

11 August 2015

Subject: Management Discussion and Analysis for the second quarter 2015 results

To: Directors and Manager  
The Stock Exchange of Thailand

**Bumrungrad Hospital PCL.**  
**Management Discussion and Analysis for 2Q15 results**  
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## Summary

The Company reported Total revenues in 2Q15 of Baht 4,462 million, a 15.8% improvement over 2Q14 revenues of Baht 3,854 million. Net profit for 2Q15 grew 33.6% to Baht 849 million from Baht 635 million in 2Q14, with Net profit margin at 19.0% in 2Q15 compared to 16.5% in 2Q14.

Total revenues for 1H15 increased to Baht 8,918 million, producing a 18.4% improvement over 1H14 revenues of Baht 7,534 million. Net profit surged 43.1% to Baht 1,823 million in 1H15 from Baht 1,274 million in 1H14, with Net profit margin at 20.4% in 1H15 compared to 16.9% in 1H14.

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. 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 4,374 million, a 16.3% improvement year-over-year from Baht 3,762 million in 2Q14. Inpatient volumes advanced 14.4% in terms of patient days and 2.2% in terms of admissions in 2Q15 compared with 2Q14. This resulted mostly from a higher average length of stay for both non-Thai and Thai patients, along with strong international admission growth of 9.3%. Outpatient volumes declined 2.5% in 2Q15 compared with 2Q14, mostly due to a 6.1% decrease in Thai volumes, offset by non-Thai volume growth. Revenue intensity rose 7.1% and 11.2% for outpatient and inpatient services, respectively. The combined results of the above resulted in outpatient

service revenues advancing 11.3% while inpatient service revenues grew 19.1%. The revenue contribution from inpatient services in 2Q15 was 49.9% and from outpatient services was 50.1%, compared with 48.2% and 51.8%, respectively, for 2Q14. In terms of revenues by market segment, non-Thai patients accounted for 65.9% of the total in 2Q15, with the remaining 34.1% from Thai patients, compared to 61.9% and 38.1% for non-Thai patients and Thai patients, respectively, in 2Q14. The change from the prior year was mostly due to the strong growth in non-Thai business in 2Q15.

Rental income was Baht 15 million in 2Q15 compared with Baht 14 million in 2Q14. Exchange gains decreased to Baht 13 million in 2Q15 from Baht 15 million in 2Q14 mostly from timing differences associated with collections on certain Middle East accounts. Interest income increased to Baht 36 million in 2Q15 from Baht 34 million in 2Q14, due to increased cash balances. Other income decreased to Baht 25 million in 2Q15 from Baht 29 million in 2Q14, primarily due to the planned conversion of the food court in the clinic building to a doctors' dining area as part of the campus expansion project.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 2,593 million for 2Q15, or 12.0% more year-over-year from Baht 2,315 million in 2Q14. This represents a favorable change when compared to the 16.3% growth in Revenues from hospital operations. The percentage of cost to Revenues from hospital operations improved from 61.5% in 2Q14 to 59.3% in 2Q15. Administrative expenses (including Depreciation and amortization) were Baht 763 million in 2Q15, or 11.0% more than Baht 687 million in 2Q14. The increase in Administrative expenses was mostly due to Baht 24 million increase in staff costs, largely associated with volume growth and annual merit increases; Baht 17 million more in bad debt expense, mostly from the prior year reversal of a large bad debt account; Baht 15 million additional software support and maintenance expenses related to the IBM Watson project; and Baht 6 million in marketing related expenses due to timing differences of expenditures between periods. EBITDA grew 24.3% year-over-year from Baht 1,072 million in 2Q14 to Baht 1,332 million in 2Q15, with an EBITDA margin of 30.1% in 2Q15 compared to 28.0% in 2Q14.

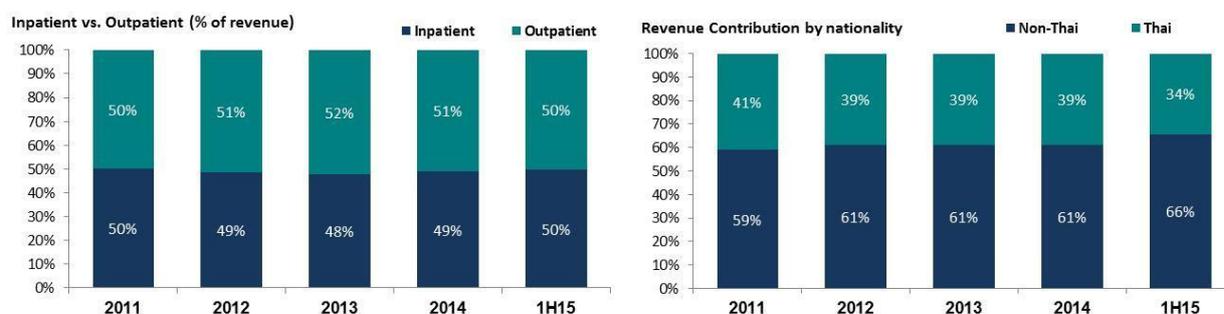
Ongoing capital spending contributed to higher 2Q15 Depreciation and amortization of Baht 262 million from Baht 254 million in 2Q14. The Company reported Share of profit from investments in associates of Baht 2 million in 2Q15 compared to Share of loss from investments in associates of Baht 6 million in 2Q14. The 2Q14 Share of loss was mostly due to Bumrungrad International Limited (BIL) realized exchange rate losses connected with the 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 was the same for both 2Q15 and 2Q14 at Baht 47 million.

Corporate income tax of Baht 212 million in 2Q15 was higher than Baht 164 million in 2Q14. The variance is mostly due to Baht 51 million additional taxes due to higher taxable operating profit in 2Q15 compared with 2Q14, offset by an increase in a tax benefit of Baht 3 million associated with outside training.

Basic EPS for 2Q15 of Baht 1.16 was 33.6% higher than Baht 0.87 in 2Q14, while 2Q15 Diluted EPS increased at the same rate to Baht 0.98 from Baht 0.73 in 2Q14.

## First Half Operational Performance

Revenues from hospital operations were Baht 8,740 million for 1H15, an 18.9% improvement year-over-year from Baht 7,351 million in 1H14. Inpatient volumes advanced 18.1% in terms of patient days and 9.8% in terms of admissions in 1H15 compared with 1H14. This resulted mostly from a higher average length of stay for both non-Thai and Thai patients, along with strong international admission growth of 28.9%. Outpatient volumes grew 6.8% in 1H15 compared with 1H14, mostly due to a 22.6% increase in international volumes, offset by a 5.0% decrease in Thai volumes. Excluding UBSD, inpatient volumes rose 11.4% for patient days and 3.1% for admissions, with outpatient volumes increasing 3.8%. Revenue intensity rose 4.1% and 2.5% for outpatient and inpatient services, respectively. Revenue intensity, excluding UBSD, increased 6.7% for outpatient services and 8.8% for inpatient services. The combined results of the above resulted in outpatient service revenues advancing 17.7% while inpatient service revenues grew 18.0%. The revenue contribution from inpatient services in 1H15 was 49.7% and from outpatient services was 50.3%, compared with 49.6% and 50.4%, respectively, for 1H14. In terms of revenues by market segment, non-Thai patients accounted for 65.7% of the total in 1H15, with the remaining 34.3% from Thai patients, compared to 60.4% and 39.6% for non-Thai patients and Thai patients, respectively, in 1H14. The change from the prior year was mostly due to the strong growth in non-Thai business in 1H15.



Rental income was the same for both 1H15 and 1H14 at Baht 29 million. Interest income increased to Baht 74 million in 1H15 from Baht 71 million in 1H14, due to increased cash balances. Exchange gains increased to Baht 25 million in 1H15 from Baht 24 million in 1H14, mostly due to timing differences associated with collections on certain Middle East accounts. Other income decreased to Baht 50 million in 1H15 from Baht 59 million in 1H14, primarily due to the planned conversion of the food court in the clinic building to a doctors' dining area as part of the campus expansion project. Total revenues in 1H15 were Baht 8,918 million, compared to Baht 7,534 million in 1H14, an 18.4% improvement year-over-year.

The Company reported Cost of hospital operations (including Depreciation and amortization) of Baht 5,106 million for 1H15, or 13.9% more year-over-year from Baht 4,484 million in 1H14. This represents a favorable change when compared to the 18.9% growth in Revenues from hospital operations. The percentage of cost to Revenues from hospital operations improved from 61.0% in 1H14 to 58.4% in 1H15. Administrative expenses (including Depreciation and amortization) were Baht 1,462 million in 1H15, increasing 6.9% from Baht 1,368 million in 1H14. This change included Baht 51 million increases in staff costs, largely associated with volume growth and annual merit increases; Baht 33 million more in software support and maintenance expenses related to the IBM Watson project; Baht 18 million more in bad debt expense, mostly from the prior year reversal of a large bad debt account; Baht 8 million in credit card commission; and Baht 6 million additional marketing related expenses due to timing differences of expenditures between periods, offset by a Baht 32 million reduction in donations to support nurse recruitment. EBITDA grew 32.4% year-over-year from Baht 2,103 million in 1H14 to Baht 2,784 million in 1H15, with the EBITDA margin advancing to 31.5% in 1H15 compared with 28.2% in 1H14.

Ongoing capital spending contributed to higher 1H15 Depreciation and amortization of Baht 508 million from Baht 493 million in 1H14. The Company reported Baht 4 million Share of profit from investments in associates in 1H15 compared to Baht 5 million Share of loss from investments in 1H14. The 1H14 Share of loss was mostly due to realized exchange rate losses of Bumrungrad International Limited (BIL) connected with the 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 was Baht 92 million in 1H15 compared to Baht 93 million in 1H14.

Corporate income tax of Baht 440 million in 1H15 was higher than Baht 310 million in 1H14, mostly due to Baht 132 million increased taxes due to higher taxable profit in 1H15 compared with 1H14, and Baht 8 million reduction of tax benefit related to donations to St. Louis College to support the nurse training program, offset by an increase in a tax benefit of Baht 5 million associated with outside training.

Basic EPS for 1H15 was Baht 2.50, producing an 43.1% increase year-over-year from Baht 1.75 in 1H14, while 1H15 Diluted EPS also increased at the same rate to Baht 2.10 from Baht 1.47 in 1H14.

Income statements						
(Unit: Baht million)	2Q15	2Q14	Change	1H15	1H14	Change
Revenues from hospital operations	4,374	3,762	16.3%	8,740	7,351	18.9%
Total revenues	4,462	3,854	15.8%	8,918	7,534	18.4%
EBITDA	1,332	1,072	24.3%	2,784	2,103	32.4%
Net profit	849	635	33.6%	1,823	1,274	43.1%
<i>EBITDA margin</i>	30.1%	28.0%		31.5%	28.2%	
<i>Net profit margin</i>	19.0%	16.5%		20.4%	16.9%	
EPS						
(Unit: Baht)	2Q15	2Q14	Change	1H15	1H14	Change
EPS – Basic	1.16	0.87	33.6%	2.50	1.75	43.1%
EPS – Fully Diluted	0.98	0.73	33.6%	2.10	1.47	43.1%

## Statements of financial position

As at 30 June 2015, the Company reported Total current assets of Baht 9,658 million, an increase from Baht 8,499 million as at 31 December 2014. The variance is mostly due to an increase of Baht 689 million in Cash and cash equivalents, primarily from increased cash from operating activities, and Baht 495 million more in Trade and other receivables. Trade receivables were Baht 2,016 million as at 30 June 2015 versus Baht 1,516 million as at 31 December 2014. The collection period was 38.6 days as at 30 June 2015 compared to 34.7 days as at 31 December 2014, due to timing differences associated with collections on certain Middle East accounts.

Total non-current assets decreased to Baht 10,561 million as at 30 June 2015 from Baht 10,645 million as at 31 December 2014, mostly due to a decrease in Property, plant and equipment as a result of a normal level of Depreciation and amortization expense outpacing a reduced level of capital expenditure additions in 1H15, due to the timing of expenditures. Total assets grew to Baht 20,219 million as at 30 June 2015 from Baht 19,145 million as at 31 December 2014.

Total current liabilities were Baht 2,496 million as at 30 June 2015, an increase from Baht 2,322 million as at 31 December 2014. The variance was mostly due to Baht 74 million additional Accrued physicians' fees relative to higher doctor fee revenues, Baht 61 million increased Income tax payable associated with the increase in taxable operating profit, and Baht 33 million more in various Accrued expenses.

Non-current liabilities were Baht 5,574 million as at 30 June 2015, an increase from Baht 5,563 million as at 31 December 2014. The change was primarily from Baht 7 million increase in Provision for long-term employee benefits and Baht 3 million in Long-term debentures relative to the amortization of bond issuance costs. Net debt to equity was 0.0x as at 30 June 2015 and 31 December 2014, as total debt as at 30 June 2015 remained lower than Cash and cash equivalents, leading to a net cash balance. The Company's Interest coverage ratio improved to 23.3x in 1H15 from 17.5x in 1H14, due to higher EBITDA in 1H15 compared to 1H14. Interest expense has been reduced by Baht 27 million in both 1H15 and 1H14 for capitalized interest associated with the campus expansion project.

Total shareholders' equity grew to Baht 12,149 million as at 30 June 2015 from Baht 11,260 million as at 31 December 2014. This increase resulted from the Company's 1H15 Net profit of Baht 1,823 million offset with a dividend payment of Baht 913 million and change in Non-controlling interests of the subsidiaries of Baht 22 million representing Non-controlling interests of the subsidiary in Mongolia. Average return on assets (ROA) increased from 15.0% in 2014 to 18.5% in 1H15. Average return on equity (ROE) increased from 26.2% in 2014 to 31.2% in 1H15.

Unit: Baht million	30-Jun-15	31-Dec-14	Change
Total assets	20,219	19,145	5.6%
Total liabilities	8,070	7,885	2.4%
Total shareholders' equity	12,149	11,260	7.9%
	1H15	1H14	
Interest coverage ratio (x)	23.3*	17.5*	
	1H15	2014	
Average collection period (days)	38.6	34.7	
Average inventory period (days)	11.0	12.3	
Average payables period (days)	29.4	29.8	
Net debt to equity (x)	0.0	0.0	
Average return on assets (%)	18.5%	15.0%	
Average return on equity (%)	31.2%	26.2%	

\* After adding back the 1H15 and 1H14 capitalized interest expense related to the campus expansion.

## Cash flow statements

The Company's Net cash flows from operating activities in 1H15 were Baht 2,051 million, compared to Baht 1,866 million in 1H14. This increase was due to Baht 700 million additional cash from operations offset with a decrease in working capital, mostly related to Baht 520 million increase in Trade and other receivables. Net cash flows used in investment activities were Baht 318 million in 1H15, compared with Net cash flows from investment of Baht 197 million in 1H14. This variance was mainly due to Baht 1,147 million less change in Short-term investments, offset with Baht 309 million for the Company's portion of the acquisition of the subsidiary in Mongolia, Baht 256 million less ongoing capital spending in 1H15, and Baht 86 million for the Company's portion of a loan repayment made by the Mongolia subsidiary in 1H14. The Company reported Net cash flows used in financing activities of Baht 1,044 million in 1H15 versus Baht 1,007 million in 1H14. As a result of the above, Cash and cash equivalents increased to Baht 5,364 million as at 30 June 2015, compared to Baht 4,187 million as at 30 June 2014.

The Company's Liquidity ratio as at 30 June 2015 increased to 3.9x from 3.7x as at 31 December 2014. Similarly, the Quick ratio increased to 3.0x as at 30 June 2015 from 2.7x as at 31 December 2014.

Unit: Baht million	1H15	1H14
Net cash flows from operating activities	2,051	1,866
Net cash flows (used in) from investing activities	(318)	197
Net cash flows used in financing activities	(1,044)	(1,007)
Net increase in cash and cash equivalents	689	1,047
Cash and cash equivalents at end of period	5,364	4,187

	30-Jun-15	31-Dec-14
Liquidity ratio (x)	3.9	3.7
Quick ratio (x)	3.0	2.7

## 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 31 December 2016, at the maximum of MNT 10,965.9 million.

The Group has reviewed and reassessed the likelihood that the Group would incur such additional contingent consideration by taking into account the current economic situation and the current performance and forecast operating results of Ulaanbaatar Songdo Hospital for the years 2014 - 2016. As at 31 December 2014, the Group estimated that there is no likelihood that the Group would incur such additional contingent consideration, and continues to take this position.

HHE's consolidated assets and liabilities, which include SST and BML as of the acquisition date, are included in the Company's consolidated financial statements as from the first quarter of 2014. 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 amount of goodwill is approximately USD 3.4 million.

Please be informed accordingly.

Yours faithfully,

(Dr. Chanvit Tanhiphat, MD)

Vice Chairman