Financial review

"2015 was a good year operationally, as we focused on profitable and responsible growth combined with efficiency measures to enhance margins and improve cash flow."

Tim Pennington
Chief Financial Officer

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Key financial highlights of the year[1]

US$m	2015	2014	% change
Revenue	6,730	6,386	5.4%
Organic growth[2]	7.4%	9.4%	
Adjusted EBITDA[3]	2,266	2,110	7.4%
Adjusted EBITDA margin	33.7%	33.0%	
Capex[4]	1,273	1,206	5.5%
Capex % of revenue	18.9%	18.9%	
Net debt	4,295	4,091	7.4%
Operating free cash flow[5]	858	588	45.9%
Equity free cash flow[6]	235	(43)	N/M
Adjusted EPS ($)[7]	0.05	1.82	N/M
Dividend per share ($)	2.64	2.64	–

1 Guatemala and Honduras businesses fully consolidated. 2014 restated for the effects of the finalisation of UNE purchase accounting.
2 Organic growth represents year-on year-growth in local currency (includes regulatory changes, excludes the impact of exchange rate changes and excludes UNE until Q4 15). Service revenue is defined as group revenue excluding telephone & equipment sales
3 Adjusted EBITDA is defined as reported EBITDA excluding restructuring and integration costs and other one-off items – See page 77 for reconciliation.
4 Capex excludes spectrum, license costs and capitalised content costs
5 EBITDA less net cash capex (excluding spectrum and licenses), plus change in working capital and other non-cash items, less taxes paid.
6 Operating Free Cash Flow less interests paid (net), less advances for and dividends to non-controlling interests.
7 Basic EPS adjusted for non-operating items.

Group revenue was $6.73 billion, up 5.4%. The organic growth in constant currency was 7.4% (with LatAm growing 6.0% and Africa by 14.1%) whilst service revenue was up 5.8%.

In 2015 we experienced significant local currency declines against the US dollar, particularly in Colombia, Paraguay and Tanzania, which reduced revenue by more than $900 million.

With the merger of UNE and significant adoption of data, our revenue mix continues to move away from pure mobile voice and SMS revenue. In 2015, Cable and Digital Media revenue represented 23.6% of Group revenue (2014: 15.2%) of which fixed B2B represented 9.0% of total revenue (2014: 5.5%).

Growth in data revenue continues to be strong and more than offset the decline in SMS as customers adopt new forms of communication. The appetite for smartphone adoption remains strong and a significant contributor to the group revenue, driving data growth up 39.0% year-on-year in local currency.

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Mobile data revenue contributed 16.7% of the total revenue (2014: 14.3%). Additionally, the rapid expansion of our cable footprint has seen the fixed Home business increase strongly, growing 60% over the year mostly due to UNE.

2015 was a good year operationally, as we focused on profitable and responsible growth, combined with efficiency measures to enhance margins and improve cash flow. Full year EBITDA at $2,178 million was 4.1% higher than last year thanks to the full consolidation of UNE compared to four and half months in 2014. At constant currency, EBITDA grew by 17.1%.

There were $87 million of restructuring and integration costs and other one-off charges. Adjusting for these items EBITDA was $2,266 million up 7.4% with a margin up 70 basis points at 33.7%. The key driver of that improvement is Colombia demonstrating the success of our merger and continued efficiencies at the headquarters. The one-off items include $33 million of integration charges at UNE (compared to $3 million in 2014), $18 million of provision for bad debt in Guatemala, $15 million of restructuring of our Africa businesses ($9 million in 2014) and $17 million of tax adjustments.

Reconciliation from Operating Profit to Adjusted EBITDA

US$m	2015	2014
Operating Profit	791	924
Depreciation and amortisation	1,321	1,158
Loss (gain) on disposal/write down of assets, net	66	11
EBITDA	2,178	2,093
EBITDA as a % of revenue	32.4%	32.8%
Restructuring, integration costs and other one-offs	87	16
Adjusted EBITDA	2,266	2,110
Adjusted EBITDA as a % of revenue	33.7%	33.0%

Balance sheet capital expenditure (excluding spectrum and licence costs) for the year was $1,273 million including $1,036 million in Latin America (+16%) and $242 million in Africa (-23%). We recorded $28 million ($14 million in Q4 2015) of

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integration Capex related to our merger in Colombia. In addition, we spent $47 million in spectrum and licence renewals (of which $31 million in Bolivia in licence renewal and $15 million in Paraguay on 4G spectrum with an additional $30 million to be charged in Q1 2016).

The Group gross debt amounted to $5.38 billion (including $335 million of finance leases), up from $4.92 billion (as restated) as of end of 2014. Our total net debt was $4.29 billion compared to $4.09 billion (as restated) as of 31 December 2014. The outstanding exposure of the Group's debt guaranteed by MIC S.A. was $643 million at the end of the year.

Overall net debt/EBITDA, based on the last twelve months EBITDA, was 1.97x at 31 December 2015 (including Guatemala and Honduras). Proportionate net debt to EBITDA was 2.32x.

The full year Operating free cash flow increased by 45.9% to $858 million thanks to a combination of a higher EBITDA, a lower Capex paid and a decrease in taxes paid. The Equity free cash flow significantly improved to $235 million mainly because of the reasons stated above and of less dividends paid out to non-controlling interests in 2015. This represented a dividend cover of 89%.

Free Cash Flow

US$m	2015	2014
Adjusted EBITDA	**2,266**	**2,110**
Restructuring, integration costs and other one-offs	(87)	(16)
EBITDA	**2,178**	**2,093**
Net Cash Capex (excluding spectrum and licenses)	(1,149)	(1,204)
Change in working capital and other non-cash items	81	79
Operating cash flow	**1,110**	**968**
Taxes paid	(252)	(380)
Operating free cash flow	**858**	**588**
Interest paid, net	(354)	(331)
Free cash flow	**504**	**257**
Advances for and dividends to non-controlling interests	(269)	(300)
Equity free cash flow	**235**	**(43)**

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The EPS was 5 cents for the full year 2015. As in 2014, we again returned $264 million to shareholders through dividends. At the AGM to be convened on 17 May 2016, the Board will again propose an ordinary dividend payment of $2.64 per share.

Scope changes in the Group

UNE has been consolidated for a full year in 2015 compared to 4.5 months in 2014.

In October 2015, Millicom completed the acquisition of 85% of Zanzibar Telecom Limited ("Zantel").

In October 2015, Millicom and Helios Towers Africa ("HTA") signed an agreement whereby Millicom owns 28% of shares in HTA (24% on a fully diluted basis) following a shareholding exchange. Millicom has exchanged shares which were previously held in HTA's tower companies in Ghana, DRC and Tanzania, into shares in HTA's parent company and retains significant influence over HTA.

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 $391 million.

From 31 December 2015 onwards, Millicom will account for its investments in Comcel and Celtel under the equity method and thus will report 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 notes to the consolidated financial statements.

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Performance

US$m	2015	2014	% change
Revenue	6,730	6,386	5.4%
Gross profit	4,876	4,692	3.9%
Gross profit margin	72.5%	73.5%	
Operating profit	791	924	(14.4)%
Operating profit margin	11.8%	14.5%	
Profit (loss) before taxes	(153)	3,036	N/M
Charge for taxes	(291)	(256)	(13.7)%
Net profit attributable to owners	(559)	2,643	N/M

Gross profit
The gross margin declined by one percentage point to 72.5% mostly due to an increase in the level of bad debt arising on B2B (from UNE in particular), postpaid clients and an $18 million provision for bad debt from a large contract in Guatemala.

Operating profit
Operating expenses increased by $99 million or 3.8% compared to 2014 due to the first full year consolidation of UNE (only four and half months in 2014) as well as $69 million of one-off items ($16 million last year) including $48 million of restructuring and integration costs (UNE for $33 million, the rest from Africa). Corporate costs declined significantly to $210 million, $48 million lower than last year, reflecting tighter cost control.

Depreciation and amortisation was $1.32 billion, 14.1% higher than 2014 primarily due to UNE's full year consolidation.

Other operating expenses of $66 million are $55 million higher than 2014 after an impairment of $53 million related to a write down of the businesses in Senegal.

Operating profit was consequently down by 14.4% to $791 million.

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Profit (loss) before tax

Net financial expenses at $420 million were $16 million or 4.0% higher than 2014 mainly due to $17 million of one-off expenses related to the early redemption of the El Salvador bond in March 2015.

Other net non-operating expenses of $624 million largely represent a non-cash loss on deconsolidation of Guatemala and Honduras for $391 million (gain on revaluation of $2,250 million in 2014) and currency losses of $304 million partially offset by positive changes in the fair value of put options of $124 million.

The net gain from associates and joint ventures of $100 million resulted from a $147 million book value gain following the recent share exchange of our shareholding in Helios Towers Africa, more than offsetting the losses from our investments in AIH and LIH (e-commerce ventures).

As a result of the above effects, loss before tax amounted to $153 million.

Tax

Tax charges at $291 million were up $35 million compared to 2014 but excluding a non-cash charge of $80 million (mainly from a write-down of deferred tax assets at the Group level), tax charges were down by $45 million reflecting lower tax charges in Colombia and a change in the profit mix of the operations.

Net profit

Net loss in 2015 attributable to equity holders of the Millicom Group was $559 million compared to a net profit of $2,643 million in 2014. The change is largely due to the non-cash loss on deconsolidation of Guatemala and Honduras, currency losses and impairment of our operation in Senegal.

Non-controlling interests declined from $158 million to $115 million mostly due to increased losses in Colombia.

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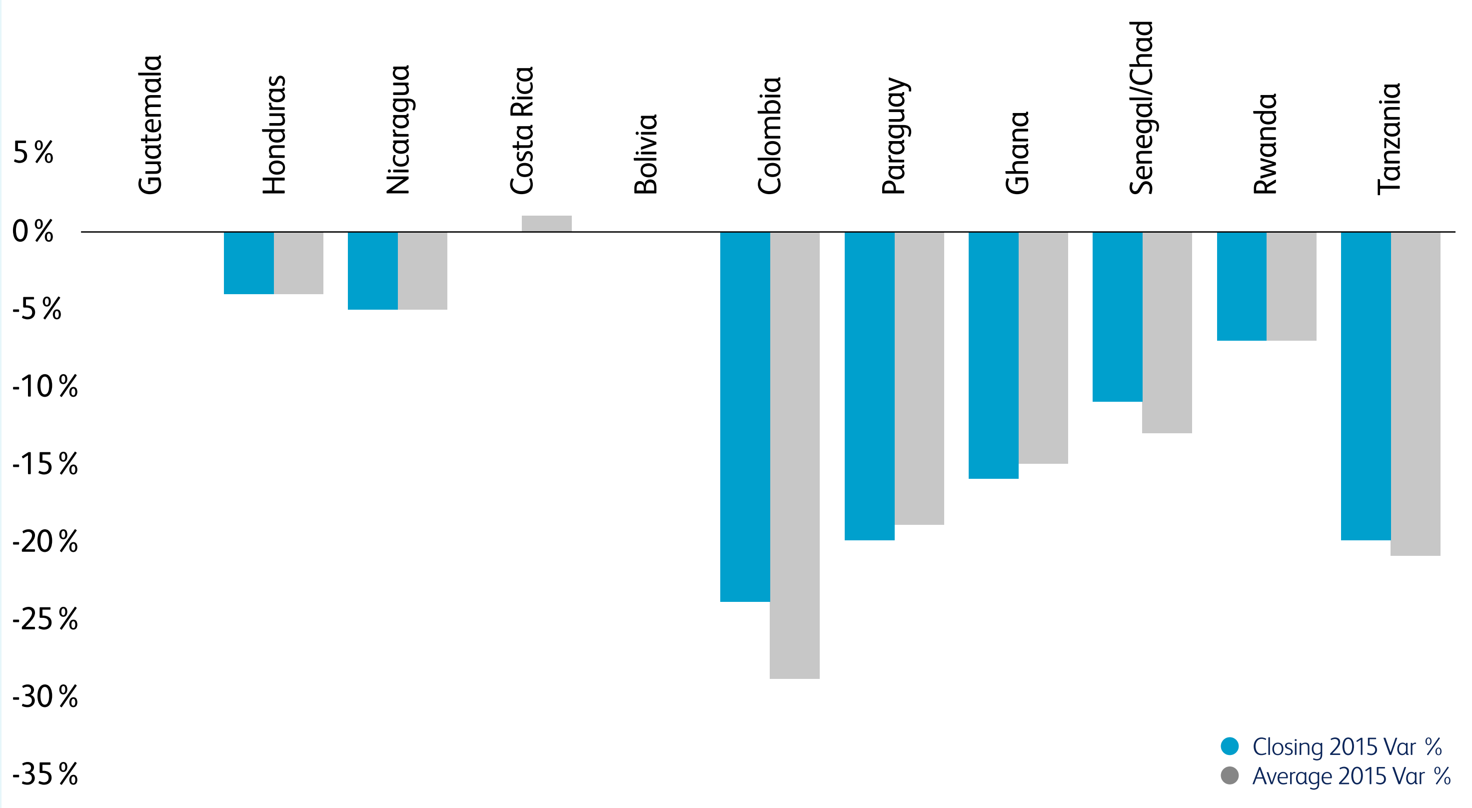
Currency movements vs. US$



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Cash flows

US$m	2015	2014	% change
Cash flow from operating activities	1,651	1,458	+193
Cash flow from investing activities	(1,244)	(276)	(968)
Cash flow from financing activities	(84)	(1,368)	+1,284
Cash and cash equivalents	937	694	+243

Cash flow from operating activities
Net cash provided by operating activities was up by $193 million at $1,651 million in 2015, compared to $1,458 million in 2014. This is mainly due to an improvement of $85 million in EBITDA and a decrease in taxes paid of $128 million, partly offset by an increase in interests paid of $27 million.

Cash flow from investing activities
Net cash used in investing activities was $1,244 million, or $968 million higher than in 2014. 2014 was impacted by the release of a $800 million pledged deposit related to UNE acquisition and a $175 million proceeds from the disposal of Emtel Mauritius and ATC Colombia. 2015 has been affected by a decrease in property, plant and equipment spend by $109 million and cash used for the acquisition of subsidiaries, joint ventures and associates.

Cash flow from financing activities
Net cash used by financing activities was $84 million in 2015, compared to $1,368 million in 2014. In 2015, we distributed $264 million to shareholders in dividends ($2.64 per ordinary share), and repaid debt of $1,392 million while raising funds of $1,880 million. The remaining difference relates to the $860 million deposit that was used to pay liabilities of the UNE Companies as well as acquisitions of non-controlling interests for $39 million. Advances and dividends to non-controlling interests also decreased by $31 million compared to 2014.

Cash position
As a result of the cash flow movements described above, the net cash inflow in 2015 was $243 million, compared to a spend of $215 million in 2014. The Millicom Group had closing cash and cash equivalents balances of $937 million at the end of 2015 compared to $694 million at the end of 2014.

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Assets, liabilities and equity

US$m	2015	2014	% change
Intangible assets, net	4,835	5,515	(680)
Tangible assets, net	4,236	4,751	(515)
Investments in joint ventures and associates	363	274	+89
Cash and cash equivalents and restricted cash	1,083	822	+261
Other (non-)current assets	1,888	2,056	(168)
Total assets	**12,405**	**13,418**	**(1,013)**
Equity attributable to owners	3,285	2,339	+946
Non-controlling interests	1,128	1,391	(263)
Debt and financing	5,385	4,923	+462
Other (non-) current liabilities	2,607	4,765	(2,158)
Total equity and liabilities	**12,405**	**13,418**	**(1,013)**

Intangible assets
Intangible assets decreased during the year as an effect of the non-cash losses on the deconsolidation of Guatemala and Honduras of $391 million, currency losses of $300 million and amortisation charge of $246 million, partly offset by the gross additions of $194 million and the change in the composition of the Group for $84 million.

Tangible assets
Tangible assets decreased during the year as an effect of the depreciation charge of $1,075 million, currency losses of $547 million, impairment charge of $39 million (Senegal mainly), partly offset by the gross additions of $1,103 million and the change in the composition of the Group for $40 million.

Investment in joint ventures and associates
Investment in joint ventures and associates increased by $89 million, mainly due to the $147 million gain recognised on the reorganisation of our investment in HTA, partly offset by the losses from our investments in AIH and LIH (e-commerce ventures).

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Equity and non-controlling interests

Equity attributable to the owners of the Group has increased by $946 million mainly because of the derecognition (through equity) of the put option liabilities related to Guatemala and Honduras for $2,135 million, offset by the loss for the year of $444 million, currency losses of $335 million and $264 million of dividend declared in 2015. Non-controlling interests have decreased by $263 million mainly due to the effects of dividends declared in 2015 of $244 million and changes in the composition of the Group of $27 million.

Debt and key financing activities

At 31 December 2015, the group gross debt increased by $462 million, due to the effects of the issuance of the $500 million 6% fixed interest rate bond in March 2015, additional debt raised to fund the Zantel transaction and its finance leases and currency losses. In addition we issued debt equivalent to $200 million in Bolivia and Paraguay in local currency in 2015. This was partially offset by the early redemption of the outstanding $311 million of the $450 million bond issued by Telemóvil Finance Co. Ltd in 2010.

As of end of December, 68% of group debt was at fixed rate and 30% was in local currency (or pegged to hard currency). Approximately 47% of the gross debt in the operations was denominated in local currency. The average maturity of our debt stood at 5.9 years and the Group has around $225 million of debt maturing in the next 12 months. The average cost of debt was 6.1% (excluding finance leases).

Other (non-)current assets and (non-)current liabilities

Other (non-)current liabilities show a decrease of $2,158 million that is mainly due to the derecognition (through equity) of the put option liabilities related to Guatemala and Honduras for $2,135 million.