



# Chief Executive Officer's review

After almost two years into my appointment as CEO, I am energized by the work we have been able to accomplish and the focus with which we continue to deliver our strategy.

 [Read our operational review see pages 45-59](#)

**Our goal is to become a high-performing, high-growth, fixed mobile convergent (FMC) operator focused on equity value creation.**

For this we have defined a clear, and clearly articulated, operational strategy; an ambitious set of operational priorities; setting and keeping the bar high on ethical and responsible ways of doing business; robust financial targets over the next three to five years that are fully aligned with the operational strategy; and a cash flow model to underpin our equity value creation model.

## Chief Executive Officer’s review – continued

I am pleased to say we have made great progress in 2016. We continued to monetize data and significantly expanded our cable network. We also continued to drive reconfiguration of our revenue mix to mitigate the faster than expected decline in our voice and SMS business which made our revenue growth weaker as the year progressed.

In the second half of the year, we focused on creating a high-performance culture, turning up the heat on transformation, efficiency and cost control through an important project we launched during the year, namely our HEAT project. With this project we aim to capture the next era of efficiencies that the digital transformation can offer.

Our strategy is clear and simple. We will:

- **Lead digital:** internally, we will leverage our digital transformation to become a much leaner operation. For our customers, we will continue to innovate and partner with other digital players to offer our customers the best services and local content.
- **Monetize data and build cable:** we build cable; home residential and B2B and we are focused on reconfiguring our revenue, creating a lighter, more digital organization which will deliver increased cash flows and in turn Total Shareholder Returns (TSR).
- **Deliver value:** as we embrace our digital transformation, we are reconfiguring our business to create a long term efficient and sustainable cost structure. Reconfigured revenue, lighter and digital organization will deliver increased cash flows and in turn TSR.
- **Act responsibly:** do business the right way and drive positive change in the societies where we operate.





### Leading Digital

We are developing partnerships with key digital players such as Netflix and Microsoft and using technology as an enabler to increase our operational efficiency, agility and brand strength.

Millicom can offer its partners the opportunity to acquire new customers in a new region, adding our deep understanding of the markets we operate in. In Latin America for instance, we offer our digital partners more than 700 thousand distribution points. These are unrivalled touchpoints into our markets and a key competitive advantage.

We will also look at every opportunity to automate more processes across our business so that we can continue to improve our reliable, efficient services for our customers.

## Our strategy

 <b>Lead digital</b>	 <b>Monetize data, build cable</b>	 <b>Deliver value</b>	 <b>Act responsibly</b>
<p><b>Digital innovation and digital services:</b> innovate and partner with other digital leaders to create win-win benefits and offer the best services and local content to our customers</p> <p><b>MFS:</b> consolidate our position of leadership, drive customer loyalty, stickiness and reduce churn</p> <p><b>Customer touchpoints:</b> increase customer engagement via more convenient digital touchpoints</p> <p><b>Process automation:</b> introduce smarter more efficient operations which are fit for the future</p>	<p><b>Mobile data:</b> monetize data</p> <p><b>Cable/fiber footprint:</b> expand our high-speed broadband footprint and leverage the quality of our network for both our consumers and B2B clients</p> <p><b>Convergence:</b> prepare for convergence between networks, IT systems and channels</p> <p>Capture synergies from convergence</p>	<p><b>Understanding our customers:</b> reorientation towards total customer satisfaction, enabling Millicom to fulfil its vision and mission</p> <p><b>Operational efficiency:</b> executing our strategy</p> <p><b>Equity value creation model:</b> cash flow growth and operational efficiency</p>	<p><b>People:</b> attract, retain and develop talent, stand for diversity, encourage the Millicom culture</p> <p><b>Corporate responsibility:</b> driving change by delivering results in key projects from waste programs to freedom of expression to child online protection</p> <p><b>A role model:</b> positive change in society, compliance with laws and standards</p>

## Chief Executive Officer's review – continued

### Monetizing mobile data and building cable

This year we have accelerated progress in monetizing data and building a greater cable network. Mobile data and cable segments now represent almost half of our revenue mix in Latin America.

Mobile data revenue across the Group has grown by more than 24% in the year and we now have 26 million smartphone users and almost 3.4 million 4G subscribers. Data consumption per subscriber has also increased by 26% to 1.4 GB per user per month. We expect this will continue to grow very fast in the future. We continue to innovate in this space using our customer insights, for example to roll out our successful pilot of the All You Can App initiative to help our customers purchase their data packages in an easy and relevant way.

Strong smartphone and 4G penetration are the key building blocks for further mobile data growth. We will continue to expand our 4G networks, facilitate smartphone adoption and bring The Digital Lifestyle™ to more people in our markets. We will also shift our balance from volume to attracting higher value customers.

In cable we have now built more than eight million homes passed in Latin America. Of these, almost 7.2 million are HFC homes with 3.7 million subscribers, driving organic revenue growth of more than 9.7%.

We have also leveraged our cable footprint to benefit our B2B customers, who require a fast, reliable network on which to grow.

### Deliver value

We deliver value for both shareholders and stakeholders. In early 2016, we began a two-fold reconfiguration of the business looking at our revenue mix and our cost structure. Through the HEAT program we are already transitioning our business towards a leaner model. As a result, we have significantly enhanced our Operating Cash Flow (OCF).

### Act responsibly

Corporate responsibility and compliance have great prominence in our business, reflected in this first integrated financial and corporate responsibility report. This year we became members of the United Nations Global Compact to make a public commitment to its principles on human rights, labor standards, environmental protection and anti-corruption compliance.

We make profits for our shareholders, but we also recognize the inherent social value our core businesses and connectivity creates. The transforming power of the technology we provide was celebrated at the 71st United Nations General Assembly that showcased our mobile birth registration programs in Ghana and Tanzania.

We have identified women customers as a great opportunity for us, and have made industry-leading commitments and created programs to address access barriers and increase the proportion of women in our customer base.

I am delighted to have joined the GSMA Board and to be able to work with the organization to ensure that the right strategic, regulatory and policy frameworks are in place to support the direction of the industry as we all focus on connecting the world.

## Driving efficiency

A multi-year transformation program expected to generate more than US\$200m in savings has been launched named Project HEAT.

The program is widespread and includes projects ranging from transforming our IT back office systems towards an OTT-like infrastructure, to turning our business into a "Capex light" model with more managed services agreements and network sharing, to implementing shared service centers and to changing our device supply chain to reduce working capital.

The result will be a more efficient and effective operating model and thus a stronger cash flow.



## Chief Executive Officer's review – continued

Compliance remains a priority. This year we have welcomed our new Chief Ethics and Compliance Officer and worked to further improve our already robust compliance program. We have a zero-tolerance stance to all forms of bribery and corruption. Our prevention mechanisms include supplier assessments and third party due diligence, as well as with improved training for all employees. These initiatives continue to ensure ethical and responsible behavior and promote respect for our strict codes of conduct among our employees and suppliers.

Enabling new, easier and safer access online helps to bring about The Digital Lifestyle™. As we bring more people online, we also have a responsibility to protect those who are more vulnerable. I am proud of the way we have taken leadership on child online protection in our regions.

### Our performance

To summarize our performance in 2016, we delivered strong underlying operational performance. We achieved this in the context of a difficult macro environment, especially in Latin America, and increased top-line pressure due to the accelerated decline of SMS and Voice revenues in the region. With laser-like focus on operating leverage we managed to significantly grow our OCF, and deliver stronger cash flows. Organic service revenue growth for the full year increased by 1.2% to US\$5.9bn, adjusted EBITDA grew 4.3% to US\$2.2bn and our focus on profitable growth at all levels in the Group improved the adjusted EBITDA margin in 2015 by 1.7% to 35.6%.

We continue to see selected opportunities for M&A within the boundaries of our existing footprint in order to expand our services and strengthen our overall position.

### Our people

At the executive leadership level, I am pleased to report that we are now at full strength, enabling consistency and stability for the business. In 2016, we filled several important positions within the Executive Committee, welcoming Daniel Loria as Chief Human Resources Officer, Esteban Iriarte as Chief Operating Officer for Latin America, HL Rogers as Chief Ethics and Compliance Officer, and Rodrigo Diehl as Chief Strategy Officer.

Together we have created a simpler, more effective structure, which is functionally and operationally driven.

It is important to me that during 2017 we continue to develop a high performance, operationally excellent and customer-focused culture across the business and that we ensure best-in-class talent throughout the organization.

In summary, our strategy is in full motion and delivering results: we are monetizing data and building cable, fast. Placing customer experience at the heart of our decision-making will remain a core focus for us, as will continuing to innovate across all our operations. While reconfiguring the revenue mix, we are also undertaking significant transformations that I have no doubt will result in many further tangible successes in 2017.

### Mauricio Ramos

Chief Executive Officer



**We are monetizing data and building cable, fast.”**