

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

1st Quarter 2018 Business Highlights

Healthy topline and subscriber growth amidst ongoing competitive environment

Grameenphone Ltd. (GP) reported 2.0% (YoY) total revenue growth and 5.7% (YoY) subscription & traffic revenue (excluding interconnection) growth. Data revenue grew by 23.9% (YoY) and voice revenue growth continued with 3.9% (YoY) for the period. Total subscriber increased by 2.1 Mn along with 1.1 Mn addition in data users. EBITDA was stable at BDT 18.0 Bn at the back drop of higher market investments. NPAT for the quarter was BDT 6.4 Bn with negative adjustments from appeal fee deposit and accelerated depreciation. Operating cash flow increased 6.1% to BDT 14.1 Bn.

Executive Summary (Reported Basis)

BDT Million	1Q2018	4Q2017	Q-Q	Y-Y
Subscription & Traffic Revenue	28,671	29,150	-1.6%	5.7%
Service Revenue*	30,786	31,279	-1.6%	5.3%
Total Revenue	31,244	32,208	-3.0%	2.0%
Gross Profit	29,599	30,002	-1.3%	6.1%
Opex	11,629	11,011	5.6%	15.4%
Opex Margin	37.20%	34.10%	3.0pp	4.3pp
EBITDA**	17,969	18,991	-5.4%	0.8%
EBITDA Margin	57.40%	58.80%	-1.4pp	-0.7pp
Profit After Tax	6,394	5,974	7.0%	-2.5%
Capex	3,824	4,712	-18.9%	-14.9%
Ops Cash Flow***	14,146	14,278	-0.9%	6.1%
OCF Margin	45.20%	44.20%	1.0pp	1.8pp
EPS (BDT)	4.74	4.42	0.32	-0.12

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

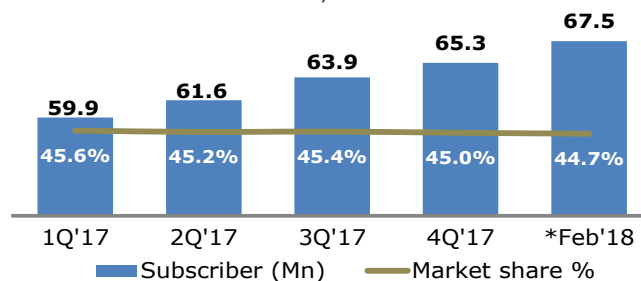
GP acquired 5 MHz spectrum on 1800 MHz band along with tech-neutrality and launched 4G services on 19 Feb'2018. To keep it simple for customers, 4G users can opt in for the existing data offer portfolio. SIM replacement is a critical part of 4G service adoption and to expedite that process GP is offering free 1.5 GB data on each conversion. Additional provision of free replacement and door-to-door service for high value customers is also in place. On device part of the enablement, two co-branded 4G smartphone were launched during the period with one model having the lowest price point in the market of BDT 4,444.

GP has a robust roll out plan for 4G services through the country. By July 2018 the company intends to have 4800+ sites. Simultaneously, the network will be modernized that will consolidate its superior position with enhanced coverage, capacity, experience, efficiency and future readiness.

Intense competition marked the beginning of 2018 in continuation from previous quarters. It continued with the previous theme of generous data offers on new acquisition and higher channel incentives.

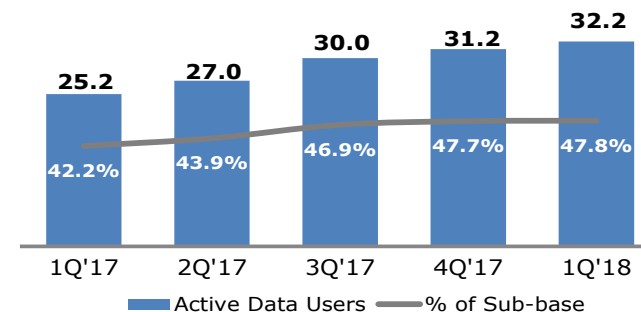
With the launch of 4G, the offers were more generous for replacement of 4G SIMs. Seasonality affected the activity level during January due to prolonged winter.

During the quarter, number of subscribers increased by 2.1 Mn to 67.5 Mn. The subscription base was 12.7% higher than first quarter last year. SIM market share stood at 44.7% at the end of February 2018.



GP launched ½ paisa/second on-net offer at the price point of BDT 21 and 49 with validity of 2 and 5 days respectively. This resulted in a marginal drop in voice APPM but positive results are there in revenue generating base and usage. This will consolidate the voice offers of GP.

Number of data subscribers increased by 1.1 to 32.2 Mn. The base is 27.8% higher than first quarter of last year. With this, 47.8% of total subscribers are using GP internet services. Data pricing is under stress due to competitive offers in the market. Three offers were introduced in the market under the contextual marketing platform at low price point and validity but with high volume. New 1.5 GB offer at BDT 104 and validity for 7 days was also launched.



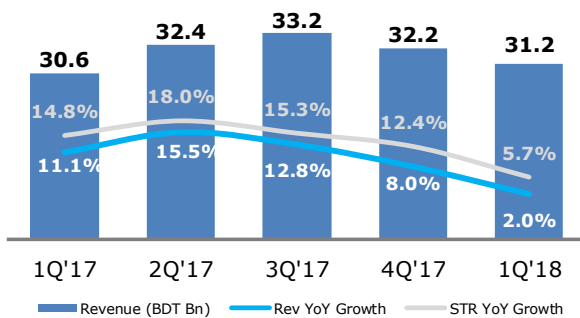
Simplification journey has been a strategic priority for value creation for the company. This year as well the company laid of a comprehensive and structured plan in areas like; customer facing process digitization, simplification of enterprise segment services, further enrichment of self-service and IT support services.

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Financial Updates: Healthy topline growth with stable EBITDA. Marginal de-growth in earnings.

GP reported revenue of BDT 31.2 Bn for the first quarter of 2018, a 2.0% growth from the same period last year. Reported is a change in contracts and accounting practices for VAS and device revenue recognition. Prime consideration is principal versus agent where GP acts as an agent. Accordingly, the reported revenue consists of only net amounts instead of gross amount. On a normalized basis the total revenue growth is 5.3% (YoY) for the quarter.

Subscription & traffic revenue (excluding interconnection) grew by BDT 1.5 Bn mainly driven by voice BDT 0.8 Bn and data BDT 1.1 Bn. STR grew by 5.7% (YoY) on a reported basis; on a normalized basis it grew by 7.1%.

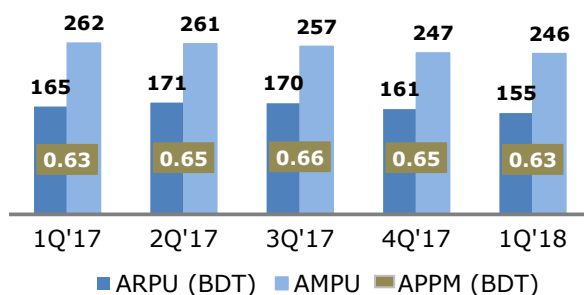


Data revenue grew by 23.9% (YoY), driven by 27.8% increase in data user and 75.1% growth in data volume. Voice revenue grew by 3.9% (YoY) against 8.1% growth in outgoing minutes of usage. Improving daily revenue generating base both in voice and data and its corresponding usage growth is driving this. VAS and device revenue de-growth of BDT 1.3 Bn due to lower content and device revenue and contract change impact. Organic de-growth is coming from content portfolio simplification, lower usage and lower handset sales. Contract change adjustment is BDT 513 Mn. Interconnect revenue with stable for the quarter.

Service ARPU, AMPU, APPM and AMBPU

Service ARPU decreased by 6.2% (YoY) due to lower activity from seasonality and competitive pressure on pricing. Declining interconnection minutes is also impacting lower service AMPU. However, there is improvement in daily voice AMPU specially from February.

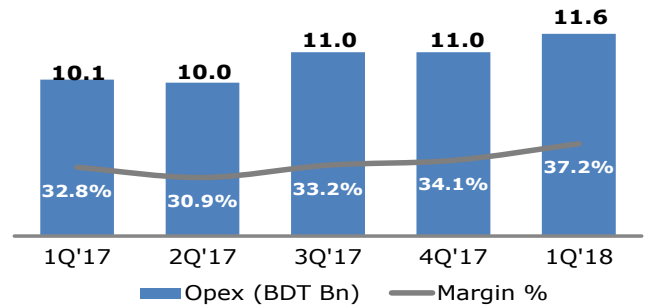
In the data segment, ARPU dropped by 3.0% to BDT 60. AMBPU increased by 37.1% (YoY) to 851 megabytes along with 27.8% (YoY) user growth. APPMB declined by 29.2% (YoY) due to competitive pricing.



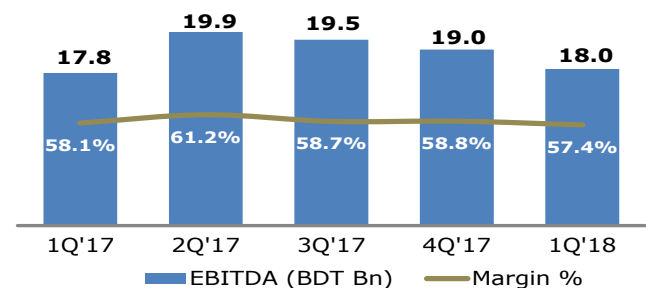
EBITDA growth from higher revenue and operating efficiency

Operating expenditure for the quarter was BDT 11.6 Bn, a 15.4% growth from last year. Higher opex is mainly resulting from higher subscriber acquisition cost, market spending for launch of 4G services, professional service fees and operation maintenance cost for network sites addition. Opex/sales stood at 37.2% with 4.3pp increase.

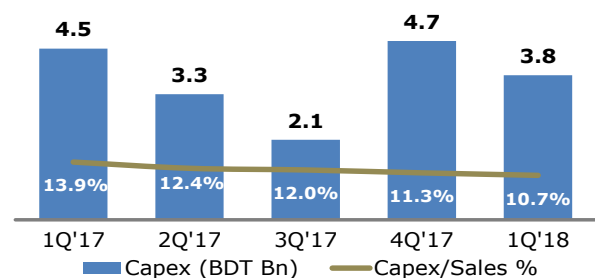
During the quarter, BDT 379 Mn for appeal deposit against NBR claims for SIM tax on replacement SIM for the period 2012-2015 was paid. Out of this, BDT 329 Mn was reported in opex. Due to adoption of IFRS 15, Opex was reported BDT 68 Mn higher mainly for subsidy and commission costs. Normalizing these, opex increased by BDT 1.2Bn, 11.5% growth from last year and 35.8% margin.



EBITDA (before other items) grew by BDT 144 Mn from higher revenue. EBITDA grew by 0.8% (YoY) with a reported margin of 57.4%. Normalized EBITDA margin for the quarter was 58.8% with 0.7 pp improvement.

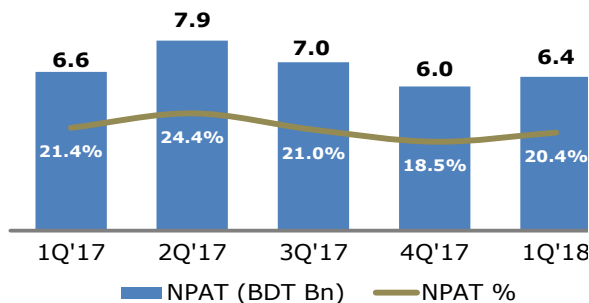


Regulatory capex for 4G license, spectrum and tech-neutrality conversion fee is BDT 17.1 Bn. In addition to this, GP invested BDT 3.8 Bn mainly for network coverage and capacity for 2G/3G/4G services. Capex to sales ratio was 10.7%. During the period, 303 2G, 184 3G and 691 4G sites were added in the network. YTD total number of 2G and 3G sites now stands at 13,297 and 12,516.

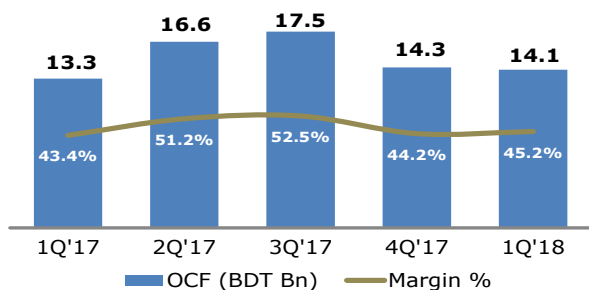


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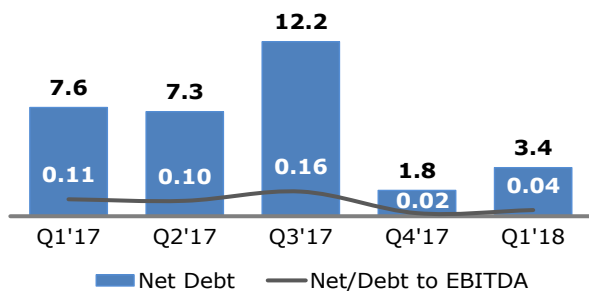
Net profit after tax for the quarter was BDT 6.4 Bn, a 2.5% drop from same period last year. Profitability margin is 20.4%. Accelerated depreciation of BDT 519 Mn was reported for modernizing the core network. Foreign exchange loss for the period was BDT 206 Mn.



Operating cash flow (EBITDA minus Capex) for the quarter stood at BDT 14.1 Bn with margin of 45.2%. Operating cash flow as well the margin improved due to lower capex and higher EBITDA.



Total assets at the end of quarter is BDT 147.8 Bn. Net debt to EBITDA stands at 0.04 due to higher cash generation and lower debt. Debt to equity ratio is 0.33.



IFRS 15 Impact:

With effect from 1 January 2018, GP has adopted IFRS 15 Revenue from Contracts with Customers using modified retrospective approach. Customer acquisition cost mainly in the form of SIM cost, different commissions and other directly attributable costs BDT 4.2 Bn which was expensed in earlier periods up until 31 Dec'17 has now deferred and recognized as Contract cost based on the average expected lifetime of the customer i.e. four years. Retained earnings increased by BDT 2.7 Bn. Opex also increased by BDT 68 Mn. After corresponding tax adjustments, NPAT was reduced by BDT 85 Mn.

BDT Million	IFRS 15	IAS 18	Delta
Revenue	31,244	31,244	0
Opex	11,629	11,561	68
Opex Margin	36.9%	37.2%	0.3pp
EBITDA	17,969	18,038	68
EBITDA Margin	57.4%	57.6%	0.2pp
Profit Before Tax	11,274	11,342	68
Profit After Tax	6,394	6,480	85
EPS(BDT)	4.74	4.79	0.05

Regulatory Update:

BTRC Audit

BTRC audit commenced on 3 Aug'2016. Received a summary of the draft audit observations on 11 Dec'17. After the submission of feedback on 18 Jan'18, a tri-party meeting was held on 18 Feb'18 regarding clarification. Waiting for the final outcome of the report.

GP-Railway Fiber Contract

Fiber sub-lease option was cancelled by BTRC due to NTTN license guideline. GP-BR joint committee agreed upon an arrangement and draft agreement was sent to BTRC. BR will lease and GP is entitled to 63% of revenue. The arrangement is on process of regulatory approval.

Tower Co. licensing guideline

Licensing guideline was published on 1 Apr'18. MNOs will not be eligible to participate. 4 licenses will be awarded with application deadline of 13 May'18. Industry holds its existing position on legal rights to build, maintain, operate and co-locate towers.

Mobile Number Portability Services (MNPS)

On 30 Nov'17 BTRC awarded MNP license. BTRC published final process on 21 Mar'18 keeping the previous implementation deadline of 31 Mar'18 intact. Revised deadline agreed with BTRC in presence of ICT adviser is 31 Jul'18.

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. Management is reviewing the judgment and assessing the next course of action.

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. Management is now considering legal recourse against the above claim.