

## Management discussion and analysis

### Overall

The operating results of SET Group for the years ended December 31, 2012 and 2011 were as follows:

(Unit: THB million)	For the year ended December 31			
	2012	2011	Increase/(decrease)	
			Amount	%
Operating revenues	3,365	3,245	120	3.70
Other income	152	137	15	10.95
Investment income	982	752	230	30.59
Operating expenses	(2,599)	(2,545)	54	2.12
Contributions to The Stock Exchange of Thailand Foundation ("SOF")	(454)	(359)	95	26.46
Income tax	(126)	(158)	(32)	(20.25)
Revenues over expenses	1,362	1,110	252	22.70

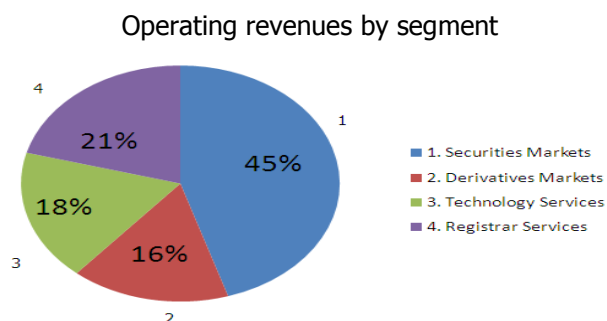
Revenues over expenses for the year ended December 31, 2012 increased by THB252 million, or 22.70%, in comparison with 2011. Operating revenues rose by THB 120 million, or 3.70%, mainly due to the increased revenue of securities market and technology services, while revenue of derivatives market decreased. The growth in securities market revenue was mainly due to rises in daily average trading value and market capitalization. Investment income rose by THB230 million, or 30.59%, mainly from interest income from the increase in investment principal. Operating expenses rose by THB54 million, or 2.12%, mainly due to the rise in total SEC fees, which are linked to the trading volume of equity instruments, while technology expenses increased because SET launched three new IT systems in September 2012 (SET CONNECT for trading, SET FEED for market data and SET WATCH for market surveillance). The contributions to the SOF increased by THB95 million, or 26.46%, because appropriation of one-third of revenues over expenses to SOF as profit increased.

### 1. Analysis of operating results

#### 1.1 Operating revenues

##### Operating revenues by segment

Operating revenues by segment were mainly from Securities markets, Derivatives markets, Technology services and Registrar services.



For the year ended December 31, 2012 (unit: THB million)	
<b>Securities Markets</b>	
- Trading fees	792
- Clearing and settlement	194
- Listing	314
- Depository	189
- Membership	31
<b>Total</b>	<b>1,520</b>
<b>Derivatives Markets</b>	
- Trading fees	321
- Clearing	138
- Membership	82
<b>Total</b>	<b>541</b>
<b>Technology Services</b>	
- Member services	372
- Information service	184
- IT support	49
<b>Total</b>	<b>605</b>
<b>Registrar Services</b>	
- Stock registrar	645
- Fund registrar	54
<b>Total</b>	<b>699</b>
<b>Total operating revenues</b>	<b>3,365</b>

### 1.1.1 Securities Markets

(unit: THB million)	2012	2011	Increase/(decrease)	
			Amount	%
<b>Revenues - Securities Markets</b>	<b>1,520</b>	<b>1,328</b>	<b>192</b>	<b>14.46</b>
Trading fees	792	719	73	10.15
Clearing and settlement fees	194	161	33	20.50
Listing fees	314	280	34	12.14
Depository fees	189	137	52	37.96
Membership fees	31	31	-	-
<b>Key market indicators</b>				
SET Index (Point)	1,391.93	1,025.32	366.61	35.76
Daily avg. trading value - Equity (THB million)	32,304	29,473	2,831	9.61
Market capitalization (THB billion)	11,964	8,490	3,474	40.92
No. of listed Securities (Securities)	1,048	848	200	23.58

Operating revenues from securities markets went up by THB192 million, or 14.46%, in comparison with 2011. This was mainly due to the rise in trading and clearing and settlement fees because daily average trading value went up. Listing fees increased as the number of derivative warrants traded increased to 345 securities, up from 166 securities in 2011. In addition, depository fees rose as average market capitalization went up.

### 1.1.2 Derivatives Markets

(unit: THB million)	2012	2011	Increase/(decrease)	
			Amount	%
<b>Revenues - Derivatives Markets</b>	<b>541</b>	<b>682</b>	<b>(141)</b>	<b>(20.67)</b>
Trading fees	321	415	(94)	(22.65)
Clearing fees	138	178	(40)	(22.47)
Membership fees	82	89	(7)	(7.87)
<b>Key market indicators</b>				
Daily avg. trading volume - Derivatives (Contracts)	43,823	41,145	2,678	6.51

Operating revenues from derivatives markets decreased by THB141 million, or 20.67%, in comparison with 2011. Although the daily average trading volume of derivatives market as a whole increased, the volume of SET 50 Index Futures and 50 baht gold futures, which have higher fees than other types of derivatives, decreased. This drop was because gold price volatility declined in 2012 compared to 2011, and so investor interest in gold futures lessened. In addition, SET gave promotional discounts for these two products.

### 1.1.3 Technology services

(Unit: THB million)	2012	2011	Increase/(decrease)	
			Amount	%
<b>Revenue - Technology Services</b>	<b>605</b>	<b>564</b>	<b>41</b>	<b>7.27</b>
Member services fees	372	352	20	5.68
Information service income	184	172	12	6.98
Customization and IT support fees	49	40	9	22.50

Operating revenues from technology services went up by THB41 million, or 7.27%, in comparison with 2011. This was mainly because revenues from internet trading of equity securities through SETTRADE.COM Co., Ltd. rose as trading value of equities went up. Information service income increased because the number of users rose.

### 1.1.4 Registrar services

(Unit: THB million)	2012	2011	Increase/(decrease)	
			Amount	%
<b>Revenue - Registrar services</b>	<b>699</b>	<b>671</b>	<b>28</b>	<b>4.17</b>
Stock registrar fees	645	621	24	3.86
Fund registrar fees	54	50	4	8.00

Operating revenues from registrar services rose by THB28 million, or 4.17%, in comparison with 2011. This resulted from the rise in number of listed securities and in the capital of listed companies.

## 1.2 Other income

(Unit: THB million)	2012	2011	Increase/(decrease)	
			Amount	%
<b>Other income</b>	<b>152</b>	<b>137</b>	<b>15</b>	<b>10.95</b>
Educational activities income	32	41	(9)	(21.95)
Revenues from marketing event	26	4	22	550.00
Revenues from fund management	20	14	6	42.86
Others	74	78	(4)	(5.13)

Other income rose by THB15 million, or 10.95%, in comparison with 2011. This was mainly from a boost in revenues from marketing events, such as SET in the City (in 2011, SET had almost no marketing activities due to widespread flooding). In addition, revenues from fund management for margin deposits and clearing fund of the Thailand Clearing House Co., Ltd. increased, while income from educational activities dropped because training and examination for licensing of securities professionals has been transferred from the Thailand Securities Institute (TSI) to various professional associations. TSI will still be responsible for setting standards of expertise for the capital market.

## 1.3 Investment income

(Unit: THB million)	2012	2011	Increase/(decrease)	
			Amount	%
<b>Investment income</b>	<b>982</b>	<b>752</b>	<b>230</b>	<b>30.59</b>
Interest income	440	329	111	33.74
Dividend income	338	307	31	10.10
Realized gain from investments	181	125	56	44.80
Others	23	(9)	32	355.56

Investment income rose by THB230 million, or 30.59%, in comparison with 2011. This was mainly because investment principal and market interest rates both rose. Dividend income and realized gain from investments went up as equity prices rose. In addition, provision of investment in private equity has been reversed and unrealized gain from private fund went up.

## 1.4 Operating expenses

(Unit: THB million)	2012	2011	Increase/(decrease)	
			Amount	%
<b>Operating expenses</b>	<b>2,599</b>	<b>2,545</b>	<b>54</b>	<b>2.12</b>
Employee benefit expenses	1,084	1,102	(18)	(1.63)
SEC fees	334	301	33	10.96
Depreciation and amortization	185	195	(10)	(5.13)
Technology expenses	149	137	12	8.76
Marketing expenses	134	104	30	28.85
Fees and compensation expenses	76	57	19	33.33
Other expenses	637	649	(12)	(1.85)

SET Group had operating expenses in 2012 of THB2,599 million, increasing 2.12% from 2011. This was mainly from rises in total costs of SEC fees, which are linked to the trading value of equities. Technology expenses increased from launching of SET's new trading system on September 2012 (SET CONNECT, market data system and the market surveillance system). Marketing expenses increased from SET in the City (in 2011, SET had almost no marketing activities due to widespread flooding). Fees and compensation expenses *rose* due to consulting fees for SET's Operations Master Plan, while depreciation and amortization decreased mainly due to the revised useful life of assets, especially on hardware and software.

## 2. Analysis of financial position

(Unit: THB million)	Dec 31, 2012	Dec 31, 2011	Increase/(decrease)	
			Amount	%
Total assets	29,935	27,019	2,916	10.79
Total liabilities	10,451	9,151	1,300	14.21
Fund balances	19,484	17,868	1,616	9.04

Significant movements in assets, liabilities and funds of SET Group as at December 31, 2012 when compared with balances as at December 31, 2011 were as follows:

### 2.1 Analysis of assets

As at December 31, 2012, total assets of SET Group amounted to THB29,935 million, an increase of THB2,916 million, or 10.79%, in comparison with balance as at December 31, 2011. Details are as follows:

- 2.1.1 Cash and cash equivalents, cash at banks for financial benefits payable and investments were THB16,694 million or 55.77% of total assets, up by THB1,547 million, or 10.21%. as follows:

(Unit: THB million)	Dec 31, 2012	Dec 31, 2011	Increase/(decrease)	
			Amount	%
<b>Cash and cash equivalents</b>	<b>1,046</b>	<b>365</b>	<b>681</b>	<b>186.58</b>
<b>Cash at banks for financial benefits payable</b>	<b>58</b>	<b>-</b>	<b>58</b>	<b>N/A</b>
<b>Investment portfolio</b>	<b>15,590</b>	<b>14,782</b>	<b>808</b>	<b>5.47</b>
Trading	1,438	1,235	203	16.44
Available-for-sale	3,356	4,003	(647)	(16.16)
Held-to-maturity	10,694	9,452	1,242	13.14
General investments	102	92	10	10.87
<b>Total</b>	<b>16,694</b>	<b>15,147</b>	<b>1,547</b>	<b>10.21</b>

SET Group maintains the policy to invest in several types of investment, i.e., debt (fixed deposits, government bonds, corporate debentures) and other instruments through mutual funds. In 2012, SET Group reduced the investment proportion of Available-for-sale and increased that of Held-to-maturity in order to reduce overall risk of total investment portfolio.

- 2.1.2 Assets for margin deposits and benefits and assets for clearing system protection and benefits were THB8,358 million or 27.92% of total assets, up by THB934 million or 12.58%. This represents margin deposits and benefits of Thailand Clearing House Co., Ltd, which rose as futures derivatives transactions went up.
- 2.1.3 Property and equipment and intangible assets were THB2,769 million, or 9.25% of total assets, up by THB128 million or 4.85%. This was mainly from the new trading system (SET CONNECT) launching in 2012 and construction of new office building.

### 2.2 Analysis of liabilities

As at December 31, 2012, total liabilities of SET Group amounted to THB10,451 million, up by THB1,300 million, or 14.21%, in comparison with the balance as at December 31, 2011. Significant details are as follows:

- 2.2.1 Margin deposits and assets for clearing system protection and benefits payable were THB8,231 million, or 78.76% of total liabilities, up by THB930 million, or 12.74%, due to the increase of futures derivatives transactions.

2.2.2 Accounts payable and accrued expenses were THB876 million, or 8.38% of total liabilities, up by THB183 million or 26.41%. This rise was mainly because contributions to The Stock Exchange of Thailand Foundation increased by THB95 million from 2011 and accrued expenses of SEC fees went up by THB34 million.

2.2.3 Other current liabilities were THB670 million or 6.41% of total liabilities, up by THB164 million or 32.73%. This rise was mainly from refunds for unallotted NVDRs of THB215 million, while donations to the Thai Stock Market and Capital Market Academy Flood Relief Funds, which SET was the agent for, dropped by THB85 million (other current assets decreased by the same amount).

### 2.3 Analysis of funds

As at December 31, 2012, total funds of SET Group amounted to THB19,484 million, up by THB1,616 million, or 9.04%, in comparison with the balance as at December 31, 2011. This resulted from revenues over expenses for 2012 reaching THB1,362 million, while the market price of available-for-sale securities rose to THB248 million.

### 3. Analysis of liquidity

Cash flows of SET Group for the year ended December 31, 2012 and 2011 are summarized as:

(Unit: THB million)	2012	2011	Increase/(decrease)	
			Amount	%
Cash flows from operating activities	621	512	109	21.29
Cash flows from investing activities	118	(651)	769	118.13
Cash and cash equivalents at the end of year	1,104	365	739	202.47

Cash and cash equivalents at December 31, 2012 amounted to THB1,104 million, up by THB739 million, or 202.47%. The details of the sources and uses of funds are as follows:

- Net cash receipts from operating activities were THB621 million. This was from cash received from operating activities of THB675 million and the change in working capital of THB54 million.
- Net cash receipts from investing activities were THB118 million. This was mainly from returns on investment increased.