

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

**Comunicaciones Celulares, S.A.**  
**As at and for the nine-month period  
ended 30 September 2017**

## Management's discussion and analysis of financial condition and results of operations Comunicaciones Celulares, S.A.

As at and for nine-month period ended 30 September 2017

### 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, 3G and LTE networks in the country. With 10.08 million mobile subscribers, we estimate our market share of mobile users in Guatemala at approximately 58.7% as at 30 September 2017. 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 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 12 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 three business units:

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

**Tigo Mobile:** As at 30 September 2017, we had approximately 10.08 million mobile customers, which we estimate represented approximately 58.7% of the total mobile customer base in Guatemala, and our network covered 88% 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 at 30 September 2017, 94% of our customers received our services on a prepaid basis and 6% of our customers received our services on a postpaid basis. Our prepaid customers generated 78.1% of our mobile revenue for the nine months ended 30 September 2017. 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 21.9% 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.

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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 select a data plans based on their needs. Additionally, we offer our postpaid customers discounts for smartphones at attractive pricing packages.

Through our Tigo Money category, we offer MFS products to our mobile customers including mobile top-ups, bill payments, local and international remittances. We believe that MFS products offer a significant untapped opportunity in Guatemala to generate incremental revenue by becoming an important payments' operator in Guatemala. Tigo Money is currently working with more than 30 partners in bill payments and 5 major partners in International remittances that, combined, have a transacted value above \$16.5 million with 1.15 million transactions in the platform monthly. These businesses are supported with a broad agent network of 1.8k retailers that provide Tigo Money with nation-wide coverage. Our mobile subscribers who use our MFS services tend to generate higher ARPU and churn less frequently. In Guatemala, MFS penetration is 6.16% as at 30 September 2017 on registered handsets. As part of our growth strategy for this category, we are focusing on increasing the partner base for both billers and remittance companies. Additionally, we are digitalizing the Tigo Money experience by launching the Tigo Money APP, POS devices and other channel alternatives.

**Tigo Business:** Through this business unit we offer an array of corporate and productivity solutions and services to the 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, all these in a market where many businesses have limited experience and resources to maintain a robust IT infrastructure. As at 30 September 2017, Tigo Business had 15.2 thousand customers, which we estimate represents approximately 39% of the total corporate market in terms of value share in Guatemala.

**Tigo Home:** This business unit currently operates in nine departments of Guatemala through HFC technology, mainly in the capital cities and its high-density surrounding areas. In all departments, we operate now under the brand "Tigo Star", which allows us to offer "triple-play" bundles (combine digital and HD cable TV, broad band internet (BBI) and fixed telephony). In some zones where we just acquired cable companies single CATV services are provided under transitional brands through analog network where we are working on upgrading the network to offer our bundles. Our business model and long-term strategy is based mainly on three pillars: i) Through a dedicated in-house team in charge of inorganic growth, we have focused on consolidating our presence, coverage and expanding our customer base through the acquisition of operating assets and subscribers from existing cable operators within the most dense and economically attractive regions of the country. We expect this process of inorganic growth to continue as Tigo Home grows scale; ii) to rebuild the operating assets, mainly those acquired networks as a means of having an effective solution to offer mass-market residential BBI and Digital services and all the planned multiproduct bundles; and iii) offering Tigo Home services in a postpaid and prepaid basis, through direct broadcast satellite (direct-to-home, or DTH technology) television services in those territories of the country and areas without HFC network coverage. We believe that been successful in the implementation of these pillars will allow us to expand our Tigo Home customer base significantly.

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### **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 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 twelve-month period ended 30 September 2017. 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 30 September 2017 and 2016 was 17.61% and 18.92%, 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 in case we lose the appeal, the additional tax assessment, plus interest and penalties, could be approximately \$17.7 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.

A new agreement was closed on September 2017 with IDT telecom, for International long distance. IDT Domestic Telecom, Inc. is a well-known provider in the international market, which offers wholesale and retail telecommunications services. This new partnership has stopped TIGO Guatemala incoming revenues declining, by obtaining a monthly Fixed Fee payment from IDT for becoming our preferred provider.

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, the first procedure of this nature between Telefonica and Telgua is reaching its final stage after 13 years. Constitutional Court has not define yet its final position. The effect of this ruling is that the company can request the same conditions to either party.

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### **As at and for nine-month period ended 30 September 2017**

#### **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, fixed line telephony, 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 \$153.3 million (17.6% as percentage of revenue), \$179.1 million (21.1% percentage of revenue) and \$189.4 million (21.7% percentage of revenue) for the nine months ended 30 September 2017 and the nine months ended 30 September 2016 and 2015, 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 that 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 increased from approximately 9.11 million customers as at 30 September 2016 to approximately 10.08 million customers as at 30 September 2017, an annual growth rate of approximately 9.6%, as a result of efforts in LTE prepaid phones sales and direct sales force through bring your own device in postpaid strategy (BYOD). During this period, we also saw our market share of mobile users in Guatemala increase by approximately 150 basis points. Our monthly average churn rate (handsets and datacards) for the nine months ended 30 September 2016 and 30 September 2017 was approximately 2.25% and 2.53%, respectively. In 2017 we are focusing on increasing the satisfaction of our clients that lead us to an increase in our market share.

#### **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, bad debt provisioning 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.

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### **Gross Margins**

We expect that future gross margin percentages will be primarily affected by pricing (competitors pressuring price down for voice and SMS), interconnection fees, bad debt, 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.

### **Operating Expenses**

Operating expenses 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, sites and network maintenance charges 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 fall. If such indication exists, the recoverable amount is estimated.

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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.

As disclosed in Note 4 to the combined financial statements, in 2014, the Company entered into a five-year contract with the Guatemala Government to provide video surveillance to the Civil National Police. The service included camera lease, connectivity, storage of images, monitoring centres, software and analytics. During 2016, these contracts generated \$16 million of accounts receivable. To date, no payment has been received under this contract. No revenue has been recognized since 1 July 2016 considering that the accounting criteria regarding the probability of cash flowing to the Group is no longer met. Service was terminated during 2016. Accordingly, all outstanding amounts receivable under the contract of \$42 million were impaired in 2015 and 2016, explaining a lower gross profit in 2016.

Finally, beginning August 2016, the Company terminated the services related to the Surveillance Project. The termination of the Surveillance Project triggered the review of the recoverability of the carrying amount of the assets specifically acquired for this project for which there is no longer an associated benefit.

The assessment of the recoverable value of these assets incorporates significant judgement in respect of factors such as future income, operating and capital costs and economic assumptions such as discount rates and inflation rates.

The impairment testing carried out by the Company during the fourth quarter showed the fair value of the respective asset to be lower than the carrying amount, resulting in the impairment charge amounting to \$18 million.

### **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 average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventory sold at less than cost through subsidized offers is held at cost until sale. Subsidies are accounted for as operating 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."

As mention above in section of Impairment of non-financial assets, for the trade receivable of the Video Surveillance Services with Government, the Company has recognized an impairment of the related accounts receivables amounting to \$42 million.

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### 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 analyse 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.



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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.

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Results of Operations

USD millions	Nine months ended 30 September		Percent change
	2017	2016	
Revenue	974,408	951,310	2.4%
Cost of sales	-174,500	-190,862	-8.6%
<b>Gross profit</b>	<b>799,908</b>	<b>760,448</b>	<b>5.2%</b>
Operating Expenses	-308,457	-294,517	4.7%
Depreciation and amortization	-153,752	-137,137	12.1%
Other operational income (expenses), net	-3,444	-1,854	85.8%
<b>Operating profit</b>	<b>334,255</b>	<b>326,940</b>	<b>2.2%</b>
Interest expense	-57,797	-57,796	0.0%
Interest and other financial income	9,388	1,276	635.7%
Exchange loss, net	13,407	4,627	189.8%
<b>Profit before tax</b>	<b>299,253</b>	<b>275,047</b>	<b>8.8%</b>
Income tax expense	-52,706	-52,032	1.3%
<b>Net profit and comprehensive income</b>	<b>246,547</b>	<b>223,015</b>	<b>10.6%</b>
<b>Operating Data:</b>			
<b>Number of mobile subscribers</b>	<b>10,088,988</b>	<b>9,116,078</b>	<b>10.7%</b>
Postpaid	606,980	541,803	10.6%
Prepaid	9,482,008	8,574,275	12.0%
<b>Monthly churn %</b>	<b>2.53%</b>	<b>2.25%</b>	<b>0.28%</b>
Postpaid handset	1.62%	0.43%	1.19%
Postpaid datacard	1.73%	0.48%	1.26%
Total postpaid	1.63%	0.43%	1.20%
Prepaid handset	2.58%	2.68%	-0.09%
Prepaid datacard	4.63%	4.99%	-0.37%
Total prepaid	2.60%	2.71%	-0.10%
Total monthly churn (1)	2.53%	2.25%	0.28%
<b>Monthly ARPU (US\$) (2)</b>	<b>8.5</b>	<b>8.9</b>	<b>-0.4</b>
Postpaid	38.5	37.9	0.5
Prepaid	6.6	7.1	-0.5
Total monthly ARPU (3)	8.5	8.9	-0.4
<b>Number of employees</b>	<b>2,731</b>	<b>2,856</b>	<b>-4.4%</b>

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

(2) ARPU is calculated based on a historical exchange rate of 7.32 to US\$1.00.

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

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The following table is a reconciliation of our net profit to EBITDA:

USD millions	Period ended 30 September	
	2017	2016
Net profit	246,547	223,015
Net finance costs	48,409	56,520
Income tax	52,706	52,032
Foreign exchange loss / (gain), net	(13,407)	(4,627)
Share-based compensation	907	1,046
Depreciation and amortization	153,752	137,137
Loss on disposal and impairment of assets	3,444	1,854
<b>EBITDA (1)</b>	<b>492,358</b>	<b>466,977</b>

USD millions	Period ended 30 September	
	2017	2016
EBITDA	492,358	466,977
EBITDA margin (2)	50.53%	49.09%
Net debt to LTM (3) EBITDA (4)	1.06X	0.55x
Total debt to LTM EBITDA (5)	1.52X	1.59x

(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 revenue. EBITDA Margin is not a recognized term or measure of performance under IFRS.

(3) LTM stands for Last Nine months

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

(5) We calculate Total debt to EBITDA 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 three business units: (i) Tigo Mobile (voice, SMS, data, Mobile Financial Services and other value-added services); (ii) Tigo Business (corporate and productivity solution); (iii) Tigo Home (cable TV, satellite TV (DTH) fixed-line broadband and fixed-line telephone services).

Revenue for the nine months ended 30 September 2017 amounted to \$974.4 million, increasing 2.4% from \$951.3 million for the nine months ended 30 September 2016.

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### As at and for nine-month period ended 30 September 2017

Analysing our revenue by business unit, Tigo Mobile (includes individual and corporate subscribers) revenue increased 2.0%, to \$863.5 million, for the nine months ended in 30 September 2017 compared to the nine months ended 30 September 2016, increase driven mainly by Data services (increasing 30.8% from \$249.3 million to \$326.2 million). Innovation and smartphone penetration continues to be a major focus for us as we seek to grow revenue by developing and selling additional digital products (focus on data consumption) and services through which we can gain a greater share of customers' disposable income, increase loyalty. In the nine months ended 30 September 2017, value-added services represented 51.5% of recurring revenue and grew by 14.6% to \$436.5 million (out of a total of \$847.0 million in recurring revenue). As at 30 September 2017, our mobile customer base was 10.08 million, a growth of 10.6% from 9.11 million as at 30 September 2016. As at 30 September 2017, prepaid customers accounted for 93.9%, or 9.5 million, of our total mobile customers compared to 94.1%, or 8.6 million, as at 30 September 2016.

Tigo Business (fixed products only) revenue decreased 18.5%, to \$43.9 million, for the nine months ended 30 September 2017 compared to the nine months ended 30 September 2016 of \$54.1 million, mainly driven by the interruption of the video surveillance project with the government (Revenue for the video surveillance project for the six months ended 30 September 2016 was \$14 million). Noteworthy, the business continues with a successful customer segmentation strategy and a wider portfolio of business solutions, leading to an increase of our customer base. Additionally, Tigo Business continue to experience growth in revenue coming from broadband internet, and cloud services.

Tigo Home revenue grew by 33.6% to \$71 million for the nine months ended 30 September 2017 compared to the nine months ended 30 September 2016. As a result of the increase of digital products penetration in data and cable, the Direct to Home (satellite TV services) and the continued 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, SMS cost, transmission and bandwidth, leased lines to connect the switches and main base stations, cost of handsets, content and programming. Cost of sales decreased by 8.6% for the nine months ended 30 September 2017, to \$174.5 million from \$190.8 million for nine months ended 30 September 2016 mainly as a result of a decrease in our bad debt costs of \$24.2 million. During 2017 we did not have any bad debt provision for the surveillance project as we did in 2016.

Gross profit increase in absolute values by \$39.5 million (5.2% YoY) in line with our revenues. Our gross profit margin increased to 82.1% for the nine months ended 30 September 2017 from 79.9% for the nine months ended 30 September 2016.

#### Operating expenses

Operating expenses had increased by 4.7% for the nine months ended 30 September 2017 to \$308.5 million from \$294.5 million for the nine months ended 30 September 2016. Operating expenses increase was mainly attributable to an increase in employee related costs, advertising & promotion and sites and network maintenance. As a percentage of revenue, operating expenses increased from 30.6% for the nine months ended 30 September 2016 to 31.6% for the nine months ended 30 September 2017.

#### Depreciation and amortization

Our expenses related to depreciation and amortization charges increased by 12.1% for the nine months ended 30 September 2017, to \$153.7 million from \$137.1 million for nine months ended 30 September 2016.

## **Management's discussion and analysis of financial condition and results of operations Comunicaciones Celulares, S.A.**

### **As at and for nine-month period ended 30 September 2017**

#### **Operating profit**

Operating profit increased by 2.2% for the nine months ended 30 September 2017 to \$334.3 million from \$326.9 million for the nine months ended 30 September 2016. This was mainly driven by the increase in revenue (\$23.1 million) and the decrease in cost of sales (\$16.4 million). The operating margin practically remained the same, 34.4% for the nine months ended 30 September 2016 and 34.3% for the nine months ended 30 September 2017.

#### **Net finance costs**

Net finance costs, which comprise interest expense and net of interest income, decreased from \$56.5 million for the six months ended 30 September 2016 to \$48.4 million for the six months ended 30 September 2017 due to increase return in short term investments and shareholders loans. Interest expense is comprised by local currency equivalent to \$200 million, which was contracted during the months of May to July of 2015 and mainly attributable to bond issuance which is payable since August 2014 in semi-annual instalments.

#### **Foreign exchange gain (loss)**

There was net foreign exchange gain for the nine months ended 30 September 2017 of \$13.4 million compared to net exchange gain of \$4.6 million for the nine months ended 30 September 2016. Exchange gains and losses primarily are due to 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 nine months ended 30 September 2017 and 30 September 2016 was Q 7.32 and Q 7.54, respectively.

#### **Charge for taxes**

The charge for taxes is \$ 52.7 million for the nine months ended 30 September 2017, compared to \$52.0 million for the nine months ended 30 September 2016. The increase of 0.7 million is mainly driven by the increase on net income as the company pays 93% of its taxes based on net income.

#### **Net profit for the period**

As a result of the foregoing, net profit for the nine months ended 30 September 2017 was \$246.5 million, a 10.6% increase compared with our net profit of \$223.0 million for the nine months ended 30 September 2016, as shown above the main drivers are: the increase in revenue (\$23.1 million), the decrease in cost of sales (\$16.4 million), and the interest gain in investments (\$8.1 million).

#### **Trend Information**

Our strategy is using voice revenue and retain market share while growing our revenue in value-added products and services such as mobile and fixed internet access, content downloads, music, video streaming and cable television. Data usage is increasing among consumers because 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. To defend margins, we will keep on controlling costs and through economies of scale.

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

We rely on cash from operations and external financing. 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.

## **Management's discussion and analysis of financial condition and results of operations Comunicaciones Celulares, S.A.**

### **As at and for nine-month period ended 30 September 2017**

#### **Capital Expenditures, Acquisitions**

Our capital expenditures on property, plant and equipment, licenses and other intangible assets for the period ended 30 September 2017, 2016 and 2015 amounted to \$104.8 million, \$121.5 million and \$111.1 million respectively.

As at 30 September 2017, we had commitments to purchase, network equipment, land and buildings and other fixed assets for an aggregate consideration equal to \$96.9 million. We expect to meet these commitments from our current cash balances and cash generated from operations.

#### **Financing**

On 30 January 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 in the previous years.

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. Interest payment on the bond was effective on August 4, 2017 in the amount of \$27.5 million with the next payment due on February 6, 2018 and so forth.

During May and July 2015, Tigo Guatemala Companies signed a Local Currency Credit Facility equivalent to \$200 million with two major banks. Disbursement has been received in full in July 2015. The Local Credit Facility was signed for 10-year term with principal payment at maturity.

The effective combined interest rate is of 7.16% with monthly instalments on interests.

As at 30 September 2017, outstanding indebtedness is \$995.1 million originated from the bonds and Local Currency Credit Facilities

#### **Shareholder Distributions**

After analysing 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 at 30 September 2017 we have declared dividends related to 2016 in the amount of \$305.7 million.

Our shareholder distribution practice has been to distribute to our shareholders up to the level of free cash, generated after all obligations are met. Historically, dividend payments have offset loans previously made to our shareholders.

As at 30 September 2017, we have \$403.4 million of outstanding shareholders loans.

**Management's discussion and analysis of financial condition and results of operations  
Comunicaciones Celulares, S.A.**

**As at and for nine-month period ended 30 September 2017**

**Cash Flows**

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

USD millions	Nine months ended 30 September	
	2017	2016
Net cash provided by operating activities	369,153	343,653
Net cash used in investing activities	(116,792)	(125,407)
Net cash used in financing activities	(233,181)	(284,383)
Net increase in cash and cash equivalents	16,575	499,531
Cash and cash equivalents at the end of the period	300,100	645,081

For the six months ended 30 September 2017 net cash provided by operating activities was \$369.2 million compared to \$343.6 million of the year ended 30 September 2016. Higher net profit for the period reflecting also reduced cost of sales aided by foreign exchange operations result.

Net cash used in investing activities was \$116.8 million for the nine-month ended 30 September 2017 compared to \$125.4 million for the nine-month ended 30 September 2016 mainly due to lower capex investment in continuance of the strategy to maximize efficiency by relocating LTE and 3G network.

Net cash provided in financing activities for the nine-month ended 30 September 2017 was of \$233.2 million. Dividends declared on March were offset and paid as cash in April 2017.

Increase reflected in cash and cash equivalents for the nine-month ended 30 September 2016, was due to payments received in the concept of shareholder's loans which was not relevant in the nine-month period ended 30 September 2017 with a net increase in cash and cash equivalents of \$16.6 million showing a final balance of \$300.1 million

**Potential Improper Payment**

As described in Note 12 of the Combined Financial Statements, on 21 October 2015, Millicom reported to law enforcement authorities in the United States and Sweden potential improper payments made on behalf of the Tigo Guatemala Companies.

Millicom continues to cooperate with law enforcement authorities in the United States. On 4 May 2016, Millicom received notification from the Swedish Public Prosecutor that its preliminary investigation has been discontinued on jurisdictional grounds. As at 30 September 2017, Management is currently not able to assess the potential impact on these combined financial statements. This matter is being overseen by a Special Committee of the Millicom Board of Directors (as disclosed on the 21 October 2015, Millicom press release), rather than by Comcel.

## **Management's discussion and analysis of financial condition and results of operations Comunicaciones Celulares, S.A.**

**As at and for nine-month period ended 30 September 2017**

### **Tax Risk**

As reflected in the Combined Financial Statements in Note 12, on 15 February 2017, tax authorities notified Navega.com, S.A. of an adjustment amounting to approximately \$17 million to the income tax for the fiscal years 2013 through 2015 (including principal, penalties and interests). According to the Guatemalan income tax law, goodwill amortization is deductible for income tax purposes. However, tax authorities considered that the goodwill originated in acquisitions made by Navega.com S.A. and its predecessor Asertel, S.A. do not meet the definition of goodwill for tax purposes and proceeded to annul the amortization deducted by Navega.com, S.A.

The Company, along with its tax advisors, has concluded that it is not probable that an outflow of resources embodying economic benefits will be required to settle them, especially considering that the Company has enough arguments to support its position. Consequently, no provision was deemed necessary in this respect.

### **CICIG press conference**

On Friday July 14, 2017, the International Commission Against Impunity in Guatemala (CICIG), held a press conference, in which it disclosed an ongoing investigation into alleged illegal campaign financing that includes a competitor of Comcel. The CICIG further indicated that in view of declaration made by Comcel's Competitor, containing allegations on administrative procedures initiated by Comcel against such competitor several years ago the investigation would include Comcel.

### **Subsequent Events**

On Friday July 14, 2017, the International Commission Against Impunity in Guatemala (CICIG), held a press conference, in which it disclosed an ongoing investigation into alleged illegal campaign financing that includes a competitor of Comcel. The CICIG further indicated that in view of declarations made by Comcel's Competitor, containing allegations on administrative procedures initiated by Comcel against such competitor several years ago the investigation would include Comcel. On Thursday November 23rd, 2017 Guatemala's Attorney General's Office and CICIG executed a search warrant at Comcel's corporate offices in search of information related to the allegations described above. At this moment, the investigation is sealed and Comcel is fully cooperating with the process.

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