

Grameenphone Ltd.: C-31531(652)/96

3rd Quarter 2018 Business Highlights

Healthy topline and subscriber growth amidst ongoing competitive environment

Grameenphone Ltd. (GP) reported 3.3% (YoY) total revenue growth and 7.6% (YoY) subscription & traffic revenue (excluding interconnection) growth. Data revenue grew by 16.8% (YoY) and voice revenue growth continued with 9.6% (YoY) for the period. Total subscriber increased by 2.2 Mn along with 3.8 Mn data users. YoY normalized EBITDA uplift of BDT 1.4 Bn driven by higher gross profit and partly offset by higher opex. NPAT for the quarter was BDT 8.9 Bn with reversal of excess provision. Lower operating cash flow of BDT 0.9 Bn resulted from higher capex.

Executive Summary (Reported Basis)

BDT Million	3Q2018	2Q2018	Q-Q	Y-Y
Subscription & Traffic Revenue	32,001	29,869	7.1%	7.6%
Service Revenue*	33,873	31,987	5.9%	6.0%
Total Revenue	34,312	32,575	5.3%	3.4%
Gross Profit	32,503	30,872	5.3%	6.4%
Opex	11,279	11,242	0.3%	2.2%
Opex Margin	32.80%	34.50%	-1.6pp	-0.3pp
EBITDA**	21,224	19,630	8.1%	8.7%
EBITDA Margin	61.8%	60.20%	1.6pp	3.1pp
Profit After Tax	8,892	10,804	-17.7%	27.6%
Capex	4,634	4,473	3.5%	124.5%
Ops Cash Flow***	16,590	15,158	9.5%	-5.0%
OCF Margin	48.30%	46.50%	1.8pp	-4.2pp
EPS (BDT)	6.58	8.00	-17.7%	27.60%

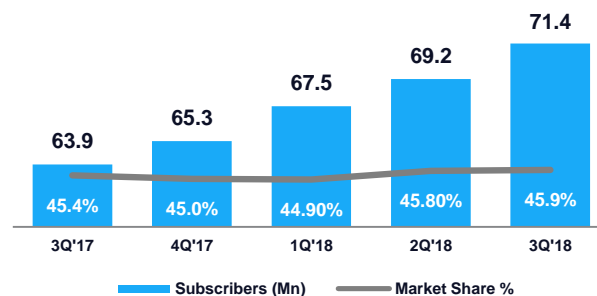
*Includes interconnection **Before other items ***EBITDA minus Capex

The third quarter saw a strong financial performance in terms of growth, efficiency and profitability. We also saw a large number of regulatory directives implemented in this quarter, most notably the VAT reduction on data implemented on 1st August and the unified floor tariff for on and off net voice calls implemented on 14th August. The regulator also implemented e-SAF, which eliminates paperwork in new subscriber acquisition leading to reduction of subscriber acquisition cost.

We experienced increased competition with the introduction of uniform voice tariff, with competition on data prices intensified with bundled data offers from competitors based on strong foothold on voice.

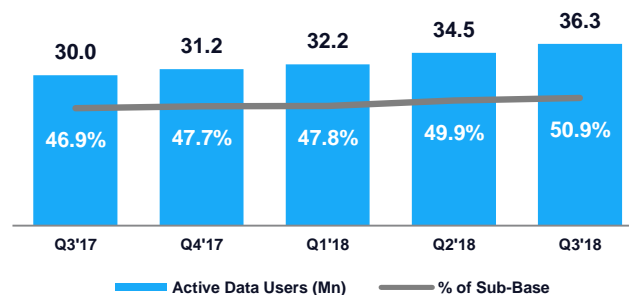
We gained 2.2 Mn subscribers in Q3, totaling at 71.4 Bn, experiencing an 11.8% growth in sub-base from same period last year. SIM market share remains steady at 45.8%. Despite aggressive competition we acquired quality subscribers with an improved churn rate of 13.7%.

We revised our voice portfolio to engage our customers after the implementation of uniform floor tariff. We launched BDT 199 monthly trigger pack with high uptake reaching 44K daily hit. BDT 9 scratch card offered minutes over low validity that reached 0.9 Mn daily hits in first three weeks.



VAT reduction from 15% to 5% positively impacted our revenue and helped us recover from the dent of the pay as you go limit set on 1st June of BDT 5.

Number of data subscribers increased by 1.9 to 36.3 Mn, leading to a 21.3% growth from the same period last year and a 5.3% growth from last quarter. More than half (50.9%) our total subscribers are using GP internet services. We see an APPMB erosion of 10.8% from last quarter due to increased competitive offers in the market. We introduced two new data value propositions, 1.5 GB for BDT 104 and 2GB for BDT 38, which resulted in good uptake in the market.



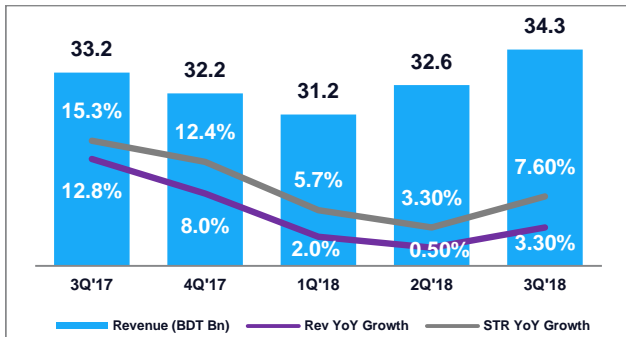
We reached 3.8 Mn 4G users at the end of the quarter, with 44% of 4G devices within the coverage area are using 4G sims. We reached 4 Mn unique 4G user milestone during the third quarter. Our 4G volume growth continues to increase from conversion while 3G volume continues to grow with new acquisitions.

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Financial Updates: Healthy topline growth with strong margins

GP reported revenue of BDT 34.3 Bn for the third quarter of 2018, a 3.3% growth from the same period last year. Normalizing contract change impact, the total revenue growth is reported at 6.1% YoY. Subscription and traffic revenue excluding interconnection grew by 2.7 Bn, driven by growth in voice revenue of 2.1 Bn and data revenue of 1 Bn. STR grew by 7.6% YoY on a reported basis and 9.1% on a normalized basis.

Voice revenue grew by 9.6% with 7.1% growth in voice APPM. Lower content and device revenue of BDT 1.4 Bn along with organic decrease of 0.4 Bn. We saw an organic de growth due to lower usage, content portfolio simplification and lower handset sales.



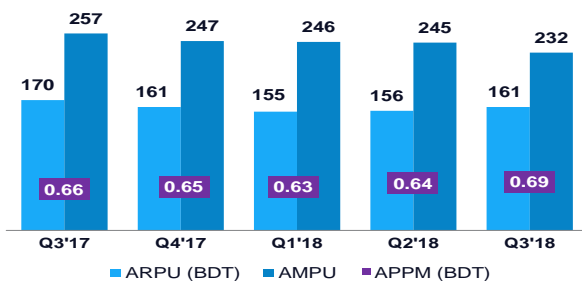
Data revenue grew by 16.8% (YoY), driven by 21.3% increase in data users and 84.8% growth in data volume partly offset by 36.8% reduction in APPMB.

Slow down in data revenue growth is driven by continued APPMB erosion due to aggressive competition partly offset by 52.4% higher AMBPU and pay per use limit set by BTRC.

Service ARPU, AMPU, APPM and AMBPU

Service ARPU decreased by 5.4% (YoY) mainly from voice, VAS and Interconnection revenue. We see decline in voice ARPU driven by 8.7% fall in AMPU partly offset by 7.1% increase in voice APPM. There was also lower interconnect ARPU due to lower international incoming minutes and revised IC rate.

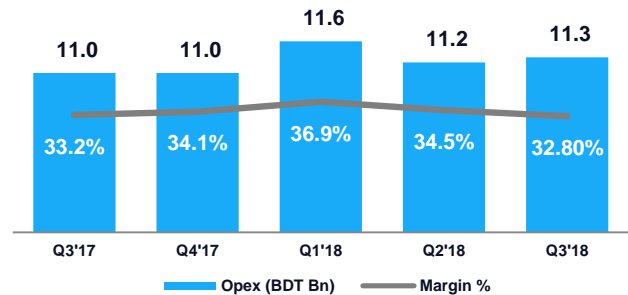
3.7% decline in data ARPU mainly driven by 36.8% reduction in APPMB partly offset by 52.4% higher AMBPU (1,149 MB vs 754 MB). QoQ APPMB erosion was 10.8% due to aggressive competitive offers during the quarter based on voice tariff revision.



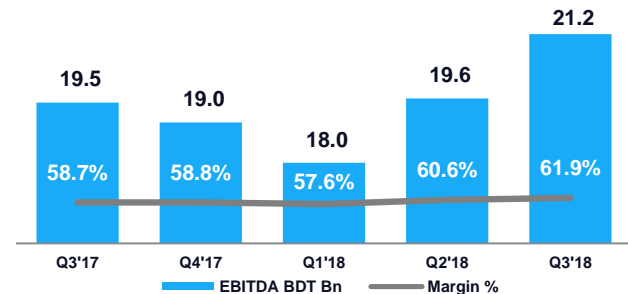
BDT 1.4 Bn normalized EBITDA uplift with strong margins

Normalized operating expenditure for the quarter is reported at BDT 584 Mn, a 5% increase from the same period last year, adjusted for market communication provision reversal in the quarter.

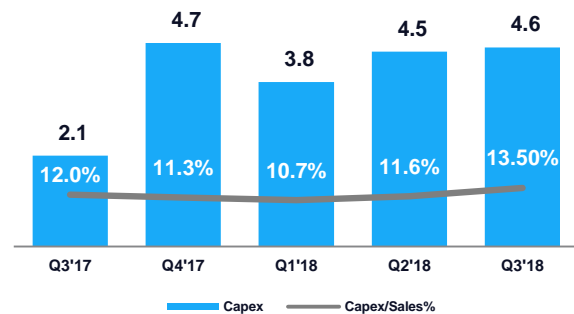
Due to adoption of IFRS 15, Opex was reported BDT 60 Mn higher for subsidy and commission costs. Normalizing IFRS 15 opex increased by BDT 548 Mn, 5.0% growth from last year with 33.7% margin.



EBITDA (before other items) grew by BDT 1.6 Bn with a margin of 61.9%, registering for 11.9% QoQ growth and 8.7% YoY growth. Normalized EBITDA growth YoY is BDT 1.4 Bn with 60.9% margin.

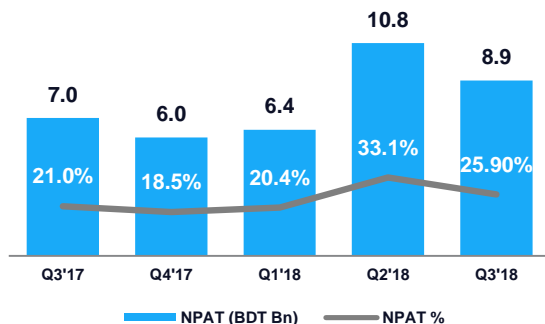


In Q3 2018 Grameenphone invested BDT 4.6 Bn in the rollout of 2G, 3G and 4G sites coverage, capacity enhancement and network & IT modernization for future business. Capex to sales ratio was 13.5%. During the quarter, we added 574 2G, 900 3G and 2704 4G sites. YTD total number of 2G and 3G sites stands at 14,140 and 13,619 respectively.

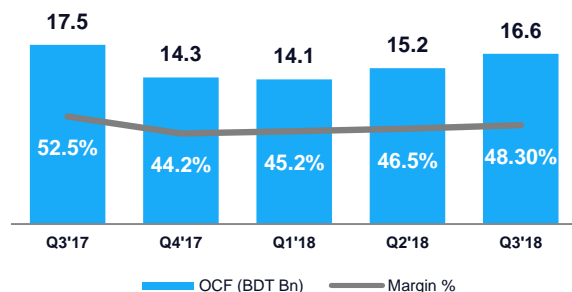


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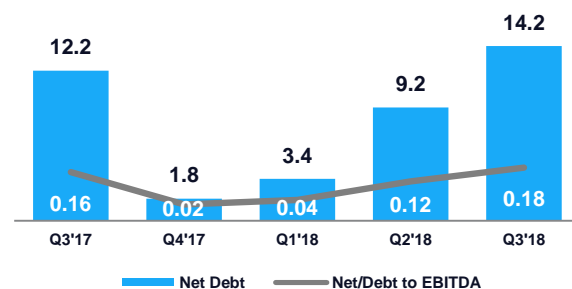
Net profit after tax for the quarter was BDT 8.9 Bn, a 4.9% growth from same period last year. Profitability margin is 25.9%. YoY quarterly normalized EPS increase is 17%.



Operating cash flow (EBITDA minus Capex) for the quarter stood at BDT 16.6 Bn with margin of 48.3%. Lower cash flow of 0.9 Bn resulted from higher capex partly offset by higher EBITDA.



Total assets at the end of quarter stands at BDT 136.2 Bn. Net debt to EBITDA stands at 0.18 due to higher short term debt of 4.5 Bn.



IFRS 15 Impact:

With effect from 1 January 2018, GP has adopted IFRS 15 Revenue from Contracts with Customers using modified retrospective approach. During the third quarter, opex increased by BDT 60 Mn, while net profit after tax was reported at BDT 53 Mn lower after corresponding tax adjustments.

BDT Million	IFRS 15	IAS 18	Delta
Revenue	32,001	32,001	0
Opex	11,279	11,219	60
Opex Margin	32.80%	37.2%	0.14pp
EBITDA	21,224	21,63	-39
EBITDA Margin	61.80%	61.90%	0.11pp
Profit Before Tax	15,019	15,058	-39
Profit After Tax	8,892	8,944	-53
EPS(BDT)	6.58	6.62	0.04

Regulatory Update:

BTRC Audit

BTRC shared the full report with GP on 26th Aug, 2018. GP submitted its responses in two phases- on 6th Sep '18 and on 19th Sep '18.

Tariff Circuit on Data

BTRC intends to introduce floor and ceiling price for data. On 9th Oct '18 in a consultation meeting, BTRC has asked operators to submit their views/input. GP supports this notion and submitted its proposals on 18th Oct '18.

Mobile Number Portability Services (MNPS)

On 28th Aug '18 BTRC imposed additional charges to operators on top of porting charges to subscribers availing MNP services. All operators have launched MNP services on 1 Oct '18.

Tower Co. Licensing Guideline

4 selected firms have deposited the application fees along with bank guarantee in the 3rd week of Sept '18. Company formation allowed till 20 Oct '18 for awarding license. BTRC is in the process of issuing license.

Contingency Update:

Interest on SIM Tax during 24 August 2006 to 27 March 2007

Upon re-hearing, the Customs, Excise and VAT Appellate Tribunal upheld the demand of the Commissioner, LTUVAT and issued its judgment on 11 Apr'18. Subsequently GP has filed a VAT Appeal before Hon'ble High Court Division, challenging the said judgment of the Tribunal on 31 May '18. On 10 Jul '18, High Court Division stayed the judgement of the Tribunal till disposal of the VAT appeal.

Interest for delayed payment of Guaranteed Annual Rent to Bangladesh Railway

There is a dispute regarding payment of VAT (whether inclusive or exclusive) on the Guaranteed Annual Rent (GAR) paid to Bangladesh Railway (BR) to use its Fiber Optic Network (FON). GP made payment to BR after deduction of VAT following inclusive method. GP paid BDT 320 Mn on 10 Jan'18 against demand as the writ was upheld by the Hon'ble Appellate Division (AD). On 27 Feb'18 BR made an additional demand of BDT 1.3 Bn as interest for delayed payment of deducted GAR. Management's assessment based on external counsel's guidance is that interest should not apply during the period when the matter was sub-judice and BR's demand for principal amount was stayed by the Order of the Court. Pursuant to the said demand letter, on 24 May '18, GP sent a letter to BR for resolution of the dispute by stating its legal position. Thereafter, BR refused the proposal for amicable resolution on 29 Jul '18.

Now GP is assessing the merit of the claim and exploring appropriate step in this regard.