

August 15, 2016

Bangkok Dusit Medical Services Public Company Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Executive Summary 2Q16 and 6M16 Performance

Bangkok Dusit Medical Services Public Company Limited (“Company”) reported consolidated operating income during second quarter of 2016 (“2Q16”) of Baht 15,678 million, an increase of 6% yoy. The growth was attributable to an increase in revenue from hospital operations of 5% yoy which was mainly driven by an increase in number of both outpatients and inpatients, patient referral system together with increasing healthcare inflation, intensity and complexity cases.

Revenue from hospital operations was from existing hospitals growth of approximately 4% yoy and the remaining from 13 new network hospitals^{1/}. Revenue of network hospitals in Bangkok and vicinity grew 5% yoy and revenue of network hospitals in the upcountry grew 10% yoy.

In addition, revenue from sales of goods and food were Baht 636 million, increased by 17% yoy. due mainly to an increase in sales of The Medicpharma Co., Ltd (“Medicpharma”) and Bangkok Save Drug Co., Ltd. (“Save Drug”).

The Company and its subsidiaries reported EBITDA of Baht 3,058 million, increased by 4% yoy. Consequently, the Company and its subsidiaries reported net profit of Baht 1,608

million, increased by 8% yoy. If including non-recurring items which are gain on sale of investment in Bangkok Chain Hospital Public Co., Ltd. (“BCH”) totaling Baht 62 million in 2Q16, net profit would be Baht 1,669 million, increased by 12% yoy.

For six-month period ended June 30, 2016 (“6M16”), the consolidated operating income were Baht 32,975 million, an increase of 8% yoy. The growth was attributable to an increase in revenue from hospital operations of 8% 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, patient referral system and qualified clinical staffs and specialist doctors together with increasing healthcare inflation, intensity and complexity cases.

Revenue from hospital operations was from existing hospitals growth of approximately 6% yoy and the new network hospitals growth of approximately 2% yoy. Revenue of network hospitals in Bangkok and vicinity grew 6% yoy and revenue of network hospitals in the upcountry grew 11% yoy.

In addition, revenue from sales of goods and food was Baht 1,363 million, increased by 9% yoy due mainly to an increase in sales of A.N.B. Laboratories Co., Ltd. (“A.N.B”), Medicpharma and Save Drug.

The Company and its subsidiaries reported EBITDA of Baht 7,135 million, increased by 5% yoy. Consequently, the Company and its subsidiaries reported net profit of Baht 4,014 million, increased by 6% yoy. If including non-

^{1/} 13 new network hospitals, become part of BDMS less than 2 full calendar years, are consisted of the following hospitals:- Bangkok Chiangmai, Sanamchan, Thepakorn, Phuket International, Bangkok Khon Kaen, Royal Phnom Penh, Bangkok Chinatown, Muang Petch, Sri Rayong, Dibuk, Samitivej Chonburi, Muangraj and Paolo Rangsit.

recurring items which are gain on sale of investment in BCH totaling Baht 62 million in 6M16, net profit would be Baht 4,076 million or increased by 8% yoy.

Major Development in 2Q16

Issuance of unsecured debenture totalling Baht 3,000 million

On 24 June 2016, the Company had issued unsecured, name registered and unsubordinated debentures without a debenture holders' representative debenture totalling Baht 3,000 million. This debenture is 10-year debentures at the coupon rate of 2.99% per annum, payable semiannually. Tris Rating assigns the rating of "AA-" to this debenture. The ratings reflect Company's leading market position as the largest private hospital operator in Thailand, extensive referral network of hospitals, sound operating performance and healthy balance sheet and our experienced management team and capable physicians.

2Q16 Consolidated Financial Summary

Operating Income			
(THB mm)	2Q16	2Q15	%Chg
Revenues from hospital operations	14,863	14,117	5%
Revenue from sales of goods and food	636	544	17%
Other income *	178	191	(7)%
Total Operating Income	15,678	14,853	6%

* Excluding non-recurring items

In 2Q16, total operating income were Baht 15,678 million, an increase of Baht 825 million or 6% yoy, primarily due to

- Revenues from hospital operations were Baht 14,863 million, an increase of Baht 746 million or 5% yoy. The growth was contributable to an increase in number of outpatients and

inpatients across our network hospitals and patient referral system together with the opening of Paolo Rangsit since January 2016 and increasing healthcare inflation, intensity and complexity cases.

Existing hospitals grew approximately 4% yoy and the remaining was from new network hospitals. Revenue of network hospitals in Bangkok and vicinity grew 5% yoy while revenue of network hospitals in the upcountry grew 10% yoy.

During 2Q16, Thai and international patients grew 6% and 4% yoy respectively resulting in the revenue proportion between Thai and international patients slightly changed from 72%:28% in 2Q15 to 71%:29% in 2Q16. From type of patient perspectives, outpatient revenues grew by 8% yoy while the inpatient revenues increased by 2% yoy.

- Revenues from sales of goods and food were Baht 636 million, an increase of 17% yoy due mainly to an increase in sales of Medicpharma and Save Drug.
- Other incomes were Baht 178 million, decreased by 7% yoy.

Operating Expenses			
(THB mm)	2Q16	2Q15	%Chg
Cost of hospital operations and others	10,558	9,824	7%
Administrative expenses	3,216	3,146	2%
Total Operating Expenses	13,775	12,971	6%

In 2Q16, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 13,775 million, an increase of Baht 804 million or 6% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 10,558 million, increased by 7% yoy. An increase was due mainly to rising in doctor fees and clinical staffs expenses as a result of an increase in newly recruited

specialist doctors both full-time and part-time and clinical staffs to accommodate the network expansion.

- The administrative expenses (including depreciation and amortization) were Baht 3,216 million, slightly increased by 2% from 2Q15.
- The depreciation and amortization expenses were Baht 1,155 million in 2Q16, 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 331 million in 2Q16, an increase of Baht 14 million or 4% yoy. Share of income from investments in associated companies were mainly from share of income from investment in Bumrungrad Hospital Public Co., Ltd. ("BH") of Baht 205 million together with investment in Ramkhamhaeng Hospital Public Co., Ltd ("RAM") of Baht 101 million.
- Finance expenses decreased to Baht 180 million or decreased by 38% yoy due mainly to (1) an interest rate swap contract with financial institution for debenture totaling Baht 4,000 million by the exchange of a fixed interest rate for a floating rate resulting in interest savings during this period together with (2) an adjustment in the assumption for calculating expected convertible bonds redemption as the current BDMS share price already exceeds the redemption price of convertible bonds.
- Taxes in 2Q16 were Baht 393 million, an increase from Baht 375 million in 2Q15, due mainly to an increase in pre-tax profit.

Non-recurring items

During 2Q16, the Company and its subsidiaries recorded non-recurring items as the Company sold investment in BCH of 11.4 million shares for Baht 142.7 million resulting in gain on sale of investment of Baht 62 million.

Profitability Analysis

(THB mm)	2Q16	2Q15	%Chg
EBITDA	3,058	2,949	4%
EBITDA margin	19.5%	19.9%	
EBIT *	2,268	2,219	2%
EBIT margin *	14.5%	14.9%	
Net profit *	1,608	1,491	8%
Net profit margin *	10.3%	10.0%	
Net profit	1,669	1,491	12%
Net profit margin	10.6%	10.0%	
(THB)			
Basic earnings per share *	0.10	0.10	8%
Basic earnings per share	0.11	0.10	12%

* 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 Baht 2,949 million in 2Q15 to Baht 3,058 million in 2Q16 or increased by 4% yoy. However, EBITDA margin decreased slightly from 19.9% in 2Q15 to 19.5% in 2Q16.

Net profit was Baht 1,608 million in 2Q16, increased by 8% yoy. As a result, net profit margin increased from 10.0% in 2Q15 to 10.3% in 2Q16. Basic earnings per share was Baht 0.10 per share or increased by 8% yoy.

If including the non-recurring items, net profit was Baht 1,669 million, increased by 12% yoy. As a result, net profit margin increased from 10.0% in 2Q15 to 10.6% in 2Q16. Basic earnings per share was Baht 0.11 per share or increased by 12% yoy.

6M16 Consolidated Financial Summary

Operating Income			
(THB mm)	6M16	6M15	%Chg
Revenues from hospital operations	31,269	28,962	8%
Revenue from sales of goods and food	1,363	1,248	9%
Other income *	343	391	(12)%
Total Operating Income	32,975	30,601	8%

* Excluding non-recurring items

In 6M16, total operating income were Baht 32,975 million, an increase of Baht 2,374 million or 8% from 6M15, primarily due to

- Revenues from hospital operations were Baht 31,269 million, an increase of Baht 2,307 million or 8% from 6M15. The growth was contributable to an increase in number of outpatients and inpatients across our network hospitals, patient ward renovation, patient referral system and qualified clinical staffs and specialist doctors together with the opening of Paolo Rangsit since January 2016 and an increasing healthcare inflation, intensity and complexity cases.

Existing hospitals grew approximately 6% yoy and the new network hospitals grew approximately 2% yoy. Revenue of network hospitals in Bangkok and vicinity grew 6% yoy while revenue of network hospitals in the upcountry grew 11% yoy.

During 2015, both Thai and international patients grew 8% yoy resulting in the revenue proportion between Thai and international patients remains unchanged at 70%:30% in 2Q15 and in 2Q16. From type of patient perspectives, outpatient revenues grew by 10% yoy while the inpatient revenues increased by 6% yoy.

- Revenues from sales of goods and food were Baht 1,363 million, an increase of 9% yoy,

mainly from an increase in sales of A.N.B., Medicpharma and Save Drug.

- Other incomes were Baht 343 million, decreased by 12% yoy mainly from income tax refund of our subsidiary from The Revenue Department totaling Baht 57 million in 1Q15.

Operating Expenses			
(THB mm)	6M16	6M15	%Chg
Cost of hospital operations and others	21,683	19,802	10%
Administrative expenses	6,463	6,096	6%
Total Operating Expenses	28,146	25,898	9%

In 6M16, the Company and its subsidiaries reported total operating expenses & depreciation of Baht 28,146 million, an increase of Baht 2,248 million or 9% yoy.

- Cost of hospital operations and others (including depreciation and amortization) were Baht 21,683 million, increased by 10% yoy. An increase was due mainly to rising in doctor fees and clinical staffs expenses as a result of an increase in newly recruited specialist doctors both full-time and part-time and clinical staffs to accommodate the network expansion.
- The administrative expenses (including depreciation and amortization) were Baht 6,463 million, increased by 6% yoy, due mainly to an increase non-clinical personnel expenses and other administrative expenses.
- The depreciation and amortization expenses were Baht 2,307 million in 6M16, increased by 9% yoy due mainly to depreciation and amortization of new network hospitals.

Other Major Items

- Share of income from investments in associated companies were Baht 667 million in 6M16, an increase of Baht 28 million or 4% yoy. Share of income from investments in

associated companies were mainly from investment in BH of Baht 439 million together with investment in RAM of Baht 197 million.

- Finance expenses decreased to Baht 393 million or decreased by 30% yoy due mainly to (1) an interest rate swap contract with financial institution for debenture totaling Baht 4,000 million by the exchange of a fixed interest rate for a floating rate resulting in interest savings during this period together with (2) an adjustment in the assumption for calculating expected convertible bonds redemption as the current BDMS share price already exceeds the redemption price of convertible bonds.
- Tax expenses in 6M16 were Baht 956 million, an increase from Baht 897 million in 6M15, due mainly to an increase in pre-tax profit.

Non-recurring items

During 6M16, the Company and its subsidiaries recorded non-recurring items of totaling Baht 62 million from gain on sale of investment in BCH.

Profitability Analysis			
(THB mm)	6M16	6M15	%Chg
EBITDA	7,135	6,820	5%
EBITDA margin	21.6%	22.3%	
EBIT *	5,540	5,380	3%
EBIT margin *	16.8%	17.6%	
Net profit *	4,014	3,780	6%
Net profit margin *	12.2%	12.4%	
Net profit	4,076	3,780	8%
Net profit margin	12.4%	12.4%	
(THB)			
Basic earnings per share *	0.26	0.24	6%
Basic earnings per share	0.26	0.24	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 Baht 6,820 million in 6M15 to Baht 7,135 million in 6M16 or increased by 5% yoy. However, EBITDA margin decreased from 22.3 % in 6M15 to 21.6% in 6M16.

Net profit was Baht 4,014 million in 6M16, increased by 6% yoy. However, net profit margin decreased from 12.4% in 6M15 to 12.2% in 6M16. Basic earnings per share was Baht 0.26 per share or increased by 6% yoy.

If including the non-recurring items, net profit was Baht 4,076 million, increased by 8% yoy. However, net profit margin remained unchanged at 12.4% in 6M15 and in 6M16. Basic earnings per share was Baht 0.26 per share or increased by 8% yoy.

Assets			
(THB mm)	Jun 16	Dec 15	%Chg
Cash & cash equivalents	3,870	5,529	(30)%
Short-term investments	165	28	483%
Trade & other receivables	6,216	6,484	(4)%
Inventories	1,298	1,286	1%
Investment in associates	15,675	15,093	4%
Property, premises & equipment	53,841	52,950	2%
Goodwill	16,932	16,932	(0)%
Other assets	4,144	4,033	3%
Total assets	102,142	102,335	(0)%

The consolidated financial position of the Company and its subsidiaries as of June 30, 2016: The Company and its subsidiaries reported total assets of Baht 102,142 million slightly decreased from December 31, 2015.

Liabilities and Equity

(THB mm)	Jun 16	Dec 15	%Chg
Debentures *	12,591	10,591	19%
Long-term loans *	8,598	9,446	(9)%
Convertible debentures	9,777	9,683	1%
Other liabilities	14,781	16,439	(10)%
Total liabilities	45,746	46,160	(1)%
* Equity attributable to equity holder of the Company	53,956	53,676	1%
Non-controlling interests	2,440	2,499	(2)%
Total equity	56,396	56,175	0%

* Including current portion

Total consolidated liabilities as of June 30, 2016 were Baht 45,746 million, which was slightly decreased from December 31, 2015, due mainly to decrease in trade and other payables of Baht 842 million, decrease in long-term loans from financial institutions of Baht 898 million, decrease in accrued expenses of Baht 815 million and redemption of maturing debentures of Baht 1,000 million netted with an issuance of debentures of Baht 3,000 million.

Total consolidated shareholders' equity as of June 30, 2016 was Baht 56,396 million, slightly increased from December 31, 2015.

Liquidity and Capital Management

Cash Flow

(THB mm)	6M16
Net cash from operating activities	5,106
Net cash used in investing activities	(3,538)
Net cash used in financing activities	(3,227)
Net decrease in cash and cash equivalents	(1,658)
Beginning cash and cash equivalents	5,529
Ending cash and cash equivalents	3,870

For the six-month period ended June 30, 2016, the Company and its subsidiaries had net decrease in cash and cash equivalent of Baht

1,658 million from the beginning balance of Baht 5,529 million. As a result, cash and cash equivalents at the end of the year was Baht 3,870 million. Details of cash flow by activities during the period are as follows:-

Net cash flows from operating activities were Baht 5,106 million, resulting mainly from profit during 6M16.

Net cash used in investing activities were Baht 3,538 million. The investing activities during the period were mainly from purchase of property, premises and equipment for Baht 3,754 million to expand our network hospitals both existing hospital, namely Bangkok Hospital Headquarter, to become Center of Excellence and new hospital namely Bangkok Hospital Surat.

Net cash used in financing activities were Baht 3,227 million comprising mainly from cash received from repayment of long-term loans from financial institutions of Baht 830 million, redemption of maturing debentures of Baht 1,000 million and dividend payment of Baht 4,027 million netted with an issuance of debentures of Baht 3,000 million.

Ratios Analysis

Returns (%)	6M16	6M15
Return on Asset	7.9	8.1
Return on Equity	14.9	16.1
Liquidity (x)		
Current ratio	1.0	0.9
Quick ratio	0.9	0.8
Assets & Liabilities Management (Days)		
Average Collection Period	37.7	38.4
Average Inventory Period	10.7	10.1
Average Payable Period	37.5	40.0
Leverage & Coverage Ratios (x)		
Interest coverage	18.1	12.2

Remark

Excluding non-recurring items

Assets & Liabilities Management based on 360 days

Debt refers to interest bearing debt

Interest coverage = EBITDA/Interest Expenses

Ratios Analysis

Leverage & Coverage Ratios (x)	Jun-16	Dec-15
Total debt to equity	0.6	0.5
Net debt to equity	0.5	0.4
Net debt to EBITDA	1.9	1.7

Remark

Debt refers to interest bearing debt

Return on assets and return on equity during 6M16 decreased from 6M15 as a result of the performance of new network hospitals which are ramping up and currently generate lower returns than existing hospitals together with an increase in net fixed assets from our network expansion.

Current ratio and quick ratio during 1Q16 slightly increased from 6M15. Average collection period slightly decreased from 38.4 days in 6M15 to 37.7 days in 6M16.

Interest coverage ratio increased from 12.2x in 6M15 to 18.1x in 6M16. Total interest bearing debt to equity increased from 0.5x as of December 31, 2015 to 0.6x as of June 30, 2016. Net interest bearing debt to equity also increased from 0.4x as of December 31, 2015 to 0.5x as of June 30, 2016 and net interest bearing debt to EBITDA increased from 1.7x as of December 31, 2015 to 1.9x as of June 30, 2015.

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