

Annexure –V

MANAGEMENT’S DISCUSSION AND ANALYSIS

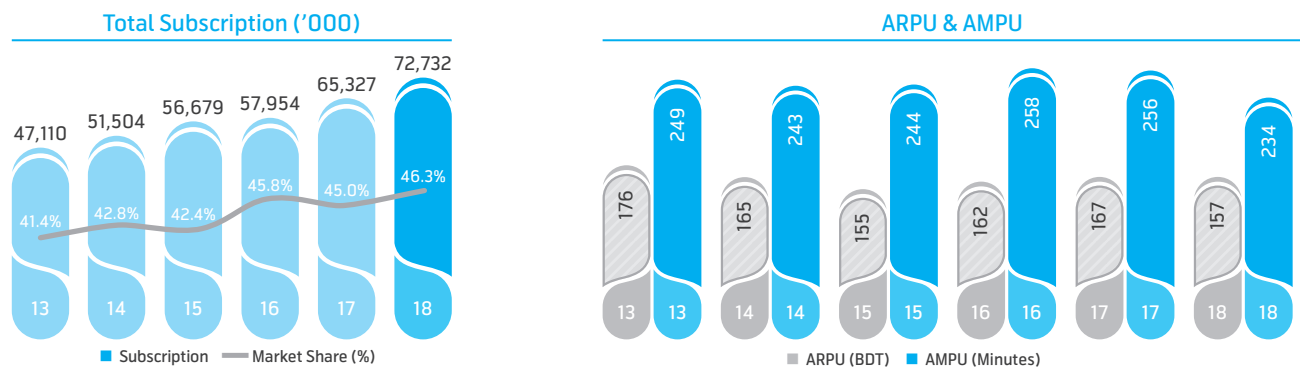
As per condition no.1 (5) (xxv) of the Corporate Governance Code 2018 issued by Bangladesh Securities and Exchange Commission, the Management’s Discussion & Analysis are as follows:

2018 Key Highlights

In 2018, Grameenphone generated revenue of BDT 132.8 billion (2017: BDT 128.4 billion), representing growth of 3.4%, and delivered net profit after tax of BDT 35.2 billion (2017: BDT 27.4 billion). Grameenphone ended the year with 72.7 million active subscriptions registering a 11.3% growth compared to the previous year. During the year Grameenphone also acquired 5.9 million internet users increasing the total internet user to 37.1 million at the end of 2018. Grameenphone invested BDT 12.7 billion for 5MHz spectrum, 4G licence acquisition and 2G technology neutrality and another 21.3 billion for network coverage growth. Currently we have 95.2% population coverage for 3G and another 5,009 4G enabled sites were also rolled out during 2018. Strong revenue growth, along with continued focus on Operational Excellence, resulted in a 5.5% growth in EBITDA with a robust margin of 60.5%.

2018 has been a tremendous year for Grameenphone with growth in voice and data supported by substantial savings in operating expenses, simplified customer centric offers and services along with strengthening its data positioning through introduction of 4G and expansion of 3G and 4G coverage.

Customers and Average Revenue/Minutes per User (ARPU & AMPU)



On an annual basis, the subscription base increased by 7.4 million (2017: 7.4 million). The continued acquisition drive in the market throughout the year resulted in a total subscription base of 72.7 million (2017: 65.3 million) and the subscription market share stood at 46.3% at the end of the year.

In 2018, ARPU decreased by 5.6% to BDT 157 (2017: BDT 167), mainly due to decrease in average voice minutes per user by 8.9% to 234 minutes (2017: 256 minutes). Lower revenue from VAS as a result of net revenue recognition also attributed to lower ARPU. In 2018, higher subscription acquisition from the low usage segment continues to drive lower AMPU.

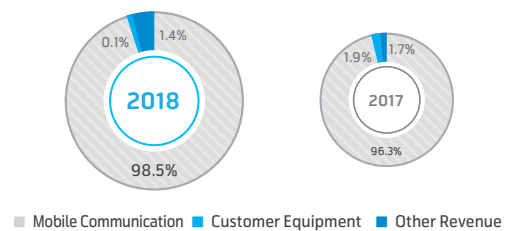
Revenue Performance

Total revenue reported in 2018 was BDT 132.8 billion (2017: BDT 128.4 billion), with 3.4% growth. This was mainly driven by growth in voice and data revenue partly offset by revenue from customer equipment and VAS. In 2018, Grameenphone changed the business model for Handset and VAS from gross to net recognition of revenue. Adjusting this effect for the year 2017, the normalised growth for revenue is 6.3%.

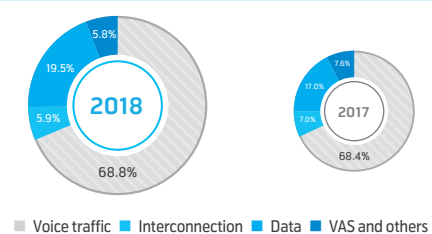
Revenue from mobile communication grew by 5.7% in 2018 to BDT 130.8 billion (2017: BDT 123.7 billion). The growth was mainly driven by Voice and Data partly offset by VAS and interconnection revenue compared to 2017.

Data revenue increased by 21% in 2018 to BDT 25.5 billion (2017: BDT 21.1 billion). At the end of 2018, Data revenue accounted for 19.5% (2017: 17.0%) of mobile communication revenue. The growth in data revenue is mainly driven by 18.9% increase in internet users and higher contribution from 82.9% higher data volume usage. This was driven by rapid expansion of 4G enabled sites, along with our continued investment in 3G network coverage and increased smartphone penetration in our subscriber base, where Grameenphone sold 246,693 smartphones through 2018.

Revenue Composition



Mobile Communication Revenue Composition



Voice revenue experienced 6.6% increase in 2018 mainly due to 11.3% growth in subscription base.

Grameenphone observed a decline in interconnection revenue in 2018 compared to last year due to a decrease in incoming minutes from international operators and lower interconnection call termination rate introduced by BTRC.

Cost and Margin Review

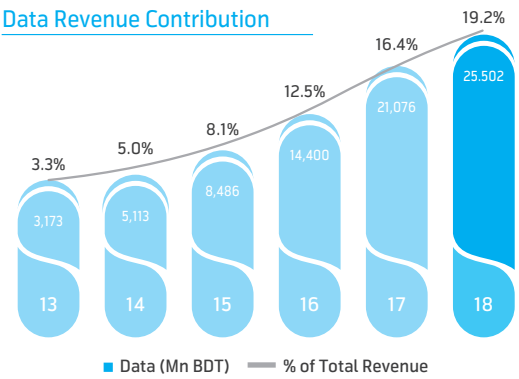
For the year 2018, total cost base of Grameenphone significantly decreased by 3.9% to BDT 75.4 billion (2017: BDT 78.5 billion), mainly due to lower cost of material and traffic charges, other operating expenses, salary and personnel cost, depreciation and partly offset by higher operation, maintenance, sales, marketing and commission cost. Like previous years, Grameenphone continued its focus on Operational Excellence in 2018 which resulted in savings of BDT 4.3 billion.

The impact of revenue growth and efficient cost management resulted in a 5.5% growth in EBITDA to BDT 80.4 billion (2017: BDT 76.2 billion) and with a robust EBITDA margin of 60.5% (2017: 59.2%).

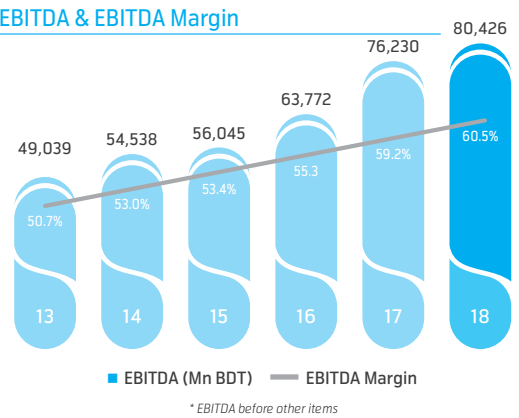
Profit after Tax

Profit after Tax for 2018 stood at BDT 35.2 billion (2017: BDT 27.4 billion) which increased by BDT 7.7 billion due to higher EBITDA and lower foreign exchange loss, partly offset by higher tax and finance expense. Net profit margin for 2018 stood at 26.5% (2017: 21.4%).

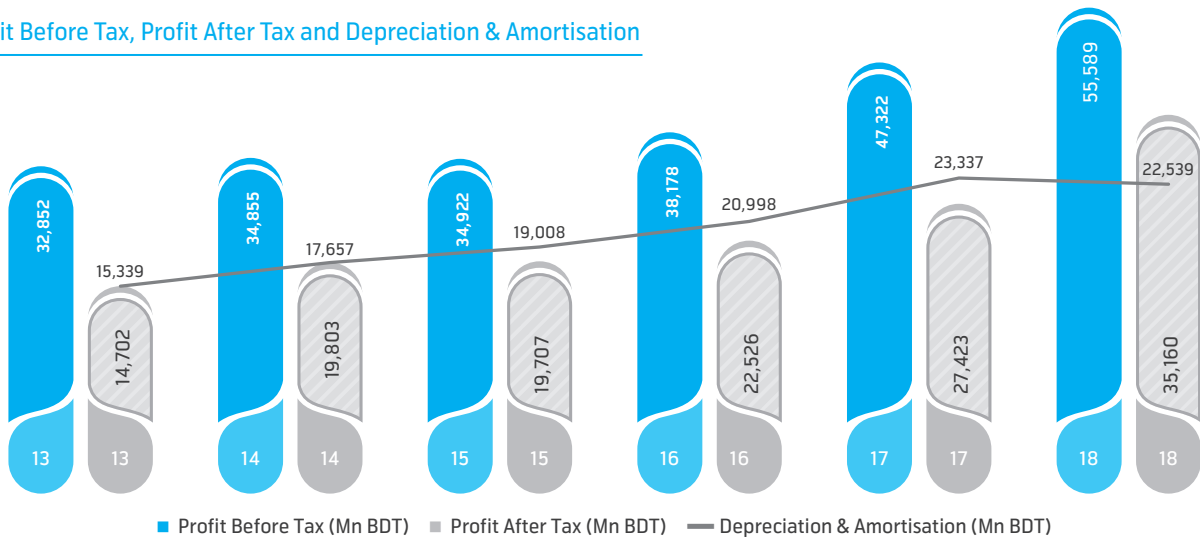
Data Revenue Contribution



EBITDA & EBITDA Margin



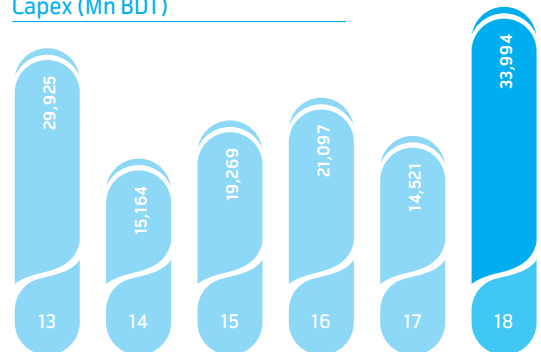
Profit Before Tax, Profit After Tax and Depreciation & Amortisation



Capital Expenditure (Capex) and Network Updates

In 2018, Grameenphone invested BDT 34.0 billion (2017: BDT 14.5 billion) with capex to sales at 25.6% (2017: 11.3%). The majority of the investment was mainly related to acquisition of 4G licence, expansion of 3G and 4G coverage along with additional 5 MHz spectrum and 2G technology neutrality to support higher data and voice traffic and to drive superior customer experience. Grameenphone rolled out 5,009 4G sites, 2,355 3G sites and 1,527 2G sites in 2018, increasing the 3G population coverage to 95.2% (2017: 92.6%). With 14,521 sites across the country, Grameenphone currently provides its telecommunication services covering 99.5% of the total population of the country.

Capex (Mn BDT)



Balance Sheet

Total asset base increased to BDT 138.7 billion (2017: BDT 130.2 billion) mainly for the increase in intangible assets (acquisition of 5MHz spectrum, 4G licence and 2G technology neutrality) and recognition of contract cost as an impact of adopting IFRS 15. This was partly offset by decrease in current assets from cash and cash equivalents.

Total liabilities increased slightly during 2018, mainly for the liability of spectrum acquisition partly offset by payments of 6th and 7th installment of long term loan from IFC.

Total equity increased to BDT 42.4 billion (2017: BDT 35.1 billion) due to increased profit. The net profit generated from operations during the year 2018 was BDT 35.2 billion (2017: BDT 27.4 billion), partly offset by payment of final dividend for the year 2017 and interim dividend for the year 2018. There was also a favourable impact in retained earnings of BDT 2.6 billion from opening balance adjustment on initial application of IFRS 15.

Other Disclosure/Statements Pursuant to the Provisions of the BSEC's Corporate Governance Code 2018

Accounting policies and estimation for preparation of financial statements

The financial statements of Grameenphone have been prepared in accordance with International Financial Reporting Standards (IFRS), the Companies Act 1994, the Securities and Exchange Rules 1987, relevant guidelines issued by the Bangladesh Securities and Exchange Commission and other applicable laws in Bangladesh. Detail description of accounting policies and estimation used for preparation of the financial statements of the Company are disclosed in the notes 2 to 3 of the financial statements.

Changes in accounting policies and estimation

The accounting policies applied are consistent with those applied in the previous financial year, except for the implementation of new accounting standards as described in the notes 3.8, 3.13 and 3.18 of the financial statements.

Comparative analysis of financial performance, financial position and cash flows

Major areas of financial performance, financial position as well as cash flows (including effects of inflation) with immediate preceding five years are as follows:

Reported numbers	2018	2017	2016	2015	2014	2013
Financial Performance (in million BDT)						
Revenue	132,832	128,436	114,862	104,754	102,663	96,624
Operating Profit	57,379	49,954	41,566	36,964	36,896	33,199
Profit before Tax	55,589	47,322	38,178	34,922	34,855	32,852
Net Profit after Tax	35,160	27,423	22,526	19,707	19,803	14,702
Financial Position (in million BDT)						
Paid-up Capital	13,503	13,503	13,503	13,503	13,503	13,503
Shareholders' Equity	42,367	35,121	33,572	30,625	31,365	31,141
Total Assets	138,713	130,220	130,500	132,450	130,673	135,221
Total Liabilities	96,346	95,099	96,927	101,824	99,308	104,080
Current Assets	13,369	20,658	10,941	11,928	14,865	16,993
Current Liabilities	77,433	74,541	68,079	67,625	61,402	78,580
Non current Assets	125,345	109,562	119,558	120,522	115,808	118,227
Non current Liabilities	18,914	20,558	28,848	34,199	37,906	25,500
Cash Flows (in million BDT)						
Net cash Generated from Operating Activities	60,411	57,771	46,152	38,791	31,255	37,081
Net cash used in Investing Activities	(30,200)	(12,944)	(19,839)	(19,907)	(20,069)	(28,111)
Net cash used in Financing Activities	(36,698)	(35,336)	(27,553)	(19,491)	(10,972)	(7,727)
Financial Ratios						
Current Asset to Current Liability	0.17	0.28	0.16	0.18	0.24	0.22
Debt to Equity	0.43	0.56	0.81	1.12	1.08	0.80
Operating Profit Margin	43%	39%	36%	35%	36%	34%
Net Profit Margin	26%	21%	20%	19%	19%	15%
Return on Equity	91%	80%	70%	64%	63%	44%
Return on Assets	26%	21%	17%	15%	15%	12%

Reported numbers	2018	2017	2016	2015	2014	2013
Ordinary Shares Information						
Ordinary Shares Outstanding (in million)	1,350	1,350	1,350	1,350	1,350	1,350
Face Value per Share	10	10	10	10	10	10
Cash Dividend on Paid up Capital ¹	280%	205%	175%	140%	160%	140%
Dividend Payout ¹	108%	101%	105%	96%	109%	129%
Net Asset Value per Share ²	31.38	26.01	24.86	22.68	23.23	23.06
Net Operating Cash Flow per Share ³	44.74	42.78	34.18	28.73	23.15	27.46
Earnings Per Share ³	26.04	20.31	16.68	14.59	14.67	10.89

*Gain/loss on disposal of property, plant and equipment has been included in operating profit.

¹Including proposed dividend

²Based on BDT 10 equivalent ordinary share outstanding at 31 December.

³Based on weighted average number of share of BDT 10 each.

Inflation Adjusted	2018	2017	2016	2015	2014	2013
Financial Performance (in million BDT)						Base Year
Revenue	98,431	100,674	94,932	91,704	95,634	96,624
Operating Profit	42,519	39,157	34,354	32,359	34,370	33,199
Profit before Tax	41,193	37,094	31,554	30,572	32,469	32,852
Net Profit after Tax	26,054	21,495	18,618	17,252	18,447	14,702
Financial Position (in million BDT)						
Paid-up Capital	10,006	10,584	11,160	11,821	12,578	13,503
Shareholders' Equity	31,395	27,530	27,747	26,810	29,217	31,141
Total Assets	102,789	102,073	107,857	115,949	121,726	135,221
Total Liabilities	71,394	74,543	80,109	89,139	92,509	104,080
Current Assets	9,906	16,193	9,043	10,442	13,847	16,993
Current Liabilities	57,379	58,429	56,267	59,200	57,198	78,580
Non current Assets	92,883	85,880	98,814	105,507	107,879	118,227
Non current Liabilities	14,015	16,114	23,842	29,939	35,311	25,500
Cash Flows (in million BDT)						
Net cash Generated from Operating Activities	44,766	45,284	38,144	33,958	29,115	37,081
Net cash used in Investing Activities	(22,378)	(10,146)	(16,397)	(17,427)	(18,695)	(28,111)
Net cash used in Financing Activities	(27,194)	(27,698)	(22,773)	(17,062)	(10,220)	(7,727)
Inflation Rate	5.78%	5.44%	5.92%	6.41%	7.35%	

*Inflation Rate Source: Bangladesh Bureau of Statistics

*Since inflation rates are only available for fiscal years, they have been applied for the financial years

Comparison of financial performance, financial position and cash flows with the peer industry scenario

Grameenphone is the only listed entity in the telecommunication industry of Bangladesh. Information about financial performance, financial position and cash flows of other major operators in the industry are not publicly available. Hence, comparative analysis with the peer industry could not be presented.

Financial and economic scenario of Bangladesh and the globe

2018 saw the GDP growth reach a record high 7.86%¹ riding on buoyant exports, robust agricultural output as well as boost from the industrial sectors and strong domestic and external demand. Per capita income rose to USD 1,751 in FY 2017-18, up from USD 1,610 in FY 2016-17². The broad-based pick-up in economic activity continued in Q4 of FY 2017-18³. This broadly matches the trend in recent years, where the rate of growth has matched or exceeded adjacent economies. The macroeconomic fundamentals remain strong with real GDP growth expected to continue⁴. On the supply side, the growth momentum received support from the industry and the service sectors, while the agricultural sector also remained solid. The growth was aided by favourable financial conditions and fiscal policy support, resulting in a pickup of both public and private investment as reflected in the strong growth of investment related imports.

¹Bangladesh Bureau of Statistics

²Planning Ministry, as reported in The Daily Star 18 September 2018

³Bangladesh Bureau of Statistics, Grameenphone Strategy team analysis

⁴Data Sources: Bangladesh Bureau of Statistics, UN Population Division, World Bank, Economist Intelligence Unit and Analysis Mason

The country will continue its journey on the path to middle-income economy status along with implementation of the sustainable development goals (SDGs). However, infrastructure, governance, and complexity of doing business remain as major challenges to Bangladesh's vast economic potentials. Strength of the Banking sector remains a concern through FY2019. Looking ahead, delivery on broader development goals, pro-business policy reforms, accelerated resource mobilisation, expanded tax base, improvements in infrastructure, and stabilised banking sector should help Bangladesh continue on a path of inclusive economic growth and sustainable development.

Regionally, inflation performance followed a mixed trend in South Asia, with rates increasing marginally in India (4.9% Q4 FY 2017-18 from 4.3% in Q3⁵) and significantly in Pakistan (5.2% from 3.2%⁶), while it fell in Sri Lanka (2.5% from 2.8%⁷). Commodity prices in the global market continued its rising trend in Q4 of financial year 2017-18, driven by strong supply and demand side activities in both emerging and advanced economies. While accelerated growth lifted demand, geopolitical tensions along with other variables such as production cuts resulted in supply constraints, with oil being a prime example. The final quarter of 2018 was not good for equity markets globally. Investors have had to contend with rising US central bank interest rates, a sharp slowdown in euro zone business confidence, weaker Chinese growth and rising geopolitical concerns (including Brexit, Italian politics and the ongoing trade conflict between the US and China). On the plus side, over the quarter as a whole government bonds at least lived up to their traditional role as the defensive part of a well balanced portfolio⁸.

Risks and Concerns related to the financial statements

Grameenphone has a structured process to identify Financial Statement risks and deploy mitigating controls to ensure Financial Statement gives true and fair view of the events and transactions occurred during the period.

Grameenphone has integrated process to review the risks arising from transaction, process, people, external and regulatory environment. Every year Financial Statement risks are reviewed involving control and process owners to identify risks effectively so that Financial Statement assertions are met. Grameenphone follows a risk based approach where both standard and local risks are covered. Standard Risk are those risks common to Telenor Group and Local risk are Grameenphone specific risks that arises due to business process, people and the regulatory environment we operate in. Each risk is evaluated through probability and impact matrix and categorised into a four point rating scale (Very High, High, Medium and Low).

Appropriate controls are designed and deployed to mitigate the identified risks to an acceptable level. 'Risk coverage' is performed in subsequent years to enhance the control capabilities to ensure particular control is effective and efficient in mitigating the risks. Risk mitigation status is monitored through review of control performance applying control testing method (self-assessment and direct testing) twice a year (Interim and Year-end). Details of ICFR activity is described in the Internal Control over Financial Reporting (ICFR) section of the Annual report on Page 51.

Future Plan of Grameenphone 2019

Continued focus on winning in voice, coupled with growth in data and digital services and robust personalisation capability in 2018, will establish strong foundations for Grameenphone in 2019 to pursue innovations amid customers' evolving needs in their digital life. We will continue our relentless focus to drive resilient performance and sustainable returns in 2019.

Key priorities in 2019 are to focus on coverage leadership, distribution and challenging red markets while leading 4G conversion with surgical investments and ARPU drive. There will also be a special focus on scaling the business segment by building ICT competency and winning in postpaid and IoT. Grameenphone will also continue to:

- Drive Business Simplification Program supported by institutionalising sustainable and efficient cost structure through a strengthened Cost Office function.
- Build a winning team by ensuring relevance of key competencies, sharpening focus and implementing new way of work in a changing and complex environment.
- Focus on long and short term advocacy as well as reputation and awareness building platforms to responsibly and proactively manage the business environment.

Our persistent focus on products and service innovations, retail experience reforms, and digitisation of core business for future growth will set the stage for us to capitalise on new growth opportunities in 2019.

Grameenphone aims to improve 2019 service revenue growth development and to sustain the strong EBITDA focus, leveraging on sustainable growth, disciplined cost management and innovating on operational efficiencies.



Michael Patrick Foley
Chief Executive Officer

27 January 2019

⁵CPD (2018): State of the Bangladesh Economy in FY2018 (First Reading)

⁶Pakistan Bureau of Statistics

⁷Central Bank of Sri Lanka

⁸J.P. Morgan Economic Research, J.P. Morgan Asset Management