

February 29, 2016

Bangkok Dusit Medical Services Public Company Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary 4Q15 and 2015 Performance

Bangkok Dusit Medical Services Public Company Limited ("Company") reported consolidated operating income during fourth quarter of 2015 ("4Q15") of Baht 16,852 million, an increase of 12% yoy. The growth was attributable to an increase in revenue from hospital operations of 11% yoy which was mainly driven by an increase in number of both outpatients and inpatients together with patient ward renovation to accommodate rising healthcare demand, an increase in patient referral both from network and non-network hospitals.

Revenue from hospital operations was from existing hospitals growth of 7% yoy and the 14 new network hospitals^{1/} growth of 4% yoy. Revenue of network hospitals in Bangkok and vicinity grew 7% yoy and revenue of network hospitals in the upcountry grew 15% yoy.

In addition, revenue from sales of goods and food were Baht 646 million, an increased by 49% yoy. due mainly to the consolidation of Bangkok Save Drug Co., Ltd. ("Save Drug").

The Company and its subsidiaries reported EBITDA of Baht 3,768 million, increased by 14% yoy. Consequently, the Company and its subsidiaries reported net profit of Baht 2,050 million, increased by 21% yoy. If including non-

recurring items totaling Baht 196 million in 4Q14, net profit was increased by 8% yoy.

For a year ended December 31, 2015, the consolidated operating income were Baht 63,655 million, an increase of 12% yoy. The growth was attributable to an increase in revenue from hospital operations of 11% yoy which mainly driven by an increase in number of both outpatients and inpatients due to an expansion of our network hospitals, patient ward expansion and renovation, an increase in patient referral and qualified clinical staffs and specialist doctors together with an increase in healthcare inflation and increasing intensity and complexity cases.

Revenue from hospital operations was from existing hospitals growth of 6% yoy and the 14 new network hospitals growth of 5% yoy. Revenue of network hospitals in Bangkok and vicinity grew 7% yoy and revenue of network hospitals in the upcountry grew 17% yoy.

In addition, revenue from sales of goods and food was Baht 2,595 million, increased by 52% yoy due mainly to the consolidation of Save Drug.

The Company and its subsidiaries reported EBITDA of Baht 14,085 million, increased by 11% yoy. Consequently, the Company and its subsidiaries reported net profit of Baht 7,709 million, increased by 8% yoy. If including non-recurring items totaling Baht 209 million in 2015 and Baht 285 million in 2014, net profit was Baht 7,917 million or increased by 7% yoy.

^{1/} 14 new network hospitals, become part of BDMS less than 2 years, are consisted of the following hospitals:- Samitivej Thonburi, Bangkok Phitsanulok, Bangkok Chiangmai, Sanamchan, Thepakorn, Phuket International, Bangkok Khon Kaen, Royal Phnom Penh, Bangkok Chinatown, Muang Petch, Sri Rayong, Dibuk, Samitivej Chonburi and Muangraj



4Q15 Consolidated Financial Summary

Operating Income			
(THB mm)	4Q15	4Q14	%Chg
Revenues from hospital operations	15,957	14,431	11%
Revenue from sales of goods and food	646	435	49%
Other income	249	139	80%
Total Operating Income	16,852	15,005	12%

In 4Q15, total operating income were Baht 16,852 million, an increase of Baht 1,847 million or 12% yoy, primarily due to

- Revenues from hospital operations were Baht 15,957 million, an increase of Baht 1,525 million or 11% yoy. The growth was contributable to an increase in number of outpatients and inpatients across our network hospitals together with patient ward renovation to accommodate rising healthcare demand, an increase in patient referral both from network and non-network hospitals. Existing hospitals grew approximately 7% yoy and the 14 new network hospitals growth of 4% yoy. Revenue of network hospitals in Bangkok and vicinity grew 7% yoy while revenue of network hospitals in the upcountry grew 15% yoy. During 4Q15, Thai and international patients grew 9% and 12% yoy respectively resulting in the revenue proportion between Thai and international patients slightly changed from 72%:28% in 4Q14 to 71%:29% in 4Q15. From type of patient perspectives, outpatient revenues grew by 10% yoy while the inpatient revenues increased by 11% yoy.
- Revenues from sales of goods and food were Baht 646 million, an increase by 49% yoy due mainly to the consolidation of Save Drug.
- Other incomes were Baht 249 million, an increased by 80% yoy due mainly to Company

subsidiary's gain on selling of investment in Sodexo Support Services (Thailand) Co., Ltd and Sodexo Healthcare Support Services (Thailand) Co., Ltd. totalling Baht 57 million.

Operating Expenses			
(THB mm)	4Q15	4Q14	%Chg
Cost of hospital operations and others	10,940	9,886	11%
Administrative expenses *	3,307	2,896	14%
Total Operating Expenses	14,247	12,782	11%

* Excluding non-recurring items

In 4Q15, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 14,247 million, an increase of Baht 1,466 million or 11% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 10,940 million, an increased by 11% yoy. Cost of hospital operations and others increased due to an increase in depreciation and amortization expenses of the new network hospitals. However, growth of such cost grew at slower pace than growth of operating income.
- The administrative expenses (including depreciation and amortization) were Baht 3,307 million, an increased by 14% yoy, due mainly to an increase in repair and maintenance expenses, non-clinical personnel expenses and other administrative expenses.
- The depreciation and amortization expenses were Baht 1,164 million in 4Q15, an increased by 8% yoy due mainly to depreciation and amortization of new network hospitals.

Other Major Items

- Share of income from investments in associated companies were Baht 293 million in 4Q15, an increase of Baht 66 million or 29% yoy. Share of income from investments in

associated companies were mainly from share of income from investment in Bumrungrad Hospital Public Co., Ltd. of Baht 184 million together with investment in Ramkhamhaeng Hospital Public Co., Ltd of Baht 95 million.

- Finance expenses increased to Baht 286 million or decreased by 2% yoy.
- Taxes in 4Q15 were Baht 507 million, an increase from Baht 436 million in 4Q14, due mainly to an increase in pre-tax profit.

Non-Recurring Items

During 4Q14, Company and its subsidiaries recorded non-recurring items of Baht 196 million which are dividend income of Phyathai 1 Hospital Co., Ltd., our subsidiary, received from Phuket International Hospital Co., Ltd. of Baht 205 million as Phuket International Hospital Co., Ltd. paid to its shareholders in relation to the Entire Business Transfer netted with impairment of investment of Baht 9 million.

Profitability Analysis			
(THB mm)	4Q15	4Q14	%Chg
EBITDA	3,768	3,299	14%
EBITDA margin	22.4%	22.0%	
EBIT *	2,911	2,482	17%
EBIT margin *	17.3%	16.5%	
Net profit *	2,050	1,694	21%
Net profit margin *	12.2%	11.3%	
Net profit	2050	1,890	8%
Net profit margin	12.2%	12.6%	
(THB)			
Basic earnings per share *	0.13	0.11	21%
Basic earnings per share	0.13	0.12	8%

* Excluding non-recurring items

Remarks

EBITDA = Total operating income – Total operating expenses (Excluding depreciation and amortization)

EBITDA Margin = EBITDA / Operating income

As previously mentioned, EBITDA increased from 3,299 in 4Q14 to Baht 3,768 million in 4Q15 or

increased by 14% yoy. As a result, EBITDA margin increased from 22.0% in 4Q14 to 22.4% in 4Q15.

Net profit was Baht 2,050 million in 4Q15, an increased by 21% yoy. As a result, net profit margin increased from 11.3% in 4Q14 to 12.2% in 4Q15. Basic earnings per share was Baht 0.13 per share or increased by 21% yoy.

If including the non-recurring items, net profit was increased by 8% yoy. However, net profit margin decreased from 12.6% in 4Q14 to 12.2% in 4Q15. Basic earnings per share was Baht 0.13 per share or increased by 8% yoy.

Major Development in 2015

1. Affirmed the Company rating and senior unsecured debenture rating at AA- by Tris Rating

In August 2015, Tris Rating started annual review of the Company operation and on October 27, 2015, Tris Rating affirmed the Company and senior unsecured debenture ratings at AA- with stable outlook. The ratings reflect Company's leading market position as the largest private hospital operator in Thailand, our extensive hospital network, sound operating performance and balance sheet, as well as our experienced management team and capable physicians.

2. "Very Good" Corporate Governance scoring

The Company has received "Very Good" recognition level of Corporate Governance (CG) scoring from the listed company assessment by the Thai Institute of Directors Association (IOD) in 2015.

3. Investment in General Hospital Product PCL

Royal Bangkok Healthcare Co., Ltd., a subsidiary company, invested in General Hospital Products PCL ("GHP") with the total investment of Baht 306.5 million. If including

previously held shareholding by another subsidiary, the Company holds totally 44.7% of the paid up capital.

4. Accreditation of Bangkok Hospital Chiangmai by Joint Commission International (JCI)

On August 29, 2015, Bangkok Hospital Chiangmai ("BCM") was accredited by JCI, United States-based organization, for patient safety and quality. In this regard, BCM is our 15th hospital in our network that received JCI accreditation.

5. Expansion of new network hospitals

During 2015, Company added 5 hospitals to network as follow:-

Hospital	Number of Structured beds	Opening Month
Muang Petch	255	Jan 15
Sri-Rayong	195	Jan 15
Dibuk	100	Jan 15
Samitivej Chonburi	220	Jun 15
Muangraj	125	Sep 15

6. Establishment of new subsidiary

On June 30, 2015, Board of Directors approved the establishment of a new subsidiary under the name of Bangkok Hospital Chiangrai Co., Ltd. to operate the private hospital in Chiangrai province with registered capital of Baht 100 million and is wholly owned by the Company.

2015 Consolidated Financial Summary

Operating Income			
(THB mm)	2015	2014	%Chg
Revenues from hospital operations	60,262	54,341	11%
Revenue from sales of goods and food	2,595	1,712	52%
Other income *	798	554	44%
Total Operating Income	63,655	56,607	12%

* Excluding non-recurring items

In 2015, total operating income were Baht 63,655 million, an increase of Baht 7,048 million or 12% from 2014, primarily due to

- Revenues from hospital operations were Baht 60,262 million, an increase of Baht 5,921 million or 11% from 2014. The growth was contributable to an increase in number of outpatients and inpatients across our network hospitals, hospital network expansion, patient ward expansion and renovation, an increase in patient referral and qualified clinical staffs and specialist doctors together with an increase in healthcare inflation and increasing intensity and complexity cases. Existing hospitals grew approximately 6% yoy and the 14 new network hospitals growth of 5% yoy. Revenue of network hospitals in Bangkok and vicinity grew 7% yoy while revenue of network hospitals in the upcountry grew 17% yoy. During 2015, Thai and international patients grew 9% and 14% yoy respectively resulting in the revenue proportion between Thai and international patients changed from 72%:28% in 2014 to 71%:29% in 2015. From type of patient perspectives, outpatient revenues grew by 10% yoy while the inpatient revenues increased by 11% yoy.
- Revenues from sales of goods and food were Baht 2,595 million, an increase by 52% yoy, mainly from the consolidation of Save Drug.
- Other incomes were Baht 798 million, increased by 44% yoy mainly from Phyathai 1 Hospital Co., Ltd., our subsidiary, income tax refund for Baht 57 million from The Revenue Department together with the Company subsidiary's gain on selling of investment in Sodexo Support Services (Thailand) Co., Ltd and Sodexo Healthcare Support Services (Thailand) Co., Ltd. totaling Baht 57 million.

Operating Expenses

(THB mm)	2015	2014	%Chg
Cost of hospital operations and others	41,130	36,473	13%
Administrative expenses *	12,827	11,168	15%
Total Operating Expenses	53,957	47,642	13%

* Excluding non-recurring items

In 2015, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 53,957 million, an increase of Baht 6,315 million or 13% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 41,130 million, increased by 13% yoy. Cost of hospital operations and others increased mainly from an increase in clinical personal expenses together with an increase in depreciation and amortization expenses of the new network hospitals and the consolidation of cost of Save Drug.
- The administrative expenses (including depreciation and amortization) were Baht 12,827 million, increased by 15% yoy, due mainly to an increase in repair and maintenance expenses, marketing expenses, non-clinical personnel expenses and other administrative expenses.
- The depreciation and amortization expenses were Baht 4,387 million in 2015, increase by 18% yoy due mainly to depreciation and amortization of new network hospitals.

Other Major Items

- Share of income from investments in associated companies were Baht 1,259 million in 2015, an increase of Baht 278 million or 28% yoy. Share of income from investments in associated companies were mainly from investment in Bumrungrad Hospital Public Co., Ltd. of Baht 823 million together with

investment in Ramkhamhaeng Hospital Public Co., Ltd ("RAM") of Baht 389 million.

- Finance expenses increased to Baht 1,136 million or increased by 16% yoy due to convertible bonds issued in September 2014 and increase in interest expenses of Baht 4,000 million debentures issued in 2014 and the Company has entered into the swap contract that the interest saving was already recorded in the prior period.
- Tax expenses in 2015 were Baht 1,864 million, an increase from Baht 1,671 million in 2014, due mainly to an increase in pre-tax profit together with an increase in non-deductible expenses.

Non-Recurring Items

During 2015, the Company and its subsidiaries recorded non-recurring items of totaling Baht 209 million from gain on fair value adjustments of investment in relation to the Entire Business transfer of G. Wasupol Co., Ltd. (Muangraj Hospital) which the Company's subsidiary previously held for 25.8%.

During 2014, the Company and its subsidiaries recorded non-recurring items of totaling Baht 285 million from the following items

1. Other income:- Gain on disposal of land not used in operation Baht 95 million.
2. Administrative expenses:- The impairment of investment in Royal Rattanak Medical Services Co., Ltd. ("RRH") of Baht 100 million as the Company decided to cease the operation of RRH and transferred the business to our new network hospital namely Royal Phnom Penh Hospital.
3. Dividend Income:- dividend income of Phyathai 1 Hospital Co., Ltd., received from Phuket International Hospital Co., Ltd. as in relation to the Entire Business Transfer of Phuket International Hospital Co., Ltd. of Baht 205 million.

4. Share of income from investments in associated companies:- share of income from investment in RAM which RAM recorded dividend income received from Sanamchan Hospital Co., Ltd ("SNC") of Baht 85 million as SNC paid to its shareholders in relation to the Entire Business Transfer.

Profitability Analysis			
(THB mm)	2015	2014	%Chg
EBITDA	14,085	12,682	11%
EBITDA margin	22.1%	22.4%	
EBIT *	11,022	10,034	10%
EBIT margin *	17.3%	17.7%	
Net profit *	7,709	7,109	8%
Net profit margin *	12.1%	12.6%	
Net profit	7,917	7,394	7%
Net profit margin	12.4%	13.1%	
(THB)			
Basic earnings per share *	0.50	0.46	8%
Basic earnings per share	0.51	0.48	7%

* Excluding non-recurring items

Remarks

EBITDA = Total operating income – Total operating expenses (Excluding depreciation and amortization)

EBITDA Margin = EBITDA / Operating income

As previously mentioned EBITDA increased from 12,682 in 2014 to Baht 14,085 million in 2015 or increased by 11% yoy. However, EBITDA margin slightly decreased from 22.4% in 2014 to 22.1% in 2015.

Net profit was Baht 7,709 million in 2015, increased by 8% yoy. However, net profit margin decreased from 12.6% in 2014 to 12.1% in 2015. Basic earnings per share was Baht 0.50 per share or increased by 8% yoy.

If including the non-recurring items, net profit was Baht 7,917 million, increased by 7% yoy. However, net profit margin decreased from 13.1% in 2014 to 12.4% in 2015. Basic earnings per share was Baht 0.51 per share or increased by 7% yoy.

Asset	Dec 15	Dec 14	%Chg
(THB mm)			
Cash & cash equivalents	5,529	3,608	53%
Short-term investments	28	1,878	(98)%
Trade & other receivables	6,484	5,822	11%
Inventories	1,286	1,111	16%
Investment in associates	15,093	14,183	6%
Property, premises & equipment	52,950	46,935	13%
Goodwill	16,932	16,000	6%
Other assets	4,033	3,833	5%
Total assets	102,335	93,370	10%

The consolidated financial position of the Company and its subsidiaries as of December, 31 2015: The Company and its subsidiaries reported total assets of Baht 102,335 million, increased by 10% from December 31, 2014. During the period, cash and cash equivalents increased by Baht 1,920 million as a result of cash reserved for bonus payment from December 2015 to January 2016 reflecting the full year 2015 performance. Property, premises and equipment also increased by Baht 6,015 million due mainly to the purchase of land and medical equipment for both existing and new network hospitals, namely Samitivej Chonburi Hospital, Muangraj Hospital and building under construction of Phuket International Hospital together with an increase of goodwill of Baht 932 million from the acquisition of G. Wasupol Co., Ltd. However, it was offset by a decrease in short-term investment of Baht 1,849 million.

Liabilities and Equity	Dec 15	Dec 14	%Chg
(THB mm)			
Debentures *	10,591	11,092	(5)%
Long-term loans *	9,446	10,964	(14)%
Convertible debentures	9,683	9,346	4%
Other liabilities	16,439	12,970	27%
Total liabilities	46,160	44,372	4%

* Including current portion

Liabilities and Equity

(THB mm)	Dec 15	Dec 14	%Chg
Equity attributable to equity holder of the Company	53,676	46,780	15%
Non-controlling interests	2,499	2,218	13%
Total equity	56,175	48,998	15%

Total consolidated liabilities as of December 31, 2015 were Baht 46,160 million, which was increased from December 31, 2014 as a result of an issuance of unsecured debenture amounting to Baht 2,000 million netted with the redemption of the maturing debentures of Baht 2,500 million during the year.

Total consolidated shareholders' equity as of December 31, 2015 was Baht 56,175 million, increased by 15% from December 31, 2014. This is due mainly to net income during 2015 together with revaluation surplus on land of eight subsidiaries by independent appraiser totaling Baht 2,541 million netted with dividend payment of Baht 3,563 million.

Liquidity and Capital Management

Cash Flow

(THB mm)	2015
Net cash from operating activities	12,866
Net cash used in investing activities	(5,183)
Net cash used in financing activities	(5,763)
Net increase in cash and cash equivalents	1,920
Beginning cash and cash equivalents	3,608
Ending cash and cash equivalents	5,529

For the year ended December 31, 2015, the Company and its subsidiaries had net increase in cash and cash equivalent of Baht 1,920 million from the beginning balance of Baht 3,608 million. As a result, cash and cash equivalents at the end

of the year was Baht 5,529 million. Details of cash flow by activities during the year are as follows:-

Net cash flows from operating activities were Baht 12,866 million, resulting mainly from profit during 2015.

Net cash used in investing activities were Baht 5,183 million. The investing activities during the year were mainly from purchase of property, premises and equipment for Baht 5,976 million to expand our existing and new network hospitals, namely Samitivej Chonburi and Muangraj Hospital together with purchase of investment in subsidiaries and associated company of Baht 1,685 million mainly from the acquisition of G. Wasupol Co., Ltd., netted with a decrease in short-term investment of Baht 1,849 million and dividend received of Baht 817 million.

Net cash used in financing activities were Baht 5,763 million comprising mainly from cash received from short-term loans from financial institutions of Baht 8,955 million and issuance of debentures of Baht 1,997 million, netted with repayment of short-term loans of Baht 8,903 million, repayment of long-term loans from financial institutions of Baht 1,586 million, redemption of maturing debentures of Baht 2,500 million and dividend payment of Baht 3,563 million.

Ratios Analysis

Returns (%)	2015	2014
Return on Asset	7.9	8.4
Return on Equity	15.3	16.3
Liquidity (x)		
Current ratio	1.0	1.0
Quick ratio	0.8	0.9

Remark

Excluding non-recurring items

Ratios Analysis		
Assets & Liabilities Management (Days)	2015	2014
Average Collection Period	37.8	37.3
Average Inventory Period	10.5	10.0
Average Payable Period	40.8	41.3
Leverage & Coverage Ratios (x)		
Debt to equity (x)	0.5	0.6
Net debt to equity (x)	0.4	0.6
Net debt to EBITDA (x)	1.7	2.2
Interest coverage	12.4	13.0

Remark

Excluding non-recurring items

Assets & Liabilities Management based on 360 days

Debt refers to interest bearing debt

Interest coverage = EBITDA/Interest Expenses

Return on assets during 2015 decreased slightly from 2014 as a result of an increase in cash and cash equivalent together with an increase of net fixed assets to accommodate our network expansion. Return on Equity also decreased slightly from 2014 as a result of an increase in retained earnings and revaluation surplus on land of eight subsidiaries.

Current ratio remains unchanged at 1.0x in 2014 and 2015 while quick ratio slightly decreased from 2014.

Average collection period slightly increased from 37.3 days in 2014 to 37.8 days in 2015.

Total interest bearing debt to equity slightly decreased from 0.6x as of December 31, 2014 to 0.5x as of December 31, 2015. Net interest bearing debt to equity also decreased from 0.6x as of December 31, 2014 to 0.4x as of December 31, 2015 and net interest bearing debt to EBITDA decreased from 2.2x as of December 31, 2014 to 1.7x as of December 31, 2015 from an increase in cash at the end of 2015. Interest coverage ratio decreased from 13.0x in 2014 to 12.5x in 2015, however, it was still above the required financial covenants of more than 4.0x.

The leverage and coverage ratios are well within the financial covenants of the long-term loans and debentures.

Management's Outlook

Increasing healthcare demand

Long-term prospect of the healthcare sector is still intact as a result of the rising income per capita especially for those in the rural area, people pay more attention to their health and aging population. The growth would also be simulated by medical tourism on value for money and the quality of care in Thailand. On the other hand, in term of hospital bed supply, in 2013 the number of bed in Thailand per population of 10,000 was still at 21 beds, well below global average at 26 beds according to World Health Organization. These favorable factors support our strategy to increase our network hospitals, enhance our clinical capabilities for secondary care and tertiary care together with multidisciplinary specialists, state of the art medical equipment and experienced staffs to accommodate increasing demand of healthcare.

Key strategic Priorities

The Company's diverse portfolio of network hospitals and non-hospital business with multiple brands and diversified market segments play a crucial role in continuous growth in healthcare business. In order to serve the rising healthcare demand, looking ahead, the Company would focus on the following strategic priorities:

- **Strengthening referral network**

The Company has set a clear vision to establish strong footprints in key strategic location to serve both Thai and international patients. The Company would also continue to enhance referral network by using the Hub-and-Spoke hospitals in each region. Hub

hospital would offer full range of tertiary care services with advanced medical equipment whereas the spoke hospitals would be smaller hospitals located in the surrounding provinces and would be the gateway for referring patient to the hub for high intensity cases.

Since the beginning of 2016, the Company already added one new network hospitals namely Paolo Rangsit in Bangkok bringing the total network hospitals to 43 hospitals. To mitigate the operational and financial risk of new hospital, we plan to open in phases by gradually increase the bed capacity according to the patient demand.

As part of our aspiration to become top referral hospital in Asia Pacific to further enhance our organic operations to achieve higher and sustainable growth, the Company has partnered with several leading international institutions including

- MD Anderson Cancer Center as a Sister Institute on cancer
- Stanford University for knowledge sharing on Orthopedics
- Oregon Health and Science University for occupational health, pediatrics, rehabilitation and informatics

The Company also plans to upgrade our network hospitals' clinical capabilities to become Centers of Excellence (COEs) including Bangkok Hospital Headquarter, Bangkok Hospital Pattaya, Bangkok Hospital Phuket, Bangkok Hospital Chiangmai, Bangkok Hospital Udon and Royal Phnom Penh Hospital in the future.

• **Ramp- up of the new network hospitals**

Since we have added a number of new network hospitals recently, we would continue to focus on ramp-up operations of

these new hospitals together with the focus on standardization of care and cooperation among our network hospitals for continued improvement in quality and operational efficiency.

• **Expanding non-hospital business**

Non-hospital business, contributing about 4% of our 2015 operating income, is expected to grow continuously especially for manufacturer and distributor of pharmaceutical products and our drugstore business. This is attributable to growing demand for our healthcare related products supporting our operating income growth prospects.
