

Management Discussion and Analysis

To comply with good governance practices, The Stock Exchange of Thailand 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, 2007.

1. Operational Results in 2007

In 2007, SET and its subsidiaries' revenues exceeded expenses by THB 70 million, a 127% year-on-year (y-o-y) increase of THB 332 million. Revenues increased by THB 280 million, contributed by a higher trading volume in both the equities market and derivatives market. Expenses dropped by THB 52 million due to a fall in corporate social responsibility (CSR) expenses; this is because certain social projects in this year were taken over by The Stock Exchange of Thailand Foundation, which was established in 2006.

1.1 Analysis of Income

In 2007, SET and its subsidiaries realized THB 3,066 million in total revenues, an increase y-o-y of THB 280 million. This was a 10% increase from 2006, as listed below:

Operating revenue y-o-y increased by THB 218 million, or 12%

- Equities market
 - Trading fees rose by THB 29 million. Daily average trading volume in 2007 rose by THB 1,042 million, or 6%, from THB 16,394 million per day in 2006 to THB 17,436 million per day in 2007.
 - The total of broker seat admission fees, from members who joined SET in 2005, increased by THB 23 million.
- Derivatives market
 - Trading fees rose by THB 65 million, mainly consisting of:
 - SET50 Index Futures, which debuted on April 28, 2006. Daily average trading volume jumped by 3,809 contracts: from 1,204 contracts in 2006 to 5,013 contracts in 2007.
 - SET50 Index Options, the second derivatives product, which debuted on October 29, 2007. Daily average trading volume was 206 contracts.
 - Broker seat admission fees increased by THB 14 million. There were two members joining in 2007.
- Securities Depository and Registrar Services
 - Revenue from the securities depository center grew by THB 24 million, mainly stemming from custody fees of THB 20 million.
 - Registrar fees increased by THB 11 million, mainly due to annual registrar fees, which rose in line with the registered capital of listed companies.
- Internet Trading Services
 - Internet trading fees, through Settrade.com Co., Ltd.'s platform, increased by THB 22 million. The fees derived from equity securities of THB 14 million and derivatives securities (launched in August, 2006) of THB 8 million. The internet trading volume increased in line with the trading volume of the equities market and derivatives market.

Net investment income y-o-y increased by THB 56 million, or 6%, mainly because:

- Dividend income from investment in mutual funds went up THB 168 million.
- However, interest income went down by THB 63 million, mainly from the decrease of total investments due to redemption investments for acquired land for new office building.
- Gains from investments in mutual funds dropped by THB 77 million while gain from private funds went up THB 24 million.

1.2 Analysis of Expenses

In 2007, SET and its subsidiaries recorded THB 2,996 million in consolidated expenses, a decline of THB 52 million y-o-y, or 2%. The reasons were:

- 1.2.1 Operating expenses increased by THB 300 million y-o-y, or 12%, mainly from land rental accounted totaling THB 291 million. According to the agreement with the landlord to settle the lease case, SET agreed to pay the rental from the year 1994 to 4 July 2007 totally THB 284 million and the rental from 5 July 2007 to 4 July 2028 at THB 12 million per annum, which shall be increased approximately 16% every 5 year until the expiration of the lease contract.
- 1.2.2 Charity and corporate social responsibility (CSR) expenses decreased by THB 351 million y-o-y, or 88%. The major CSR projects in 2006 were contributions to The Stock Exchange of Thailand Foundation, amounting to THB 147 million, and contributions to the English Skill Development for University project, amounting to THB 86 million. In 2007, certain social projects were taken over by The Stock Exchange of Thailand Foundation.

2. Financial Position as of December 31, 2007

Changes in the financial status of SET and its subsidiaries in 2007 compared to that in 2006 are explained by the following transactions:

2.1 Analysis of Assets

As of December 31, 2007 SET and its subsidiaries reported total assets of THB 19,349 million. The majority of assets are accounted for as follows:

- (1) Cash and investment totaling THB 12,368 million, or 64%, as summarized as below:
 - Investment in mutual funds: THB 6,065 million.
 - Investment managed by SET and subsidiaries: THB 3,008 million.
 - Investment in private funds: THB 2,630 million.
 - Cash and other investments: THB 665 million.
- (2) Fixed assets of THB 4,002 million, or 21%. This amount was THB 560 million more than in 2006. Most of the increase was due to the acquisition additional land of THB 450 million for the new office project.
- (3) Margin deposits of derivatives market amounting to THB 1,400 million, which was also recorded as liability of the same amount.
- (4) Assets for clearing system protection of derivatives market, amounting to THB 562 million.
- (5) The Securities Investor Protection Fund (SIPF) of THB 443 million.

2.2 Analysis of Liabilities

At end-2007, SET and its subsidiaries had THB 3,161 million in total liabilities, which was 66% higher than the 2006 level of THB 1,257 million. The major liabilities include:

- (1) Margin deposits and benefits payable of the derivatives market, amounting to THB 1,400 million.

- (2) Accounts payable and accrued expenses amounting to THB 736 million. They are mainly comprised of:
 - Land lease payable, amounting to THB 296 million.
 - Accrued staff costs of THB 124 million.
 - Acquisition of hardware and software, repair and maintenance expenses totaling THB 91 million.
- (3) Fees received in advance amounting to THB 217 million.
- (4) Other current liabilities, amounting to THB 246 million, which mainly were:
 - Guaranteed deposits and retentions, totaling THB 82 million.
 - Withholding taxes payable of THB 80 million.
- (5) Non-current liabilities, amounting to THB 559 million, which mainly were:
 - Members' portions of assets for clearing system protection and benefits payable, totaling THB 452 million.
 - Members' portions of contributions and benefits to the Securities Investor Protection Fund (SIPF), amounting to THB 107 million.

2.3 Analysis of Funds

On December 31, 2007, SET's total funds were THB 16,188 million, an increase of THB 612 million, or 4% from the previous year-end. The major reasons for the changes were:

- (1) The General Fund, valued at THB 11,455 million, expanded by THB 56 million from operational gains in 2007.
- (2) Unrealized gains from investment in mutual funds increased y-o-y by THB 541 million.

3. Cash Flows

Cash and cash equivalents as of December 31, 2007 were THB 260 million, a decrease of THB88 million from 2006. The fall was mainly due to changes in cash flows from operating and investing activities as follows:

- (1) Net cash flows used in operating activities amounted to THB 420 million, a decrease of THB 544 million. This was mainly because of an increase in the operational results of THB 332 million (the Operational Results were: a gain in 2007 of THB 70 million, vs. a loss in 2006 of THB 262 million).
- (2) Net cash from investing activities was THB 332 million, a decrease of THB 506 million from 2006 due to the lower redemption of investments in 2007.

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