

Ref: SET 57/21

13 August 2014

Subject: Management Discussion and Analysis for the second quarter 2014 results

To: Directors and Manager
The Stock Exchange of Thailand

Bumrungrad Hospital PCL.
Management Discussion and Analysis for 2Q14 results
13 August 2014

Summary

The recent political instability in Thailand that began in 1Q14, causing weak volumes and low revenue intensity, has continued through 2Q14 with similar impact to volumes and revenues. The Company reported Total revenues in 2Q14 of Baht 3,854 million, a 7.3% improvement over 2Q13 revenues of Baht 3,591 million. Net profit for 2Q14 grew 9.8% to Baht 635 million from Baht 579 million in 2Q13, while Net profit margin rose to 16.5% in 2Q14 from 16.1% in 2Q13.

Total revenues for 1H14 increased to Baht 7,534 million, producing a 5.3% improvement over 1H13 revenues of Baht 7,157 million. Net profit advanced 6.9% to Baht 1,274 million in 1H14 from Baht 1,192 million in 1H13, with Net profit margin at 16.9% in 1H14 compared to 16.6% in 1H13.

On 28 March 2014, Health Horizons Enterprises Pte. Ltd. ("HHE"), an overseas subsidiary 80% owned by the Company, acquired 100% of the common shares of Bumrungrad Mongolia LLC ("BML"), which holds 51% of the common shares of Seoul Seniors Tower LLC ("SST"), for approximately USD 12 million in cash. Additionally, HHE provided a loan of USD 3.3 million to SST, which owns and operates Ulaanbaatar Songdo Hospital ("UBSD") in Mongolia. HHE's consolidated assets, liabilities, and operating results, which include SST and BML as of the acquisition date, are included in the Company's consolidated financial statements for 2Q14 and 1H14. The details of this transaction are presented in the Significant Event section of this document.

Details of the management discussion and analysis follow:

Income statements

Quarterly Operational Performance

The Company reported Revenues from hospital operations of Baht 3,762 million, a 7.7% improvement year-over-year from Baht 3,494 million in 2Q13. Outpatient and inpatient volumes increased 10.8% and 13.1%, respectively, in 2Q14 compared with 2Q13 due to volumes contributed by the UBSD

acquisition. Excluding UBSD, outpatient volumes decreased 2.7% and inpatient volumes remained flat year-over-year, as the ongoing political environment in Thailand that began in 1Q14 continued to contribute to weak volumes and lower revenue intensity in 2Q14. As with the 1Q14, volumes from the international market segment were significantly more impacted than volumes from the Thai and expat market segments. Thai volumes ended the quarter with a 2.4% increase in admissions and a 1.3% decrease in outpatient visits, while international volumes, excluding UBSD, declined 2.9% in admissions and 6.0% in outpatient visits year-over-year. Impacted by the significantly lower intensity services provided by UBSD compared to the Company's, and to a lesser degree the drop in international volumes and elective procedures caused by the unstable Thailand political environment, revenue intensity decreased by 14.0% and 11.9% for outpatient and inpatient services, respectively. Revenue intensity, excluding UBSD, decreased 2.8% for outpatient services and increased 2.4% for inpatient services. The combined results of the above resulted in outpatient service revenues increasing 4.4% while inpatient service revenues grew by 9.6%. The revenue contribution from inpatient services in 2Q14 was 48.2% and from outpatient services was 51.8%, compared with 47.0% and 53.0%, respectively, for 2Q13. In terms of revenues by market segment, international patients accounted for 61.9% of the total in 2Q14, with the remaining 38.1% from Thai patients, reflecting a small decrease in the 38.8% from Thai patients in 2Q13.

Rental income was Baht 14 million in 2Q14 compared with Baht 19 million in 2Q13 due to the planned expiration of a service apartment building lease, and the conversion of previous rental space to temporary offices for hospital personnel necessitated by the campus expansion. Exchange gains increased to Baht 15 million from Baht 11 million due to timing differences associated with collections on certain Middle East accounts. Interest income decreased from Baht 40 million in 2Q13 to Baht 34 million in 2Q14, mainly due to decreased cash balances. The decrease in cash balances was mostly due to Baht 395 million cash paid for the acquisition of UBSD.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 2,315 million for 2Q14, or 5.0% more year-over-year from Baht 2,204 million in 2Q13, compared to the 7.7% growth in Revenues from hospital operations. In addition, the percentage of Cost of hospital operations to Revenues from hospital operations improved from 63.1% in 2Q13 to 61.5% in 2Q14. Administrative expenses (including Depreciation and amortization) were Baht 687 million in 2Q14, or 13.6% more than Baht 605 million in 2Q13. The change between periods includes Baht 34 million more in Depreciation and amortization associated with the campus expansion and revised estimated useful lives of certain assets, Baht 20 million in repair and maintenance expenses, and Baht 10 million in donations to support nurse recruitment. EBITDA grew 14.6% year-over-year from Baht 935 million in 2Q13 to Baht 1,072 million in 2Q14, with an EBITDA margin of 28.0% in 2Q14 compared to 26.3% in 2Q13.

Depreciation and amortization increased from Baht 193 million in 2Q13 to Baht 254 million in 2Q14, largely associated with the campus expansion and revised estimated useful lives of certain assets. The Company reported Baht 1 million Share of profit from investments in associates in 2Q13 compared to Baht 6 million Share of loss from investments in 2Q14. The 2Q14 Share of loss was mostly due to Bumrungrad International Limited (BIL) realized exchange rate losses connected with the planned closure of its subsidiaries [Bumrungrad International Holdings (Hong Kong) Limited and Bumrungrad International Holdings Pte. Ltd.] in June 2014 as part of the BIL wind-down process.

Finance cost dropped from Baht 61 million in 2Q13 to Baht 47 million in 2Q14, primarily due to Baht 14 million in capitalized interest expense associated with the campus expansion.

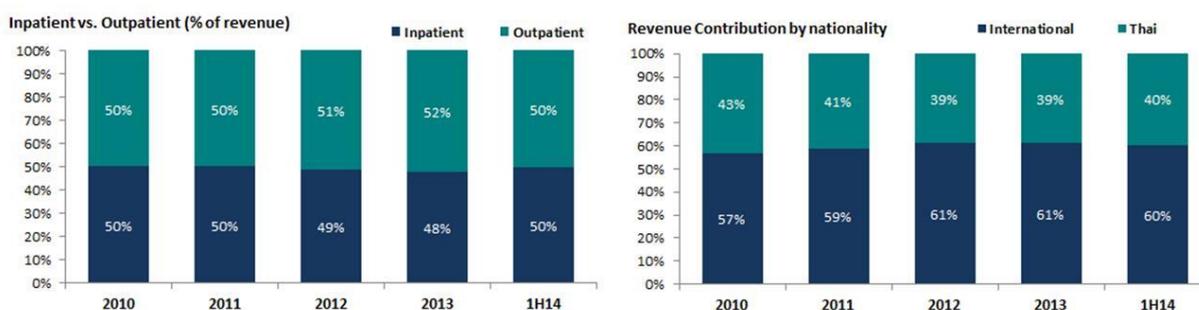
Corporate income tax of Baht 164 million in 2Q14 was higher than Baht 143 million in 2Q13. The variance is mostly due to Baht 21 million additional taxes due to higher taxable operating profit in 2Q14

compared with 2Q13, offset by tax benefits of Baht 4 million associated with outside training, and Baht 2 million related to donations to St. Louis College to support the nurse training program.

Basic EPS for 2Q14 of Baht 0.87 was 9.8% higher than Baht 0.79 in 2Q13, while 2Q14 Diluted EPS increased at the same rate to Baht 0.73 from Baht 0.67 in 2Q13.

First Half Operational Performance

Revenues from hospital operations were Baht 7,351 million for 1H14, a 5.8% improvement year-over-year from Baht 6,951 million in 1H13. Outpatient and inpatient volumes increased 1.3% and 5.4%, respectively, in 1H14 compared with 1H13 as a result of volumes added by the UBSD acquisition. Excluding UBSD volumes, outpatient volumes decreased 5.4% and inpatient volumes remained flat year-over-year, as the ongoing political environment in Thailand that began in 1Q14 continued to contribute to weak volumes and lower revenue intensity. Volumes from the international market segment have continued to be significantly more impacted than volumes from the Thai and expat market segments. Thai volumes ended the 1H14 with a 4.2% increase in admissions and a 2.0% decrease in outpatient visits, while international volumes, excluding UBSD, declined 7.7% in admissions and 12.1% in outpatient visits year-over-year. Impacted by the significantly lower intensity services provided by UBSD compared to the Company's, and to a lesser degree the drop in international volumes and elective procedures caused by the unstable Thailand political environment, revenue intensity decreased by 9.6% and 4.3% for outpatient and inpatient services, respectively. Revenue intensity, excluding UBSD, decreased 4.1% for outpatient services and increased 2.8% for inpatient services. The combined results of the above resulted in outpatient service revenues increasing 0.3% while inpatient service revenues grew by 10.3%. The revenue contribution from inpatient services in 1H14 was 49.6% and from outpatient services was 50.4%, compared with 47.3% and 52.7%, respectively, for 1H13. In terms of revenues by market segment, international patients accounted for 60.4% of the total in 1H14, with the remaining 39.6% from Thai patients, reflecting a small increase to the 38.4% from Thai patients in 1H13.



Rental income was Baht 29 million in 1H14 compared to Baht 53 million in 1H13 due to the planned expiration of a service apartment building lease, and the conversion of previous rental space to temporary offices for hospital personnel necessitated by the campus expansion. Interest income decreased from Baht 78 million in 1H13 to Baht 71 million in 1H14, mainly due to decreased cash balances. The decrease in cash balances was mostly due to Baht 395 million cash paid for the acquisition of UBSD. Exchange gains increased to Baht 24 million from Baht 23 million. Total revenues in 1H14 were Baht 7,534 million, compared to Baht 7,157 million in 1H13, a 5.3% improvement year-over-year.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 4,484 million for 1H14, or 3.2% more year-over-year from Baht 4,347 million in 1H13, compared to the 5.8% growth in Revenues from hospital operations. In addition, the percentage of Cost of hospital operations to

Revenues from hospital operations improved from 62.5% in 1H13 to 61.0% in 1H14. Administrative expenses (including Depreciation and amortization) were Baht 1,368 million in 1H14, increasing 13.9% from Baht 1,201 million in 1H13. This change included Baht 60 million in donations to support nurse recruitment, Baht 46 million more in Depreciation and amortization associated with the campus expansion and revised estimated useful lives of certain assets as, and Baht 26 million in repair and maintenance expenses. EBITDA grew 9.9% year-over-year from Baht 1,913 million in 1H13 to Baht 2,103 million in 1H14, with the EBITDA margin advancing to 28.2% in 1H14 compared with 27.0% in 1H13.

Depreciation and amortization increased from Baht 383 million in 1H13 to Baht 493 million in 1H14, largely associated with the campus expansion and revised estimated useful lives of certain assets. The Company reported Baht 2 million Share of profit from investments in associates in 1H13 compared to Baht 5 million Share of loss from investments in 1H14. The 1H14 Share of loss was mostly due to Bumrungrad International Limited (BIL) realized exchange rate losses connected with the planned closure of its subsidiaries [Bumrungrad International Holdings (Hong Kong) Limited and Bumrungrad International Holdings Pte. Ltd.] in June 2014 as part of the BIL wind-down process.

Finance cost dropped from Baht 120 million in 1H13 to Baht 93 million in 1H14, primarily due to Baht 27 million in capitalized interest expense associated with the campus expansion.

Corporate income tax of Baht 310 million in 1H14 was higher than Baht 299 million in 1H13, mostly due to Baht 24 million increased taxes due to higher taxable profit in 1H14 compared with 1H13, offset by tax benefits of Baht 12 million related to donations to St. Louis College to support the nurse training program and Baht 6 million associated with outside training.

Basic EPS for 1H14 was Baht 1.75, producing a 6.9% increase year-over-year from Baht 1.64 in 1H13, while 1H14 Diluted EPS also increased at the same rate to Baht 1.47 from Baht 1.37 in 1H13.

Income statements						
(Unit: Baht million)	2Q14	2Q13	Change	1H14	1H13	Change
Revenues from hospital operations	3,762	3,494	7.7%	7,351	6,951	5.8%
Total revenues	3,854	3,591	7.3%	7,534	7,157	5.3%
EBITDA	1,072	935	14.6%	2,103	1,913	9.9%
Net profit	635	579	9.8%	1,274	1,192	6.9%
<i>EBITDA margin</i>	28.0%	26.3%		28.2%	27.0%	
<i>Net profit margin</i>	16.5%	16.1%		16.9%	16.6%	
EPS						
(Unit: Baht)	2Q14	2Q13	Change	1H14	1H13	Change
EPS – Basic	0.87	0.79	9.8%	1.75	1.64	6.9%
EPS – Fully Diluted	0.73	0.67	9.8%	1.47	1.37	6.9%

Statements of financial position

As at 30 June 2014, the Company reported Total current assets of Baht 7,397 million, a small decrease from Baht 7,552 million as at 31 December 2013. The variance is mostly due to a decrease of Baht 150 million in Cash and cash equivalents, mostly from Baht 876 million dividend paid in May 2014, offset with cash from operating activities. Trade receivables were Baht 1,292 million as at 30 June 2014 versus Baht 1,284 million as at 31 December 2013. The collection period was 34 days as at 30 June 2014 compared to 35.3 days as at 31 December 2013.

Total non-current assets increased to Baht 10,583 million as at 30 June 2014 from Baht 9,700 million as at 31 December 2013, mostly due to additional Property, plant and equipment and Goodwill associated with the acquisition of UBSD in Mongolia, described in the Significant Event section of this document. Total assets grew to Baht 17,980 million as at 30 June 2014 from Baht 17,252 million as at 31 December 2013.

Total current liabilities were Baht 2,078 million as at 30 June 2014, a decrease from Baht 2,125 million as at 31 December 2013. The variance is mostly due to decreases of 99 million reduction in Trade and other payables and Baht 21 million less Income tax payable, offset by 80 million additional Accrued expenses, mostly for accrued bonus.

Non-current liabilities rose to Baht 5,557 million as at 30 June 2014 from Baht 5,529 million as at 31 December 2013, mostly due to Baht 25 million increase in Provision for long-term employee benefits. The total debt as at 30 June 2014 remained significantly lower than the Cash and cash equivalents balance, leading to a net cash balance after considering outstanding debt. After adding back the 1H14 capitalized interest expense related to the campus expansion of Baht 27 million, the Company's Interest coverage ratio improved to 17.5x in 1H14 from 15.9x in 1H13, due to higher EBITDA in 1H14 compared to 1H13.

Total shareholders' equity grew to Baht 10,345 million as at 30 June 2014 from Baht 9,597 million as at 31 December 2013. This increase resulted from the Company's 1H14 Net profit of Baht 1,274 million, change in Non-controlling interests of the subsidiaries of Baht 369 million representing Non-controlling interests of the subsidiary in Mongolia, offset with a dividend payment of Baht 876 million and other changes in Retained earnings of Baht 19 million. Average return on assets (ROA) decreased from 15.2% in 2013 to 14.5% in 1H14. Similarly, Average return on equity (ROE) declined from 27.8% in 2013 to 25.6% in 1H14. Both of these changes were mostly attributable to the impact associated with the UBSD acquisition.

Unit: Baht million	30-Jun-14	31-Dec-13	Change
Total assets	17,980	17,252	4.2%
Total liabilities	7,635	7,655	-0.2%
Total shareholders' equity	10,345	9,597	7.8%
	1H14	1H13	
Interest coverage ratio (x)	17.5*	15.9	
	1H14	2013	
Average collection period (days)	34.0	35.3	
Average inventory period (days)	13.1	11.8	
Average payables period (days)	29.7	29.5	
	1H14	2013	

Net debt to equity (x)	(0.1)**	(0.1)**
Average return on assets (%)	14.5%	15.2%
Average return on equity (%)	25.6%	27.8%

* After adding back the 1H14 capitalized interest expense related to the campus expansion.

** Cash and cash equivalents balance exceed the total debt at the end of period.

Cash flow statements

The Company's Net cash flows from operating activities in 1H14 were Baht 1,866 million, compared to Baht 1,506 million in 1H13. This increase was due to additional cash from operations and a reduction of corporate income tax paid due to the 2013 reduction of the statutory corporate income tax rate and the 2012 tax impact attributable to the net gain realized by the Company from the sale of its investment in Bangkok Chain Hospital PCL. Net cash flows used in investment activities were Baht 1,000 million in 1H14, compared to Baht 587 million in 1H13. This change was mainly due to Baht 309 million for the Company's portion of the acquisition of the subsidiary in Mongolia, Baht 86 million for the Company's portion of a loan repayment made by the subsidiary in Mongolia, described in the Significant Event section of this document, and Baht 25 million additional ongoing capital spending mostly associated with the campus expansion. The Company reported Net cash flows used in financing activities of Baht 1,007 million in 1H14 versus Baht 832 million in 1H13. This increase was from Baht 176 million long-term loan from an associate in 1H13. As a result of the above, Cash and cash equivalents were Baht 5,707 million as at 30 June 2014, compared to Baht 6,120 million as at 30 June 2013.

The Company's Liquidity ratio and Quick ratio as at 30 June 2014 and as at 31 December 2013 both remained the same at 3.6x and 3.4x, respectively.

Unit: Baht million	1H14	1H13
Net cash flows from operating activities	1,866	1,506
Net cash flows used in investing activities	(1,000)	(587)
Net cash flows used in financing activities	(1,007)	(832)
Net (decrease) increase in cash and cash equivalents	(150)	86
Cash and cash equivalents at end of period	5,707	6,120
	30-Jun-14	31-Dec-13
Liquidity ratio (x)	3.6	3.6
Quick ratio (x)	3.4	3.4

Significant Event

On 28 March 2014, Health Horizons Enterprises Pte. Ltd. (“HHE”), an overseas subsidiary 80% owned by the Company, acquired 100% of the common shares of Bumrungrad Mongolia LLC (“BML”), which holds 51% of the common shares of Seoul Seniors Tower LLC (“SST”), for approximately USD 12 million in cash. Additionally, HHE provided a loan of USD 3.3 million to SST, which owns and operates Ulaanbaatar Songdo Hospital (“UBSD”) in Mongolia.

The seller of shares of SST is entitled to receive additional contingent consideration in the form of earn-out payments, provided certain cumulative net profit targets are achieved through December 31, 2016, at the maximum of MNT 10,965.9 million, which has not yet been recorded.

HHE’s consolidated financial statements, which include SST and BML’s operating results, are included in the Company’s consolidated financial statements for 2Q14 and 1H14. HHE has recorded the net tangible assets of SST and BML acquired at their fair values as of the acquisition date. The remaining excess of the purchase price over the net value of the tangible assets acquired was allocated as goodwill. The preliminary amount of goodwill, which excludes any impact from additional contingent consideration, is approximately USD 3.5 million.

Please be informed accordingly.

Yours faithfully,

(Dr. Chanvit Tanhiphat, MD)

Vice Chairman