

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

**Comunicaciones Celulares, S.A**  
**As at and for the three-month period**  
**ended 31 march 2018**

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

### As at and for three-month period ended 31 march 2018

#### 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 10.52 million mobile subscribers, we estimate our market share of mobile users in Guatemala at approximately 59% as at 31 march 2018. 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 10 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 Home: cable TV, Satellite TV (DTH), fixed-line broadband and fixed-line telephone services;
- B2B Fixed: video surveillance, cloud services and other corporate productivity solutions;

**Tigo Mobile:** As at 31 march 2018, we had approximately 10.52 million mobile customers, which we estimate represented approximately 59% 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 31 march 2018, 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 74% of our mobile revenue for the three months ended 31 march 2018. 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 26% 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 7 major partners in International remittances that, combined, have a transacted value above \$18.3 million with 1.24 million transactions in the platform monthly. These businesses are supported with a broad agent network of 1.7k retailers that provide Tigo Money with nation-wide coverage. Our mobile subscribers who use our MFS services have higher ARPU and less churn rate. In Guatemala, MFS penetration is 6.18% as at 31 march 2018 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 develop a new Web Portal and also Tigo Money WebApp.

**Tigo Home:** We currently operate in eleven 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, which combine digital and HD cable TV, broadband internet (BBI) and fixed telephony. In some zones where we recently acquired assets from 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 smaller existing cable operators within the densely-populated and economically attractive regions of the country. We expect this process of inorganic growth to continue as our Home business gains 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 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 the successful implementation of these pillars will allow us to expand our Home customer base significantly.

**B2B Fixed:** 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 31 march 2018, Tigo Business had 16 thousand customers, which we estimate represents approximately 39% of the total corporate market in terms of value share in Guatemala.

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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 three-month period ended 31 march 2018. 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 three months ended 31 march 2018 and 2017 was 16.53% and 17.27%, respectively.

The Guatemalan tax authorities have sought to apply a 3% stamp tax on the payment of dividends from Comcel and Navega 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, therefore we are disputing the tax authority's determination that a stamp tax is due for these dividend payments.

#### **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, the parties can request intervention by the Superintendency of Telecommunications 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. The first procedure of this nature between Telefonica and Telgua, both Comcel competitors, began 13 years ago and is only now reaching its final stage. Depending on the final ruling, Comcel can request the same conditions to either party.

In September 2017, we signed an agreement with IDT, a US-based provider of international long distance telecommunications services. Under this agreement, we receive fixed fees in exchange for naming IDT our preferred provider.

#### **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,

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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 \$47.4 million (14.2% as percentage of revenue), \$53.9 million (17.0% percentage of revenue) and \$68.1 million (21.4% percentage of revenue) for the three months ended 31 march 2018 and the three months ended 31 March 2017 and 2016, respectively, was denominated in US dollars and generated from roaming, interconnect and other fees and from the sale of airtime credits through international distributors.

Consistent with global telecom sector trends, 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 Skype, Facebook Chat and WhatsApp that generally reduce demand for voice and SMS services. We expect this trend will continue in the future. In response, we have been diversifying 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 9.7 million customers as at 31 March 2017 to approximately 10.52 million customers as at 31 march 2018, an annual growth rate of approximately 8.6%, 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 101 basis points. Our monthly average churn rate for the three months ended 31 March 2017 and 31 march 2018 was approximately 2.72% and 2.55%, respectively. In 2018 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, bad debt provisioning, 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 (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,

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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. 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.

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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.

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.

### **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."

### **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.

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### Revenue recognition

Revenue is recognised at an amount that reflects the consideration to which the Combined Group expects to be entitled in exchange for transferring goods or services to a customer.

Post-paid connection fees are derived from the payment of a non-refundable/one-time fee charged to customer to connect to the network (e.g. connection / installation fee). Usually, it does not represent a distinct good or service, therefore does not give rise to a separate performance obligation and revenue is recognised over the minimum contract duration. Unless the fee is paid by a customer to get the right to receive goods or services without having to pay this fee again over his tenure with the Combined Group (e.g. the customer can readily extend his contract without having to pay the same fee again), it shall be accounted for as a material right and revenue should be recognized over the customer retention period.

Post-paid mobile/cable subscription fees are recognised over the relevant enforceable/subscribed service period (recurring monthly access fees that do not vary based on usage). The service provision is usually considered as a series of distinct services that have the same pattern of transfer to the customer. Remaining unrecognised subscription fees are fully recognised once the customer has been disconnected.

Prepaid scratch/SIM cards are services where customers purchase a specified amount of airtime or other credit in advance. Revenue is recognized as the credit is used. Unused credit is carried in the statement of financial position as contract liability within other current liabilities. Upon expiration of the validity period, the portion of the contract liability relating to the expiring credit is recognized as revenue, since there is no longer an obligation to provide those services.

Telephone and equipment sales are recognised as revenue once the customer obtains control of the good. That criteria is fulfilled if the customer has the ability to direct the use and obtain substantially all of the remaining benefits from that good.

Revenue from provision of Mobile Financial Services (MFS) is recognized once the primary service has been provided to the customer.

Customer premise equipment (CPE) are provided to customers as a prerequisite to receive the subscribed Home services and shall be returned at the end of the contract duration. Since CPEs provided over the contract term do not provide benefit to the customer on their own, they do not give rise to separate performance obligations and therefore are accounted for as part of the service provided to the customers.

Bundled offers are considered arrangements with multiple deliverables or elements, which can lead to the identification of separate performance obligations. Revenue is recognised in accordance to the transfer of goods or services to customers in an amount that reflects the relative standalone selling price of the performance obligation (e.g. sale of telecom services, revenue over time + sale of handset, revenue at a point in time).

Principal-Agent, some arrangements involve two or more unrelated parties that contribute to providing a specified good or service to a customer. In these instances, the Combined Group determines whether it has promised to provide the specified good or service itself (as a principal) or to arrange for those specified goods or services to be provided by another party (as an agent). In cases the Combined Group determines that it acts as a principal, revenue is recognized in the gross amount, whereas in cases the Combined Group acts as an agent revenue is recognized in the net amount (i.e. provision payment).

Revenue from the sale of cables, fiber, wavelength or capacity contracts, when part of the ordinary activities of the operation, is recognized as recurring revenue. Revenue is recognized when the cable, fiber, wavelength or capacity has been delivered to the customer, based on the amount expected to be received from the customer.

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Revenue from operating lease of tower space is recognized over the period of the underlying lease contracts. Finance leases revenue is apportioned between lease of tower space and interest income.

#### **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	Three months ended 31 March		Percent change
	2018	2017	
Revenue	333,284	318,830	4.5%
Cost of sales	-66,440	-57,513	15.5%
<b>Gross profit</b>	<b>266,844</b>	<b>261,317</b>	<b>2.1%</b>
Operating Expenses	-93,009	-101,054	-8.0%
Depreciation and amortization	-50,702	-51,929	-2.4%
Other operational income (expenses), net	-1,509	-1,092	38.2%
<b>Operating profit</b>	<b>121,624</b>	<b>107,242</b>	<b>13.4%</b>
Interest expense	-19,776	-19,412	1.9%
Interest and other financial income	4,514	1,250	261.1%
Exchange loss, net	-1,538	13,880	-111.1%
<b>Profit before tax</b>	<b>104,824</b>	<b>102,960</b>	<b>1.8%</b>
Income tax expense	-17,329	-17,782	-2.5%
<b>Net profit and comprehensive income</b>	<b>87,495</b>	<b>85,178</b>	<b>2.7%</b>
<b>Operating Data:</b>			
<b>Number of mobile subscribers</b>	<b>10,524,733</b>	<b>9,692,545</b>	<b>8.6%</b>
Postpaid	620,407	576,819	7.6%
Prepaid	9,904,326	9,115,726	8.7%
<b>Monthly churn %</b>	<b>2.55%</b>	<b>2.72%</b>	<b>-6.2%</b>
Postpaid handset	1.56%	1.31%	19.0%
Postpaid datacard	2.17%	1.69%	28.5%
Total postpaid	1.64%	1.36%	20.6%
Prepaid handset	2.59%	2.79%	-7.0%
Prepaid datacard	4.26%	4.13%	3.3%
Total prepaid	2.61%	2.80%	-7.0%
Total monthly churn (1)	2.55%	2.72%	-6.2%
<b>Monthly ARPU (US\$) (2)</b>	<b>8.8</b>	<b>8.7</b>	<b>2.0%</b>
Postpaid	39.5	38.6	2.3%
Prepaid	6.4	6.8	-6.0%
Total monthly ARPU (3)	8.8	8.7	2.0%
<b>Number of employees</b>	<b>2637</b>	<b>2933</b>	<b>-10.1%</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 7.39 to US\$1.00 for 2018 and 7.34 to US\$ 1.00 for 2017.

(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 31 March	
	2018	2017
Net profit	87,495	85,178
Net finance costs	15,262	18,162
Income tax	17,329	17,782
Foreign exchange loss / (gain), net	1,538	(13,880)
Share-based compensation	400	302
Depreciation and amortization	50,702	51,929
Loss on disposal and impairment of assets	1,556	790
<b>EBITDA (1)</b>	<b>174,282</b>	<b>160,263</b>

USD millions	Period ended 31 March	
	2017	2016
EBITDA	174,282	160,263
EBITDA margin (2)	52.29%	50.27%
Net debt to LTM (3) EBITDA (4)	0.95X	1.05x
Total debt to LTM EBITDA (5)	1.47X	1.58x

(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 Three 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 Home (cable TV, satellite TV (DTH) fixed-line broadband and fixed-line telephone services).; (iii) Tigo Business (corporate and productivity solution).

Revenue for the three months ended 31 march 2018 amounted to \$333.3 million, increasing 4.5% from \$318.8 million for the three months ended 31 March 2017.

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Analysing our revenue by business unit:

Tigo Mobile (includes individual and corporate subscribers) revenue increased 2.8%, to \$291.8 million, for the three months ended in 31 march 2018 compared to the three months ended 31 March 2017, increase driven mainly by Data services (increasing 24% from \$100.2 million to \$124.3 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 three months ended 31 march 2018, value-added services represented 54.3% of recurring revenue and grew by 12.0% to \$137.7 million (out of a total of 253.6 million in recurring revenue). As at 31 march 2018, our mobile customer base was 10.52 million, a growth of 8.6% from 9.69 million as at 31 march 2017. As at 31 march 2018, prepaid customers accounted for 94%, or 9.9 million, of our total mobile customers compared to 94%, or 9.1 million, as at 31 March 2017.

Tigo Home revenue grew by 19% to \$26.3 million for the three months ended 31 march 2018 compared to the three months ended 31 March 2017. 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.

Tigo Business (fixed products only) revenue increased 6%, to \$15.6 million, for the three months ended 31 march 2018 compared to the three months ended 31 March 2017, mainly driven by 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.

#### 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 increased by 15.5% for the three months ended 31 march 2018, to \$66.4 million from \$57.5 million for three months ended 31 march 2017. The increase in cost of sales derives from the implementation of IFRS 15; Until 2017 Millicom recognized revenues under IAS18 and under this rules revenue from postpaid contracts (handset + monthly plan) were recognized as follows: full monthly service revenue in no revenue for handset (handset is treated as a cost of acquiring new customer and therefore subsidy was registered). Under new rules of IFRS15 we identify the different components of a postpaid transaction (handset + monthly plan) and we should allocate the total transaction price of the transaction (handset price + total monthly fee) for each component based in their relative stand-alone selling price or their estimates and after that; we recognize the revenues when the performance obligation are satisfied. The handset is delivered at the beginning of the contract therefore the revenue and cost related to this component should be recognized at this point of time resulting in a reduced subsidy expense and incremental cost of sales.

Gross profit increase in absolute values by \$5.5 million (2.1% YoY) in line with our revenues. Our gross profit margin decreased to 80.0% for the three months ended 31 march 2018 from 81.9% for the three months ended 31 March 2017.

#### Operating expenses

Operating expenses had decreased by 8.0% for the three months ended 31 march 2018 to \$93.0 million from \$101.1 million for the three months ended 31 March 2017. Operating expenses decrease was mainly attributable to the decrease in subsidy costs due to the IFRS 15 implementation mentioned above. As a

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percentage of revenue, operating expenses decreased from 31.7% for the three months ended 31 March 2017 to 27.9% for the three months ended 31 march 2018.

#### **Depreciation and amortization**

Our expenses related to depreciation and amortization charges decreased by 2.4% for the three months ended 31 march 2018, to \$50.7 million from \$51.9 million for three months ended 31 March 2017.

#### **Operating profit**

Operating profit increased by 13.4% for the three months ended 31 march 2018 to \$121.6 million from \$107.2 million for the three months ended 31 March 2017. This was mainly driven by the increase in revenue (\$14.4 million). The operating margin increase from 33.6% for the three months ended 31 March 2017 to 36.5% for the three months ended 31 march 2018.

#### **Net finance costs**

Net finance costs, which comprise interest expense and net of interest income, decreased from \$18.2 million for the three month ended 31 March 2017 to \$15.3 million for the three month ended 31 march 2018 due to increased return on the short term investment 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 loss for the three months ended 31 march 2018 of \$1.5 million compared to net exchange gain of \$13.8 million for the three months ended 31 March 2017. 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 three months ended 31 march 2018 and 31 March 2017 was Q 7.39 and Q 7.35, respectively.

#### **Charge for taxes**

The charge for taxes is \$17.3 million for the three months ended 31 march 2018, compared to \$17.7 million for the three months ended 31 March 2017. The charge for taxes practically remained the same YoY. 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 three months ended 31 march 2018 was \$87.5 million, a 2.7% increase compared with our net profit of \$85.2 million for the three months ended 31 March 2017, as shown above the main drivers are: the increase in revenue (\$14.4 million), and the interest gain in investments (\$4.5 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.

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### **Liquidity and Capital Resources**

Liquidity and Capital Resources mainly comprises of cash from our operation as well as cash from external financing. Our main focus is to continue 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 levels.

### **Capital Expenditures, Acquisitions**

Our capital expenditures on property, plant and equipment, licenses and other intangible assets for the period ended 31 march 2018, 2017 and 2016 amounted to \$33.6 million, \$26.1 million and \$44.7 million respectively.

As of 31 March 2018, the Combined Group had fixed commitments to purchase network equipment, land and buildings and other fixed assets for \$32 million (31 December 2017: \$ 25 million), from a number of suppliers.

### **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. Last interest payment of the bond was effective on February 4, 2018 in the amount of \$27.5 million with the next payment due on August 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 local banks. Disbursement has been received in full in July 2015. The Local Credit Facility was signed for 10-year maturity with principal payment at due date with an option of early repayment after 5 years without any penalties.

The effective combined interest rate of the loans is 7.16% with monthly instalments.

As at 31 march 2018, outstanding indebtedness is \$994.6 million originated from the bonds and Local Currency Credit Facilities.

### **Dividends**

The ability of the Combined Group to make dividend payments is subject to, among other things, the terms of indebtedness, legal restrictions and the ability to repatriate funds. In 2017, the entities of the Combined Group declared dividends of US\$305.7 million which are usually paid over two fiscal years: through shareholders' loans and through dividends paid for the remaining amount. By 31 March 2018, the entities of the Combined Group have not declared dividends related with retained earnings 2017 of \$325.6 million

As at 31 march 2018, we have \$523.5 million of outstanding shareholders loans including interest.

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### Cash Flows

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

USD millions	Three months ended 31 March	
	2018	2017
Net cash provided by operating activities	104,987	95,890
Net cash used in investing activities	(34,498)	(39,679)
Net cash used in financing activities	(15,125)	(-)
Net increase in cash and cash equivalents	56,026	50,954
Cash and cash equivalents at the end of the period	351,643	334,479

For the three months ended 31 march 2018 net cash provided by operating activities was \$104.9 million compared to \$95.9 million of the year ended 31 March 2017. Increase mainly due to reduced net interest expense as well as inventory management efficiency in addition to higher net profit for the period.

Net cash used in investing activities was of \$34.5 million for the three-month ended 31 march 2018 compared to \$39.7 million for the three-month ended 31 March 2017. The Combined Group finalized the acquisition of cable businesses for a total consideration of \$3.7 million. Strategy to maximize efficiency by relocating LTE and 3G network continues for the period.

Net cash used in financing activities for the three-month ended 31 march 2018 was of \$15.1 million showing a steady net increase in cash equivalents of \$56.0 million with a final cash and cash equivalents balance of \$351.6 million.

### Potential Improper Payment

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.

On 4 May 2016, Millicom received notification from the Swedish Public Prosecutor that its preliminary investigation has been discontinued on jurisdictional grounds.

### CICIG Investigation

On Friday July 14, 2017, the International Commission Against Impunity in Guatemala (CICIG), held a press conference to inform that an ongoing investigation over alleged illegal campaign financing was being carried out, which included a competitor of Comcel. The CICIG further indicated, that in view of the declaration made by Comcel's competitor, which contained allegations over administrative procedures initiated by Comcel against such competitor several years ago, the investigation would include Comcel.

On November 23, 2017, the International Commission Against Impunity in Guatemala - CICIG, together with the Public Prosecutor of Guatemala, executed a search warrant at Tigo's headquarters, located on KM 9.5 road to El Salvador Plaza Tigo, in connection with the investigations mentioned in the preceding paragraph. The authorities requested the disbursements made by the Tigo Guatemala Companies during the periods beginning in 2012 through 2017. Tigo Guatemala has complied with the requirement and, as of the date of issuance of these financial statements, no further request or notifications have been received from the aforementioned authorities. These procedures are in an early stage of the investigation and the authorities could

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require further information from management. The case has been declared under reserve by the authorities so management can only be aware of any updates until new requirement or communications, if any, are made by the authorities.

#### **Tax Claims**

On 15 February 2017, tax authorities notified Navega.com, S.A. of an adjustment amounting to approximately \$18.5 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.

#### **Subsequent Events**

On April 12 2018, the Constitutional Court notified Navega of an appeal filed by the Tax Office for review against the ruling filed by the Supreme Court of Justice in regards with the 3% stamp tax on the payment of dividends from Navega to the shareholders for the 2007 and 2010 tax years. Navega have replied on the hearings, waiting for a final resolution from the Constitutional Court. Management estimates that in the case Navega loses the appeal, the additional tax assessment plus interest and penalties, could be of approximately \$2 million.

On April 24, 2018, Millicom received notification from the Department of Justice informing the decision to close the investigation related with the potential improper payments made on behalf of the company's joint venture in Guatemala Companies (see note 12, under Litigation and legal risks, paragraphs 2 and 3).

On May 8, 2018, the entities of the Combined Group had declared a dividend related to 2017 retained profits of \$326 million.