010. In addition, depository fees increased resulting from the increase in average market capitalization.

1.1.2 Derivatives Markets

	2011	2010	Increase/(decrease)	
			Amount	%
Revenues - Derivatives Markets (unit: THB million)	682	366	316	86.34
Trading fees	415	193	222	115.03
Clearing fees	178	83	95	114.46
Membership fees	89	90	(1)	(1.11)
Key market indicators				
Daily avg. trading volume - Derivatives (Contracts)	41,145	18,676	22,469	120.31

Operating revenues from derivatives markets increased by 316 million, or 86.34%, in comparison with 2010. This was because the average trading volume per day soared to 41,145 contracts per day in 2011 from 18,676 contracts per day in 2010, a rise of 120.31%. The increase was mainly from SET50 Index Futures, which increased to an average of 17,690 contracts per day from 10,212 contracts per day, and Gold Futures, which reached an average of 16,350 contracts per day, up from 4,014 contracts per day including launching new products, Silver Futures and Oil Futures. In addition, commodity futures began for night session trading on June 20, 2011.

1.1.3 Technology services

	2011	2010	Increase/(decrease)	
			Amount	%
Revenue - Technology Services (Unit: THB million)	564	416	148	35.58
Members services fees	352	236	116	49.15
Information service income	172	147	25	17.01
Customization and IT support fees	40	33	7	21.21

Operating revenues from technology services increased by 148 million, or 35.58%, in comparison with 2010. This was mainly from an increase of fees from internet trading of derivatives and equity securities through platform of SETTRADE.COM Co., Ltd. Information service income increased from the increase in number of users.

1.1.4 Registrar services

	2011	2010	Increase/(decrease)	
			Amount	%
Revenue - Registrar services (Unit: THB million)	671	622	49	7.88
Stock registrar fees	621	572	49	8.57
Fund registrar fees	50	50	-	-

Operating revenues from registrar service increased by 49 million, or 7.88%, in comparison with 2010. This resulted from the increase in volume of register book closings for dividend payment of listed companies.

1.2 Other income

	2011	2010	Increase/(decrease)	
			Amount	%
Other income (Unit: THB million)	137	594	(457)	(76.93)
Gain on disposal of assets	-	422	(422)	(100.00)
Educational activities income	41	54	(13)	(24.07)
Fees for fund management	24	26	(2)	(7.69)
Others	72	92	(20)	(21.74)

Other income decreased by 457 million, or 76.93%, in comparison with 2010. In 2010 SET Group gained from disposal of a parcel of land which was a part of the Capital Market Project. Educational activities income decreased because training and testing for licensing of securities professionals has been transferred from Thailand Securities Institute (TSI) to various professional associations. TSI will still be responsible for setting standards of expertise for the capital market.

1.3 Operating expenses

	2011	2010	Increase/(decrease)	
			Amount	%
Operating expenses (Unit: THB million)	2,545	2,482	63	2.54
Employee benefit expenses	1,102	1,076	26	2.42
Depreciation and amortization	195	284	(89)	(31.34)
SEC fees	301	177	124	70.06
Technology expenses	137	109	28	25.69
Other expenses	810	836	(26)	(3.11)

SET Group had operating expenses in 2011 of THB 2,545 million, increasing 2.54% from 2010. This was mainly from SEC fees, which increased following the increase in trading value of equity securities, while depreciation and amortization decreased mainly due to the revised useful life of assets, especially on equipment and computer software.

1.4 Non-operating items

The decrease of THB 110 million, or 24.12%, was due to the decrease in appropriation of one-third of revenues over expenses to The Stock Exchange of Thailand Foundation as a one-time income of gain from disposal of land in 2010.

2. Analysis of financial position

(Unit: THB million)	Dec 31, 2011	Dec 31, 2010	Increase/(decrease)	
			Amount	%
Total assets	27,019	23,418	3,601	15.38
Total liabilities	9,151	6,299	2,852	45.28
Fund balances	17,868	17,119	749	4.38

The significant movements in assets, liabilities and funds of SET Group as at December 31, 2011 when compared with the balance as at December 31, 2010 were as follows:

2.1 Analysis of assets

As at December 31, 2011, total assets of SET Group amounted to THB 27,019 million, an increase of THB 3,601 million, or 15.38%, in comparison with balance as at December 31, 2010. Details are as follows:

2.1.1 Investments were THB 14,782 million or 54.71% of total assets, up by THB 828 million, or 5.93%. Investments by category are as follows:

	Dec 31, 2011	Dec 31, 2010	Increase/(decrease)	
			Amount	%
Investment portfolio (Unit: THB million)	14,782	13,954	828	5.93
Trading	1,235	1,787	(552)	(30.89)
Available-for-sale	4,003	4,458	(455)	(10.21)
Held-to-maturity	9,452	7,512	1,940	25.83
General investments	92	197	(105)	(53.30)

2.1.2 Assets for margin and assets for clearing system protection and benefits were THB 7,424 million or 27.48% of total assets, up by THB 2,755 million or 59.01%. This represents margin deposits and benefits of the Thailand Clearing House Co., Ltd, which increased resulting from the increase of futures derivatives transactions.

2.1.3 Property and equipment and intangible assets were THB 2,641 million, or 9.77% of total assets, up by THB 12 million or 0.46%.

2.2 Analysis of liabilities

As at December 31, 2011, total liabilities of SET Group amounted to THB 9,151 million, up by THB 2,852 million, or 45.28%, in comparison with the balance as at December 31, 2010. Significant details are as follows:

- 2.2.1 Margin deposits and assets for clearing system protection and benefits payable was THB 7,301 million, or 79.78% of total liabilities, up by THB 2,752 million, or 60.50%, resulting from the increase of futures derivatives transactions.
- 2.2.2 Accounts payable and accrued expenses were THB 693 million, or 7.57% of total liabilities, down by THB 61 million or 8.12%. This drop was mainly because donations to The Stock Exchange of Thailand Foundation decreased by THB 108 million.
- 2.2.3 Other current liabilities were THB 506 million or 5.53% of total liabilities, up by THB 137 million or 37.29%. This rise results mainly from Thai Stock Market Flood Relief Fund of THB 179 million that SET appointed to be its agent for donations (other current assets are increased by the same amount).

2.3 Analysis of funds

As at December 31, 2011, total funds of SET Group amounted to THB 17,868 million, up by THB 749 million, or 4.38%, in comparison with the balance as at December 31, 2010. This resulted from the revenues over expenses for 2011 reaching THB 1,110 million, while market price of available-for-sale securities dropped to THB 359 million.

3. Analysis of liquidity

Cash flows of SET Group for the year ended December 31, 2011 and 2010 are summarized as:

(Unit: THB million)	2011	2010	Increase/(decrease)	
			Amount	%
Cash flows from operating activities	512	244	268	109.84
Cash flows from investing activities	(651)	(22)	629	2,859.09
Cash and cash equivalents at the end of year	365	503	(138)	(27.44)

Cash and cash equivalents at December 31, 2011 amounted to THB 365 million, down by THB 138 million, or 27.44%. The details of the sources and uses of funds are as follows:

- Net cash receipts from operating activities were THB 512 million. This was from cash received from operating activities of THB 724 million and the change in working capital of THB 212 million.
- Net cash payment from investing activities was THB 651 million. This was mainly from the investment in Bills of Exchange and deposits, as well as a new trading system (the Trading Initiative Project), which is planned to go live by mid-2012.

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