

Grameenphone IT Ltd.

DIRECTORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2012

Dear Shareholders,

On behalf of the Board of Directors, Management Team and myself, I welcome you all to the 3rd Annual General Meeting of Grameenphone IT Ltd. (GPIT). We have the pleasure to place herewith the Directors' Report and Auditors' Report together with the Audited Financial Statements of the Company for the year ended December 31, 2012 for your consideration, approval and adoption.

Positive Macroeconomic Perspective

The recent global recession has distressed many economies around the world. Despite an unfavorable global economy, economic growth in Bangladesh is projected to be at 6%, and inflation is expected to calm down to around 7.5 percent in fiscal year 2013. The total ICT spending in Bangladesh in 2011 was 1.09 billion USD which includes spending on software at 73 million USD and spending on IT Services at 248 million USD.

Analysis indicates that the total market size of Bangladeshi software and Information Technology Enabled Services (ITES) will be 310 million USD in 2012 with a steady growth (CAGR) of 18% in the coming years. The domestic market is expected to witness a robust 20%-30% growth in the coming years driven by industry maturity, increased competition and the recent regulatory requirements. Although the market is still dominated by hardware, industries like BFSI, Telecom, Enterprise and government sectors are expected to increase their automation and thereby investment in IT services. Recent market surveys conducted by the United Nations, World Bank and Gartner have identified Bangladesh as an upcoming destination for global BPO with huge potentials.

Regulatory Environment and Road Map

The IT sector continued to receive attention from the government as a thrust sector. The government extended the tax exemption period for IT enabled Services till 2015. However the ICT Policy is yet to be fully implemented. The government continued to emphasize on digitalization initiatives of different public authorities. With the initiation of commercial operation by the International Terrestrial Cable operators, the long pending need for a backup connectivity has been met, and this has opened up a great new opportunity for outsourcing business. The Information and Communication Technology Ministry and Access to Information (A2I) continued to support the IT business sector through a number of initiatives. Several ICT events at the national and international level, including BASIS Soft Expo, Digital World and Positioning Bangladesh, took place in the year and were highly appreciated and participated by international and local companies alike.

Though the Government is trying to materialize the Digital Bangladesh promises at every level, poor infrastructure and complex regulatory environment have directly or indirectly slowed down the growth of this sector. The foreign payment policy and process remain as another major challenge for the potential growth of the IT companies. A uniform approach to showcase the strength of the local IT companies to attract international companies to procure more IT and IT enabled solutions from Bangladesh is still absent and requires more attention from the Government and industry associations.

Promising Business Result in the Year 2012

The year 2012 brought a major transformation in GPIT in terms of making a footprint in the domestic market. Three focus areas have paved the way: Inspire GPIT Team, Drive business to the sustainable growth, Delight Customer. The Company has focused more on providing stable, high quality services to its largest customer (GP) with 99.9% service availability in the second half of the year. "Customer Centricity" was identified as a key tenet of GPIT's culture and business mindset. GPIT has delivered BDT 450Mn external revenue in 2012 which was significantly higher than the previous year. GPIT also started making profit in 2012.

GPIT Standardization

GPIT achieved CMMI® Maturity Level 3 rating appraisal by SEI® in March 2012. CMMI® Maturity Level 3 conformance confirms the company's ability to provide its customers with the highest quality IT development, infrastructure solutions and services.

GPIT achieved ISO 20000:2005 and 27001 Certifications in the year 2011. ISO 27001 ensures protection of customer rights and information security, and ISO 20000 establishes quality in the processes to deliver IT services of higher standards. To enhance the maturity of the processes GPIT has initiated the transition of ISO 20000:2005 to ISO 20000:2011 which will be completed by March 2013.

Our Products & Services

GPIT offers end-to-end IT solutions and services to customers for all their IT needs. On broad category GPIT is focusing on the following products for 2012:

1. System Integration of Enterprise Solutions – ERP, HRMS, Core Banking System, Contact Center, Business Intelligence, Revenue Assurance & Fraud Management (RAFM), Network Inventory Management System (NIMS)
2. Infrastructure Solutions – Server, Storage, Networking, Data Center implementations and management
3. Managed service – Application Development & Maintenance (AD & AM) and Infrastructure Management (IM)

For 2013, GPIT is building readiness for BPO, Cloud & Hosted solutions.

Global Partnership

GPIT aims to be a System Integrator (SI) company to gradually provide end-to-end IT solutions and services in the near future. To become an effective SI company and end-to-end IT services provider, we have fostered partnerships with key OEM vendors like Oracle, Huawei, IBM, Drishti, Temenos, Cisco, and SI partners like PwC and Tech Mahindra. In addition to these focused partners, GPIT has an array of local partners who play an important role in GPIT's business.

Our Employees

Our employees are at our top priority. We aim to offer an excellent working environment and a career for our talented resources. Our People Policies and engagement culture have been highly appreciated by all the employees as seen in the recent surveys (77%); and we can also see a reflection of this in our steady retention rate. We continue to provide globally recognized trainings to our employees. And this year we have also taken a blended approach in our competence development process by introducing the "Online Learning" concept. This year we have expanded our "Academic Alliance" portfolio and continued to engage talented young graduates from reputed public and private universities. GPIT's work culture remains an inspiration for all, and thus innovation is being driven in an open and collaborative manner. Being in the forefront of IT revolution in Bangladesh, we understand our role in developing the future IT leaders of this country. And thus our "Leadership Training" programs foster structured and continuous learning activities. We remain focused on our people, give them the tools to develop their potentials to the fullest extent, and continue to offer career paths accordingly.

Investment Risk & Concerns

Though the country has witnessed a constant GDP growth rate at around 6% over the last few years and inflation eased to around 7.5% at the end of 2012, some investment risks have been identified. According to the World Bank's Bangladesh Economic Update, possible intensification of the euro area crisis may deepen Bangladesh's export slump. Banks are susceptible to credit and market risks due to the global economic vulnerabilities and the capital market volatility has continued. Looming political instability and unrest may depress investments further.

GPIT has identified some key risks and uncertainties as listed below, which may hinder its business:

1. Currency fluctuation
2. Regulatory vice and uncertainties
3. Unhealthy practices in the competition field.

Contribution to the National Exchequer

GPIT had paid a significant contribution to the National Exchequer in 2012. The collective contribution to the National Exchequer up to December 2012 was BDT 147 Million in the form of Income Tax and VAT.

Enhanced Value of Shareholders' Investment

The Directors present the financial results of the Company for the year ended December 31, 2012 and the table below:

Figures in BDT

	2012	2011
Profit available for appropriation	(14,554,475)	126,175,141
Profit /(Loss) during the year	226,379,516	(140,729,616)
Total amount available for appropriation	211,825,041	(14,554,475)
Profit/(Loss) carried forward	211,825,041	(14,554,475)

Dividend

Though there is an accumulated profit of BDT 211,825,041 for the year ending at December 31, 2012, the Board has decided to retain the same in the company in order to further improve the working capital. Accordingly, no dividend has been considered for the year.

Board of Directors & Board Meetings

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

1. Mr. Tore Johnsen
2. Mr. Frode Stoldal
3. Mr. Tanveer Mohammad
4. Mr. Fridtjof Rusten
5. Dr. Jamaluddin Ahmed FCA, Independent Director

We would like to thank Mr. Haroon Bhatti, Mr. Kazi Monirul Kabir, and Mr. Arild Kaale for being part of the Board of Directors in the past years and the Board wishes them the very best in their future. Mr. Fridtjof Rusten was appointed as a Director on 4th June, 2012 in replacement of Mr. Raihan Shamsi. The Board of Directors appointed Mr. Raihan Shamsi as Chief Executive Officer (CEO) in place of Mr. Peter Anthony Dindial with effect from May 1, 2012. In addition to that, GP's Independent Director Dr. Jamaluddin Ahmed FCA was appointed as an Independent Director in GPIT Board on December 13, 2012 to comply with Corporate Governance Guidelines of BSEC Notification dated August 07, 2012.

During 2012, a total of 16 (sixteen) 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. Frode Stoldal
2. Mr. Tanveer Mohammad
3. Dr. Jamaluddin Ahmed FCA

Appointment of Auditors

As per the Companies Act and the Articles of Association of the Company, the statutory auditors of the Company, Rahman Rahman Huq, Chartered Accountants, a member firm of KPMG, shall retire at this AGM. The Firm, being eligible, has expressed their willingness to be re-appointed. The Board recommends their re-appointment for the year 2013 and to continue till the next AGM at the existing fee of BDT 4,00,000 (Four lacs) plus VAT.

Acknowledgements

The Board of Directors would like to thank the valued Shareholders and other stakeholders of the Company for their persistent support and guidance to the Company that led to its accomplishments.

The Board also records its appreciation for the employees at all levels for their dedicated services, innovation, and strong commitment which enabled the Company to advance towards 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 19, 2013