

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

We are the leading provider of mobile communications services in Guatemala, providing communications, data, entertainment and solutions services under the Tigo brand across the most extensive 2G and 3G networks in the country. With 8.13 million mobile subscribers, we estimate our market share of mobile users in Guatemala at approximately 52.3% as of June 30, 2014. We established ourselves in 1990 as the first mobile operator in Guatemala and have maintained a market-leading position since 2007, following the entry of additional mobile operators in 1999. We are evolving beyond traditional mobile communications and data services to offer a combination of corporate solutions, fixed-line, cable TV, broadband services and mobile financial services (MFS) to retail and business customers in Guatemala.

We are jointly owned by the Millicom Group, which holds a 55% ownership interest in Comcel and each of the other Note Guarantors, and Miffin, which holds the remaining 45% ownership interest. Millicom offers digital lifestyle products and services primarily through wireless and cable TV/broadband networks in Central America, South America and Africa, mainly under the Tigo brand. We benefit from Millicom's vast emerging markets operating experience, product development and technical expertise and sharing of best practices gained from its operations in 15 emerging market nations. We also benefit from the economies of scale that result from being part of Millicom's global purchasing and supply chain. Miffin is a holding company with interests in several lines of business, including telecommunications, real estate and renewable power. As Millicom's local partner, Miffin has greatly contributed to our success through its deep understanding of Guatemala's economy and demographics (including our customer base) and through its relationships with commercial, industry and government partners.

Currently, we offer our products through four business units:

- Tigo Mobile (voice, SMS, data and other value-added services);
- Tigo Business (corporate and productivity solutions);
- Tigo Home (cable TV, fixed-line broadband and fixed-line telephone services); and
- Tigo Money (MFS).

#### *Tigo Mobile:*

As of June 30, 2014, we had approximately 8.1 million mobile customers, which we estimate represented approximately 52.3% of the total mobile customer base in Guatemala, and our network comprised 4,749 cell sites and covered 87% of the country's total population. Our networks provide the most extensive coverage and highest reliability in our market, which has reached a mobile penetration rate of approximately 125%. We have developed an extensive distribution network for the sale of our products and services across the country.

In order to maintain our leading market share and enhance our profitability in a market with high penetration, we tailor our mobile service offerings to meet the communications needs of our targeted customer segments and offer a comprehensive range of prepaid and postpaid service plans. We target customer segments by classifying them by, among other factors, projected ARPU, preferred activities, education level, budget, region, age, type of device and gender. As of June 30, 2014, 95.2% of our customers received our services on a prepaid basis and 4.8% of our customers received our services on a postpaid basis. Our prepaid customers generated 81.6% of our mobile revenue for the six months ended June 30, 2014. Our postpaid customers, who have a higher ARPU and tend to use more value-added services that we have introduced to the Guatemalan market, such as MMS, music and video streaming, generated 18.4% of our mobile revenue for the same period. While ARPU among our prepaid customers is lower, these customers receive no handset subsidies from us and can be serviced at a lower cost than our postpaid customers.

As smartphone penetration and data usage increase in Guatemala we will continue to design and offer bundle packages that promote continued usage of our voice and SMS services while allowing us to capture and monetize growth in mobile broadband. We tailor our offers to meet the divergent data usage patterns and differing demands of the prepaid and postpaid customer segments. For example, in order to provide lower cost options we offer prepaid plans with lower voice minute rates at certain times of the day and plans with volume discounts for certain bundles of voice minutes and SMS. In the postpaid segment we offer flexibility to our customers by allowing them to build their own data plans based on their needs. Additionally, we offer our postpaid customers discounts for smartphones at attractive pricing packages.

*Tigo Business:* Through this business unit we offer an array of corporate and productivity solutions and services to the Guatemala operations of multinational corporations, large businesses, SME and home offices in Guatemala. These services include mobile products and services, fixed-line, broadband internet, enterprise VoIP, IP video surveillance, IP-PBX and cloud services. This business unit's differentiating proposition is to provide attractive pricing, end-to-end solutions and after-sales customer service in a market where many businesses have limited experience and resources to maintain a robust IT infrastructure. As of June 30, 2014, Tigo Business had 9.2 thousand customers, which we estimate represents approximately 32.3% of the total corporate market in Guatemala, which represents 37% of value share.

*Tigo Home:* Tigo Home currently offers consumers fixed-line broadband and cable TV services in Guatemala City and its high-density surrounding areas. In the month of February we launched fix line telephone services using existing cable infrastructure and VOIP technology, which allows us to offer "triple-play" bundled video, data and voice services. Through a dedicated in-house team in charge of inorganic growth in this segment, we have focused on consolidating our network and expanding our customer base through a series of acquisitions beginning in January 2012. We expect this process of inorganic growth to continue as Tigo Home grows scale. Tigo Home currently provides services branded under Cablefusión and other legacy brands had 142 thousand cable TV subscribers as of June 30, 2014, which we estimate represents approximately 17% of the market in Guatemala. The home internet and cable TV market in Guatemala is fragmented. We estimate that Claro, the market leader, currently services approximately 22% of the market while approximately 61% of the market is serviced by more than 500 small providers, predominantly in rural areas of the country. Currently, we offer our Tigo Home services only on a postpaid basis, but we expect to offer prepaid cable TV, prepaid fixed-line broadband and, in rural areas of the country and areas without HFC network coverage, direct broadcast satellite (direct-to-home, or DTH) television services in the near future. We believe that the addition of these products tailored to additional segments of the consumer market will allow us to expand our Tigo Home customer base significantly.

*Tigo Money:* Through our Tigo Money business unit, we offer MFS products to our mobile customers including mobile top-ups, peer-to-peer credits, bill payment to Tigo Mobile and several other third parties including utility companies and local and international remittances. We believe that MFS products offer a significant untapped opportunity in Guatemala to generate incremental revenue largely by using our existing products and infrastructure and for our products and services to become further embedded in our customers' lives. Our mobile subscribers who use our MFS services tend to generate higher ARPU and churn less frequently. Millicom has shown strong penetration of MFS in other of its markets where it introduced MFS earlier than we have in Guatemala, with MFS penetration of 46.6% in Tanzania, 39.8% in Rwanda and 3.53% in Guatemala as of June 30, 2014. As of June 30, 2014, our MFS products had been used on 901 thousand registered handsets and at least once in the prior 60 days on 275 thousand registered handsets. As part of our growth strategy for this unit, we are focusing on increasing transactional volume and the MFS products available to our mobile subscriber base, for example by developing salary payment products and building bank alliances.

## **Non-Consolidation of Subsidiaries of the Note Guarantors**

Our Combined Financial Statements do not consolidate the subsidiaries over which Comcel and the other Note Guarantors exerted control as of, and for, the periods presented. The only such subsidiary is Newcom Ltd. Bermuda, which represented less than 1% of the combined total revenue, less than 1% of the combined Adjusted EBITDA, less than 1% of the combined total assets and less than 1% of the combined total liabilities of Comcel and the other Note Guarantors as of, and for the three month period ended June 30, 2014. We do not intend to consolidate these or any other subsidiaries that may exist from time to time in future combined financial statements of Comcel and the other Note Guarantors, including those prepared for purposes of “Description of the Notes—Covenants of the Note Guarantors—Provision of Financial Information.”

## **Factors Affecting our Results of Operations**

Our operating results are primarily affected by the following factors:

### *The State of the Guatemala Economy*

We derive all of our revenue from Guatemala, an emerging market. Inflation rates, rates of GDP growth and remittance levels affect our business, financial condition and results of operations.

### *Taxes*

Our effective tax rate for the six months ended June 30, 2014 and 2013 was 17% and 12%, respectively.

The Guatemalan tax authorities have sought to apply a 3% stamp tax on the payment of dividends from Comcel to the Millicom Group through coupons attached to share certificates for the 2007 and 2010 tax years. We believe that these dividend payments are specifically exempt from stamp tax and are disputing the tax authority’s determination that a stamp tax is due for these dividend payments. We estimate that, should we lose the appeal, the additional tax assessment, plus interest and penalties, could be approximately \$14.8 million, for which management takes the view that no provision should be made.

### *Interconnection Rates*

Interconnection rates and terms are not subject to specific regulation in Guatemala and are thus set by private contract. Our operations are dependent upon interconnection agreements with other providers, which give our customers access to networks other than our own. Interconnection is required to complete calls that originate on our networks but terminate outside our networks, or that originate outside our networks and terminate on our networks. Interconnection rates have not varied significantly over recent years, with the domestic interconnection rate being unchanged since 1998.

Rates for new Interconnection agreements are freely negotiated between parties, but in case no agreement is reached any of the parties can request the Superintendency of Telecommunications to resolve the differences in rates through a special procedure which requires the selection and appointment of an expert to define the interconnection rates, which under the law must be cost oriented. However, no procedure of this nature has ever reached its final stage in 16 years of application of the law due to the intricacies of the administrative procedures in Guatemala.

### *Revenue*

We generate our revenue mainly from the provision of communication, information, entertainment, and solutions services to our customers primarily through monthly subscription fees, airtime and data usage fees, roaming fees, interconnect fees, connection fees, fees from the provision of broadband internet, VoIP, data transmission fees on mobile money transfer and related financial services, cable TV, sale of content and other services, tower rental, equipment and phone sales. We generally seek to increase our revenue through the growth of our customer base and through the introduction of new products and value-added services. Our results of operations are therefore dependent on our customer base, the introduction of new products and value-added services, and the number of distribution points that offer our products and services. Due to our high market share, our revenue is also impacted by interconnection rates between communications operators, including interconnection fees charged for a call originating from a competitor’s network and terminating on our network.

A substantial amount of our revenue \$133 million (21.8% as percentage of revenue), \$130 million (22.9% percentage of revenue) and \$118 million (20.8% percentage of revenue) for the six months ended June 30, 2014 and the six months ended June 30, 2013 and 2012, respectively, was denominated in US dollars and generated from roaming, interconnect and other fees and from the sale of airtime credits through international distributors.

In common with our industry, our revenue derived from higher-margin voice and SMS services has been declining, as a result of the increasing popularity of data-capable devices and the development of mobile applications, such as Viber, Skype and WhatsApp, which generally reduce demand for voice and SMS services. We expect this trend will continue in the future. In response, we have begun to diversify our sources of revenue through the development of a growing number of value-added services in our mobile operations and by our expansion into corporate solutions, fixed-line broadband, fixed-line telephone, cable TV and MFS products to retail and business customers in Guatemala.

#### *Customer Base and Churn*

The number of customers we have is dependent upon the number of new customers we obtain and the number of customers that terminate our service, or churn. Our total mobile customer base decreased from approximately 8.25 million customers as of June 30, 2013 to approximately 8.13 million customers as of June 30, 2014, an annual decrease rate of approximately 1.5%, as a result of shifting our customer acquisition strategy from massive to quality subscribers. During this period we also saw our market share of mobile users in Guatemala decrease by approximately 73 basis points. Our monthly average churn rate (handsets and datacards) for quarter ended June 30, 2013 and June 30, 2014 was approximately 3.24% and 3.48%, respectively. Our policy is to terminate prepaid customers after 60 days of inactivity. We believe the measurement of churn may be overstated by our existing customers who migrate from being prepaid customers to postpaid customers and in some cases disconnect their old telephone numbers and are therefore included in the churn calculation. Our average churn rate also reflects high churn in postpaid datacards that were adopted by customers in connection with promotional campaigns to encourage data use in the Guatemalan market but subsequently abandoned as a result of divergences between customer expectations and network performance and increased smartphone adoption.

To reduce our churn rate we undertake focused customer loyalty activities, such as balance promotions and retention subsidy promotions. We are also focused on improving the quality of our network. Our primary retention activity, however, is the day-to-day maintenance of brand value and high quality customer service that we offer to our customers.

#### *Cost of Sales*

The primary components of our cost of sales are interconnection costs, telephone handset and equipment costs, roaming costs, costs of leasing lines to connect the switches and main base stations, other transmission costs, frequency fees, taxes, value-added services costs, programming and content costs, depreciation and any impairment of network equipment data services and other direct costs.

As we add customers, we continue to seek new ways to control our cost of sales in order to continue to improve our operating margins and to seek new ways to reduce our overall general and administrative cost base. We try to reduce our support costs by identifying synergies with our parent and affiliate companies, such as sharing branding, human resources and global supply arrangements. We have sought to implement various cost-saving and cost-reduction initiatives, including reducing the average handheld subsidy per user and renegotiating the fees we pay for interconnection and value-added services.

#### *Gross Margins*

We expect that future gross margin percentages will be primarily affected by pricing, interconnection fees and the mix of revenue generated from the level of telephone and equipment sales, voice, SMS services, value-added services, broadband internet, cable TV and data traffic exclusively within our networks and those between our networks and other networks. Calls made exclusively within our networks have a higher gross margin because we do not incur interconnection charges to access other networks.

### *Sales and Marketing*

Sales and marketing costs are primarily comprised of commissions to dealers for the sale of prepaid reloads, the sale of handsets and other equipment, smartphone subsidies aimed at obtaining and maintaining customers, as well as general advertising and promotion costs, point of sale materials for our retail outlets and staff costs.

### **Critical Accounting Policies**

Our Combined Financial Statements have been prepared in accordance with IFRS as adopted by the EU on a historical cost basis and expressed in US dollars. In preparing our Combined Financial Statements, management needs to make assumptions, estimates and judgments, which are often subjective and may be affected by changing circumstances or changes in its analysis. Material changes in these assumptions, estimates and judgments have the potential to materially alter our results of operations. We have identified below those accounting policies that we believe could potentially produce materially different results if we were to change our underlying assumptions, estimates and judgments. For a detailed discussion of these and other accounting policies . Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Because of inherent uncertainties in this evaluation process, actual results may be different from originally estimated amounts. In addition, significant estimates are involved in the determination of impairments, provisions related to taxes and litigation risks. These estimates are subject to change as new information becomes available and may significantly affect future operating results. Significant management judgment is required to determine any provision for contingent liabilities. Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within our control. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated.

#### ***Impairment of non-financial assets***

At each reporting date, we assess whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, we make an estimate of the asset's recoverable amount. We determine the recoverable amount based on the higher of its fair value less cost to sell, and its value in use, for individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Where no comparable market information is available, the fair value less cost to sell is determined based on the estimated future cash flows discounted to their present value using a discount rate that reflects current market conditions for the time value of money and risks specific to the asset. The foregoing analysis also evaluates the appropriateness of the expected useful lives of the assets. Impairment losses of continuing operations are recognized in the combined income statement in those expense categories consistent with the function of the impaired asset.

At each reporting date, we assess whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. Other than for goodwill, a previously recognized impairment loss is reversed if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognized. If so, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### ***Inventories***

Inventories, which mainly consist of mobile telephone handsets and related accessories, are stated at the lower of cost and net realizable value and tested for impairment (including obsolescence) annually. Cost is determined using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### ***Trade receivables***

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment is recorded when there is objective evidence that we will not be able to collect amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The provision is recognized in the combined income statement within "Cost of sales."

### ***Provisions***

Provisions are recognized when we have a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where we expect some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, risks specific to the liability. Where discounting is used, increases in the provision due to the passage of time are recognized as interest expenses.

### ***Revenue recognition***

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services, net of value added tax, rebates and discounts and after eliminating intra-group sales.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured.

Recurring revenue from telecom services, which we believe reflects the regular and ongoing revenue of our customers and is therefore an appropriate metric to analyze the results of our operations, consists of monthly subscription fees, airtime usage fees, interconnection fees, roaming fees, revenue from online product and service sales, MFS commissions and fees from other telecommunications services such as data services, short message services and other value-added services and exclude revenue from the sale of telephone handsets and equipment and roaming fees from visitors to our network who are not our customers. Recurring revenue is recognized on an accrual basis (i.e., as the related services are rendered). Unbilled revenue for airtime usage and subscription fees resulting from services provided from the billing cycle date to the end of each month is estimated and recorded.

Subscription products and services are deferred and amortized over the estimated life of the customer relationship. Related costs are also deferred, to the extent of the revenue deferred, and amortized over the estimated life of the customer relationship. The estimated life of the customer relationship is calculated based on historical disconnection percentage for the same type of customer.

Where customers purchase a specified amount of airtime in advance, revenue is recognized as airtime is used. Unutilized airtime is carried in the statement of financial position as deferred revenue within "other current liabilities."

Revenue from value-added content services such as video messaging, ringtones, games, etc., is recognized net of payments to the providers of these services if the providers are responsible for content and determining the price paid by the customer. For such services we are considered to be acting in substance as an agent. Where we are responsible for the content and determines the price paid by the customer then the revenue is recognized gross amount.

Revenue from the sale of handsets and accessories on a stand-alone basis (without multiple deliverables) is recognized when the significant risks and rewards of ownership of handsets and accessories have been passed to the buyer.

Revenue arrangements with multiple deliverables (bundled offers such as equipment and services sold together) are divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. The

arrangement consideration is then allocated among the separate units of accounting based on their relative fair values or on the residual method. Revenue is then recognized separately for each unit of accounting.

### ***Deferred tax***

Deferred income tax is provided using the liability method and calculated from temporary differences at the statement of financial position date between the tax base of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences and carry-forward of unused tax credits and losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry-forward of unused tax credits and unused tax losses can be utilized, except where the deferred tax assets relate to deductible temporary differences from initial recognition of an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither accounting, nor taxable, profit or loss.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilize the deferred income tax asset. Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent it is probable that future taxable profit will enable the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate expected to apply in the year when the assets are realized or liabilities settled, based on tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date. Income tax relating to items recognized directly in equity is recognized in equity and not in the combined income statement. Deferred tax assets and deferred tax liabilities are offset where legally enforceable set off rights exist and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **Results of Operations**

#### ***YTD June 30, 2014 and 2013***

The following table sets forth certain income statement items and operating information at or for the periods and dates indicated:

	<b>YTD Ended June 30,</b>		<b>Impact on comparative results for period</b>	
	<b>2014</b>	<b>2013</b>	<b>Amount of variation</b>	<b>Percent change</b>
	<i>(in thousands of USD, except percentages, subscribers, employees and ARPU)</i>			
Revenue .....	613,089	566,899	46,190	8.15%
Cost of sales .....	(181,271)	(147,221)	(34,050)	23.13%
<b>Gross profit</b> .....	431,818	419,678	12,140	2.89%
Sales and marketing .....	(100,894)	(104,093)	3,199	-3.07%
General and administrative expenses .....	(109,424)	(85,775)	(23,649)	27.57%
<b>Operating profit</b> .....	221,500	229,810	(8,310)	-3.62%
Interest expense .....	(29,298)	(15,085)	(14,213)	94.22%
Interest income .....	1,177	-	1,177	117700.00%
Foreign exchange gains (loss), net .....	547	3,944	(3,397)	-86.13%
<b>Profit before tax</b> .....	193,926	218,669	(24,743)	-11.32%
Charge for taxes .....	(33,399)	(27,125)	(6,274)	23.13%
<b>Net profit</b> .....	<b>160,527</b>	<b>191,544</b>	<b>(31,017)</b>	<b>-16.19%</b>

YTD Ended June 30,		Impact on comparative results for period	
2014	2013	Amount of variation	Percent change

*(in thousands of USD, except percentages, subscribers, employees and ARPU)*

**Operating Data:**

<b>Number of mobile subscribers</b> .....	8,129,490	8,254,243	(124,753)	-1.5%
Postpaid.....	390,364	393,461	(3,097)	-0.8%
Prepaid .....	7,739,126	7,860,782	(121,656)	-1.5%
<b>Monthly churn %</b>	3.48%	3.24%	0.24%	7.6%
Postpaid handset .....	1.67%	1.13%	0.54%	47.6%
Postpaid datacard.....	5.60%	8.32%	-2.73%	-32.8%
Total postpaid.....	2.34%	3.07%	-0.73%	-23.8%
Prepaid handset.....	3.46%	3.21%	0.26%	8.0%
Prepaid datacard .....	4.76%	4.27%	0.49%	11.5%
Total prepaid .....	3.54%	3.24%	0.29%	9.1%
Total monthly churn (1) .....	3.48%	3.24%	0.24%	7.6%
<b>Monthly ARPU (US\$)</b>	10.3	9.8	0.5	4.7%
Postpaid.....	38.4	32.0	6.3	19.8%
Prepaid.....	8.9	8.7	0.2	2.4%
Total monthly ARPU (2).....	10.3	9.8	0.5	4.7%
<b>Number of employees</b> .....	1,658	1,713	-55	-3.21%

(1) Our total monthly churn is individually calculated by reference to our aggregate prepaid and postpaid customers.

(2) Our total ARPU is individually calculated by reference to our aggregate prepaid and postpaid customers

The following table is a reconciliation of our total comprehensive income to EBITDA:

	<u>YTD June 30,</u>	
	<u>2014</u>	<u>2013</u>
Total comprehensive income	160,527	191,544
Net finance costs	28,121	15,085
Income tax	33,399	27,125
Depreciation and amortization	85,888	71,514
Net other non-operating expense (income)	2,149	-3,934
<b>EBITDA</b>	<b>310,084</b>	<b>301,333</b>

	<u>YTD June 30,</u>	
	<u>2014</u>	<u>2013</u>
EBITDA (1)	310,084	301,333
EBITDA margin (2)	50.58%	53.15%
Net debt to EBITDA (3)	115.40%	58.91%
Total debt to EBITDA (4)	127.35%	69.84%

(1) We calculate EBITDA by adding net finance costs; income tax; depreciation and amortization; and net other non-operating expense (income) to our total comprehensive income. EBITDA is not a recognized term or recognized measure of performance under IFRS and should not be considered as an alternative to net profits as a measure of operating performance or to net cash provided by operating activities as a measure of liquidity. EBITDA as used herein is the same as "EBITDA" as defined in the Indenture for purpose of the Notes. EBITDA as presented may not be comparable to similarly titled measures of other companies.

(2) We define EBITDA Margin as our EBITDA divided by revenues. EBITDA Margin is not a recognized term or measure of performance under IFRS.

(3) We calculate Net debt to EBITDA (LTM) by dividing our total borrowings, less cash and cash equivalents, by our EBITDA.

(4) We calculate Total debt to EBITDA (LTM) by dividing our total borrowings by our EBITDA.



## *Revenue*

In the process of evolving beyond offering only traditional mobile communications and data services, our revenue mix increasingly reflects the provision of not only communications services, but also information, entertainment and solutions services. We currently offer our products and services through four business units: (i) Tigo Mobile (voice, SMS, data and other value-added services); (ii) Tigo Business (corporate and productivity solution); (iii) Tigo Home (cable TV, fixed-line broadband and fixed-line telephone services); and (iv) Tigo Money (MFS).

Revenue for the six months ended June 30, 2014 amounted to \$613.09 million, up 8.15% from \$566.90 million for the six months ended June 30, 2013. Despite a decline in prepaid and postpaid subscriber's, ARPU for postpaid and prepaid increase, mainly due to increase in international incoming traffic and sales of telephone handsets and related equipment as we promoted the penetration of smartphones in the country to sell additional data-driven products and services. Innovation continues to be a major focus for us as we seek to grow revenue by developing and selling additional products and services through which we can gain a greater share of customers' disposable income, increase loyalty and reduce churn. In the six months ended June 30, 2014, value-added services represented 38.8% of recurring revenue and grew by 13.95% to \$210.5 million (out of a total of \$542.72 million in recurring revenue). As of June 30, 2014, our mobile customer base was 8.1 million, a decrease of 1.5% from 8.3 million as of June 30, 2013. As of June 30, 2014, prepaid customers accounted for 95%, or 7.7 million, of our total mobile customers compared to 95%, or 7.8 million, as of June 30, 2013.

Analyzing our revenue by business unit, Tigo Mobile revenue increased 6.9%, to \$579.3 million, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013, driven by double digit growth in Telephone and Equipment Sales and data services, offsetting the revenue decline in voice business.

Tigo Business revenue grew 9%, to \$61.2 million, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013, primarily due to a successful customer segmentation strategy and a wider portfolio of business solutions leading to an increase of our customer base. Additionally, Tigo Business experienced growth in revenue coming from mobile data, as well as an increase of broadband internet and data links.

Tigo Home revenue grew by 51.8% to \$13.6 million for six months ended June 30, 2014 compared to the six months ended June 30, 2013, primarily as a result of our consolidation of the fragmented Cable TV market in Guatemala through the acquisition of the assets and subscribers of small cable companies.

## *Cost of sales*

Our cost of sales related primarily to interconnection costs, roaming costs, leased lines to connect the switches and main base stations, cost of handsets, purchase of content and the depreciation of network equipment. Interconnection costs are a direct function of calls made by our customers, an increase in which results in increased revenue, and therefore these costs increased in connection with the growth in revenue described above. Network depreciation increased as we continued to expand our networks (mostly in 3G). Handset and equipment costs also increased as more of our revenue was generated by the sale of smartphones. Cost of sales increased by 23.13% for the six months ended June 30, 2014, to \$181.27 million from \$147.22 million for six months ended June 30, 2013, driven by revenue growth from increment in data penetration, Telephone & Equipment and VAS services, depreciation from expansion of our network, increase in cable TV programing costs in line with incremental revenue from Tigo Home, an increase in bad debt as a result of the migration of customers from prepaid to postpaid, obsolescence due to change in handset portfolio mix (an increase in high-end smartphones) and depreciation due to 3G network expansion.

Gross profit margin decreased to 70.43% for the six months ended June 30, 2014 from 74.03% for the six months ended June 30, 2013, resulting primarily from increase in smartphones sales due to "Desfrijolizate" campaign (in line with our data penetration strategy which helps boost data revenue) and increase in VAS product revenue (in line with our digital lifestyle strategy) with lower margins than data and voice.

### *Sales and marketing*

Sales and marketing expenses decreased by 3.07% for the six months ended June 30, 2014 to \$100.89 million from \$104.09 million for the year ended June 30, 2013. Sales and marketing costs were comprised mainly of commissions to dealers for the sale of prepaid reloads, the sale of handsets and other equipment, smartphone subsidies aimed at obtaining and maintaining customers, as well as general advertising and promotion costs, point of sale materials for our retail outlets and staff costs. The decrease in sales and marketing costs was mainly attributable to decrease in handset subsidy per user to maximize the return and a decrease in data card subsidy due to change in direct sales force focus, additionally lower A&P expense due to delay in Tigo Fest and other promotional campaigns. As a percentage of revenue, sales and marketing expenses decreased, 16.46% for the six months ended June 30, 2014 from 18.36% for the six months ended June 30, 2013.

### *General and administrative expenses*

General and administrative expenses increased by \$23.65 million for the six months ended June 30, 2014 to \$109.42 million from \$85.77 million for the six months ended June 30, 2013. The increase in general and administrative expenses was attributable to higher network maintenance costs and operating leases as we continued to expand our 3G network coverage. Additionally a one off write down of existing credit facilities prepaid expenses amounting to \$3.2 million. As a percentage of revenue, general and administrative expenses increased from 15.13% for the six months ended June 30, 2013 to 17.85% for the quarter ended June 30, 2014.

### *Operating profit*

Operating profit decreased by 3.6% for the six months ended June 30, 2014 to \$221.5 million from \$229.8 million for the six months ended June 30, 2013. The operating margin decreased from 36.13% for the six months ended June 30, 2013 from 40.54% for the six months ended June 30, 2014. This decrease was mainly due to increased depreciation as a result of our efforts taken to expand our business in data services and network rollout in Tigo Home.

### *Net finance costs*

Net finance costs, which comprise interest expense, net of interest income, increased by 86.11% for the six months ended June 30, 2014 to \$28.1 million from \$15.1 million for the six months ended June 30, 2013. This increase was mainly due to interest expense generated by bond issuance in addition to the interest expense from the credit facilities existing up to February 2014.

### *Foreign exchange gain (loss)*

There were net foreign exchange gains for the six months ended June 30, 2014 of \$0.5 million compared to net exchange loss of \$3.9 million for the six months ended June 30, 2013. Exchange gains and losses primarily result from movements in the GTQ/USD exchange rate resulting in a revaluation of our U.S. dollar borrowings, loans to shareholders, accounts receivable and payable and cash and cash equivalents. The average GTQ /USD exchange rate for the six months ended June 30, 2014 and June 30, 2013 was Q 7.77 and Q 7.82, respectively.

### *Charge for taxes*

The charge for taxes increased by \$6.3 million to \$33.4 million for the six months ended June 30, 2014, from \$-27.1 million for the six months ended June 30, 2013, resulting primarily from congress approval in 2012 of a modification in the income tax rates, thus incrementing revenue tax rate from 6% (2013) to 7% (2014).

### *Net profit for the period*

As a result of the foregoing, net profit for the six months ended June 30, 2014 was \$160.5 million, a 16.19% decrease from our net profit of \$191.5 million for the six month period ended June 30, 2013.

## **Trend Information**

Our strategy is to maintain our voice and SMS revenue and market share while growing our revenue in value-added products and services such as mobile internet access, content downloads, and music and video streaming.

During 2014, value-added services increased as a percentage of recurring revenue to 39% from 35% for the six months ended on June 30, 2013. Data usage is increasing among consumers as a result of an increasingly digital lifestyle. At the same time, smartphone market penetration is increasing as a result of lower prices and more phone options available to consumers. We expect innovation to be an important driver of growth in the years ahead. Although these new services tend to have lower profit margins than our core communications business, we aim to limit any drop in margins by controlling costs and through economies of scale.

#### ***Liquidity and Capital Resources***

Historically we have relied on cash from operations and external financing. After bond issuance, existing external financing was prepaid thus no principal payments are foreseen increasing our capability to generate cash from our operations to fund capital expenditures, working capital and operational requirements.

We intend to continue to focus on investments in property, systems and equipment (fixed assets) and working capital management, including timely collection of accounts receivable and efficient management of accounts payable and inventory.

#### ***Capital Expenditures, acquisitions***

Our capital expenditures on property, plant and equipment, licenses and other intangible assets for the period ended June 30, 2014, 2013 and 2012 amounted to \$80.9 million, \$88.7 million and \$86.1 million respectively.

As of June 30, 2014, we had commitments to purchase, within one year, network equipment, land and buildings and other fixed assets for an aggregate consideration equal to \$118 million. We expect to meet these commitments from our current cash balances and cash generated from operations.

#### ***Financing***

On January 30, 2014, Tigo Guatemala Companies issued an \$800 million 6.875% fixed interest rate bond repayable in 10 years to refinance the Combined Group and to repay in 2014 each individual financing facility existing as of December 31, 2013.

The bond was issued at 98.233% of the principal and has an effective interest rate of 7.168%.

Interest payments on the bond are scheduled twice a year in the months of February and August. First interest payment will be effective on August 6th, 2014 in the amount of \$27.5 million following the next payment in February 6th 2015 and so forth.

As of June 30, 2014, outstanding indebtedness was in the amount of \$779.4 million originated from bond. No other external financing is foreseen as our capability to generate cash allows the company to fulfill capital expenditures and acquisition investments.

#### ***Shareholder Distributions***

Our shareholder distribution practice has been to distribute to our shareholders up to the level of free cash generated after debt repayments which is not required to fund our operations. Historically, dividend payments have offset loans previously made to our shareholders.

After analyzing our results of operations, our board of directors makes a recommendation to our shareholders on the amount of dividends, if any, that should be paid. The shareholders then resolve in a shareholders' meeting the amount of dividends, if any, that should be paid to shareholders. At the same time our board of directors decides whether the amount not paid as dividends should be retained as retained results of the Company or directed to a legal reserve account.

As of June 30, 2014 we have advanced to shareholders the amount of \$133.7 million in addition to \$376.6 million from bond proceeds.

#### ***Cash Flows***

The table below sets forth our cash flows for the periods indicated:

	<b>YTD June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands of USD)</b>	
Net cash provided by operating activities .....	254,406	230,710
Net cash used in investing activities.....	(98,461)	(108,540)
Net cash used in financing activities .....	(136,125)	(90,207)
<b>Net (decrease) increase in cash and cash equivalents.....</b>	<b>20,740</b>	<b>32,567</b>
Cash and cash equivalents at the end of the period .....	70,829	66,364

For the six months ended June 30, 2014 cash provided by operating activities was \$254.4 million compared to \$230.7 million of the six months ended June 30, 2013. Increased cash provided by operating activities in 2014 was mainly driven by a decrease in inventory levels as a result of smartphones and equipment increased sales as well as higher gross profit from increased revenues.

Net cash used in investing activities was \$98.5 million for the six months ended June 30, 2014 compared to \$108.5 million of the six months ended June 30, 2013. The decrease in cash used for investing activities for the quarter period was mainly attributable to lower capital expenditures and acquisitions.

Net cash used in financing activities was \$136.1 million for the six months ended June 30, 2014 compared to \$90.2 million of the six months ended June 30, 2013. The increase in cash used for financing activities considers repayment of existing credit facilities of \$399.7 million in addition to shareholders distribution in \$510.3 million mainly coming from the net bond proceeds of \$778.6 million.

The net increase in cash and cash equivalents for the six months ended June 30, 2014 was \$20.7 million compared to \$32.6 million in June 30, 2013. We had closing cash and cash equivalents of \$70.8 million as of June 30, 2014 compared to \$66.4 million as of June 30, 2013.