

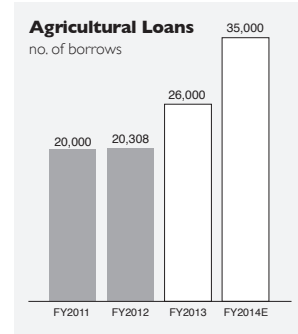
SUMMARY

Proximity spent the first quarter of FYE2013 preparing for our 9th season of marketing irrigation products across Myanmar. We launched three newly designed irrigation products this quarter, re-designed our product financing offerings and conducted sales and management training for our entire staff through the Proximity School. Proximity Finance issued 10,014 agricultural loans and our village infrastructure team completed 51 rainwater harvesting reservoirs in the Dry Zone. In Q1 Proximity was honored to receive the Schwab Foundation's 2012 Global Social Entrepreneur Award. Through the award, Proximity joined the World Economic Forum's global community of social entrepreneurs.

1 Financial Services

Significant area of growth potential.

During FY2013 Q1 we extended 10,014 agricultural loans to small-plot rice farmers in the Ayeyarwady Delta for their monsoon rice crop. The loans of \$125 are being used to purchase seed, fertilizers, hire labor for planting and land preparation. This is the sixth season for these loans. Repayment rates for these agricultural loans made during the summer paddy season (January to June) were 99 percent. Yetagon Credit, our product financing unit spent the quarter redesigning its loan products for the new irrigation season starting in September 2012.



2 Rural Energy Products

Myanmar's rural lighting device market could be 9 million households.

We sold 1,590 solar lighting units during this quarter under the Yetagon Energy brand. Marketing efforts continued in select townships in the Ayeyarwady Delta and were also expanded into the central Dry Zone of Myanmar. The primary distribution channel for lighting products are the 1,900 village groups Proximity has formed over the past four years to conduct relief and recovery activities. Our sales teams are finding strong demand in villages because most are without any electricity, but purchasing power among rural households continues to be extremely weak. A new Yetagon Credit installment loan product (100 days to repay via village group) is being rolled out on a test basis in select areas.

3 Irrigation Products

Launched 3 new breakthrough irrigation products.



Our irrigation business is highly seasonal with very limited sales activity during the intense period of the monsoon rains (June thru Sept). Our sales are thus typically limited during Q1. On September 8th we launched two brand new irrigation products and two other redesigned irrigation products. Our new plastic Kywe Pauq ('young water buffalo') pressure pump is a significant improvement on our existing metal pressure pump in ease of use and repair, and lower cost. It took 18 months to develop. Our new water storage container is also a breakthrough product in both functionality and design – demonstrating that low-income farmers do value aesthetic design. Yetagon drip added 2" lay flat pipe and new fittings to significantly enhance performance of this low-pressure system. Our workhorse pump was redesigned with a new rocker-arm assembly.

4 Farm Advisory Services

Simple, practical and low-cost.

Our Farm Advisory Services team continues to promote simple, practical, low-cost techniques among rice farmers enabling them to boost yields by 10-15 percent on both the monsoon crop and the shorter but, potentially more lucrative, irrigated summer paddy crop. During this quarter we had 936 new adopters of the rice grading & selection technique. Very promising prototyping activities have been ongoing in Myanmar's semi-arid Dry Zone among sesame and pulse growers.

5 Rural Marketing

Launched new rural marketing campaign.

During this quarter we created a new rural marketing campaign for our rural customer-facing brand – Yetagon (which means waterfall/prosperity in the Burmese language). We refreshed the logo so it could be uniformly used across our four major product portfolios – irrigation, energy, farming knowledge and financial services. All of our new packaging, sales collateral and outdoor advertising now sport our new logo.



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Irrigation



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Energy



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Credit



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FAS

6 Village Infrastructure

Providing incomes for customers during the lean months.

Myanmar's rural economy continues to be very weak. Rural employment opportunities are scarce and returns to farming are both volatile and low. In this environment, Proximity has engaged in cash-for-work projects to help our customers weather the 'lean months' of the year when there is widespread hunger and no employment. During this quarter we financed the rehabilitation of 51 rainwater collection ponds in the Dry Zone. This brings the annual total of rural households receiving income from these cash-for-work pond projects to 34,637 families and 528,457 person/days of wages.

7 National Economic Policy

Political opening but no corresponding economic restructuring.

In August, our economic/development expert team from Harvard spent two weeks with us to help move the country's economic reform agenda forward. We researched the critical topic of resource sharing between the resource-rich ethnic States and the central government. The paper, "China and Yunnan Economic relations with Myanmar and the Kachin State: Powering the Peace Process" written by the Harvard team, highlights the huge win-win potential for bringing about lasting peace and inclusive economic growth in these conflict-ridden areas. It discusses a specific resource-sharing proposal for hydropower development in Kachin State (for projects outside of the flawed Myitsone Dam.) A second policy essay was produced in Q1 on "Restrictive Foreign Direct Investment" to help argue the case for making Myanmar more attractive to high-quality foreign investment.

8 Talent Pool: The Proximity School

Staff development is a high priority.

During the height of the monsoon rains – July & August - we conduct the Proximity School – our in-house training program. During this quarter over 300 of our staff attended courses focused on increasing specific job skills, broader management skills and personal development life skills. We offered 51 different courses over a seven-week period taught by internal managers, as well as external faculty. We have a special management development track for our front-line managers. All course work includes homework, independent projects and exams. Everyone receives grades.



9 Manufacturing

Gearing up for another full season of manufacturing.

We continue to produce all of our irrigation products in Myanmar using a combination of external suppliers, independent contract manufacturers and our own in-house quality assurance and assembly teams. During Q1 we manufactured 2,500 irrigation products in preparation for our new product launch in Sept 2012. Manufacturing products in Myanmar continues to be a very challenging undertaking due to the low levels of industrial development.

10 Distribution Channels

An important platform for growth.

Our Distribution Channel team spent much of the quarter preparing for a big training initiative for our extensive independent village agent network. The target is to train 275 village agents in Q2 to achieve a seasonal target of 600 trained village agents in total. Our analysis indicates that a trained agent generates significantly more sales. Our Agent Centers (or Kiosks) in villages continues to be rolled out. 100 newly re-designed Centers are to be established in Q2 – in time for the peak selling season of irrigation products. We're investing heavily in building out our national distribution network as a key platform for expanding our reach to rural communities.

11 Social Impact

Measuring our social impact.

Our in-house social impact assessment team conducted assessments of our solar lighting sales, drip irrigation installations and our agricultural loan activities during this quarter. The lighting survey focused on the initial 100 customers to determine the new kinds of activities rural families engaged in after purchasing the lights. For the drip survey we were interested in finding out the effect of lead farmer installations on the adoption by smaller more risk-averse farm customers.

12 Six Month Outlook

A mixture of optimism and concern.

We're fairly optimistic we'll achieve our irrigation product sales targets for this year. Energy and Financial Services are our fastest growing markets and both are likely to surpass irrigation product sales this year. While important political progress has been made over the past year, the economy and especially the agricultural economy continues to perform very poorly. This makes farming very tenuous. Our policy research team is engaging intensely with key government, business, political party and ethnic leaders to push for economic reforms. It's a high stakes effort.