

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:

## 2020 Key Highlights

Grameenphone generated total revenue of BDT 139.6 billion (2019; BDT 143.7 billion), with a growth of -2.8% in year 2020 compared to previous year. Net profit after tax for 2020 stood at BDT 37.2 billion (2019; BDT 34.5 billion). Grameenphone added 2.6 million subscriptions in 2020 taking the year-end subscription base to 79.0 million, despite number series scarcity in the beginning of the year and retail closure during general holidays triggered by Covid-19. Total number of internet users stood at 41.3 million at the end of 2020 which was 52.2% of the Company's total subscriber base. This also includes 19.8Mn 4G data user which was 65.6% higher than last year. Number of 4G sites of Grameenphone reached more than 14,000 by the end of year, while investment on data capacity enhancement and coverage expansion continued in 2020. This has resulted into 99.6% population coverage for Grameenphone including 91.1% coverage with 4G network. Grameenphone's growth momentum in 2020 was mainly hampered by Covid-19, resulting into a 4.8% decrease in operating profit in year 2020.

In addition to Covid-19, despite facing significant challenges from increased supplementary duty, NOC restrictions and imposition of SMP directives by regulatory bodies, Grameenphone continued its profitability, while maintaining its superior positioning as a data & digital service provider.

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

The subscription base of Grameenphone stood at 79.0 million at the end of 2020 with a growth of 3.4% from last year. Number series scarcity followed by general holidays and retail closure due to Covid-19 had a negative impact on subscription growth in the first half of the year. Grameenphone's subscription market share stood at 46.5% at the year-end, with 0.3pp improvement from last year.

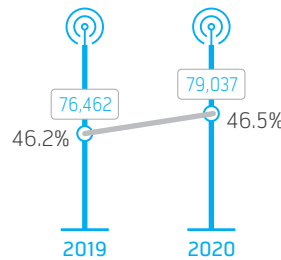
ARPU of Grameenphone decreased at BDT 150 in year 2020 (2019: BDT 157), as lower contribution from voice & interconnect segment were partly offset by data services. In 2020, AMPU was 210 minutes (2019: 217 minutes) with a decrease of 3.1%, mainly attributed to lower usage due to Covid-19 pandemic and usage adjustment by subscribers after imposition of 5% additional supplementary duty (introduced in June 2020).

## Revenue Performance

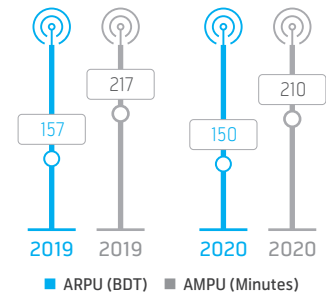
Grameenphone reported total revenue of BDT 139.6 billion for the year 2020 (2019: BDT 143.7 billion), with -2.8% growth. The decrease in total revenue mainly came from lower mobile communication revenue, which was driven by lower voice & interconnect, partly offset by higher revenue from data services.

Revenue from voice service decreased by 7.2% against 3.4% growth in subscription base while interconnect revenue decreased by 16.1%.

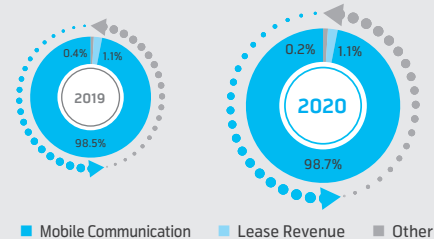
Total Subscription ('000)



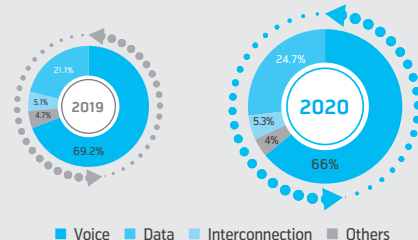
ARPU & AMPU



Revenue Composition



Mobile Communication Revenue Composition



Data revenue increased by 14.0%, driven by 9.4% growth in data ARPU and 1.7% increase in active internet users in 2020. BDT 34.0 billion data revenue in 2020 accounts for 24.7% (2019: 21.1%) of mobile communication revenue for Grameenphone. Roll-out of 4,058 new 4G sites (total 4G sites by the end of 2020: 14,000+), focused investment in data capacity enhancement & coverage expansion, along with competitive, relevant and exciting product offers in the market enabled the aforementioned growth in data revenue in 2020.

Interconnection revenue continued to be on a declining trend in 2020 with a growth of -16.1%. In addition to the increasing proliferation of OTT services (e.g. WhatsApp, Viber, IMO, Facebook Messenger, etc.), interconnect revenue in 2020 was further impacted by reduced international call termination rate from first quarter, along with imposition of SMP directives from the third quarter

## Cost and Margin Review

Total operating expense of Grameenphone stood at BDT 76.2 billion (2019: BDT 77.0 billion) with 1.1% decrease compared to last year. The de-growth in operating expense mainly came from lower sales, marketing and commission cost, partly offset by higher cost of material and traffic charges and higher CSR cost for Covid-19 and flood. Lower sales, marketing and commission cost was mainly driven by lower revenue, efficient market spending and increased share of digital sales. BDT 4.1 billion decrease in total revenue and BDT 0.8 billion decrease in operating expense resulted into BDT 3.2 billion decrease in operating profit for Grameenphone in 2020. Operating profit margin of Grameenphone stood at 45.4% (2019: 46.4%).

## Profit after Tax

Net profit after tax for 2020 was BDT 37.2 billion (2019: 34.5 billion) with a strong margin of 26.6%, which was 2.6pp higher compared to last year. BDT 2.7 billion growth in net profit after tax came in combination of BDT 1.1 billion lower profit before tax and BDT 3.8 billion lower tax expense. The decrease in tax expense was mainly due to favourable impact from provision adjustment during the year, along with lower profit before tax in 2020.

## Capital Expenditure (Capex) and Network Updates

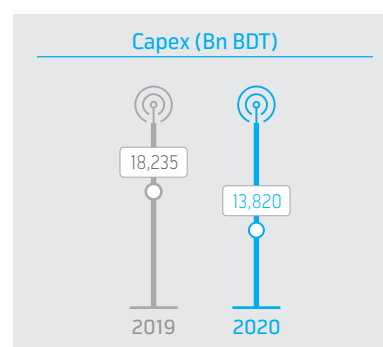
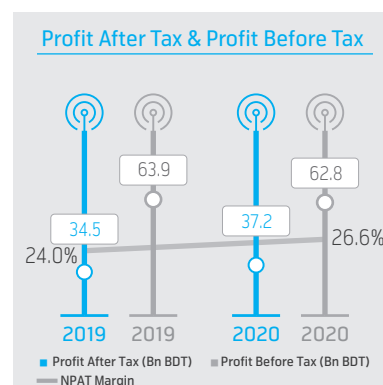
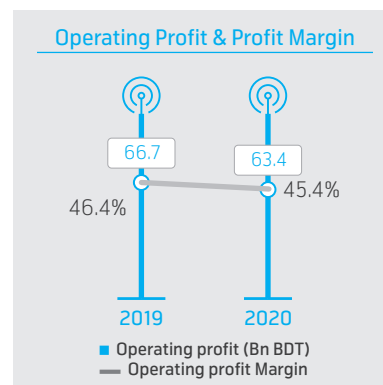
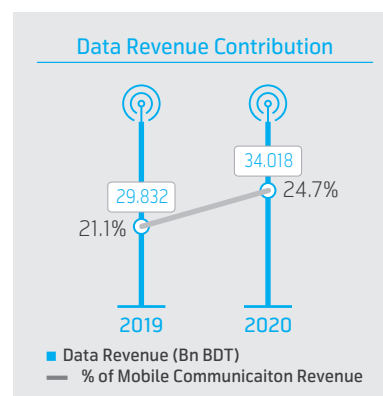
In 2020, Grameenphone reported BDT 13.8 billion as capital expenditure (2019: BDT 18.2 billion, with a 'total capex to sales' ratio of 9.9%). Majority of the investment in 2020 was related to rolling out of 4G sites, capacity increase for data traffic & coverage expansion - all in order to provide superior voice & data experience for the customers. In 2020, Grameenphone rolled out 4,058 new 4G sites taking the total number of 4G sites to 14,080, covering 91.1% population under 4G network (2019: 74.5%). With 16,547 sites across the country, Grameenphone currently provides its telecommunication services covering 99.6% of the total population of the country.

## Balance Sheet

Total asset base decreased to BDT 148.2 billion (2019: BDT 148.7 billion) mainly for the decrease in current assets from cash and cash equivalents partly offset by increase in total non-current assets.

Total liabilities decreased during 2020, mainly for the payment of dividends to foreign shareholder which was unpaid at the end of 2019, decrease in provisions as a result of dispute settlement and repayment of IFC loans.

Total equity increased to BDT 52.1 billion (2019: BDT 38.3 billion) resulted from profit generated and dividend declared during the year 2020. The net profit generated from operations during the year 2020 was BDT 37.2 billion (2019: BDT 34.5 billion) which was partly offset by the final dividend for the year 2019 and interim dividend for the year 2020.



## 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.

### 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	2020	2019	2018 Restated	2017 Adjusted	2016 Adjusted	2015 Adjusted
<b>Financial Performance (in million BDT)</b>						
Revenue	139,606	143,656	132,832	128,436	114,862	104,754
Operating Profit	63,440	66,652	56,777	49,340	40,950	36,538
Profit before tax	62,801	63,899	54,848	46,419	37,127	34,091
Net Profit after tax	37,187	34,517	33,363	26,146	21,721	19,046
<b>Financial Position (in million BDT)</b>						
Paid-up Capital	13,503	13,503	13,503	13,503	13,503	13,503
Shareholders' equity	52,108	38,347	36,836	31,388	31,116	28,974
Total assets	148,184	148,734	138,713	130,220	130,500	132,450
Total liabilities	96,077	110,387	101,877	98,832	99,384	103,476
Current assets	9,931	20,999	13,369	20,658	10,941	11,928
Current liabilities	76,656	90,426	82,963	78,274	70,536	69,276
Non current assets	138,253	127,735	125,345	109,562	119,558	120,522
Non current liabilities	19,420	19,961	18,914	20,558	28,848	34,199
<b>Cash Flows (in million BDT)</b>						
Net cash generated from operating activities	33,572	57,393	60,413	57,771	46,152	38,791
Net cash used in investing activities	(11,217)	(14,263)	(30,200)	(12,944)	(19,839)	(19,907)
Net cash used in financing activities	(33,517)	(35,308)	(36,699)	(35,336)	(27,553)	(19,491)
<b>Financial Ratios</b>						
Current Asset to Current Liability	0.13	0.23	0.16	0.26	0.16	0.17
Debt to Equity	0.42	0.62	0.50	0.63	0.87	1.19
Operating Profit Margin	45%	46%	43%	38%	36%	35%
Net Profit Margin	27%	24%	25%	20%	19%	18%
Return on Equity	82%	92%	98%	84%	72%	64%
Return on Total Assets	25%	24%	25%	20%	17%	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>	275%	130%	280%	205%	175%	140%
Dividend payout <sup>1</sup>	99.86%	50.86%	113%	106%	109%	99%
NAV per Share <sup>2</sup>	38.59	28.40	27.28	23.25	23.04	21.46
Net Operating Cash Flow per Share <sup>3</sup>	24.86	42.50	44.74	42.78	34.18	28.73
Earnings Per Share <sup>3</sup>	27.54	25.56	24.71	19.36	16.09	14.11

\*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.

Inflation Adjusted numbers	2020	2019	2018 Restated	2017 Adjusted	2016 Adjusted	2015 Adjusted
<b>Financial Performance (in million BDT)</b>						
Revenue	106,002	115,284	112,439	115,001	108,442	104,754
Operating Profit	48,169	53,488	48,060	44,179	38,662	36,538
Profit before tax	47,684	51,279	46,427	41,564	35,052	34,091
Net Profit after tax	28,236	27,700	28,241	23,411	20,507	19,046
<b>Financial Position (in million BDT)</b>						
Paid-up Capital	13,503	13,503	13,503	13,503	13,503	13,503
Shareholders' equity	39,565	30,774	31,181	28,105	29,377	28,974
Total assets	112,515	119,359	117,417	116,599	123,206	132,450
Total liabilities	72,950	88,585	86,236	88,494	93,829	103,476
Current assets	7,541	16,852	11,316	18,497	10,330	11,928
Current liabilities	58,205	72,567	70,226	70,087	66,593	69,276
Non current assets	104,975	102,507	106,101	98,102	112,876	120,522
Non current liabilities	14,746	16,018	16,010	18,408	27,236	34,199
<b>Cash Flows (in million BDT)</b>						
Net cash generated from operating activities	25,491	46,058	51,138	51,728	43,572	38,791
Net cash used in investing activities	(8,517)	(11,446)	(25,563)	(11,590)	(18,730)	(19,907)
Net cash used in financing activities	(25,450)	(28,334)	(31,065)	(31,640)	(26,013)	(19,491)
Inflation Rate	5.69%	5.48%	5.78%	5.44%	5.92%	6.41%

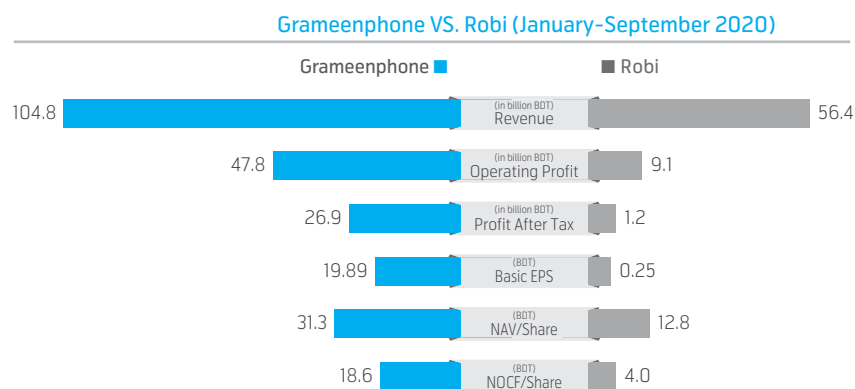
\*Inflation Rate Source: Bangladesh Bureau of Statistics

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

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

Peer companies of Grameenphone in telecommunication industry in Bangladesh include Robi Axiata Limited (Robi), Banglalink Digital Communications Limited and Teletalk Bangladesh Ltd. (Teletalk). Among these three companies, Robi Axiata Limited (Robi) has recently been enlisted with Dhaka Stock Exchange and Chittagong Stock Exchange on 24 December, 2020 and thus enable for a comparative benchmarking.

Following is the comparative peer review with Robi Axiata Limited and its subsidiary, based on its 3<sup>rd</sup> Quarter/9 Months un-audited Financial Statements 2020:



### Financial and economic scenario of Bangladesh and the globe

Bangladesh remains a very attractive market for telecom with significant potential to grow fuelled by a young and evolving population heavily reliant on the cellular network as their primary means of voice and data connectivity. The youth, comprising of 46% of the total population of the country<sup>1</sup>, are moving into the metro cities in increasing numbers looking for greater economic opportunities.

<sup>1</sup>Youth = 0 - 24 years old. UN World Prospectus

With continuous effort from the government and relevant entities, secondary school enrolment in Bangladesh currently stands at 67% which is higher in comparison to similar markets<sup>2</sup>. Roughly 50% of the population, ages 15+, have account ownership in a financial institution or with a mobile-money service provider<sup>3</sup>. Collectively these statistics account for a GDP growth rate of 8% in 2019.

While mobile usage at the individual level has seen significant increases over the years with AMBPU currently stands at 2,236 MB and AMPU at 160 Minutes<sup>4</sup>, room remains for the industry to grow as real SIM penetration in the country currently stands at 59.79%<sup>5</sup> with Multi-SIM usage still being a prevalent behaviour. Significant room for growth in internet usage is predicted as the current smartphone penetration stands at 38.76%<sup>6</sup> of mobile users.

Bangladesh was impacted by the pandemic from March 2020 which directly affected Grameenphone's business. The country's economy comprised of a large population of daily wage earners who were suddenly out of jobs. The economy also relied heavily on revenue from RMG export which saw also a significant decline<sup>7</sup>.

Globally, Covid-19 had triggered the deepest global recession in decades. While the ultimate outcome is still uncertain, the pandemic is expected to trigger major contractions across all the economies. The aftermath of Covid-19 will also have lasting impact on productivity and potential output. While the bounce-back rate and its timing will depend on a multitude of factors it is expected to be strongest in the Asian countries that have already shown better resilience during the pandemic.<sup>8</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 during the period.

The Company has an integrated process to review the risks arising from transactions, processes, and people, as well as from the 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 Risks are risks common to all Telenor Business Units and Local Risks are Grameenphone specific risks that arise due to local business processes, people and the regulatory environment we operate in. Each risk is evaluated through a 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 processes to mitigate the identified risks to an acceptable level. 'Risk coverage' is carried out every year to update the control description and enhance control capabilities to ensure the effectiveness and efficiency of risk management. Risk mitigation status is monitored using two control-testing methods i.e. self-assessment and direct testing, twice a year (Interim and Year-end). Details of the ICFR activity is presented in the Internal Control over Financial Reporting (ICFR) section of the Annual Report on page 56.

### Future Plan of Grameenphone 2021

Grameenphone has been at the forefront of Bangladesh's development, and the Company is optimistic that its role will be strengthened as it moves ahead. Grameenphone's strategic ambition is to be the leading technology service provider that will unleash the potential of Bangladesh and continue growing in shareholder value. The overarching ambitions in the Company's strategy is broken down into the following four key areas:

- 1. Differentiate Data Network Experience:** Focusing towards ensuring the right experience to its high value base by making granular investment choices, implementing a customer-centric operating model and setting up for sustainable future success.
- 2. Grow Revenue:** Focusing on maintaining leadership, growing ARPU and scaling up growth segments. For the high-profile group, the Company will focus on the best experience, and service bundling. For the mid-profile group focus is on 4G handset, USIM conversion, and segmented pricing. For the largest group, focus is on coverage and granular distribution.

<sup>2</sup>Average of 59% for Asian Telenor BU's

<sup>3</sup>Demirguc-Kunt et al., 2018, Global Financial Inclusion Database, World Bank

<sup>4</sup>Internal BU Data Analysis

<sup>5</sup>GSMA Intelligence and Internal BU data

<sup>6</sup>Internal BU Data Analysis

<sup>7</sup>World Bank, BBS

<sup>8</sup>Based on analysis from World Bank, IMF and OECD

3. **Drive Modernisation:** To support its growth ambition, Grameenphone is working towards developing a digital-focused operating model with modernised capabilities in the form of scaling up digital channels, retail transformation and service modernisation.
4. **Responsible Business:** Grameenphone's responsible business strategy is built around enabling growth and supporting modernisation. There is increased focus on long- and short-term advocacy as well as reputation and awareness building platforms to responsibly and proactively manage the business environment.

A strong emphasis on Customer-Focused Data-Driven Decisioning will enable the Company to achieve the above.

Grameenphone faces continued uncertainties related to the global Covid-19 pandemic, slower economic growth, a fragmented value chain governed by a complex regulatory regime, a business environment adversely impacted by the global trade slowdown as well as strong competition. While proactively managing these uncertainties and with strong execution on its strategic ambitions, Grameenphone will continued to position itself for sustainable growth in the future.



**Yasir Azman**  
Chief Executive Officer

27 January 2021