

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:

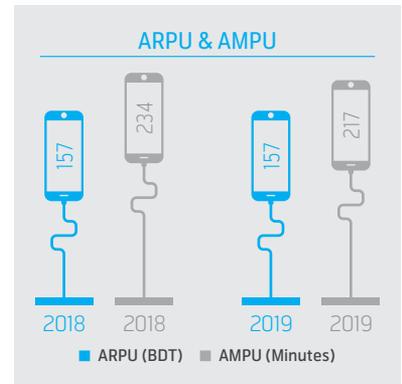
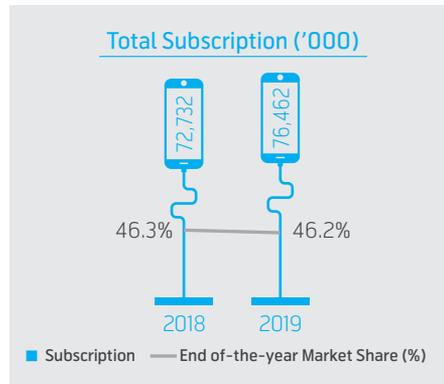
## 2019 Key Highlights

Grameenphone generated total revenue of BDT 143.7 billion (2018: BDT 132.8 billion), with a growth of 8.1% in year 2019 compared to the previous year. Net profit after tax for 2019 stood at BDT 34.5 billion (2018: BDT 33.4 billion, restated). Grameenphone added 3.7 million subscriptions in 2019 taking the year-end subscription base to 76.5 million, despite doubling of SIM tax from the middle of the year. Total number of Internet users stood at 40.6 million at the end of 2019 registering a strong 9.5% growth. 53.1% of subscribers of Grameenphone were active internet users at the end of 2019, including 11.9 million 4G internet users. Number of 4G sites of Grameenphone reached more than 10,000 by the end of year, while investment on data capacity enhancement & coverage expansion continued in 2019. This has resulted into 99.6% population coverage for Grameenphone including 95.4% coverage with 3G network. Strong revenue growth, along with structural operational efficiency initiatives, resulted into a 17.4% growth in operating profit in the year 2019.

Despite facing significant challenges from increase in supplementary duty, doubling of SIM tax and imposition of NOC restrictions by regulatory bodies, Grameenphone continued its growth momentum, while maintaining its superior positioning as data & digital service provider.

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

The subscription base of Grameenphone stood at 76.5 million at the end of 2019 with a growth of 5.1%. Increased SIM price, as a result of BDT 100 increase in SIM tax, had a negative impact in subscription growth in the second half of the year. Grameenphone's subscription market share stood at 46.2% at the year-end.

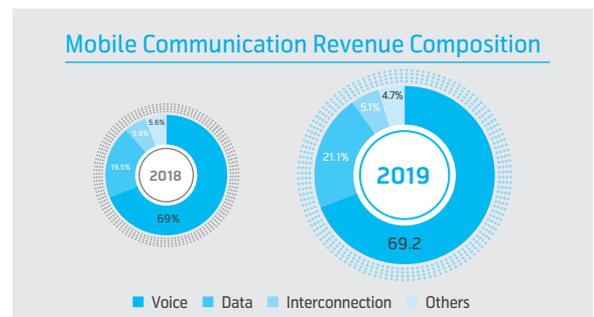
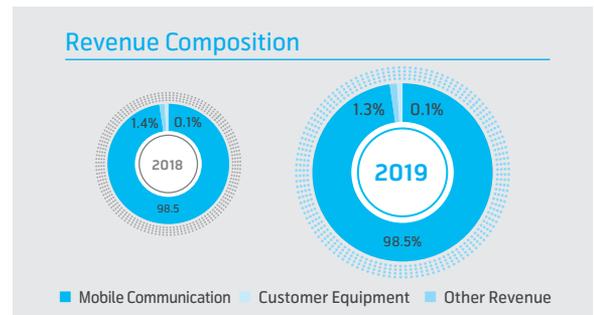


ARPU of Grameenphone remained flat at BDT 157 in year 2019 (2018: BDT 157), as higher contribution from voice & data services were offset by lower contribution of interconnect & other revenue segments. In 2019, AMPU was 217 minutes (2018: 234 minutes) with decrease of 7.1%, mainly owing to usage adjustment by subscribers from the two major events: unified tariff implementation (introduced in August 2018) and 5% additional supplementary duty (introduced in June 2019).

### Revenue Performance

Grameenphone reported total revenue of BDT 143.7 billion for the year 2019 (2018: BDT 132.8 billion), with 8.1% growth. The growth in total revenue mainly came from growth in mobile communication revenue, which was driven by voice and data services partly offset by lower revenue from interconnection.

Revenue from voice service had a strong growth of 8.5%, enabled by 5.1% growth in subscription base along with no dilution in voice ARPU in year 2019.



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Data revenue increased by 17.0%, driven by 9.5% growth in active internet user base and 2.0% growth in data ARPU in 2019. BDT 29.8 billion Data revenue in 2019 accounts for 21.1% (2018: 19.5%) of mobile communication revenue for Grameenphone. Roll-out of 5,013 new 4G sites (total 4G sites by the end of 2019: 10,000+), focused investment in data capacity enhancement and coverage expansion, along with competitive, relevant and exciting product offers in the market enabled the aforesaid growth in data revenue in 2019.

Interconnection revenue decreased by 14.3% in 2019 which is a continuation of declining trend in interconnection revenue for the last 5 years; this can be attributed to increasing proliferation of OTT services (e.g. Whatsapp, Viber, IMO, Facebook Messenger, etc.). Additionally, the new domestic interconnection call termination rate introduced by BTRC in the latter part of 2018 had eight (8) months impact in 2019 and led to only 0.8% growth in domestic interconnection revenue.

## Cost and Margin Review

Total operating expense of Grameenphone stood at BDT 77.0 billion (2018: BDT 76.1 billion, restated) with 1.2% increase compared to last year. The growth in operating expense mainly came from cost of material and traffic charges, commissions, revenue sharing and depreciation, which was mostly offset by robust control over other operating expenses. BDT 10.8 billion growth in total revenue and BDT 0.9 billion growth in operating expense resulted into a strong growth of BDT 9.9 billion (+17.4%) in operating profit for Grameenphone in 2019. Operating profit margin of Grameenphone improved to 46.4% in 2019 from 42.7% (restated) in 2018.

In 2019, Grameenphone transitioned from IAS17 to IFRS16, and thereby recognised right-of-use assets and lease liabilities for the lease contracts. This favourably impacted operating profit as BDT 1.1 billion was recognised as Finance cost under IFRS16.

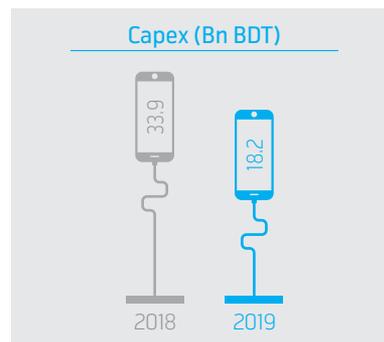
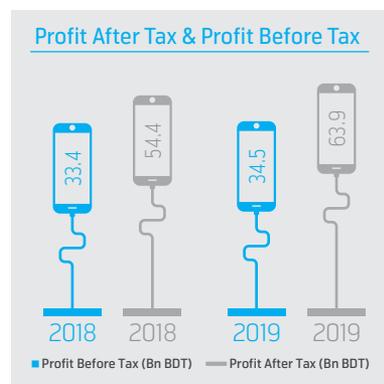
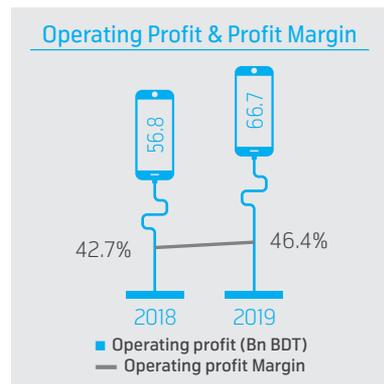
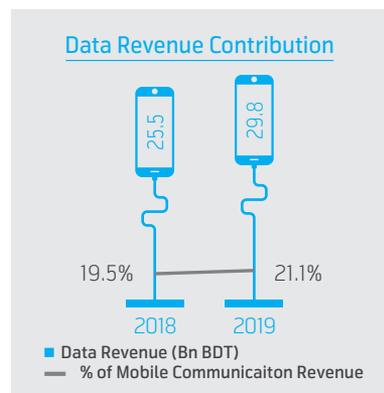
If compared using the same accounting standard of IAS17, Grameenphone's EBITDA in 2019 increased by 10.0% with a margin of 61.1% (2018: 60.0%, restated), including 1.1pp margin improvement from last year.

## Profit after Tax

Net profit after tax for 2019 was BDT 34.5 billion (2018: 33.4 billion, restated) with a margin of 24.0%. BDT 1.2 billion growth in net profit after tax came from BDT 9.1 billion growth in profit before tax, which was partly offset by higher tax expense of BDT 7.9 billion, mainly due to higher profit before tax, tax provision for non-deductible expenses and adjustments during the year.

## Capital Expenditure (Capex) and Network Updates

In 2019, Grameenphone reported BDT 18.2 billion as capital expenditure (2018: BDT 34.0 billion, including acquisition of 4G license, additional 5 MHz spectrum and 2G technology neutrality) with a 'total capex to sales' ratio of 12.7%. Majority of the investment in 2019 was related to rolling out of 4G sites, capacity increase for data traffic and coverage expansion - all in order to provide superior voice and data experience for customers. Grameenphone rolled-out 5,013 new 4G sites taking the total number of 4G sites to 10,022 in 2019. Also, Grameenphone rolled-out 1,023 new 3G sites in 2019 increasing the 3G population coverage to 95.4% (2018: 95.2%). With 16,506 sites across the country, Grameenphone currently provides telecommunication services covering 99.6% of the total population of the country.



## Balance Sheet

Total asset base increased to BDT 148.7 billion (2018: BDT 138.7 billion) mainly for the increase in Right-of-use assets for implementation of IFRS 16 and increase in current assets from cash and cash equivalents.

Total liabilities increased during 2019, mainly for the increase in lease liability for implementation of IFRS 16 partly offset by payments of 8<sup>th</sup> and 9<sup>th</sup> installment of long-term loan from IFC.

Total equity increased to BDT 38.3 billion (2018: BDT 36.8 billion) due to increased profit. The net profit generated from operations during the year 2019 was BDT 34.5 billion (2018: BDT 33.4 billion). The equity is reduced by payment of final dividend for the year 2018 and interim dividend for the year 2019. There was also an adjustment in the opening balance of retained earnings for the year 2018 for correction of errors of BDT 3.7 billion.

This correction of errors relates to some erroneous omissions with regards to sales, marketing and commission payments and associated costs relating to non-deductible expenses for prior periods. Consequently, its sales, marketing and commission expenses and associated non-deductible costs were understated. The errors were identified during 2019 and Grameenphone proactively corrected those by restating each of the affected financial statements line items. A detailed disclosure regarding the correction of errors is given in note 3.18 of the Financial Statements.

## 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, Financial Reporting Act, 2015 and other applicable laws in Bangladesh. Detail of the 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 standard as described in the note 3.17 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	2019	2018 Restated	2017 Adjusted	2016 Adjusted	2015 Adjusted	2014 Adjusted
<b>Financial Performance (in million BDT)</b>						
Revenue	143,656	132,832	128,436	114,862	104,754	102,663
Operating Profit	66,652	56,777	49,340	40,950	36,538	36,445
Profit before tax	63,899	54,848	46,419	37,127	34,091	33,864
Net Profit after tax	34,517	33,363	26,146	21,721	19,046	18,813
<b>Financial Position (in million BDT)</b>						
Paid-up Capital	13,503	13,503	13,503	13,503	13,503	13,503
Shareholders' equity	38,347	36,836	31,388	31,116	28,974	30,374
Total assets	148,734	138,713	130,220	130,500	132,450	130,673
Total liabilities	110,387	101,877	98,832	99,384	103,476	100,299
Current assets	20,999	13,369	20,658	10,941	11,928	14,865
Current liabilities	90,426	82,963	78,274	70,536	69,276	62,393
Non current assets	127,735	125,345	109,562	119,558	120,522	115,808
Non current liabilities	19,961	18,914	20,558	28,848	34,199	37,906
<b>Cash Flows (in million BDT)</b>						
Net cash generated from operating activities	57,393	60,413	57,771	46,152	38,791	31,255
Net cash used in investing activities	(14,263)	(30,200)	(12,944)	(19,839)	(19,907)	(20,069)
Net cash used in financing activities	(35,308)	(36,699)	(35,336)	(27,553)	(19,491)	(10,972)

Reported numbers	2019	2018 Restated	2017 Adjusted	2016 Adjusted	2015 Adjusted	2014 Adjusted
<b>Financial Ratios</b>						
Current Asset to Current Liability	0.23	0.16	0.26	0.16	0.17	0.24
Debt to Equity	0.62	0.50	0.63	0.87	1.19	1.12
Operating Profit Margin	46%	43%	38%	36%	35%	35%
Net Profit Margin	24%	25%	20%	19%	18%	18%
Return on Equity	92%	98%	84%	72%	64%	61%
Return on Total Assets	24%	25%	20%	17%	14%	14%
<b>Ordinary Shares Information</b>						
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 <sup>1</sup>	130%	280%	205%	175%	140%	160%
Dividend payout <sup>1</sup>	50.86%	113%	106%	109%	99%	115%
NAV per Share <sup>2</sup>	28.40	27.28	23.25	23.04	21.46	22.49
Net Operating Cash Flow per Share <sup>3</sup>	42.50	44.74	42.78	34.18	28.73	23.15
Earnings Per Share <sup>3</sup>	25.56	24.71	19.36	16.09	14.11	13.93

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

<sup>1</sup>Including proposed dividend

<sup>2</sup>Based on BDT 10 equivalent ordinary share outstanding at 31 December

<sup>3</sup>Based on weighted average number of shares of BDT 10 each

\*During 2019, Grameenphone discovered some erroneous omissions with regards to sales, marketing and commission payments and associated costs relating to non-deductible expenses which affected reported numbers till 2014. To give the accurate reflection of the correction, we have adjusted the above-mentioned numbers accordingly

Inflation Adjusted numbers	2019	2018 Restated	2017 Adjusted	2016 Adjusted	2015 Adjusted	2014 Adjusted
<b>Financial Performance (in million BDT)</b>						<b>Base Year</b>
Revenue	108,339	105,666	108,074	101,910	98,444	102,663
Operating Profit	50,266	45,165	41,518	36,333	34,337	36,445
Profit before tax	48,190	43,631	39,060	32,940	32,038	33,864
Net Profit after tax	26,031	26,539	22,001	19,272	17,899	18,813
<b>Financial Position (in million BDT)</b>						
Paid-up Capital	13,503	13,503	13,503	13,503	13,503	13,503
Shareholders' equity	28,920	29,303	26,412	27,607	27,229	30,374
Total assets	112,169	110,344	109,575	115,784	124,471	130,673
Total liabilities	83,249	81,041	83,163	88,177	97,242	100,299
Current assets	15,837	10,635	17,383	9,707	11,209	14,865
Current liabilities	68,195	65,996	65,865	62,582	65,103	62,393
Non current assets	96,332	99,709	92,192	106,077	113,262	115,808
Non current liabilities	15,054	15,045	17,299	25,595	32,139	37,906
<b>Cash Flows (in million BDT)</b>						
Net cash generated from operating activities	43,283	48,057	48,612	40,947	36,454	31,255
Net cash used in investing activities	(10,757)	(24,023)	(10,892)	(17,602)	(18,708)	(20,069)
Net cash used in financing activities	(26,628)	(29,193)	(29,734)	(24,446)	(18,316)	(10,972)
<b>Inflation Rate</b>	5.48%	5.78%	5.44%	5.92%	6.41%	

\*Inflation Rate Source: Bangladesh Bureau of Statistics

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

\*During 2019, Grameenphone discovered some erroneous omissions with regards to sales, marketing and commission payments and associated costs relating to non-deductible expenses which affected reported numbers till 2014. To give the accurate reflection of the correction, we have adjusted the above-mentioned numbers accordingly



## 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

Bangladesh continues to be a country with strong macroeconomic fundamentals reflected in GDP growth in excess of 8.13% in 2018-19<sup>1</sup>, higher than the growth of 7.86 percent in the preceding fiscal year. This places it among the five fastest growing economies in the world<sup>2</sup>. The per capita national income reached USD 1,909 in FY2018-19 from USD 1,751 a year earlier. The average inflation rate stood at 5.44 percent with moderate food inflation. High growth of the remittance flow reduced the deficit in the current account balance. During this period there has been a moderate depreciation in exchange rate of Taka against the US dollar. Foreign exchange reserve remained steady at USD 31.72 billion as of 30 November 2019<sup>3</sup>.

Strong private consumption buoyed by a recovery in remittances and public investment contributed to robust GDP growth, reflecting substantial progress in implementing large infrastructure projects, notably the Padma Bridge and Dhaka's metro rail project. Going forward, the economy is likely to slow, partly due to weak global trade. In addition, downside risks include threats from a banking system under strain from a high number of non-performing loans.

From a regional perspective Bangladesh has posted the highest growth not only in South-East Asia, but also in South Asia, outperforming both India, Pakistan, Sri Lanka as well as economies such as Vietnam and China<sup>4</sup>. Neighbouring India will continue to be a fast-growing big economy which is expected to positively impact regional growth. While growth in the South Asia region has softened to 5.7% in 2019 and is expected to decline further, Bangladesh will continue to perform above-average during this period.

Globally, 2019 was characterised as a tug-of-war between political conflict and macroeconomic policy. Geopolitical tensions weighed on business sentiment and prompted support from policymakers. There are growing worries about the state of the world economy especially related to the trade war between US and China. Looking ahead to 2020, global growth is still slowing, but the case for a rebound is building<sup>5</sup>.

## Risks and Concerns related to the financial statements

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

Grameenphone has an 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 addressed. Standard Risk are those risks common to all Telenor Business Units 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 embedded in the process to mitigate the identified risks to an acceptable level. 'Risk coverage' is performed every year to update the control description and enhance the control capabilities to ensure effectiveness and efficiency of risk management. Risk mitigation status is monitored through two control testing methods i.e. 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 56.

## Future Plan of Grameenphone 2020

We believe that connectivity can empower societies while driving economic growth and reducing inequalities, driving the national vision of a Digital Bangladesh. Grameenphone's future plan is designed to drive us to outgrow the market with a modern, full coverage data network and personalised offers for our 75.5 million strong customer base, leveraging our strong brand built on technology leadership offering key data and digital service differentiation. We have identified the following four key priorities for 2020:

- (1) Drive revenue growth leading with voice, 4G data and digital experience, driven by 4G conversion, while scaling in B2B and ICT
- (2) EBITDA growth through structural initiatives, modernisation of distribution and scaled digital distribution

<sup>1</sup>Bangladesh Bureau of Statistics provisional forecast

<sup>2</sup>World Bank Report 'The Bangladesh Development Update April 2019: Towards Regulatory Predictability', published April 2019, as quoted in The Daily Star

<sup>3</sup>Bangladesh Economic Review 2018-19 as published by the Ministry of Finance

<sup>4</sup>Regional GDP Outlook, Asian Development Bank

<sup>5</sup>Economist Intelligence Unit and J.P Morgan forecast

- (3) Getting the workforce future ready by up-skilling as well as re-skilling; setting key trends as one of the top employers in the market by driving a lean and responsive organisation structure
- (4) Focus on long- and short-term advocacy as well as reputation and awareness building platforms to responsibly and proactively manage the business environment

Grameenphone is well positioned and has the ability to continue contributing growth for the Bangladesh economy and our shareholders, despite challenging business environment and strong competition. We aim to deliver on our plans and ambitions with continued focus on excellence as well as smart investments.



**Michael Patrick Foley**  
Chief Executive Officer

27 January 2020