Chief Financial Officer's review

In 2016, we made progress in growing our margins, improving our cash flow and strengthening our capital structure. The business proved resilient to a more difficult operating environment aided by our focus on costs and targeted investment.

Chief Financial Officer's review – continued

Key financial highlights of the year[1 2]

US$m	2016	2015	% change
Revenue	**6,249**	6,572	(4.9)
Organic growth (%)	**(0.4)**	7.3	
Service revenue	**5,855**	6,056	(3.3)
Organic growth (%)	**1.2**	5.8	
Reported EBITDA	**2,172**	2,188	(0.8)
Adjusted EBITDA	**2,225**	2,227	(0.1)
Organic growth (%)	**4.3**	9.0	
Adjusted EBITDA margin (%)	**35.6**	33.9	
Capex	**1,031**	1,258	(18.1)
Operating cash flow ("OCF")	**1,141**	930	22.7
Return on Invested Capital ("ROIC")[3]	**16.0%**	15.5%	NM
Net debt	**4,181**	4,295	(2.6)

1 Guatemala and Honduras businesses fully consolidated. See "Additional information" on pages 197 to 200 for reconciliation with IFRS numbers. The comparative 2015 financial information has been re-presented as a result of the classification of our operations in DRC as discontinued operations (in accordance with IFRS 5).

2 Alternative performance measures are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and used to make decisions about operating matters. It should not be viewed in isolation or as an alternative to the equivalent GAAP measure. See "Additional information" on pages 197 to 200 for definitions and reconciliations to the closest respective equivalent IFRS measures.

3 Before corporate costs

Revenue

Full year revenue was US$6,249 million, down 4.9% on a reported basis but a decrease of only 0.4% in local currency. Service revenue in the full year was US$5,855 million, 1.2% higher than in 2015 on an organic basis. The difference between total revenue and service revenue represents handset and equipment sales, which declined by 25% on a reported basis mainly due to the fewer handsets being sold directly in several Latin American markets, as well as the lower price mix of handsets sold.

Gross margin

Gross profit was US$4,594 million, 3.9% lower than 2015, but the gross margin improved to 73.5% from 72.7% last year, reflecting the lower proportion of handset sales in the revenue mix.

Earnings before interest and tax

Operating expenses in the full year were US$2,422 million, 6.5% lower than in 2015 and representing 38.8% of total revenue, compared to 39.4% in the prior year. The main drivers of the reduction in operating expenses included lower corporate costs, operational efficiencies generated by Project HEAT in Latin America, and tighter cost control in Africa. Corporate costs in the full year fell by US$44 million to US$165 million, and accounted for 2.6% of total revenue, compared to 3.2% in 2015.

Adjusted EBITDA for the full year was US$2,225 million, representing organic growth of 4.3% year-on-year. The US$53 million full-year adjustment principally included charges in respect of restructuring in Colombia, provisions for one-off contractual claims, tax charges and disputes, and charges for de-recognition of the surveillance contract in Guatemala.

Operating profit

Depreciation and amortization of US$1,368 million was 6.8% higher year-on-year and includes the fair value adjustment relating to the deconsolidation of Guatemala and Honduras.

Other operating expenses in the full year of US$43 million were US$21 million lower than in 2015, with around half of this charge due to the impairment of assets related to the Guatemala surveillance contract.

Operating profit was US$761 million, down 9.8% year-on-year, mainly due to lower gross profit and higher depreciation and amortization more than offsetting the reduction in operating costs.

Profit (loss) before tax

Net financial expenses were US$472 million, US$69 million higher than in 2015. Higher levels of local currency debt in Colombia meant that we incurred significantly higher interest charges on our debt held there, and we also incurred one-off costs of US$25 million in respect of our tender offer in December 2016 for US$300 million of outstanding bonds, and for the early redemption of our Swedish Krona bond due in 2017. Finance lease charges accounted for US$66 million of net financial expenses, compared to US$80 million in 2015.

The loss of US$1 million in respect of other non-operating income for the full year reflected the impact of more stable currencies across our markets, compared to 2015 when we incurred foreign exchange losses over US$300 million. 2015 also included a non-cash loss recognized on the deconsolidation of Guatemala and Honduras, partially offset by the non-cash adjustment to the fair value of the put options.

Losses from associates of US$49 million included the impairment of the value of our interest in LIH (in 2015 a profit from associates was recorded, mainly due to the revaluation of our stake in HTA following a funding round).

Profit before tax was US$239 million compared to a loss of US$84 million in 2015, due to the other non-operating items described above.

Reconciliation from operating profit to adjusted EBITDA

US$m	2016	2015
Operating profit	**482**	843
Depreciation and amortization	**1,368**	1,281
Loss (gain) on disposal/write down of assets, net	**43**	64
EBITDA	**2,172**	2,188
EBITDA as a % of revenue	**34.8**	33.3
Restructuring, integration costs and other one-offs	**53**	39
Adjusted EBITDA	**2,225**	2,227
Adjusted EBITDA as a % of revenue	**35.6**	33.9

Chief Financial Officer's review – continued

Performance

US$m	2016	2015	% change
Revenue	**6,249**	6,572	(4.9)
Cost of sales	**(1,655)**	(1,793)	(7.7)
Gross profit	**4,594**	4,778	(3.9)
Operating expenses	**(2,422)**	(2,590)	(6.5)
EBITDA	**2,172**	2,188	(0.8)
Depreciation and amortization	**(1,368)**	(1,281)	6.8
Other operating income (expenses), net	**(43)**	(64)	(32.3)
Operating profit	**761**	843	(9.8)
Net financial expenses	**(472)**	(403)	17.1
Other non-operating income (expenses), net	**(1)**	(624)	(99.8)
Gains (losses) from associates, net	**(49)**	100	NM
Profit (loss) before tax	**239**	(84)	NM
Net tax credit (charge)	**(251)**	(278)	(9.6)
Profit (loss) for the period from continuing operations	**(13)**	(361)	(96.5)
Non-controlling interests	**(38)**	(115)	(66.7)
Profit (loss) from discontinued operations	**19**	(83)	NM
Net profit (loss) for the period	**(32)**	(559)	(94.3)
Adjusted net profit (loss) for the period	**73**	87	(16.6)
Adjusted earnings per share	**0.73**	0.87	(16.6)

Tax
The Group net tax charge in 2016 of US$251 million was almost 10% lower than 2015, mainly due to profit mix changes and lower withholding tax on cash repatriation

Net profit
The share of profits of non-controlling interests reduced by US$77 million, to US$38million, again reflecting the restructuring charges in Colombia and fair value adjustments in Guatemala and Honduras mentioned above. The profit of US$19 million from discontinued operations reflected the profit on the sale of our business in DRC, for which a loss of US$83 million was recorded in 2015.

The net loss for the period was US$32 million, compared to a net loss of US$559 million in 2015. Adjusted net profit was US$73 million (US$87 million in 2015). Adjusted earnings per share was 0.73 cents (2015: 0.87 cents). The Group's ROIC was 13.1% after corporate costs, compared to 11.7% in 2015. The ROIC on operations was 16.0% compared to 15.5% in 2015.

LatAm
Total revenue in Latin America declined by 1.8% in 2016 on an organic basis, to US$5,352 million. Service revenue declined by 0.2% year-on-year, to US$4,966 million.

The significantly steeper fall in total revenue was due to lower direct handset sales, mainly in Colombia and Paraguay.

Voice and SMS service revenue fell by 15.2% to US$1,727 million, while mobile data revenue grew organically by 22.7% to US$1,221 million. Total cable service revenue grew by 7.4% year-on-year, with fixed B2B revenue increasing by 2.7% and residential cable revenue growing by 9.7% organically in the year.

EBITDA in LatAm declined by 2.2% in the year, with the EBITDA margin of 38.5% slightly higher than in 2015.

Capital expenditure reduced by 17% in the full year to US$867 million, compared to US$1,045 million in 2015, again mainly reflecting the tighter focus of the investment program on core growth areas of HFC and 4G and convergence-focused IT capabilities. Around 47% of our capital expenditure was invested in the fixed network and 39% in the mobile network.

Investment in spectrum and licenses was US$94 million, of which US$39 million was cash payments.

Operating cash flow in LatAm in the full year grew by 3.3% year-on-year to US$1,197 million, representing an OCF margin of 22.4%.

Scope changes

During 2016, Millicom disposed of its businesses in the Democratic Republic of Congo (DRC) to Orange S.A. The sale of these operations generated a cash inflow of US$147 million, net of US$33 million of cash disposed.

On 31 December 2015, the existing call options with local partners lapsed and under IFRS 10 and 11, Millicom deconsolidated its investments in Comcel (Guatemala) and Celtel (Honduras). This has resulted in a non-cash negative value adjustment of US$391 million.

From 31 December 2015 onwards, Millicom accounts for its investments in Comcel and Celtel under the equity method and thus reports its share of the net income of each of these businesses in the income statement starting 1 January 2016. For the purpose of comparison and to provide users of this financial review a full understanding of the financial condition of the Group, the financial information presented in this section is on a pro forma basis as if the Honduran and Guatemalan businesses continue to be fully consolidated.

Further information on the accounting implications of the deconsolidation are provided in the notes to the consolidated financial statements.

Chief Financial Officer's review – continued

Africa

For the full year 2016, revenue in Africa is up 9.6% organically, mainly coming from mobile service revenue which grew by 10.5%. Our subscriber base increased by 2.9% or 725,000 net adds in the year while the mobile data subscriber base grew by 26.3% or 1.4 million users, with smartphone penetration increasing to 22%, from around 15% at the start of the year.

B2B revenue almost doubled, with growth in both public and private sector contracts, driven by our network and data center investments, local partnerships and expanded distribution channels. MFS subscribers are up 18.3% or 1.3 million new users in the mobile wallet ecosystem.

EBITDA reached US$258 million, up 39.2%, while EBITDA margin improved from 22.1% to 28.7%. Capex for the year was US$160 million, down US$58 million compared to 2015. There were no new investments in spectrum or licenses in Africa during 2016. As a result of both focus on profitable growth, discipline on cost and expenses and a careful investment program OCF improved from an outflow of US$34 million in 2015 to positive US$97 million in 2016, a swing of almost US$132 million.

Free Cash Flow

US$m	2016	2015
Adjusted EBITDA	**2,225**	2,227
Restructuring, integration costs and other one-offs	**(53)**	(39)
EBITDA	**2,172**	2,188
Net cash Capex (excluding spectrum and licenses)	**(1,051)**	(1,123)
Change in working capital and other non-cash items	**(1)**	79
Operating cash flow	**1,121**	1,144
Taxes paid	**(259)**	(252)
Operating Free Cash Flow	**861**	892
Interest paid, net	**(427)**	(349)
Free Cash Flow	**434**	543
Advances for and dividends to non-controlling interests	**(165)**	(269)
Equity Free Cash Flow	**269**	274

Equity Free Cash Flow in 2016 was US$269 million, more than covering the proposed Millicom Group dividend payment of US$265 million. This excludes cash payments in respect of spectrum and licenses of US$39 million, including US$30 million for 4G spectrum in Paraguay.

Equity Free Cash Flow was broadly flat compared to 2015, but this reflected a combination of slightly higher Adjusted EBITDA, lower cash Capex, and a lower level of advances for dividends to non-controlling interests, offset by working capital, which was flat in the year compared to US$79 million inflow in 2015, and higher net interest payments, these being mainly due to higher levels of local currency debt, particularly in Columbia, and the one-off costs of the bond tender offers and early redemptions. Cash tax was broadly flat year-on-year.

Chief Financial Officer's review – continued

Assets, liabilities and equity

US$m	2016	2015[1]	Change
Intangible assets, net	**4,618**	4,851	(233)
Tangible assets, net	**4,205**	4,228	(23)
Investments in joint ventures and associates	**331**	373	(42)
Cash and cash equivalents and restricted cash	**1,103**	1,083	20
Other (non-)current assets	**1,627**	1,902	(275)
Total assets	**11,884**	12,437	(553)
Equity attributable to owners	**2,976**	3,285	(309)
Non-controlling interests	**1,095**	1,165	(70)
Debt and financing	**5,290**	5,385	(95)
Other (non-)current liabilities	**2,523**	2,602	(79)
Total equity and liabilities	**11,884**	12,437	(553)

1 Comparative information has been restated after finalization of Zantel's purchase accounting

Intangible assets
Intangible assets decreased during the year as an effect of the amortization charge of US$345 million, partly offset by the gross additions for the year and currency gains.

Tangible assets
Tangible assets slightly decreased during the year mainly as an effect of the depreciation charge of US$1,029 million, impairment charge of US$26 million (Guatemala mainly), partly offset by the gross additions for the year of US$905 million and currency gains.

Investment in joint ventures and associates
Investment in joint ventures and associates decreased by US$42 million, mainly due to the losses from our investments in AIH and LIH (e-commerce ventures) including an impairment on LIH for US$40 million.

Equity and non-controlling interests
Equity attributable to the owners of the Group has decreased by US$309 million mainly because of the loss for the year of US$32 million and US$265 million of dividend declared in 2016.

Non-controlling interests have decreased by US$70 million mainly due to the effects of dividends declared in 2016 of US$224 million, partly offset by the profit for the year of US$38 million and currency gains of US$117 million.

Debt and key financing activities
At 31 December 2016, the Group gross debt decreased by US$95 million, mainly due to the effects of the to the repurchase of US$300 million of 2020 and 2012 Senior Notes undertaken through a tender offer in December 2016, as well the repayment of around US$50 million of debt in Colombia, and the early full redemption of US$40 million of SEK bonds maturing in 2017. This was partly offset by the issuance of several new financings.

At 31 December 2016, 71% of group debt was at fixed interest rates and 35% was in local currency, compared to 30% at the end of 2015, and in line with our aim of increasing the proportion of total Group debt held in local currency, to mitigate the risks of currency volatility. The average maturity of our debt stood at 5.4 years and our average cost of debt excluding finance leases remained flat at 6.5%.

Group net debt, including Guatemala and Honduras on a fully consolidated basis, was US$4,181 million at the end of December 2016, US$114 million lower than at the end of 2015, reflecting stronger cash flows. Net debt/EBITDA, based on the last 12 months EBITDA, was 1.93x at 31 December 2016, compared to 1.97x at the same time last year.