

# Grameenphone IT Ltd.

FOR THE YEAR ENDED DECEMBER 31, 2011

## Dear Shareholders,

On behalf of the Board of Directors, Management and myself, I welcome you all to the 2<sup>nd</sup> Annual General Meeting of Grameenphone IT Ltd. (GPIT). We are very delighted to place herewith the Directors' Report and Auditors' Report together with the Audited Financial Statements of the Company for the year ended December 31, 2011 for your consideration, approval and adoption.

## Macroeconomic Perspective

Despite the challenges in the global economy, the IT industry has continued to experience steady growth. Bangladesh has potentials to be one of the preferred IT outsourcing destinations for the future with its skilled work force at a very competitive labour cost. The market analysis indicates that the total Bangladesh software and Information Technology Enabled Services (ITES) market size is USD 250 million with a steady growth of 20% for the next 2 years. Although the market is still dominated by hardware, more software innovation as application and development, coding, system integration and design are gradually becoming more pronounced. The Bangladesh IT market is fragmented and continues to embrace smaller companies that are engaged in casual and freelance works for the IT industry.

## Regulatory Environment and Road Map

By extending the tax exemption for ITES until 2013 and broadening the definition of ITES, the IT service industry has received due attention from the Government. Also being the host of e-Asia 2011, Asia's premier ICT event, and establishing the new Information and Communication Technology Ministry, the government has reinforced its commitment to Digital Bangladesh. However, poor infrastructure and lengthy regulatory processing have impeded the growth of the sector. Though the local industry has continued to attract positive international exposure and interest, the high bandwidth cost, lack of market outreach, and complex regulatory regime are the main reasons for not registering higher growth rate in export earnings. To make a self sufficient local ICT industry and to establish Bangladesh as an attractive outsourcing destination, the government has to adopt a robust plan that includes proper implementation of the current ICT policy, simplification of regulatory processes and supportive policies towards training and development.

## Business Summary of the Year 2011

Many changes were initiated throughout the year 2011. At the onset, a new Management Team was appointed, and the commercial division was strengthened towards more focused sales, customer relationship and product development.

The internal organizational processes were designed in a way that it crafts a more customer driven company, supports external revenues, and upholds the overall shape of a professional customer oriented IT Company. Local Focus Group Discussions were established and awareness workshops were arranged to assert ourselves as being part of the industry and take steps to drive the industry forward. At the same time, we have also realized that the potential of this company lies not just within the limits of Bangladesh, but across the border and hence started to create awareness on a global level.

## ISO Certification

In an unprecedented accomplishment, GPIT has prevailed to qualify for ISO 27001 and ISO 20000 Certifications in the very first year of its commencement. While ISO 27001 is protection of customer rights and information security, the ISO 20000 certification is ensuring quality in the processes to deliver high standards IT services. Together, they ensure a robust world class management system, touching all critical areas to ensure effective service delivery. The ISO certification confirms our commitment to quality and adds credibility which is as a prerequisite for entering the global market.

## Our Products & Services

GPIT offers clients complete end-to-end solutions for all their IT needs. GPIT's own products - a logistics distribution tracking system CRYSTAL, end-to-end people management services, workflow integration through Archival Management System or Approval Management Systems are high quality solutions that add to the portfolio base for further growth.

GPIT's products and solutions at present are described as follows:

GPIT Products	Integration & Managed Services			
<ul style="list-style-type: none"> <li>- Human Resource Management System (HRMS)</li> <li>- Approval Management System (AMS)</li> <li>- GPIT Crystal (logistics distribution tracking system)</li> <li>- Enterprise Resource Planning (ERP)</li> </ul>	<b>Banking &amp; Financial</b> <ul style="list-style-type: none"> <li>- Mobile Banking</li> <li>- Internet Banking</li> <li>- Loan Origination System</li> </ul>	<b>Business Support Solution</b> <ul style="list-style-type: none"> <li>- ERP</li> <li>- Collaboration &amp; Content Management</li> <li>- Middleware</li> </ul>	<b>Communication</b> <ul style="list-style-type: none"> <li>- Contact Center</li> <li>- IP Telephony</li> <li>- Video Conferencing</li> <li>- Unified Communications</li> </ul>	<b>Infrastructure</b> <ul style="list-style-type: none"> <li>- Server &amp; Storage</li> <li>- Oracle Exadata, - Exalogic</li> </ul>

## Global Partnership

Partnerships are vital as we develop our business in the domains such as IT Banking, Government and Enterprises. We will continue to serve the domains where we have demonstrated excellence, Telecommunications Industry, as our core competence. GPIT is looking forward for other partnership opportunities with large and medium sized companies that have worked with relevant portfolios and sectors for adding more value to our business. Retaining the existing partnerships and expanding them in a large scale will be our focus in validating and aligning our journey. Our existing partners include IBM, Dell, HP, Wipro, Huawei, Microsoft, Cisco and other global giants from whom GPIT leverages extensive product/solution and supports. Depending on the preference of the market of price and quality, we will keep an array of options for our customers. That is why partner management has become very critical to move forward.

## Our Employees

GPIT continues to foster development and learning through encouraging a structured approach towards capability analysis and ensuring development initiatives. While the people base increased to close to 400, GPIT introduced innovative and cost effective solutions towards meeting its resource needs. We are utilizing "working from home" concept and flexible hour mechanisms which allows optimum level of productivity and efficiency for both GPIT and its employees. It built its people and process capacity for achieving ISO and CMMI certification and maturity alignment. It also embraced the value of strong and healthy culture building and fostering a capable environment for development of individuals and future leaders. We believe the right mix of innovative HR delivery systems, structured standardization and healthy culture building will nurture organic growth that would lead to a strong successful company in the coming years.

## Investment Risk & Concerns

GPIT has made noteworthy efforts in identification, assessment, and prioritization of risks. Concerted actions have also been taken to monitor, minimize, and control the probability and/or impact of events that may trigger risks. GPIT has identified key risks and uncertainties, which may restrict the Company from realizing business objectives as below:

1. Global Recession
2. Currency fluctuation
3. Regulatory vice and uncertainties
4. International Connectivity

We will continue to take timely measures to control the probability and/or negative impact of the risks mentioned above. We will also look into ways to how we can turn some of the risks into prospects. The global recession with a strong focus on increased cost effectiveness and increased productivity may open opportunities for GPIT's products and services, which are cost competitive in the global market.

### Contribution to the National Exchequer

Grameenphone IT Ltd. paid a significant contribution to the National Exchequer in the last year. The collective contribution to the National Exchequer up to December 2011 was BDT 72 million.

### Enhanced Value of Shareholders' Investment:

The Directors present the financial results of the Company for the year ended December 31, 2011 and recommend the appropriation as mentioned in the "Appropriation of Profit" table below:

*Figures in BDT*

	2011	2010
<b>Profit available for appropriation</b>	126,175,141	
Profit /( Loss) during the year	(140,729,616)	126,175,141
<b>Total amount available for appropriation</b>	<b>(14,554,475)</b>	<b>126,175,141</b>
<b>Profit/(Loss) carried forward</b>	<b>(14,554,475)</b>	<b>126,175,141</b>

### Dividend

In view of accumulated loss of BDT 14,554,475 during the year up to December 31, 2011, the Directors are unable to offer any dividend to the Shareholders for the year 2011.

### Board of Directors & Board Meetings

The composition of the Board of Directors who held office during the year is as below:

1. Mr. Tore Johnsen
2. Mr. Raihan Shamsi
3. Mr. Arild Kaale
4. Mr. Frode Stoldal
5. Mr. Haroon Bhatti
6. Mr. Kazi Monirul Kabir
7. Mr. Tanveer Mohammad

Mr. Haroon Bhatti was appointed as a Director at the 26<sup>th</sup> Board meeting on December 12, 2011 in replacement of Mr. Arnfinn Groven as per provision of the Articles of Association of the Company.

During 2011, a total of 13 (thirteen) Board meetings were held, which met the regulatory requirement in this respect.

### Directors' appointment & Re-appointment

With regard to the appointment, retirement and re-appointment of Directors, the Company is governed by its Articles of Association, the Companies Act, 1994 and other related legislations. Accordingly, the following Directors of the Board will retire at the Annual General Meeting. They are, however, eligible for re-appointment:

1. Mr. Raihan Shamsi
2. Mr. Arild Kaale
3. Mr. Haroon Bhatti

### Appointment of Auditors

The appointment, reappointment and replacement of statutory auditors for the Company are governed by the provisions of the Companies Act 1994. The statutory auditors of the Company, M/S Rahman Rahman Huq, Chartered Accountants, a member firm of KPMG, shall retire in this AGM. The Firm, being eligible, has expressed their willingness to be re-appointed. The Board recommends their re-appointment for the year 2012 and to continue till the next AGM at a fee of BDT 550,000 (Taka Five Hundred Fifty thousand only) plus applicable VAT.

### Looking ahead 2012 and beyond

GPIT has set the strategies and fundamentals to continue on the journey of profitable growth. The Company will continue to invest in organizational development, process improvement, customer relationship and market presence. We want to be a driving force to build the local IT industry and to make Bangladesh a potential outsourcing destination for software development in collaboration with local partners. We are confident that with the current strategy, progression and steady growth, we will be able to reach our targets.

### Acknowledgements

Members of the Board take this opportunity to express their gratitude and sincere thanks to the Shareholders for their continued support and guidance.

The Board also records its appreciation for the employees at all levels for their dedicated services, sincerity, hard works and strong commitment, which enabled the Company to advance to what we perceive to be a sustainable growth path.

Thanking you all and with best regards.

For and on behalf of the Board of Directors of Grameenphone IT Ltd.

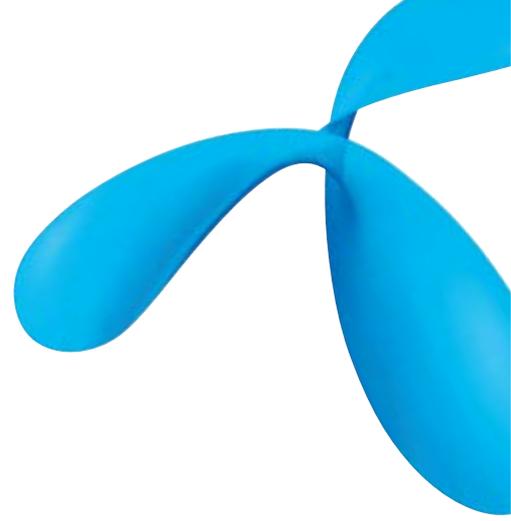


**Tore Johnsen**

Chairman

Grameenphone IT Ltd.

February 08, 2012



Auditors' Report &  
Audited Financial Statements of  
Grameenphone IT Ltd.





**Rahman Rahman Huq**  
Chartered Accountants  
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**Auditors' Report  
to the shareholders of  
Grameenphone IT Ltd.**

**Introduction**

We have audited the accompanying financial statements of Grameenphone IT Ltd., which comprise the statement of financial position as at 31 December 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Financial Reporting Standards (BFRS), the Companies Act 1994, and other applicable laws and regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing (BSA). Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements, prepared in accordance with Bangladesh Financial Reporting Standards (BFRS), give a true and fair view of the state of the company's affairs as at 31 December 2011 and of the results of its operations and cash flows for the year then ended and comply with the Companies Act 1994, and other applicable laws and regulations.

We also report that:

- a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and made due verification thereof;
- b) in our opinion, proper books of account as required by law have been kept by the company so far as it appeared from our examination of these books; and
- c) the statement of financial position (balance sheet) and statement of comprehensive income (profit and loss account) dealt with by the report are in agreement with the books of account and returns.

Auditors  
**Rahman Rahman Huq**  
Dhaka, February 07, 2012

**Grameenphone IT Ltd.**  
**Statement of Financial Position**  
as at 31 December 2011

**Assets**

**Non-current assets**

Property, plant and equipment, net  
Intangible assets, net

Notes

2011

Taka

2010

Taka

506,945,456

28,084,997

535,030,453

176,822,402

-

176,822,402

**Current assets**

Inventories  
Accounts receivable  
Advances, deposits and prepayments  
Advance VAT  
Other receivables  
Cash and cash equivalents

6

7

8

9

10

11

23,757,854

173,575,301

34,052,375

-

16,536,405

426,423,498

674,345,433

1,209,375,886

103,488,179

221,221,943

34,076,775

30,016,625

1,890,705

256,572,726

647,266,953

824,089,355

**Total assets**

**Equity and liabilities**

**Shareholders' equity**

Share capital  
Accumulated profit/(loss)

12

75,000,000

(14,554,475)

60,445,525

75,000,000

126,175,141

201,175,141

**Non-current liabilities**

**Current liabilities**

Advance from customers  
Payable for operating expenses  
Payable for capital expenditure  
Income tax provision  
Provisions  
VAT liability  
Other current liabilities

13

14

15

16

17

9

18

392,199,338

239,909,445

259,820,110

1,226,963

234,377,762

3,820,572

17,576,171

1,148,930,361

1,209,375,886

161,032,225

121,923,559

176,839,206

532,484

158,052,956

-

4,533,784

622,914,214

824,089,355

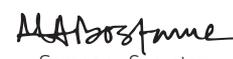
**Total equity and liabilities**

*The annexed notes 1 to 29 form an integral part of these financial statements.*

  
Chairman

  
Director

  
Chief Executive Officer

  
Company Secretary

As per our report of same date

  
Auditors

Dhaka, February 07, 2012

**Grameenphone IT Ltd.**  
**Statement of Comprehensive Income**  
for the year ended 31 December 2011

	Notes	1 January to 31 December 2011 Taka	28 January to 31 December 2010 Taka
<b>Revenue</b>	19	1,176,717,464	642,007,224
Cost of services rendered	20	(884,624,503)	(315,086,476)
<b>Gross profit</b>		292,092,961	326,920,748
<b>Operating expenses</b>			
General and administrative expenses	21	(425,520,025)	(201,744,230)
Selling and distribution expenses	22	(14,420,111)	-
		(439,940,136)	(201,744,230)
<b>Operating profit/(loss)</b>		(147,847,175)	125,176,518
Finance income, net	23	7,215,220	1,724,737
Loss on disposal of property, plant and equipment	24	(55,757)	-
Foreign exchange gain		2,872,314	-
		10,031,777	1,724,737
<b>Profit/(loss) before income tax</b>		(137,815,398)	126,901,255
Income tax expenses	3.8	(2,914,218)	(726,114)
<b>Profit/(loss) for the year/period</b>		(140,729,616)	126,175,141
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income</b>		(140,729,616)	126,175,141

The annexed notes 1 to 29 form an integral part of these financial statements.

  
Chairman

  
Director

  
Chief Executive Officer

  
Company Secretary

Dhaka, February 07, 2012

As per our report of same date  
  
Auditors

**Grameenphone IT Ltd.**  
**Statement of Changes in Equity**  
for the year ended 31 December 2011

	Share capital Taka	Accumulated profit/(loss) Taka	Total Taka
Issue of shares	75,000,000	-	75,000,000
Profit for the period	-	126,175,141	126,175,141
Other comprehensive income	-	-	-
<b>Balance as at 31 December 2010</b>	<b>75,000,000</b>	<b>126,175,141</b>	<b>201,175,141</b>
Loss for the year	-	(140,729,616)	(140,729,616)
Other comprehensive income	-	-	-
<b>Balance as at 31 December 2011</b>	<b>75,000,000</b>	<b>(14,554,475)</b>	<b>60,445,525</b>

*The annexed notes 1 to 29 form an integral part of these financial statements.*

**Grameenphone IT Ltd.**  
**Statement of Cash Flows**

for the year ended 31 December 2011

	1 January to 31 December 2011	28 January to 31 December 2010
	Taka	Taka
<b>Cash flows from operating activities:</b>		
Cash receipts from performance of services	1,455,531,219	611,038,596
Payment to suppliers, contractors and others	(334,446,886)	(170,368,140)
Payroll and other payments to employees	(590,195,025)	(260,628,837)
Finance income received	7,771,244	1,936,304
Finance costs paid	(556,024)	(211,567)
Income tax paid	(2,219,739)	(193,630)
<b>Net cash flow from operating activities</b>	<b>535,884,789</b>	<b>181,572,726</b>
<b>Cash flows from investing activities:</b>		
Payment for acquisition of property, plant and equipment	(353,069,121)	-
Payment for acquisition of intangible assets	(13,003,750)	-
Proceeds from sale of property, plant and equipment	38,854	-
<b>Net cash used in investing activities</b>	<b>(366,034,017)</b>	<b>-</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of shares	-	75,000,000
<b>Net cash flow from financing activities</b>	<b>-</b>	<b>75,000,000</b>
<b>Net changes in cash and cash equivalents</b>	<b>169,850,772</b>	<b>256,572,726</b>
Opening balance of cash and cash equivalents	256,572,726	-
<b>Closing balance of cash and cash equivalents</b>	<b>426,423,498</b>	<b>256,572,726</b>

*The annexed notes 1 to 29 form an integral part of these financial statements.*

## Grameenphone IT Ltd.

### Notes to the financial statements

as at and for year ended 31 December 2011

#### 1. Reporting entity

Grameenphone IT Ltd. (hereinafter referred to as "GPIT/the company") is a private limited company incorporated in Bangladesh under the Companies Act 1994 with an authorised share capital of Tk 7,500,000,000 divided into 75,000,000 ordinary shares of Tk 100 each. The company was registered on 28 January 2010. The company is a wholly owned subsidiary of Grameenphone Ltd. ("Grameenphone"/"GP"). Registered office of the company is GPHOUSE, Bashundhara, Baridhara, Dhaka-1229, Bangladesh.

The company launched its commercial operation on 1 April 2010.

The purpose of this company is to provide IT services to Grameenphone Ltd. and other external parties.

#### 2. Basis of preparation

##### 2.1 Statement of compliance

These financial statements have been prepared in accordance with Bangladesh Financial Reporting Standards (BFRS), the Companies Act 1994 and other applicable laws in Bangladesh.

These financial statements have been authorised for issue by the board of directors on February 07, 2012.

##### 2.2 Basis of measurement

Except for the employee benefit plan, which is measured on the basis of actuarial valuation, these financial statements have been prepared on the basis of historical cost convention.

##### 2.3 Functional and presentation currency

These financial statements are presented in Bangladesh Taka (Taka/Tk/BDT) which is both functional currency and presentation currency of the company. The amounts in these financial statements have been rounded off to the nearest Taka.

##### 2.4 Use of estimates and judgments

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates is recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on the amount recognised in the financial statements are described in the following notes:

Note 16            Income taxes

Note 17            Provisions

Note 19            Revenue

##### 2.5 Comparative information

Comparative information presented in these financial statements covers the period from 28 January 2010 (the date of incorporation) to 31 December 2010. Accordingly, comparative figures for the statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes are not entirely comparable.

### 3. Significant accounting policies

Accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### 3.1 Property, plant and equipment

##### (a) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost of an item of property, plant and equipment comprises its purchase price, import duties and non-refundable taxes, after deducting trade discount and rebates, and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the intended manner. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

##### (b) Subsequent costs

The cost of replacing or upgrading an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the company and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day to day servicing of property, plant and equipment are recognised in the statement of comprehensive income as incurred.

##### (c) Depreciation

No depreciation is charged on capital work in progress.

Depreciation on property, plant and equipment is recognized on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. For addition to property, plant and equipment, depreciation is charged from the date of capitalisation up to the month immediately preceding the month of disposal. Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The estimated useful lives of the items of property, plant and equipment for the current and comparative periods are as follows:

	2011	2010
Computer and other IT equipment	4 years	4 years
Vehicles	4 years	-
Furniture and fixtures	3 years	-

##### (d) Gains or losses on disposal

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains or losses on disposals are determined by comparing the disposal proceeds with the carrying amounts and are recognised net.

##### (e) Capital work-in-progress

Capital work in progress consists of acquisition costs of plant, machinery, capital components of other equipment and related installation costs incurred until the date placed in service. In case of purchase of components, capital work in progress is recognised when risks and rewards associated with such assets are transferred to the company.

#### 3.2 Intangible assets

##### (a) Recognition and measurement

Intangible assets that are acquired by the company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are recognised when all the conditions for recognition as per BAS 38: Intangible assets are met. The cost of an intangible asset comprises its purchase price, import duties and non-refundable taxes and any directly attributable cost of preparing the asset for its intended use.

**(b) Subsequent costs**

Subsequent costs are capitalised only when they increase the future economic benefits embodied in the specific asset to which they relate. All other costs are recognised in profit or loss as incurred.

**(c) Amortisation**

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives are as follows:

	2011	2010
Software	3 years	-

Amortisation methods, useful lives and residual values are reviewed yearly and adjusted, if appropriate.

**(d) Derecognition**

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its continued use. Gains or losses on disposals are determined by comparing the disposal proceeds with the carrying amounts and are recognised net.

**3.3 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**3.3.1 Financial assets**

Financial assets of the company include cash and cash equivalents, accounts receivable and other receivables and deposits.

The company initially recognises receivables on the date they are originated. All other financial assets are recognised initially on the date at which the company becomes a party to the contractual provisions of the transaction. The company derecognises a financial asset when the contractual rights or probabilities of receiving the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

**(a) Accounts receivable**

Accounts receivable represents the amounts due from customers for IT related services, and includes both billed and unbilled portion of such services at the reporting date. Accounts receivable is stated net of provision for doubtful debts., if any.

**(b) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances on hand and balances with various banks. Bank overdrafts that are repayable on demand, form an integral part of the company's cash management are included as a component of cash and cash equivalents.

**(c) Other receivables**

Other receivables includes reimbursable expenses from Grameenphone, Telenor Consult AS, Telenor Start II AS, and others.

**(d) Deposits**

This represents amounts deposited in connection with participation in tenders as earnest money and/or bank guarantee. The amounts are refundable upon fulfilment of performance conditions if contract is awarded. For unsuccessful bids, the amounts are refundable immediately.

### 3.3.2 Financial liabilities

Financial liabilities are recognised initially on the transaction date at which the company becomes a party to the contractual obligations arising from the past events and the settlement of which is expected to result in an outflow of resources embodying economic benefit. The company derecognises a financial liability when its contractual obligations are discharged or cancelled or exp

Financial liabilities include payable for operating expenses, payable for capital expenditure, provisions, advance from customers and other current liabilities.

### 3.4 Impairment

#### (a) Financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. Financial assets are impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, etc.

#### (b) Non-financial assets

An asset is impaired when its carrying amount exceeds its recoverable amount. The company assesses yearly whether there is any indication that an asset or a Cash Generating Unit (CGU) may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset or CGU. The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell and its value in use. Carrying amount of the asset is reduced to its recoverable amount by recognising an impairment loss, if and only if, the recoverable amount of the asset is less than its carrying amount. Impairment loss is recognised immediately in profit or loss, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease.

### 3.5 Revenue

Revenues are measured at fair value of the consideration received or receivable, net of discount and sales related taxes (e.g. VAT). Revenues are reported gross with separate recording of expenses to vendors of products or services. However, when the company acts only as an agent or broker on behalf of suppliers of products or services, revenues are reported on a net basis. Revenues of Grameenphone IT Ltd. arise from:

#### (a) Sale of software

Revenue from the sale of software is recognised when significant risks and rewards associated with the software is transferred and the entity retains neither significant managerial involvement nor effective control over the software. The other criteria for revenue recognition, i.e. availability of reliable measure for revenue and associated costs and probable flow of economic benefits to the entity must also be met.

Accordingly delivery of a software is not considered complete and revenue is not recognised when the software is shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the company.

#### (b) IT service revenue

Revenue from IT service is recognised on a percentage of completion basis. Percentage of completion of service is determined upon periodic review and usually evidenced by work completion certificate. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity.

#### (c) Revenue from Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue from construction contracts is recognized by reference to the stage of completion of the contract activity at the end of the reporting period. The stage of completion of a contract is determined in a variety of ways depending on the nature of the contract. The entity uses the method that measures reliably the work performed. The methods include cost-to-cost, survey of work performed and completion of physical proportion of the contract work.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the profit or loss for the period in which the circumstances that give rise to the revision become known by management.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of recoverable contract costs incurred and contract costs are recognized as an expense in the period in which they are incurred. An expected loss on the construction contract is recognized as an expense immediately.

### 3.6 Foreign currency transactions

Transactions in foreign currencies are recorded in the books at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities in foreign currencies at the date of statement of financial position are translated into Bangladesh taka at the rate of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss as per BAS 21: The Effects of Changes in Foreign Exchange Rates.

### 3.7 Inventories

Cost of inventories include expenditure incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition. Net realisable value is based on estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Grameenphone IT Ltd. measures service related inventories at the lower of cost or net realizable value. Inventory costs consist primarily of cost for the personnel directly engaged in providing the service, including supervisory personnel, other direct costs and attributable overheads.

Cost of software inventory for customers is specifically identified on a item by item basis since these items are not interchangeable with each other.

### 3.8 Income tax expense

Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

As per the provisions of Income Tax Ordinance 1984 (ITO), IT enabled services are subject to tax exemption until 30 June 2013. However, income from sources other than IT enabled services are taxable as per Income Tax Ordinance 1984. Applicable income tax for such other income is 37.5% as per Finance Act 2011.

### 3.9 Employee benefits

The company maintains both defined contribution plan and defined benefit plan for its eligible permanent employees.

#### (a) *Defined contribution plan (provident fund)*

The company contributes 10% of basic salary of all eligible permanent employees to a provident fund (defined contribution plan) constituted under an irrevocable trust, while the employees also contribute an equal amount to the fund as per the rules of the trust deed.

The company recognises contribution to defined contribution plan as an expense when an employee has rendered services in exchange for such contribution. The legal and constructive obligation is limited to the amount it agrees to contribute to the fund.

**(b) Defined benefit plan (gratuity)**

The company provides retirement benefit in the form of gratuity payments determined by reference to employees' earnings and years of service to each eligible employees at the time of retirement/separation. Gratuity obligation at the reporting date is measured on the basis of actuary valuation.

**(c) Short term employee benefits**

Short term employee benefits include salary, bonuses, leave encashment. Obligations for such benefits are measured on an undiscounted basis and are expensed as the related service is provided.

### **3.10 Provisions**

A provision is recognised in the statement of financial position when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provision is ordinarily measured at the best estimate of the expenditure required to settle the present obligation at the date of statement of financial position. Where the effect of time value of money is material, the amount of provision is measured at the present value of the expenditures expected to be required to settle the obligation.

### **3.11 Events after the reporting period**

Events after the reporting period that provide additional information about the company's position at the date of statement of financial position or those that indicate the going concern assumption is not appropriate are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed when material.

## 4 Property, plant and equipment, net

2011

Name of assets	Cost			Depreciation			Carrying amount As at 31 December 2011 Taka		
	As at 1 January 2011 Taka	Addition during the year Taka	Disposal/ Adjustment during the year Taka	As at 31 December 2011 Taka	Charged during the year Taka	Disposal/ Adjustment during the year Taka		As at 31 December 2011 Taka	
Computer and other IT equipment (Note 4.1)	8,207,244	547,625,522	(106,762)	555,726,004	16,804	82,568,723	(12,151)	82,573,376	473,152,628
Vehicles	-	24,000,000	-	24,000,000	-	2,606,047	-	2,606,047	21,393,953
Furniture and fixtures	-	13,394,884	-	13,394,884	-	996,009	-	996,009	12,398,875
Capital work in progress	168,631,962	416,396,248	(585,028,210)	-	-	-	-	-	-
	<b>176,839,206</b>	<b>1,001,416,654</b>	<b>(585,134,972)</b>	<b>593,120,888</b>	<b>16,804</b>	<b>86,170,779</b>	<b>(12,151)</b>	<b>86,175,432</b>	<b>506,945,456</b>

2010

Name of assets	Cost			Depreciation			Carrying amount As at 31 December 2010 Taka		
	As at 28 January 2010 Taka	Addition during the year Taka	Disposal/ Adjustment during the year Taka	As at 31 December 2010 Taka	Charged during the year Taka	Disposal/ Adjustment during the year Taka		As at 31 December 2010 Taka	
Computer and other IT equipment (Note 4.1)	-	8,207,244	-	8,207,244	-	16,804	-	16,804	8,190,440
Capital work in progress	-	8,207,244	-	8,207,244	-	16,804	-	16,804	8,190,440
	-	176,839,206	(8,207,244)	168,631,962	-	-	-	-	168,631,962
	-	<b>185,046,450</b>	<b>(8,207,244)</b>	<b>176,839,206</b>	-	<b>16,804</b>	-	<b>16,804</b>	<b>176,822,402</b>

4.1 Computer and other IT equipment include laptops, notebooks, scanners, UPS, Network Equipment and other IT related accessories.

#### 4.2 Allocation of depreciation charged during the year

	2011	2010
	Taka	Taka
Cost of services rendered (Note 20)	74,311,849	16,804
General and administrative expenses (Note 21)	11,858,930	-
	<u>86,170,779</u>	<u>16,804</u>

#### 5 Intangible assets, net

Name of assets	Cost			Depreciation			Carrying amount
	As at 1 January 2011	Addition during the year	Disposal/ Adjustment during the year	As at 31 December 2011	Charged during the year	Disposal/ Adjustment during the year	
	Taka	Taka	Taka	Taka	Taka	Taka	Taka
Software	-	29,455,042	-	29,455,042	1,370,045	-	28,084,997
Capital work in progress	-	29,455,042	(29,455,042)	-	-	-	-
	-	58,910,084	(29,455,042)	29,455,042	1,370,045	-	28,084,997

## 6 Inventories

Inventories include software and hardware for different projects for GP and other customers.

	2011	2010
	Taka	Taka
Software/service inventories	1,178,506	103,488,179
IT hardware	22,579,348	-
	<u>23,757,854</u>	<u>103,488,179</u>

### 6.1 Movement of inventories

	Software/service inventories	IT hardware
	Taka	Taka
Balance as at 28 January 2010	-	-
Addition during 2010	103,488,179	-
Issue during 2010	-	-
Balance as at 31 December 2010	103,488,179	-
Addition during 2011	144,864,768	47,979,931
Issue during 2011	(247,174,441)	(25,400,583)
Balance as at 31 December 2011	<u>1,178,506</u>	<u>22,579,348</u>

## 7 Accounts receivable

	2011	2010
	Taka	Taka
IT services to Grameenphone	161,674,105	217,400,297
IT services to other Telenor entities	5,682,397	2,297,652
IT services to other external customers	6,218,799	1,523,994
	<u>173,575,301</u>	<u>221,221,943</u>

As at the statement of financial position date, the above receivable does not include any receivable from:

- the directors and other officers of the company; and
- firms or private limited companies respectively in which any director of the Company is a partner, director or member.

The entire amount of the above receivable is considered good. However, no security was received against the amount.

**8 Advances, deposits and prepayments**

	2011	2010
	Taka	Taka
<b>Advances</b>		
Advance to employees (Note 8.1)	3,295,716	9,048,385
<b>Deposits</b>		
Deposit for bank guarantee	2,700,000	-
Security deposits	4,031,408	-
	6,731,408	-
<b>Prepayments</b>		
Group insurance premium	4,955,131	3,631,615
Software implementation support fees (Note 8.2)	-	21,243,620
Service maintenance fees	19,070,120	153,155
	24,025,251	25,028,390
	34,052,375	34,076,775

**8.1 Advance to employees**

Advance to employees represents advances made to employees for foreign travel, training, meeting, workshop, presentation etc in. No advances were made to the shareholder directors during the year.

**8.2 Software implementation support fees**

This represents the amount paid in advance to Oracle Corporation Singapore Pte. Ltd. as fees for implementation support services.

**9 Advance VAT/VAT liability**

This represents balance of VAT current account maintained with NBR.

**10 Other receivables**

Other receivables include receivable for reimbursable expenses from Telenor Consult AS, Grameenphone and others.

**11 Cash and cash equivalents**

Cash in hand	-	39,742
Cash at bank	426,423,498	256,532,984
	426,423,498	256,572,726

As at the reporting date the company did not have any restriction on its cash balances.

## 12 Share capital

Authorised:  
75,000,000 ordinary shares of Tk. 100 each

Issued, subscribed and paid-up:  
750,000 ordinary shares of Tk. 100 each

2011	2010
Taka	Taka
7,500,000,000	7,500,000,000
75,000,000	75,000,000

Shareholding position of the company as at 31 Decemer 2011 was as follows:

	No. of shares	Percentage of holding	Amount Taka
Grameenphone Ltd.	749,999	99.9999%	74,999,900
Mr. Raihan Shamsi	1	0.0001%	100
	<u>750,000</u>	<u>100%</u>	<u>75,000,000</u>

## 13 Advance from customers

Advance from Grameenphone:  
Service maintenance fee  
NERM projects

Advance from external customers

2011	2010
Taka	Taka
391,114,950	-
-	161,032,225
391,114,950	161,032,225
1,084,388	-
<u>392,199,338</u>	<u>161,032,225</u>

## 14 Payable for operating expenses

Payable to Grameenphone (Note 14.1)

Payable to others:

Service maintenance fees  
Office rent  
Office running expenses  
Employee travel and training expenses  
Consultancy and professional fees  
Other operating expenses

2011	2010
121,527,655	88,209,424
3,388,873	11,168,780
-	1,248,500
7,042,118	18,700,373
1,659,872	1,373,688
102,608,445	-
3,682,482	1,222,794
118,381,790	33,714,135
<u>239,909,445</u>	<u>121,923,559</u>

### 14.1 Payable to Grameenphone

This represents the amount payable to Grameenphone on account of rent for head office at GPHOUSE Tk. 46,958,869 (2010: Tk. 17,132,616) and other expenses paid by GP on behalf of GPIT.

## 15 Payable for capital expenditure

Payable to Grameenphone (Note 15.1)

Payable to others

127,337,217	168,631,953
132,482,893	8,207,253
<u>259,820,110</u>	<u>176,839,206</u>

### 15.1 Payable to Grameenphone

This represents the cost of computer and other IT equipment transferred from GP to GPIT. The purchase process was facilitated by GP in terms of execution of the transaction (including arrangement with vendors, inspection, etc.).

**16 Income tax provision**

	2011	2010
	Taka	Taka
Opening balance	532,484	-
Provision made during the year/period	2,914,218	726,114
	3,446,702	726,114
Advance income tax paid	(2,219,739)	(193,630)
Closing balance	1,226,963	532,484

**17 Provisions**

Short term employee benefits (Note 17.1)	95,852,719	66,190,077
IT service maintenance charge (Note 17.2)	109,535,466	75,107,867
Training and travel expenses	550,657	14,409,948
Audit fee	525,000	525,000
Consultancy and professional fees	22,960,498	-
Other operating expenses (Note 17.3)	4,953,422	1,820,064
	234,377,762	158,052,956

**17.1 Short term employee benefits**

This represents provision for employee salary, bonus and leave encashment outstanding at the reporting date.

**17.2 IT service maintenance charge**

This represents mainly provision for IT maintenance service, software support service and other IT related services received by the company during 2011. The amount includes Tk 1,902,900 (2010: Tk. 47,931,921) payable as a reimbursement of IT service cost borne by GP on behalf of GPIT.

**17.3 Other operating expenses**

Provision for other operating expenses includes provisions for office running expenses, advertising and promotional expenses.

**18 Other current liabilities**

Other current liabilities include payables to Telenor, taxes deducted at source from employees and suppliers etc.

**19 Revenue**

	1 January to 31 December 2011 Taka	28 January to 31 December 2010 Taka
IT service revenue from:		
Grameenphone Ltd (Note 19.1)	1,123,863,435	638,384,360
Other Telenor entities	16,973,803	2,297,652
External customers	35,880,226	1,325,212
	<u>1,176,717,464</u>	<u>642,007,224</u>

**19.1 IT service revenue from Grameenphone**

This represents the amount of service charge earned against IT services provided to Grameenphone Ltd. These services include maintenance of IT equipment, maintenance of billing, financial and other software, IT project implementation, supervision and other related services.

**20 Cost of services rendered**

Personnel expenses (Note 20.1)	377,495,728	231,972,486
Service maintenance fees	158,871,856	83,097,186
Cost of IT support materials	272,575,024	-
Depreciation and amortisation	75,681,895	16,804
	<u>884,624,503</u>	<u>315,086,476</u>

**20.1 Personnel expenses**

This includes salary, bonus, contribution to provident fund and other employee related expenses. Personnel expenses were allocated to cost of service rendered and general and administrative expenses in the following manner:

Cost of service rendered	377,495,728	231,972,486
General and administrative expenses	242,361,939	85,798,043
	<u>619,857,667</u>	<u>317,770,529</u>

**21 General and administrative expenses**

Personnel expenses (Note 20.1)	242,361,939	85,798,043
Legal and consultancy fees	52,565,369	31,306,142
Statutory audit fee	525,000	525,000
Office rent	36,655,548	28,534,815
Utility and maintenance	7,983,706	5,447,082
Vehicle running expenses	24,003,898	10,408,628
Office stationery, printing materials, etc.	6,430,858	11,776,435
Entertainment expenses	612,588	560,320
Advertisement, travel, training, and others	42,522,189	27,387,765
Depreciation	11,858,930	-
	<u>425,520,025</u>	<u>201,744,230</u>

**22 Selling and distribution expenses**

These represent expenses incurred in connection with corporate branding and other promotional activities.

**23 Finance income, net**

Finance income	7,771,244	1,936,304
Finance expense	(556,024)	(211,567)
	<u>7,215,220</u>	<u>1,724,737</u>

Finance income represents interest earned on bank deposits, while finance expense represents mainly bank charges, LC related charges, etc.

**24 Loss on disposal of property, plant and equipment**

Disposal proceeds	38,854	-
Carrying amount of the assets disposed off	(94,611)	-
	<u>(55,757)</u>	<u>-</u>

## 25 Financial risk management

The company management has overall responsibility for the establishment and oversight of the company's risk management framework. Risk management policies, procedures and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company has exposure to the following risks from its use of financial instruments.

- Credit risk
- Liquidity risk
- Market risk

### 25.1 Credit risk

Credit risk is the risk of a financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. As at 31 December 2011, substantial part of the receivables are those from Grameenphone and other Telenor entities and subject to insignificant credit risk. Risk exposures from other financial assets, i.e. Cash at bank and other external receivables are also nominal.

#### (a) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2011 Taka	2010 Taka
Accounts receivable:		
IT services to Grameenphone	161,674,105	210,935,580
IT services to other Telenor entities	5,682,397	8,762,369
IT services to other external customers	6,218,799	1,523,994
	173,575,301	221,221,943
Other receivables	16,536,405	1,890,705
Deposits	6,731,408	-
Cash at bank	426,423,498	256,532,984
	449,691,311	258,423,689
	623,266,612	479,645,632

The maximum exposure to credit risk for accounts receivable as at the reporting date by geographic region was:

	2011	2010
Domestic	166,387,286	218,924,291
Foreign	7,188,015	2,297,652
	173,575,301	221,221,943

#### (b) Ageing of receivables

The aging of gross accounts receivable as at the statement of financial position date was as follows:

	2011	2010
0-90 days past due	155,129,776	221,221,943
90-180 days past due	5,531,215	-
over 180 days past due	12,914,310	-
	173,575,301	221,221,943



**Currency risk (Contd...)****Foreign exchange rate sensitivity analysis-**

An increase/(decrease) of 10 basis points in exchange rates would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates remain constant.

	Profit or loss		Equity	
	10 bp increase	10 bp decrease	10 bp increase	10 bp decrease
<b>2011</b>	Taka	Taka	Taka	Taka
Expenditures denominated in:				
USD	5,301	(5,301)	5,301	(5,301)
NOK	(111,281)	111,281	(111,281)	111,281
EURO	1,506	(1,506)	1,506	(1,506)
	<u>(104,474)</u>	<u>104,474</u>	<u>(104,474)</u>	<u>104,474</u>
<b>2010</b>				
Expenditures denominated in:				
USD	(115,123)	115,123	(115,123)	115,123
NOK	-	-	-	-
EURO	-	-	-	-
	<u>(115,123)</u>	<u>115,123</u>	<u>(115,123)</u>	<u>115,123</u>

**(b) Interest rate risk**

The only interest bearing financial instrument for the company is the short notice deposit (SND) account maintained by the company with its banks. Historically, interest rates for such instruments show little fluctuation. Interest rate risk for the company is therefore insignificant.

**26 Related party disclosures**

During the period, the company entered into a number of transactions with related parties in the normal course of business. The names of the related parties and nature of these transactions have been set out below in accordance with the provisions of BAS 24: Related Party Disclosures.

**Related party transactions during the year/period**

<u>Name of related parties and nature of relationship</u>	<u>Nature of transaction</u>	2011	2010
		Taka	Taka
Grameenphone Ltd. (parent company)	Revenue from IT services	856,328,939	633,428,614
	Sale of software	267,534,496	-
	Office rent	29,826,253	17,132,616
Telenor Broadcast Holding AS	Revenue from IT service	6,068,558	2,297,652
Telenor Serbia	Revenue from IT service	9,327,210	-
Telenor Start II AS	Cell Bazaar revenue sharing	1,578,035	665,746
Telenor Consult AS	Consultancy expenses	102,740,233	-

**Related party disclosures (Contd...)****Receivable from/(payable to) related parties**

Name of related parties and nature of relationship	Nature of transaction	2011	2010
		Taka	Taka
Grameenphone Ltd. (parent company)	Receivable for IT services	161,674,105	210,935,580
	Receivable for reimbursable expenses	3,999,110	-
	Advance received	(391,114,950)	(161,032,225)
	Liabilities for operating expenses	(76,471,686)	(71,076,808)
	Office rent payable	(46,958,869)	(17,132,616)
	Payable for capital expenditure	(127,337,217)	(168,631,953)
Telenor Broadcast Holding AS	Receivable for IT services	-	2,297,652
	Other payables	(824,000)	-
Telenor Start II AS	Receivable for cell Bazaar revenue sharing	1,942,244	-
	Payable for cell Bazaar revenue sharing	(710,395)	(665,746)
Telenor Serbia	Receivable for IT services	5,581,187	-
Telenor ASA	Receivable for IT services	101,210	-
Telenor Consult AS	Payable for consultancy	(102,605,001)	-
	Other receivable	10,595,051	-

**26.1 Key management personnel compensation**

	2011	2010
	Taka	Taka
Short-term employee benefits (salary and other allowances)	124,667,722	113,146,296
Post employment benefits (provident fund, gratuity, etc.)	15,981,060	8,060,965
Other long-term benefits	2,096,025	3,566,944
	142,744,807	124,774,205

Key management personnel includes employees of the rank of Deputy General Manager (DGM), DGM equivalent and above.

**27 (Expenses)/(expenditures) and revenue in foreign currency during the year/period**

CIF value of imports:		
Capital inventory	(4,293,661)	(96,164,211)
Other operating inventory	(54,657,367)	(21,243,620)
Consultancy expenses	(132,387,597)	-
IT service revenue	19,092,656	2,297,652

**28 Capital commitments**

As at 31 December 2011, Grameenphone IT Ltd had a capital commitment of Tk. 364,502,196 (2010: Tk 64,514,024) for purchase of IT equipment, installation of such equipment and other implementation services.

**29 Other disclosures**

29.1 As at 31 December 2011, number of regular employees receiving remuneration of Tk. 36,000 or above per annum was 386 (2010: 356).

**29.2 Events after the reporting period**

There was no event after the reporting period that requires either disclosure of or adjustment to these financial statements.