

## Management discussion and analysis

### Overview

The operating results of the SET group for the years ended December 31, 2016 and 2015 were:

(Unit: THB million)	For the year ended December 31			
	2016	2015	Increase / (Decrease) Amount	%
Operating revenue	5,099	4,518	581	12.86
Other income	181	205	(24)	(11.71)
Investment income	767	492	275	55.89
Operating expenses	(3,694)	(3,335)	359	10.76
Contributions to The Stock Exchange of Thailand Foundation (Foundation)	(401)	(401)	-	-
Income tax expense	(328)	(140)	188	134.29
Revenues over expenses	1,662	1,382	280	20.26

Revenues over expenses for the year ended December 31, 2016 of THB 1,662 million increased by THB 280 million, or 20.26%, in comparison with 2015. Operating revenue rose by THB 581 million, or 12.86%, mainly from increases in daily average trading volume of equity and derivatives, number of new listed securities, and number of users in technology service increase. Investment income increased by THB 275 million, or 55.89%, mainly from dividend received from mutual fund and profit from changing in investment policy in debt securities to comply with the European Market Infrastructure Regulation (EMIR). Operating expenses rose by THB 359 million, or 10.76%, mainly due to the increase of building and office expenses and the higher depreciation from SET's new systems and new office building. SET has moved to a new office building since January 4, 2016. Income tax rose as SET has to pay for corporate income tax since August 9, 2016 [as announced by the Director-General of the Revenue Department Notification on Income Tax (No. 271) on August 8, 2016 to be company or juristic partnership under section 39 of the Revenue Code].

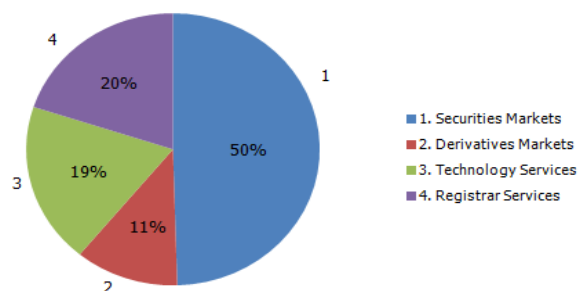
### 1. Analysis of operating results

#### 1.1 Operating revenue

##### Operating revenue by segment

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

Operating revenue by segment



For the year ended December 31, 2016

(Unit: THB million)

<b>Securities Market</b>	
- Trading	1,282
- Listing	539
- Clearing and settlement	339
- Depository	290
- Membership	76
<b>Total</b>	<b>2,526</b>
<b>Derivatives Market</b>	
- Trading	368
- Clearing	159
- Membership	57
<b>Total</b>	<b>584</b>
<b>Technology Services</b>	
- Member services	509
- Information services	340
- IT support	122
<b>Total</b>	<b>971</b>
<b>Registrar Services</b>	
- Securities registrar	1,018
<b>Total</b>	<b>1,018</b>
<b>Total operating revenue</b>	<b>5,099</b>

### 1.1.1 Securities Market

(Unit: THB million)	2016	2015	Increase / (Decrease)	
			Amount	%
<b>Revenue - Securities Market</b>	<b>2,526</b>	<b>2,184</b>	<b>342</b>	<b>15.66</b>
Trading fees	1,282	1,077	205	19.03
Listing fees	539	494	45	9.11
Clearing and settlement fees	339	293	46	15.70
Depository fees	290	283	7	2.47
Membership fees	76	37	39	105.41
<b>Key market indicators</b>				
SET Index at the end of the year (point)	1,543	1,288	255	19.80
Daily average trading value - Equity (THB million)	52,526	44,302	8,224	18.56
Average market capitalization (THB trillion)	14.33	14.04	0.29	2.07
No. of listed securities at the end of the year (securities)	2,016	1,812	204	11.26

Operating revenue from securities market rose by THB 342 million, or 15.66%, compared to 2015. This revenue increase resulted from the rise in trading as well as clearing and settlement fees were from an increase in the daily average trading value. In addition, listing fees increased in proportion to the increase of the number of listed securities.

### 1.1.2 Derivatives Markets

(Unit: THB million)	2016	2015	Increase / (Decrease)	
			Amount	%
<b>Revenue - Derivatives Market</b>	<b>584</b>	<b>472</b>	<b>112</b>	<b>23.73</b>
Trading fees	368	295	73	24.75
Clearing fees	159	127	32	25.20
Membership fees	57	50	7	14.00
<b>Key market indicators</b>				
Daily average trading volume - Derivatives (contracts)	285,189	199,749	85,440	42.77

Operating revenue from derivatives market rose by THB 112 million, or 23.73%, compared to 2015, resulting from the rise in daily average trading volume of derivatives, especially from Single Stock Futures, SET50 Index Futures and Gold Futures. The use of derivative instruments is to reduce the volatility of the stock price.

### 1.1.3 Technology services

(Unit: THB million)	2016	2015	Increase / (Decrease)	
			Amount	%
<b>Revenue - Technology services</b>	<b>971</b>	<b>879</b>	<b>92</b>	<b>10.47</b>
Member services fees	509	466	43	9.23
Information service fees	340	307	33	10.75
Customization and IT support fees	122	106	16	15.09

Operating revenue from technology services rose by THB 92 million, or 10.47%, compared to 2015. This increase was mainly from the increase number of user for information and market access services.

### 1.1.4 Registrar services

(Unit: THB million)	2016	2015	Increase/(Decrease)	
			Amount	%
<b>Revenue - Registrar services</b>	<b>1,018</b>	<b>983</b>	<b>35</b>	<b>3.56</b>
Securities registrar fees	1,018	982	36	3.67
Fund registrar fees	-	1	(1)	(100.00)

Operating revenue from registrar services rose by THB 35 million, or 3.56%, compared to 2015. This was contributed by the rise in annual fee from securities registrar as number of listed securities increased. The registrar service for provident funds was terminated during 2015.

## 1.2 Other income

(Unit: THB million)	2016	2015	Increase/(Decrease)	
			Amount	%
<b>Other income</b>	<b>181</b>	<b>205</b>	<b>(24)</b>	<b>(11.71)</b>
Educational activities income	73	54	19	35.19
Revenues from fees and management funds	25	22	3	13.64
Revenues from fines	21	11	10	90.91
Revenues from rental and utilities	12	11	1	9.09
Revenues from marketing events	3	34	(31)	(91.18)
Revenues from transfer rights of membership	1	19	(18)	(94.74)
Others	46	54	(8)	(14.81)

Other income decreased by THB 24 million, or 11.71%, compared to 2015 due to the marketing activities rescheduling, such as the SET in the City event and SET award event that were originally scheduled in the 4<sup>th</sup> quarter of 2016 and had been postponed to 2017. In addition, there was a certain amount of fee from membership rights transfer which is a one-time fee payment in 2015.

## 1.3 Investment income

(Unit: THB million)	2016	2015	Increase / (Decrease)	
			Amount	%
<b>Investment income</b>	<b>767</b>	<b>492</b>	<b>275</b>	<b>55.89</b>
Interest income	208	300	(92)	(30.67)
Dividend income	405	114	291	255.26
Realized gain (loss) from investments	192	67	125	186.57
Unrealized gain (loss) from investments	(38)	11	(49)	(445.45)

Investment income rose by THB 275 million, or 55.89% from 2015, mostly from dividend received from mutual fund as well as profit from changing in investment policy in debt securities to comply with EMIR. The investment in held-to-maturity debt securities, which are carried at cost, has been adjusted to investment in government bonds, and managed by private fund, which are trading investments and measured at fair value

#### 1.4 Operating expenses

(Unit: THB million)	2016	2015	Increase / (Decrease)	
			Amount	%
<b>Operating expenses</b>	<b>3,694</b>	<b>3,335</b>	<b>359</b>	<b>10.76</b>
Employee benefit expenses	1,466	1,372	94	6.85
The SEC fees	536	456	80	17.54
Depreciation and amortization	467	295	172	58.31
Direct service expenses	286	281	5	1.78
Building and office expenses	232	189	43	22.75
Technology expenses	191	184	7	3.80
Educational activities expenses	179	196	(17)	(8.67)
Marketing expenses	159	195	(36)	(18.46)
Fees and compensation expenses	76	59	17	28.81
Others	102	108	(6)	(5.56)

In 2016, operating expenses of THB 3,694 million, a 10.76% increase from 2015. This increase was mainly from building and office expenses, the higher depreciation from SET's new core systems and new head office building (SET moved to the new office building on January 4, 2016) and the SEC fees as the equity trading volume increase.

## 2. Analysis of financial position

(Unit: THB million)	Dec 31, 2016	Dec 31, 2015	Increase / (Decrease)	
			Amount	%
Total assets	39,539	36,136	3,403	9.42
Total liabilities	14,141	12,747	1,394	10.94
Fund balances	25,398	23,389	2,009	8.59

Significant movements in assets, liabilities and funds of the SET group as at December 31, 2016 when compared with the balance as at December 31, 2015, were as follows:

### 2.1 Analysis of assets

As at December 31, 2016, total assets of the SET group amounted to THB 39,539 million, an increase of THB 3,403 million, or 9.42%, in comparison with the balance as of December 31, 2015.

2.1.1 Cash and cash equivalents, cash at banks for financial benefits payable and investments were THB 19,272 million or 48.74% of total assets, a THB 2,199 million, or 12.88% increases:

(Unit: THB million)	Dec 31, 2016	Dec 31, 2015	Increase / (Decrease)	
			Amount	%
<b>Cash and cash equivalents</b>	<b>717</b>	<b>1,661</b>	<b>(944)</b>	<b>(56.83)</b>
<b>Cash at banks for financial benefits payable</b>	<b>66</b>	<b>62</b>	<b>4</b>	<b>6.45</b>
<b>Investment portfolio</b>	<b>18,489</b>	<b>15,349</b>	<b>3,140</b>	<b>20.46</b>
Trading	7,828	2,798	5,030	179.77
Available-for-sale	8,521	7,903	618	7.82
Held-to-maturity	2,103	4,611	(2,508)	(54.39)
General investments	37	37	-	-
<b>Total</b>	<b>19,272</b>	<b>17,073</b>	<b>2,199</b>	<b>12.88</b>

SET group maintains a policy to invest in several types of investments such as equity, property fund, debt (fixed deposits, government bonds, corporate debentures) and others. In 2016, the investment management of debt has been adjusted to comply with the criteria of EMIR in the provision for the stability of the clearing house by changing from investment in held-to-maturity debt securities to investment in government bonds, and managed by private funds, and considered as trading securities that will be accounted for at fair value.

2.1.2 Assets for margin deposits and benefits, and assets for clearing system protection and benefits were THB 11,881 million or 30.05% of total assets, up by THB 1,452 million or 13.92%. This margin deposits and benefits of Thailand Clearing House increased in accordance with the increase in trading volume of derivatives.

## 2.2 Analysis of liabilities

As at December 31, 2016, total liabilities of the SET group amounted to THB 14,141 million, up by THB 1,394 million, or 10.94%, in comparison with the balance as at December 31, 2015. Significant details are:

2.2.1 Margin deposits and assets for clearing system protection and benefits payable were THB 11,741 million, or 83.03% of total liabilities, a THB 1,450 million, or 14.09% increase, in accordance with the increase in trading volume of derivatives.

2.2.2 Accounts payable and accrued expenses were THB 1,032 million, a THB 194 million or 15.82% decrease. The amount was the payment of construction costs of SET's new office building.

## 2.3 Analysis of funds

As at December 31, 2016, total funds of the SET group amounted to THB 25,398 million, up by THB 2,009 million or 8.59%, in comparison with the balance as at December 31, 2015. This resulted from the revenues over expenses for 2016 reaching THB 1,662 million, including an increase in the market value of investment in equity fund of THB 347 million.

## 3. Analysis of liquidity

Cash flows of the SET group for the year ended December 31, 2016 and 2015 can be summarized as follows:

(Unit: THB million)	2016	2015	Increase / (Decrease)	
			Amount	%
Cash flows from operating activities	1,217	636	581	91.35
Cash flows from investing activities	(2,157)	(332)	1,825	549.70
Cash and cash equivalents at the end of year	783	1,723	(940)	(54.56)

Cash and cash equivalents as at December 31, 2016 amounted to THB 783 million, a THB 940 million, or 54.56% decrease, in comparison with 2015. The details of the sources and uses of funds are as follows:

- Net cash receipts from operating activities were THB 1,217 million.
- Net cash used in investing activities were THB 2,157 million. This was mainly from an investment in financial instruments of THB 2,798 million, payment for construction of SET's new office building and new operating systems development of THB 275 million. However, there was investment income of THB 863 million.