

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

2nd Quarter 2018 Business Highlights

Healthy topline and subscriber growth in a challenging quarter

Grameenphone Ltd. (GP) reported 0.5% (YoY) total revenue growth and 3.3% (YoY) subscription & traffic revenue (excluding interconnection) growth. Data revenue grew by 18.5% (YoY) and voice revenue growth continued with 1.0% (YoY) for the period. 4G subscribers crossed 2 Mn milestone while total subscriber increased by 1.7 Mn. Data subscribers grew by 2.3 Mn. EBITDA uplift was solid at BDT 19.6 Bn with strong margin of 60.2%. NPAT for the quarter was BDT 10.8 Bn with positive adjustments from one-off reversals of excess tax provisions. Operating cash flow reported was BDT 15.2 Bn with 46.5% margin.

Executive Summary (Reported Basis)

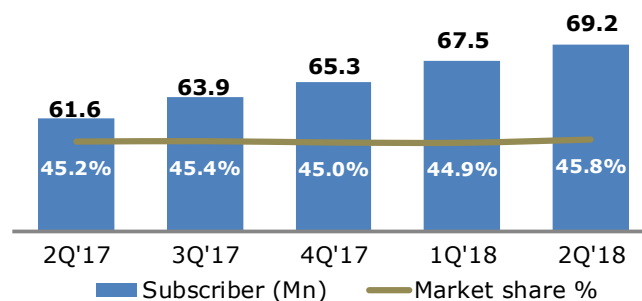
BDT Million	2Q2018	1Q2018	Q-Q	Y-Y
Subscription & Traffic Revenue	29,869	28,671	4.2%	3.3%
Service Revenue*	31,987	30,786	3.9%	2.8%
Total Revenue	32,575	31,244	4.3%	0.5%
Gross Profit	30,872	29,599	4.3%	3.1%
Opex	11,242	11,629	-3.3%	11.9%
Opex Margin	34.50%	37.20%	-2.7pp	3.5pp
EBITDA**	19,630	17,969	9.2%	-1.3%
EBITDA Margin	60.20%	57.40%	2.8pp	-1.0pp
Profit After Tax	10,804	6,394	69.0%	36.3%
Capex	4,473	3,824	17.0%	37.6%
Ops Cash Flow***	15,158	14,146	7.2%	-8.9%
OCF Margin	46.50%	45.20%	1.3pp	-4.7pp
EPS (BDT)	8.00	4.74	3.27	2.13

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

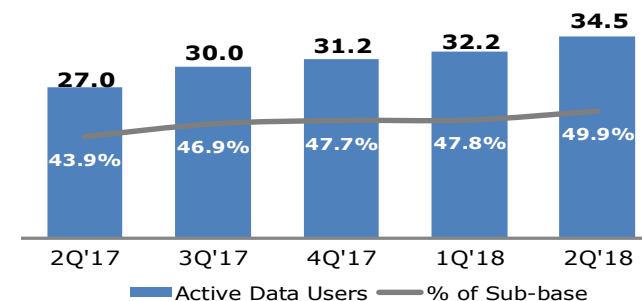
The quarter has been a challenging one due to heavy rainfall, numerous days of thunderstorms and commercial power outage. The adversities impacted normal livelihood of people and service availability. As per meteorological office, the country has seen 37% more rain this year so far with significantly more days of thunderstorms. Storms have led to increased incidents of grid power unavailability. GP experienced 2.3 times higher outage above 8 hours than last year and commercial power outages at GP sites were 24% higher. Ramadan and Football World Cup had negative impact on the overall activity level of subscribers.

Industry remained competitive during the quarter in continuation from previous quarters. It continued with generous data offers and higher channel incentives. On the voice segment, competitive environment was relatively stable.

During the quarter, number of subscribers increased by 1.7 Mn to 69.2 Mn. The subscription base was 12.3% higher than same period last year. SIM market share improved and stood at 45.8%. Focus on quality subscriber acquisition is giving its results in the market front. Quarter end churn was 13.3% for GP.



Number of data subscribers increased by 2.3 Mn to 34.5 Mn. The base is 27.7% higher than same period last year. With this, 49.9% of total subscribers are using GP internet services.



Q1 offer of ½ paisa/second on-net and 1paisa/sec off-net strengthened voice proposition and this is reflected in the positive engagement with subscribers in terms of improvement in daily RG base and corresponding usage. The quarter featured optimization of voice offers in base tariff and small minute packs.

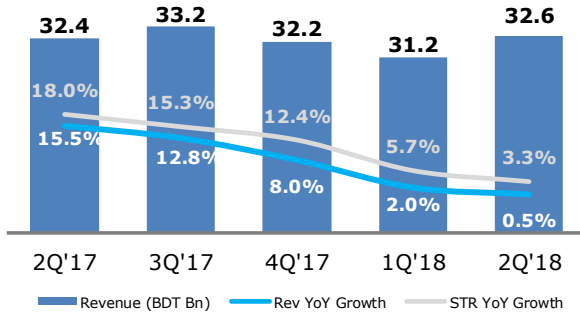
From 1 Jun'18 regulatory directive in Pay Per Use (PPU) with a limit of BDT 5 was implemented in the industry. This had a negative impact on the data revenue growth. Last quarter GP experimented with few contextual data offers and got very positive results. Based on that result, this quarter 3 new offers were launched to cater the new value proposition of subscribers that demand high volume of data with low validity.

GP crossed 2 Mn 4G subscriber milestone and rolled out 3000+ (as of 15 Jul'18) 4G sites. Within the 4G coverage area, on average 27% volume growth is observed from subscribers after conversion in 4G SIM. 37% of 4G devices within the coverage area have already got their SIM replaced to 4G SIM. Overall, there is growth taking place in 3G services in the 4G coverage area. In near future, growth in 3G services will still be primary growth driver for data services in Bangladesh.

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Financial Updates: EBITDA growth with solid margins

GP reported revenue of BDT 32.6 Bn for the second quarter of 2018, a 0.5% growth from the same period last year. On a normalized basis for accounting practice changes during last quarter, total revenue growth is 3.8% (YoY). Subscription & traffic revenue (excluding interconnection) grew by BDT 1.3 Bn mainly driven by voice BDT 0.2 Bn and data BDT 0.9 Bn. STR grew by 3.3% (YoY) on a reported basis; on a normalized basis it grew by 4.7%.

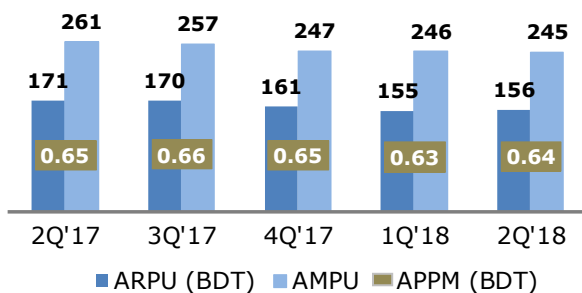


Data revenue grew by 18.5% (YoY), driven by 27.7% increase in data user and 90.8% growth in data volume. Voice revenue grew by 1.0% (YoY) against 9.2% growth in outgoing minutes of usage. VAS and device revenue de-growth of BDT 1.4 Bn due to lower content and device revenue and contract change impact. Organic de-growth is coming from content portfolio simplification, lower usage and lower handset sales. Contract change adjustment for device and content is BDT 471 Mn. Interconnect revenue declined by 3.8% (YoY) due to lower international incoming minutes.

Service ARPU, AMPU, APPM and AMBPU

Service ARPU decreased by 8.6% (YoY) mainly for voice, VAS and interconnection revenue. Voice ARPU was lower mainly due to lower voice APPM and lower international minutes. However, QoQ voice APPM was stable for Q2.

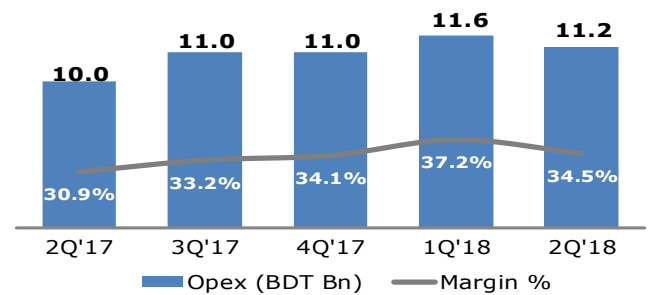
7.2% de-growth in data ARPU mainly driven by 37.9% reduction in APPMB partly offset by 49.5% higher AMBPU (986 MB vs 660 MB). QoQ APPMB erosion was 15.1% due to competitive offers launched during the quarter.



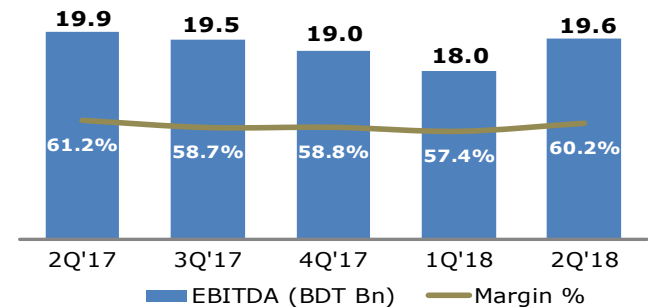
BDT 1.0 Bn normalized EBITDA growth with solid margin

Reported operating expenditure for the quarter was BDT 11.2 Bn, a 11.9% growth from last year. Higher opex is coming mainly from increased professional service fees, higher sales marketing driven by 4G and higher BTS rent driven by 1,275 new site additions. Reported Opex/sales stood at 34.5%.

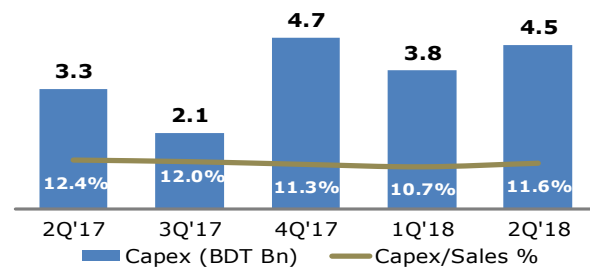
Due to adoption of IFRS 15, Opex was reported BDT 142 Mn higher for subsidy and commission costs. Same period last year included one-off reversals mainly in service maintenance fees and BTS electricity. Normalizing IFRS 15 and previous period one-off items, opex increased by BDT 152 Mn, 1.4% growth from last year with 34.0% margin.



Reported EBITDA (before other items) decreased by BDT 256 Mn with 60.2% margin. Normalized EBITDA growth is BDT 1.0 Bn, registering a 5.4% (YoY) growth and 60.6% margin.

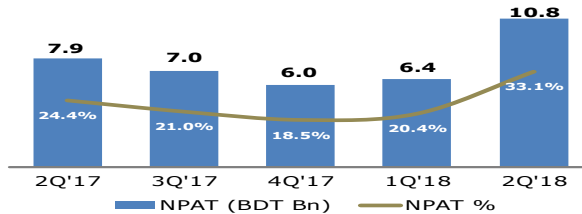


In Q2'18 GP invested 4.5Bn for rollout of 2G,3G and 4G sites coverage, capacity enhancement and network & IT modernization for future business. Capex to sales ratio was 11.6%. During the period, 288 2G and 203 3G sites were added in the network. YTD total number of 2G and 3G sites now stands at 13,585 and 12,719.

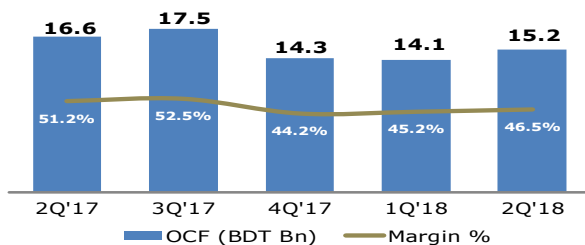


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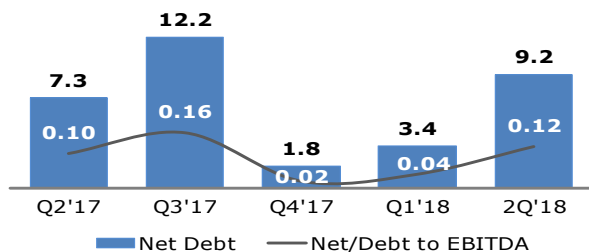
Reported net profit after tax for the quarter was BDT 10.8 Bn. This includes one-off reversals of excess tax provision of BDT 2.9 Bn. Accelerated depreciation for network modernization was also reported during the period. Normalized for one-off tax reversals, IFRS 15 and Q2'17 one-off items, NPAT growth was 12.3% with 25% margin.



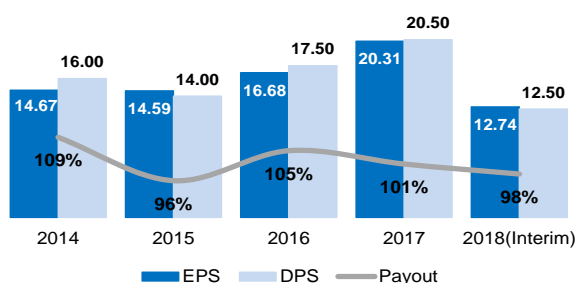
Reported operating cash flow (EBITDA minus Capex) for the quarter stood at BDT 15.2 Bn with margin of 46.5%. Lower OCF (YoY) resulted from higher capex of BDT 1.2 Bn and lower reported EBITDA of BDT 256 Mn.



Total assets at the end of quarter is BDT 138.4 Bn. Net debt to EBITDA stands at 0.12 due to lower cash balance. Debt to equity ratio is 0.29.



The Board of Directors has approved interim cash dividend for 2018 @ 125% of paid up capital. Payout ratio is 98%.



IFRS 15 Impact:

With effect from 1 January 2018, GP has adopted IFRS 15 Revenue from Contracts with Customers using modified retrospective approach. During Q2, Opex increased by BDT 142 Mn. After corresponding tax adjustments, NPAT was reduced by BDT 113 Mn.

BDT Million	IFRS 15	IAS 18	Delta
Revenue	32,575	32,575	0
Opex	11,242	11,100	142
Opex Margin	34.5%	34.0%	0.5pp
EBITDA	19,630	19,758	128
EBITDA Margin	60.2%	60.6%	0.4pp
Profit Before Tax	13,521	13,649	128
Profit After Tax	10,804	10,917	113
EPS(BDT)	8.00	8.08	0.08

Regulatory Update: Telecom VAS guideline

BTRC published the TVAS guideline on 31 May' 18. MNOs can provide services to their own subscribers. Majority of the other concerns are addressed. MNOs are eligible to apply for license to offer operator agnostic services Evaluating different options for license application.

Tariff Circuit Revision of Voice

BTRC is working to revise tariff circuit in order to introduce single floor price for all MNOs. GP opposed this proposal. Engagement efforts are on-going. Government is yet to come up with the final decision

Tower Co. licensing guideline

Licensing guideline was published on 1 Apr'18. MNOs will not be eligible to participate. BTRC received 8 applications as per media reports. Writ petition filed by GP before the Hon'ble High Court challenging few provisions.

Mobile Number Portability Services (MNPS)

During Apr'18 a revised deadline of 31 Jul'18 was agreed with BTRC in presence of ICT adviser. Issued new directive giving the ported number routing responsibility to MNOs. Raising concerns, a joint letter from all CEOs of MNOs was sent to BTRC.

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. The hearing will take place in due course of time.

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 to which BR is yet to respond.