MILLICOM
THE DIGITAL LIFESTYLE

# Demand more.

Millicom International Cellular S.A.
Annual Report 2012

# Contents

# Millicom is a leading **telecoms operator** dedicated to **emerging markets**

Millicom offers digital lifestyle products and services in Central America, South America and Africa, mainly under our Tigo brand, derived from the Spanish word 'contigo' meaning 'with you'. We help tens of millions of people stay connected on the go through their mobile devices and from home through cable.

Millicom's origins can be traced back to the early days of the cellular industry. In 1979, Industriförvaltnings AB Kinnevik acquired a small mobile telephone company in Sweden, that later became Comviq GSM, and subsequently Tele2. Also in 1979, a company called 'Millicom Incorporated' was formed to pursue cellular telephone opportunities in America. In 1990, the two companies contributed their respective international cellular interests to form Millicom International Cellular (Millicom).

Thereafter, Millicom continued to seek cellular licenses in markets where rapid economic development and limited telephony infrastructure created significant demand for mobile services. Its strategy of being a cost efficient provider, focused on prepaid services using mass market distribution methods enabled it to obtain high growth while delivering attractive operating profitability.

As mobile penetration and competition in emerging markets increased, Millicom continuously innovated, developing Value-Added Services to extend its consumer offering beyond basic communication services. In 2008, it acquired the leading provider of broadband and cable TV services in Central America ('Amnet') and in 2012 extended its home offering to Paraguay with the acquisition of Cablevision Paraguay. Today, Millicom offers products and services from mobile voice to pay TV, fixed and mobile internet access, mobile health and mobile financial services in 16 emerging markets across Latin America and Africa. In 2012, together with proven experts in the online world, the Group invested to develop a franchise in e-commerce and other online products and services in Latin America and Africa.

In 2013 the Group will accelerate to realize its vision of transforming into a leading telecommunication and media company, dedicated to emerging markets in Latin America and Africa, with the ambition to offer our customers the very best digital lifestyle. Digital lifestyle means we provide our customers with the entertainment and communication products they need, irrespective of where or how they chose to access them, as well as access to e-commerce.

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# Financial and Operational highlights 2012

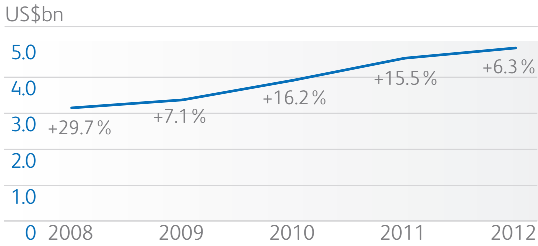
## Revenue US$m

US$4,814m

| | |
|---|---|
| 2012 | 4,814 |
| 2011 | 4,530 |
| 2010 | 3,920 |
| 2009 | 3,373 |
| 2008 | 3,151 |

## Revenue growth %

+6.3 % growth




## EBITDA US$m

US$2,065m

| | |
|---|---|
| 2012 | 2,065 |
| 2011 | 2,087 |
| 2010 | 1,841 |
| 2009 | 1,545 |
| 2008 | 1,366 |

42.9 % EBITDA margin

| | |
|---|---|
| 2012 | 42.9 % |
| 2011 | 46.1 % |
| 2010 | 47.0 % |
| 2009 | 45.8 % |
| 2008 | 43.4 % |

## Capex US$m

US$1,120m

| | |
|---|---|
| 2012 | 1,120 |
| 2011 | 848 |
| 2010 | 731 |
| 2009 | 737 |
| 2008 | 1,277 |

23.3 % Capex to revenues ratio

| | |
|---|---|
| 2012 | 23.3 % |
| 2011 | 18.7 % |
| 2010 | 18.6 % |
| 2009 | 21.9 % |
| 2008 | 40.5 % |

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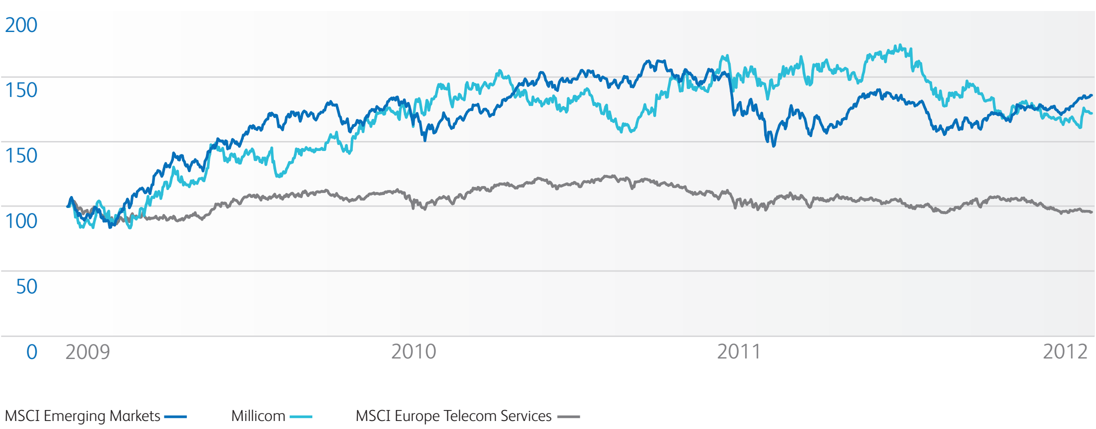
# Financial and Operational highlights 2012 continued

| | |
|---|---|
| Local currency **revenue growth of 8.0% to $4,814 million** (8.7% excluding regulatory impact) | $4,814m (2011: $4,350m) |
| EBITDA of **$2,065 million** and EBITDA **margin of 42.9%** (43.2% excluding Online) | $2,065m (2011: $2,087m) |
| **Capex of $1,120 million** (23.3% of revenue, 19.1% excluding spectrum and licenses) | $1,120m (2011: $848m) |
| **Operating Free Cash Flow of $1,127 million** (23.4% of revenue) excluding spectrum and licenses | $1,127m (2011: $1,218m) |
| Mobile Data penetration **reached over 17%** in Latin America and over 13% for the Group | 17% |
| Mobile Financial Services active subscribers' **exceeded 4 million** in the last quarter of the year | 4m |
| **First investment in Online** through partnership with Rocket Internet | €85m |

## Share price performance



# Our ethos is to continually 'Demand more'.

## Millicom **sets the pace** when it comes to providing **digital lifestyle services** to many of the world's emerging markets.

It is a pace driven by our vision to see opportunities that others do not; a determination to get there first, and an appreciation that only constant innovation and consolidation will keep you on top.

It is fuelled by an ethos of 'Demand more'. The markets we are creating are themselves demanding more of us and we must respond.

We demand more to ensure we delight our customers at every turn. We demand more to create a culture within Millicom which is truly energizing. We demand more to create greater and greater shareholder value. We demand more to strengthen our position as digital lifestyle leaders.

Demanding more maintains our relentless pace. It helps us to constantly challenge the norm, turn heads and confound expectations. It helps us reach for the stars.

It keeps us grounded. It makes us Millicom.

Telecommunications and media **are changing and so is Millicom.** We are **transforming Tigo** from a telecommunications operator to a digital lifestyle brand by **becoming an integral part** of our customers' everyday lives.

We will continue to see opportunities where others do not and realize potential through determination and continuous innovation. We are and will remain an entrepreneurial company with an agile culture focusing on our customers' needs.

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# Our organization is focused on **four core areas** of innovation and growth

## Mobile

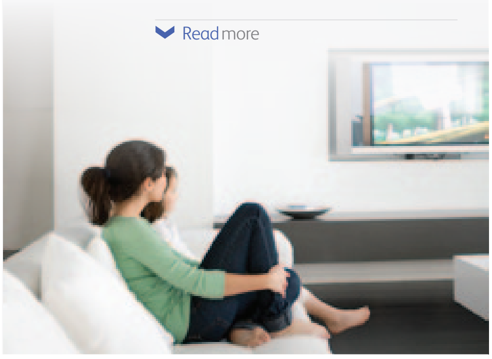
Millicom offers mobile services in 13 markets in Central America, South America and Africa under the Tigo brand.

Read more

## Cable

Millicom is one of the leading fixed broadband and pay TV service providers in its Latin American markets.

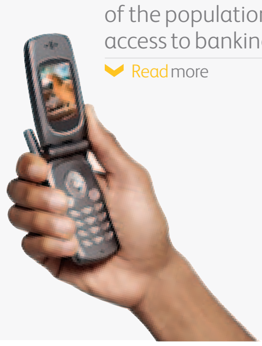
Read more



## Mobile Financial Services

By the end of 2012 Millicom offered Mobile Financial Services (MFS) in most of its mobile markets in Latin America and Africa, where the vast majority of the populations have no other access to banking services.

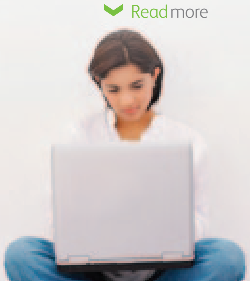
Read more



## Commerce and Services

In 2012, Millicom invested in two subsidiaries of Rocket Internet (a German private company specializing in online services) – Latin America Internet Holdings (LIH) and Africa Internet Holdings (AIH).

Read more



## Mobile

### What we provide

Millicom offers mobile services in 13 markets in Central America, South America and Africa under the Tigo brand. These services consist of traditional voice and SMS products and increasingly of mobile data and other value added services (VAS). At December 31, 2012 we owned 3G licenses in all our markets, except Chad, and our mobile customer base was over 47 million across our three regions. Tigo is a leading provider of mobile services in 90% of our markets, either number one or number two in market share based on subscriber numbers.

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## Cable

### What we provide

Millicom is one of the leading fixed broadband and pay TV service providers in its Latin American markets. We offer different bundles of services to our customers, combining fixed internet and voice with cable TV. After entering the cable business in 2008, we have grown our business both organically and through bolt-on acquisitions, notably in Guatemala. In 2012, we acquired Cablevision in Paraguay, the leading pay TV and fixed broadband operator in Asunción. We are able to extract significant synergies in our combined mobile and cable businesses, for example by cross-selling and bundling services and leveraging our strong brand.

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## Mobile Financial Services

### What we provide

By the end of 2012 Millicom offered Mobile Financial Services (MFS) in most of its mobile markets in Latin America and Africa, where the vast majority of the populations have no other access to banking services. Millicom offers domestic money transfers, international remittance and bill payment services with the view to significant expansion to other financial services in the future. The focus is increasing MFS penetration, which reached 8% of our entire customer base by the end of 2012, with some markets significantly ahead; Tanzania at 37% and Paraguay at 24%.

## Commerce and Services

### What we provide

In 2012, Millicom invested in two subsidiaries of Rocket Internet (a German private company specializing in online services) – Latin America Internet Holdings (LIH) and Africa Internet Holdings (AIH). Through reserved capital increases, at the end of 2012 Millicom owned 20% of each of these subsidiaries. They respectively operate e-commerce and other online services in a number of countries. Millicom will also start providing its own commerce services in the Classified, mHealth and mLearning sectors in the coming years. We see a huge opportunity to offer online services in the underserved and rapidly developing emerging markets. Millicom confirmed in March 2013 its intention to exercise its first call option to increase its stake in LIH and AIH to 35% for Euro 85 million.

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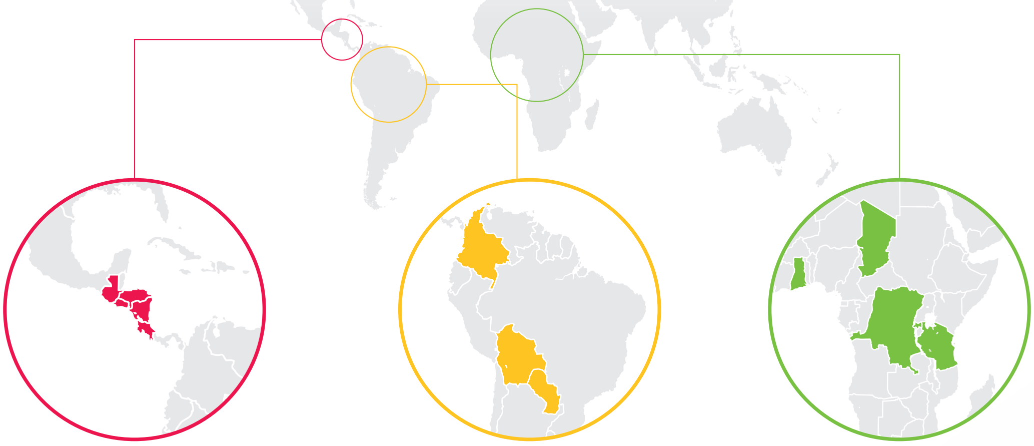
# Millicom provides **voice, data, cable TV** and value-added services to **47 million customers** in our chosen markets of Latin America and Africa

Millicom operates its mobile businesses in El Salvador, Guatemala and Honduras in Central America; in Bolivia, Colombia and Paraguay in South America; in Chad, the Democratic Republic of Congo (DRC), Ghana, Mauritius, Rwanda, Senegal and Tanzania in Africa. In addition Millicom operates cable businesses in El Salvador, Guatemala, Honduras, Costa Rica, and Nicaragua in Central America and in Paraguay in South America, and online/e-commerce businesses in Brazil, South Africa, Nigeria, Morocco, Egypt and Colombia.

At December 31, 2012, the 13 countries where we had mobile operations had a combined population of approximately 273 million. We had over 47 million total mobile customers at December 31, 2012.



## Central America

| | |
|---|---|
| **Population under license** | 28m (2011: 28m) |
| **Customers** | 15.6m (2011: 14.6m) |
| **Revenue** $m[1] | 1,901m (2011: 1,842m) |
| **EBITDA** $[2] | 959m (2011: 958m) |
| **Cell sites** '000 | 6.6 (2011: 5.6) |
| **Outlets** '000 | 132 (2011: 133) |
| **Employees** | 3,680 |

## South America

| | |
|---|---|
| **Population under license** | 62m (2011: 61m) |
| **Customers** | 12.7m (2011: 11.2m) |
| **Revenue** $m[1] | 1,926m (2011: 1,706m) |
| **EBITDA** $[2] | 757m (2011: 726m) |
| **Cell sites** '000 | 5.9 (2011: 5.1) |
| **Outlets** '000 | 184 (2011: 177) |
| **Employees** | 3,900 |

## Africa

| | |
|---|---|
| **Population under license** | 183m (2011: 176m) |
| **Customers** | 18.9m (2011: 17.3m) |
| **Revenue** $m[1] | 974m (2011: 981m) |
| **EBITDA** $[2] | 359m (2011: 404m) |
| **Cell sites** '000 | 4.4 (2011: 4.3) |
| **Outlets** '000 | 331 (2011: 371) |
| **Employees** | 2,190 |

1 Online global revenue $13m in 2012.
2 Online global result $-9m in 2012.

# Millicom demonstrated its unmatched **ability to innovate** and seek new opportunities

Millicom continued in 2012 to demonstrate its unmatched ability to innovate and seek new opportunities as the more traditional sections of its business continued to mature. The year was that of change and preparation for future growth, both within the successful mobile business of Tigo but also by venturing into new areas that represent significant growth opportunities for Millicom.

In tough economic and competitive conditions Millicom was able to meet its performance targets and to continue growing its revenues at an industry leading rate of 8% in 2012. Encouragingly, Millicom generated close to 35% of its revenues from Value Added Services, which demonstrates its ability to diversify revenue and to reduce reliance on mobile voice services. In 2013, it is important that Millicom completes the necessary investments in infrastructure and skills, and also captures opportunities to seek growth through selected and targeted acquisitions and investments, as we saw in 2012 with the acquisition of Cablevision in Paraguay and the investments in Rocket Internet in Latin America and Africa.

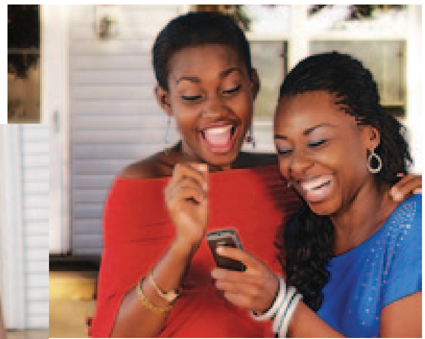
2012 was a year of change also in the senior management of the company. In July, the Board accepted the resignation of Mikael Grahne after four years as President and Chief Executive Officer and eleven years in the company. Mikael successfully led Millicom through a period of significant transition and delivered consistently high growth and profitability levels, enabling Millicom to simultaneously reinvest and increase shareholder returns. The success and establishment of Tigo as a leading emerging markets telecommunications service provider is in many ways thanks to his leadership.

Allen Sangines-Krause
Non-Executive Chairman

At the same time, the Board welcomed the appointment of Hans-Holger Albrecht as the new President and CEO of Millicom. Hans-Holger's existing knowledge of Millicom, wide experience in the media industry and his proven international management expertise make him the perfect choice to take Millicom to the next level, building on successes to date and capitalizing on new opportunities. Millicom also extended its Executive Management team with a significant breadth of experience in the new growth areas of the digital lifestyle for Millicom: cable, media and online commerce and services.

In 2012, we also welcomed two new members to the Board of Directors. Mr. Dionisio Romero Paoletti, Chairman and President of the Romero Group, a leading Peruvian business group, joined the Board in May. He brings strategic guidance from his regional Latin American experience and expertise in a wide range of industries including the financial services industry in which Millicom is increasingly active. Mr. Anders Kronborg, the Chief Operating Officer of Investment AB Kinnevik joined the Board in December 2012, bringing to the Board his in-depth experience in the online industry. Both new members of the Board will offer vital support for Millicom in an important phase of transition.

In a year of investment for future growth, Millicom continued in 2012 to reward its shareholders, with $731 million returned to them through a combination of a $2.40 per share ordinary dividend, and a $3.00 per share exceptional dividend, combined with share repurchase. The Board will propose to the Annual General Meeting on May 28, 2013, the payment of an ordinary dividend of $2.64 per share.



Millicom completed deregistration from NASDAQ in the United States on October 12, 2012. In 2012 Millicom successfully transitioned its internal control environment from the Securities and Exchange Commission SOX requirements while maintaining the prior high level of control. The Board also welcomed the strengthened approach to compliance and corporate responsibility which commenced in 2012.

On behalf of the Board, I would like thank our shareholders for their continuous support and all Millicom employees for their hard work, innovation and creativity in a challenging environment. We look forward to an exciting year of new opportunities.

Allen Sangines-Krause
Non-Executive Chairman

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# Demand more

## It has been an exciting time to step into the position of President and CEO of Millicom – a company I know well and have admired greatly over the years. I am honored to have been given the role.

Millicom is in a telecommunications and media sector that is changing fast. We have had a very successful mobile voice-based business on which we will now build and diversify for the future. The world is evolving and so are our customers' needs. Just like them, Millicom has always been known for demanding more. I believe it is this pace, drive and customer focus that will keep us on a growth track as we provide a constantly expanding range of digital lifestyle services to millions more people in the world's emerging markets.

Change is always something that goes together with uncertainty, and nobody knows exactly how the road ahead will look. However it is a willingness to change and adapt that has made Millicom what it is today, and will make the Millicom of the future.

This is why we have chosen our new logo, which was designed by our founder, Jan Stenbeck. It symbolizes our DNA: We reach for the stars, but are grounded on earth.

Looking back, 2012 has been a year of investment and preparation for future growth. We stepped up our investment in infrastructure and in commercial activities, notably in branding and subsidies, to ensure we deliver the best quality services to our customers. We also invested strongly in our people to ensure we have the requisite skills to meet the needs of a diversifying business.

To confirm the need for such investment, we experienced a decline in our voice revenue for the first time ever at the end of 2012. Our confidence in the future stems from the rapid and steady growth of data usage, our cable and internet services as well as strong potential in value added services, such as mobile financial services. Millicom remains in strong shape financially. This gives us the solid foundation we need to transform and the flexibility to exploit growth opportunities in various markets.

While preparing for a transformation, it is important to remember the strengths that have made Millicom so successful. We have been reviewing what we stand for and how our brand can help us go further, faster. 2012 also demonstrated that Millicom continues to innovate by identifying and scaling up new opportunities. The vision to see opportunities where others do not and the determination to get there first are to me very much the cornerstones of Millicom's unique culture. We have distilled this spirit in two defining words – "Demand more"- and introduced the new logo to help us keep focus and direction in a challenging year to come.

Hans-Holger Albrecht
President and Chief Executive Officer

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The untapped potential in our markets presents a tremendous opportunity for Millicom. We are very mindful of the fact that the services we sell also offer opportunities and support for economic and social development in our markets. We are an important and influential player in these countries and take this responsibility very seriously. It means "demanding more" – with respect for our customers' needs and aspirations as a priority. It also means acting with integrity, conviction and professionalism and staying true to our commitments under the United Nations Global Compact and its four pillars.

By continuing to demand more from ourselves we will satisfy our customers' demands for digital products and services. That, in turn, will enable us to maintain our position as digital lifestyle leaders within our markets and ensure our continuing success.

This is an exciting time for our industry and for Millicom. A period that I believe will take our company to new levels of success. We had no choice to stand still. And we decided to move on, faster, smarter and with higher goals than before.

I want to thank all our employees for their great work, our shareholders for their support, and our customers for believing in better.

Hans-Holger Albrecht
President and Chief Executive Officer

## "Our pace, drive and customer focus will keep us on a growth path"

### Q: Can you share with us your impressions of Millicom after your first few months as CEO?

A: This is not an ordinary multinational. There has always been and still is a strong entrepreneurial and adventurous spirit in Millicom, coupled with deep knowledge and understanding of the needs of the markets in which we operate. As a result, we have a real opportunity to change lives and transform societies.

However, I have also found a company in the middle an important transformation. One which needs to be steered with a steady hand and clear focus: moving from pre-paid to post-paid, from voice to data, to increased focus on value added services and online. It is a very exciting time to join Millicom and the more I know about the company, the more confident I am we have what it takes to succeed.

### Q: What do you see are the focus areas for 2013?

A: Our priorities will be to implement a new strategy to secure high market share and further monetize mobile data, grow our cable and TV businesses by exploiting untapped potential, expand our MFS business from its initial success, and explore further e-commerce and online opportunities in our partnership with Rocket Internet. With this, I believe we will maintain the momentum of the company.

### Q: What are the key challenges for 2013?

A: There are certain things we cannot control, which can and will continue to pose challenges in the coming year. The most important of these are the strong price competition we have in many of our markets, regulatory pressures and overall economic conditions that affect purchasing power in our markets. In most of these areas, I believe we will see more positive developments than in 2012.

Then of course, within the company, we need to drive change and ensure we motivate and excite our colleagues to get behind the new strategy and focus on the opportunities ahead.

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# Our main pillars of evolution will be mobile, cable, MFS and online

We will realize our vision of the digital lifestyle provider through a continuous and natural evolution of our core business:

Our new services will be a natural extension of our current offering. By providing fixed and mobile, communication and entertainment, mobile financial services and e-commerce we will become a one stop shop serving all our customer's needs. Our main pillars of evolution will be mobile, cable, MFS and commerce and services:

## 1. Mobile: From Volume to Value

Mobile is our core business and will remain a key growth driver. We will achieve sustained revenue growth by building a sophisticated, value-oriented mobile access business. Through analytical capabilities we will effectively segment and target our customer base.

We face a unique opportunity in mobile data, which is already a large revenue source and is expected to continue growing rapidly. We will do this through targeted offers and upselling. However, we will go further: as a digital lifestyle provider, we will deliver unique content.

## 2. Cable: Building a significant business

The second pillar of our growth is cable: Cable markets in the countries where we are present are underserved but growing fast. Alongside our mobile business, cable enables us to present a unique product proposition: We will provide our customers with a complete service, becoming a one stop point for all their communication needs. We will exploit synergies between mobile and fixed line products with uniquely favorable economics.

We think creatively to provide the digital lifestyle to our customers. As part of this, we will explore new areas such as content and digital media.

## 3. Mobile financial services: Creating a blockbuster

We are creating a blockbuster: Mobile financial services could be a "platform that transforms entire economies" (The World Bank). We have proof already: MFS has been adopted quickly in several of our markets. Building on consumer reach from our mobile business, we focus on driving rapid adoption in all our markets. Continuous innovation and relentless consumer focus will place MFS at the heart of our customers' lives and increasingly replace cash payments. We are changing the financial services landscape providing services that are cheaper, safer and more convenient than previous alternatives.

## 4. Commerce & Services: Investing in growth

We have a once in a lifetime opportunity to move into unexploited markets in Latin America and Africa. Our investment in Rocket Internet subsidiaries LIH and AIH provide substantial opportunities in these markets. We will continue to expand our involvement in e-commerce and online businesses, either through Rocket or our own digital businesses. We are actively working to realize synergy potential between our e-commerce, mobile and MFS businesses.

# We make ideas happen

Millicom's business model will build on its core strengths, agility and entrepreneurialism. We make ideas happen. We will combine our core strengths with a focus on execution and the demands of our customers, continuously striving for excellence. As such we will be ideally positioned to realize the countless opportunities in our markets. Demanding more of ourselves will be at the heart of everything we do.

## 1. Be entrepreneurial:

We see opportunities where others do not and follow them with relentless determination and innovation. This is how we have worked in the past and how we will continue in future. Agility is part of our DNA. We empower our local staff and will continue to drive our business from below.

## 2. Be better:

Our business is about execution and we are striving to be the best. We have a great team and unique market knowledge putting us ahead of the competition. We want to get even better. We will optimize our operations, maximize efficiency and relentlessly focus on value creation. We will continue to attract outstanding talent to stay ahead in an increasingly complex market landscape and deliver a great service to our customers and growing value to investors.

## 3. Be customer focused:

At Millicom the customer is center stage. If demands change we adapt as our recent reorganization shows: The new structure of mobile, cable, MFS and online businesses allows us to have a holistic view of our customers' needs. We bundle, upsell and innovate to become an integral part of our customers' lives.

## 4. Be daring:

We push boundaries and will evolve into a digital lifestyle provider. We use proven business models to capture enormous growth opportunities in underserved and fast growing markets. Our investment in Rocket Internet's Latin American and African ventures are testimony to this. We venture into new services. We do not just follow, but evolve and develop new services to fit our markets. We are the first MNO to make MFS a big success in Latin America by adapting to local conditions. We will keep thinking outside the ordinary and make the most of the opportunities presented to us. Millicom is and will remain a growth company.

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# Cable business continued to perform well in 2012

## Central America

Our mobile and cable operations in Central America are located in El Salvador, Guatemala, Honduras, Costa Rica, and Nicaragua. Our licenses covered approximately 28 million people at year-end 2012.

Our cable operation has a large network, which together with our existing mobile network, gives Millicom great opportunities for future growth. At the end of 2012, our Central American cable operation had 862,000 Revenue Generating Units ('RGUs').

Regional statistics per country as at December 31, 2012

| | El Salvador | Guatemala | Honduras |
|---|---|---|---|
| Population | 6m | 14m | 8m |
| GDP per capita | $7,500 | $5,100 | $4,400 |
| Mobile penetration | 116% | 95% | 80% |
| Market position[1] | 1 of 5 | 1 of 3 | 1 of 3 |

1 Market position represents the situation at December 31, 2012 and is based on number of subscribers.

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## Macro-economic and regulatory environment

The economies of our Central American markets are affected by the economic climate in the United States (U.S.) which drives foreign remittances, as well as soft commodity prices. For example, nearly half of Honduran economic activity is directly tied to the U.S., with exports to the U.S. accounting for 30% of GDP and remittances another 20%. Overall GDP growth in Central America picked up slightly in 2012 compared to 2011. In our markets, GDP growth was highest in Costa Rica at 4.8% and lowest in El Salvador at 1.5%.

In Central America in particular, our customers benefit from remittances from expatriate workers in the U.S. For example, in El Salvador, remittances accounted for 16% of GDP in 2012, and are received by about a third of all households. While month to month volatility remains, 2012 saw a healthy trend in the flow of remittances from the U.S. to our markets. Remittances were up compared with 2011 by 7.2% in El Salvador, 9% in Guatemala and 5.5% in Honduras.

In Honduras, 2012 and 2013 are election years, leading to a cautious investment climate. In 2012 the Honduran Lempira moved from a fixed to floating exchange rate against the U.S. dollar, which affected our reported results. Similar devaluation against the U.S. dollar took place in Nicaragua in 2012. In other markets in Central America local currencies have remained stable.

Changes in regulations and taxes affected our performance in 2012 in the region. Regulatory changes related mostly to lowering of interconnection charges. Rates were lowered in El Salvador from $0.07 to $0.061 in September. This trend is likely to continue in 2013. We are already expecting interconnection rates to drop in Honduras by the end of Q1 2013 by a further 34%, and a steady decrease to continue in El Salvador. In 2013 we expect regulatory demands in user registration in Guatemala, and number portability in El Salvador, which will require specific marketing efforts to reduce churn.

## Competitive environment

We held on to the number one position in all three of our mobile markets in Central America in 2012. Our overall market share stayed stable in the region. At the end of 2012 our market share was 40.9% in El Salvador, 54.1% Guatemala and 69.8% in Honduras. Increases in Honduras were the result of targeted advertising campaigns which enabled us to capitalize on opportunities created by the merger of our two competitors in 2011.

Competition and price pressure on voice was intense throughout the year, specifically in this region. Following the failed merger of two of our competitors we experienced aggressive pricing in prepaid services in El Salvador. We expect this to continue in 2013. Competition also introduced high subsidies in the region.

## Categories

ARPU stabilization and growth remained a key focus for Millicom in 2012. Mobile ARPU in local currency declined by 4% year-on-year in Central America. Our data services have been very successful in South America and our focus is to replicate this success with our customers in Central America.

### Communication

The Communication category has experienced a slowdown, decreasing 1.2% year-on-year. The slowdown primarily reflected the increasing maturity of our mobile voice business, now that penetration rates are high, averaging over 95% across our three mobile markets. Mobile penetration rates have even surpassed 100% in El Salvador. The category represented 62% of our 2012 revenue in Central America and 61% in Q4 2012 (from 64% in Q4 2011).

SMS growth has been growing at a healthy 10.8%; a positive development as SMS is often a customer’s first experience of Value Added Services.

We have increased our focus on bundled offers to defend our revenue base in this key category. For example, we now sell what we call ‘Paquetigos’ which combine SMS and voice minutes and are tailor-made to our different customer segments.

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In addition to actively promoting bundled offers, we are increasingly offering hybrid plans combining pre- and post-paid elements to meet customer demand. Post-paid customers represented 6.6% of our customer base in Central America at the end of 2012, down from 7.1% at the end of 2011.

### Information and entertainment

In 2012, the Information category was the biggest single contributor to overall growth, especially in Central America, contributing to more than half the total U.S. dollar growth in Q4 2012. Data penetration in Central America exceeded 15% at the end of 2012, from 13% at the end of 2011. By the end of the year, we had close to 2.34 million data users in Central America. These numbers demonstrate that our strategy to migrate customers from voice to data is delivering results.

## Data penetration in Central America **exceeded 15%** at the end of 2012

We accelerated subsidies in our markets throughout 2012 to meet unmet demand for internet access. Return on subsidies is rapid; around six months. The growing availability of attractively priced and quality smartphones should facilitate acceleration of mobile internet uptake. Recently we are offering smartphones for less than $60. We believe this could prove a key enabler of mobile data growth, especially as it would allow us to promote mobile data on a prepaid basis, a model more suited than postpaid to the needs of the vast majority of our customers in Central America.

Our cable business continued to perform very well in 2012. We believe that residential broadband represents a significant growth opportunity. We increasingly combined broadband, TV, fixed line and mobile services under a single brand and were able to offer bundled ‘triple play’ and ‘quadruple play’ services to our customers. At the end of 2012, our cable network passed approximately 1.7 million homes, up 10.1% from 2011. RGUs per customer increased year-on-year by 2.3% to 1.37 units.

## At the end of 2012, our cable network passed approximately **1.7 million homes**, up 10.1% from 2011

We launched unlimited music offers in partnership with Deezer across our entire Latin American footprint, including Central America. The new services have been well received by customers. Our SMS browsing solution ‘Dot Go’, making web access affordable to even those customers who cannot afford a smartphone, has also proven popular.

### Solutions and Mobile Financial Services

Our most popular services in the Solutions category continue to be our Zero Balance Products (ZBP) such as: Tigo Lends You, Lend Me a Call and Lend Me an SMS, peer-to-peer balance lending and SMS Gift & Collect. We promoted and introduced services of this important product family for our customers across our Central American markets in 2012.

Tigo Care solutions offering various mobile health, assistance and insurance services has become a differentiator for us in our Central American markets including El Salvador. We also brought to market solutions for enterprises and public service providers. In response to feedback from our customers, we increased billing transparency resulting in discontinuation of some products. While this had a short-term negative effect on revenue, we are confident that the increase in consumer trust will bring positive effects going forward.

By the end of 2012 we had launched Mobile Financial Services in all of our Central American mobile markets. El Salvador is the most advanced of our markets in Central America. While we may experience different rates of uptake of mobile financial services in our markets, we remain convinced that the product will ultimately be adopted on a broad scale in all our markets.

By the end of the year, and in partnership with Western Union we offered our El Salvadoran and Guatemalan customers international money transfer service. Through this service, our customers can receive money from abroad directly into their mobile money wallets and convert into cash at Tigo points of sale. The service is expected to be launched in Honduras in 2013.

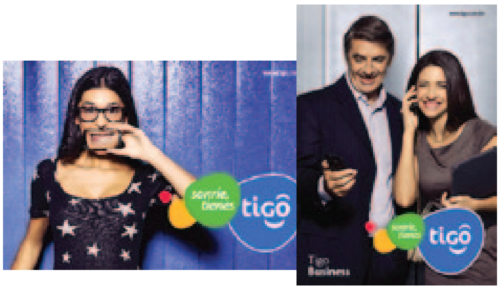
## Brand and distribution

At the end of 2012, there were 132,000 Tigo points of sale across our Central American markets, or one for approximately every 210 people covered by our mobile licenses. Importantly in 2012, we increased the number and geographical spread of our own shops, and transformed these into full 'experience centers' where customers can come to trial new services.

We constantly reevaluate our distribution structure, to better analyze the performance of our agents and dealers but also to better incentivize them to improve performance and revenue. In 2012, we adjusted commission structures in El Salvador and Honduras, and put emphasis on training our sales force in sales techniques and our expanding product offering.

In July 2012, we rebranded Amnet Costa Rica to Tigo Costa Rica.

In promoting the brand in an increasingly competitive environment, in 2012 we have sought a balance between high visibility above-the-line campaigns and utilizing targeted below-the-line promotions e.g. social networks and customer segmentation.





## Network

We continued to expand the coverage and capacity of our networks in Central America with emphasis on improving the 3G user experience in urban areas and on sustaining higher data speeds at peak times. Our Fair User Policy, whereby customers who reach data plan limits are redirected to a website to purchase additional capacity, is helping to ensure we manage our network capacity and grow usage in line with revenue. Millicom has been one of the few operators able to monetize data with little need to sell unlimited data plans.

We increased our single Radio Access Network (RAN) implementations, combining 2G and 3G technologies in single base stations, significantly reducing energy consumption. Site sharing with competitors, focus on maintenance, site outsourcing and introduction of different hybrid power systems has also brought both Capex and Opex savings across the markets. With the expansion of capacity, we improved KPIs such as: call success rates and dropped calls, improving the customer experience.

## Outlook

In 2013 we expect strong demand for internet connectivity, in both fixed broadband and mobile, to continue in our Latin American markets. We see good potential for us to reach a similar level of mobile data penetration in Central America as in South America and will continue to incentivize our customers to use different data services and migrate to smartphones. ARPU stabilization and growth in RGU per customer in Central America remains a key focus. Ensuring resilience in mobile voice is a clear objective while at the same time we expect the competitive environment to stay challenging and regulatory pressure to continue to negatively impact our growth.

A great opportunity exists to increase penetration and customer numbers in our cable businesses in 2013 as competition is fragmented and TV services still remain non-existent or analogue. There are also significant untapped opportunities in fixed internet in the region where penetration, other than Costa Rica, is at 10% or lower.

# Data penetration exceeded 20% at the end of 2012

## South America

Our mobile operations in South America are located in Bolivia, Colombia and Paraguay. Our mobile licenses in South America covered 62 million people at the end of 2012. In Q4 2012 we acquired, and now offer cable services in Paraguay.

Regional statistics per country as at December 31, 2012

| | Bolivia | Colombia | Paraguay |
|---|---|---|---|
| Population | 10m | 45m | 7m |
| GDP per capita | $4,800 | $10,200 | $6,200 |
| Mobile penetration | 72% | 106% | 100% |
| Market position[2] | 2 of 3 | 3 of 3 | 1 of 4 |

2 Market position represents the situation at December 31, 2012 and is based on number of subscribers.

## Macro-economic and regulatory environment

The economies of our Latin American markets are affected by the economic climate in Brazil, Argentina and the U.S., as well as commodity prices. Overall GDP growth in South America was slower than in 2011, due to slower than expected growth in Brazil and Argentina. Of our markets, GDP growth was highest in Bolivia at 5% and lowest in Paraguay at -1.8%. Bolivia benefited from high metal prices.

In Colombia the peso experienced a strong revaluation in 2012, resulting from an increase in Foreign Direct Investment and commodity prices. The currency in Bolivia remained stable against the U.S. dollar in 2012, while appreciating in Paraguay.

Changes in regulations and taxes at the end of 2012 affected our performance in South America. Interconnection rates were lowered in all three countries. In Colombia, interconnection rates were cut by around 17% on April 1, 2012. Rates were subsequently cut by 40% in Paraguay and 25% in Bolivia on October 1 and December 1, 2012 respectively.

In Bolivia a new 10% tax was imposed on certain entertainment services, such as gaming and competitions. In Paraguay, number portability was introduced in November.

## Competitive environment

Millicom strengthened its number one position in Paraguay, with nearly 57% market share at the end of 2012. Market share also grew in Colombia to 11.6% and increased in Bolivia to 37%.

There were no new mobile entrants in our South American markets in 2012. In Bolivia, a new regulation on bidding and granting of spectrum licenses in the 1900 MHz band might result in new competitors in the market in the future.

## Categories

ARPU stabilization and growth remained a key focus for Millicom in 2012. ARPU in South America grew in the first three quarters of the year and would have been flat year-on-year in Q4 if not for the interconnection rate cuts in Paraguay and Bolivia. This is a clear reflection of our success in up-selling and cross-selling more services to existing customers and also confirms our status as provider of choice in new high value customer segments.

### Communication

Communication revenue grew steadily by 4.7%. Mobile penetration rates have surpassed 100% in Colombia and Paraguay and exceeded 70% in Bolivia, which has the lowest penetration level of all our Latin American markets. This category represented 67.5% of our revenue in South America. SMS grew by 7.7%.

> ...postpaid customers represented **17.2%** of our customer base in South America

Throughout the year we offered attractively priced data bundles and invested to encourage upgrade from prepaid to postpaid services. During the last quarter of the year, 448,000 new mobile customers were added in South America, of which 23% are postpaid. By the end of 2012, postpaid customers represented 17.2% of our customer base in South America.

### Information and entertainment

Our strategy to migrate customers from voice to data is delivering results and will continue to provide solid growth in South America going forward. Data penetration exceeded 20% at the end of 2012, a sizeable growth from 14.6% at the end of 2011. By the end of the year, we had close to 2.6 million data users in South America. Demonstrating the potential for the growth of mobile data, 38% of our customers had ARPU above $10 in South America by the end of year.

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To boost uptake of smartphones we increased subsidies, improved network quality and coverage and put significant effort in increasing the possibility for our customers to try and learn about smartphone use in our new experience stores. We are seeing good returns on subsidies, around six months in 2012. Smartphone prices are coming down which will also help boost adoption. In 2012, increased penetration of smartphones came primarily from Android devices.

Bringing data to the mass market will require innovations in affordable services. Our different pre-paid packages were popular. In Colombia these bundled prepaid plans have also increased our voice revenue. Products such as our SMS browsing solution 'Dot Go', and Facebook and Twitter on USSD are introducing our customers to data and value added services. We launched unlimited music with Deezer across our three South American markets. Starting in Q2, we generated more revenue from VAS than from voice in Paraguay, our test-bed market for innovation.

Our Cable business continued to perform very well in 2012. In October 2012 Millicom completed the acquisition of Cablevision Paraguay, the leading pay TV operator in Asunción. As part of the acquisition Millicom also now operates a TV channel and owns rights to local football leagues in Paraguay and Bolivia. In Q4, Cablevision businesses contributed close to $15 million in revenue and $8.3 million in EBITDA.

### Solutions and Mobile Financial Services

Our most popular services in the Solutions category continue to be our Zero Balance Products (ZBP) such as Tigo Lends You, peer-to-peer balance lending and SMS Gift & Collect. In Bolivia, they represented 80% of revenue in this category. During the year we promoted and introduced new services in this important product family, such as Lend Me a Call and Lend Me an SMS.

In Colombia we extended our solutions offering to the corporate sector by offering packages that bundle several products together to increase efficiency in time and cost in our client's organizations. In 2012, we implemented such bundles with organizations including the Police Department, the public transportation system, universities, and banks.

> Millicom completed the acquisition of Cablevision Paraguay, the **leading pay TV operator in Asunción**

By the end of 2012 Mobile Financial Services was only operating in Paraguay in our South American region. Bolivia launched the services in January 2013. At the end of 2012, 24% of our customers in Paraguay, the first market where Millicom launched MFS, were using the service. Our partnership with Western Union for international money transfer services is also provided to our customers in Paraguay.

## Brand and distribution

At the end of 2012, there were 184,000 Tigo points of sale across our three South American markets, or one for approximately every 330 people covered by our mobile licenses.

We also launched a new self-activation chip system in one of our South American markets in November, allowing consumers to activate the SIM card themselves. This enabled us to be present at new points of sale, for example; drugstores, gas stations and convenience stores.

In all our South American markets we launched the global brand campaign 'Smile, you've got Tigo'. We also significantly increased the number and geographical spread of our own shops and transformed these into full 'experience centers' where customers can come and trial new services. In Bolivia we had 20 such stores at the end of 2012, compared to three the previous year.

In the fourth quarter we rebranded our Paraguayan cable operation to Tigo, stretching the Tigo brand to the homes of our customers in Paraguay where we already have a strong position in mobile telephony.

## Network

We continued to both expand the coverage and increase the capacity of our networks in South America with emphasis on improving the 3G user experience in urban areas and on sustaining higher data speeds at peak times. In Colombia we did not increase coverage but focused on improving customer service. Most of this expansion was in 3G. In Bolivia we increased coverage in 2G, including in rural areas, bringing communications for the first time to 26 towns in the country.

We made efforts to increase tower sharing as this brings significant Capex and Opex savings. In some markets challenges remain, such as Bolivia where regulation relating to tower sharing was not included in the new telecommunications law of 2012.

During the last quarter of 2012 we renewed our license in Colombia for another 10 years (until February 2023). We paid a provisional amount of $53 million in February 2013 for this extension. We expect more visibility on the forthcoming spectrum auction in the first half of 2013 and reiterate our commitment to invest and grow our market share in Colombia.

In South America we are interested in acquiring spectrum, notably to provide 4G services and to improve the quality of the current services through increase in capacity. However, acquisition of spectrum, like all our financial investments, will have to meet our strict return on investment criteria.




## Outlook

In 2013 we expect strong demand for internet connectivity, whether fixed broadband or mobile, to continue in our South American markets and provide the bulk of our growth. We will continue to bring innovative targeted bundles to market focusing on convenience and facilitating the total user experience, including streaming content and apps. Smartphones will take over more of the device landscape as prices will fall further.

Fixed internet also shows significant potential as penetration was only 3% in Paraguay at the end of 2012. The possible merger with UNE, the telecom arm of EPM in Colombia, could bring significant synergies and considerably strengthen our market position.

As every year, we expect further regulatory pressure in the form of interconnection rates cuts to be introduced in 2013.

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# Despite strong competition Millicom **retained its market positions** in Africa

## Africa

Our mobile operations in Africa are located in Chad, the Democratic Republic of Congo (DRC), Ghana, Mauritius, Rwanda, Senegal and Tanzania. Our African licenses covered approximately 183 million people at the end of 2012.

Regional statistics per country as at December 31, 2012

| | Chad | DRC | Ghana | Mauritius | Rwanda | Senegal | Tanzania |
|---|---|---|---|---|---|---|---|
| Population | 11m | 75m | 25m | 1m | 12m | 13m | 47m |
| GDP per capita | $1,900 | $300 | $3,100 | $15,000 | $1,300 | $2,000 | $1,600 |
| Mobile penetration | 33% | 61% | 72% | 97% | 36% | 66% | 43% |
| Market position[3] | 1 of 3 | 1 of 5[4] | 2/3 of 6 | 2 of 3 | 2 of 4 | 2 of 4 | 2 of 7 |

3 Market position represents the situation at December 31, 2012 and is based on number of subscribers.
4 Only Kinshasa and Bas Congo area.

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## Macro-economic and regulatory environment

GDP growth in sub-Saharan Africa in 2012 was strong at 4.6% despite the challenges in the global economy. GDP growth was strong in Ghana, Rwanda and the DRC at 7.1%, 7.7% and 7.8% respectively. Notably in Ghana, the services sector continued to lead, growing at 8.8%. Inflation was high in Tanzania at the start of the year but fell to 12% in November, positively impacting purchasing power.

The uncertainty in Senegal regarding our license has, over time, affected our market position and investment potential in the country. Our dispute with the Senegalese government was resolved in an agreement signed in August 2012 that came into effect in December 2012, allowing us to restart our long-term planning in Senegal.

Political developments affected the overall economic development of some of our African markets in 2012. In Rwanda, the suspension of foreign aid to the country at the end of 2012 created uncertainty and may continue affecting the purchasing power of our customers in 2013. The DRC saw a freezing of investment and slowdown of capital flow following the presidential elections at the end of 2011. 2012 was an election year in Ghana, with the new President elected in December.

Similarly to Latin America, the main regulatory developments related to lowering of interconnect charges. In February, the regulator in Tanzania introduced a 69% reduction in interconnection rates to be implemented on March 1, 2013. We also foresee interconnection rates cuts in the DRC and Ghana later in 2013.

**SMS grew** significantly during the year, **by 33%**

In Chad and DRC we continued to see new taxes for telecommunications companies being proposed by the authorities, for example relating to towers, calls and interconnect tariffs. In the DRC corporate taxes remained high, affecting consumer prices and purchasing power. In Tanzania, excise duty rates rose 2% reducing consumer purchasing power.

Revenue growth was negatively impacted by a strengthening of the U.S. dollar against local currencies. This increased cost pressure, especially in Ghana where the Ghanaian cedi depreciated by 15% against the U.S. dollar in 2012. Local currencies also depreciated against the U.S. dollar in Rwanda and Mauritius.

## Competitive environment

Millicom retained its market positions in Africa despite strong competition during the year. New competitors entered the markets in the DRC, Ghana and Rwanda. In Ghana, a crowded market with six operators, our market share declined to 17.2%. In Rwanda, where new competition entered with aggressive pricing and offers, our market share increased to nearly 38%. In the DRC we also gained market share to 34.8%, despite new competition. We continued to hold number one positions in Chad and DRC (Kinshasa Bas Congo regions only) and number two in the other African markets.

## Categories

### Communication

Revenue declined in the Communication category by 1.7% in local currency compared to 2011, as customer growth and traffic growth did not offset pricing pressures. SMS grew significantly during the year, by 33%, demonstrating the growth potential for this category. High competitive pressure on voice pricing in some of our markets remained the key reason for revenue decline, with new competitors entering Ghana and Rwanda in Q2. We also experienced the effects of the long lasting dispute over our license in Senegal and our resulting lack of investment. The dispute was settled amicably in Q3. ARPU declined by 7% compared to 2011 as expected, as we continued to focus on the affordability of our services.

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Significant untapped potential remains in voice, with markets like Chad, Rwanda and Tanzania having penetration levels well below 50%. Overall we grew our mobile customer base by approximately 9% in 2012 to nearly 19 million customers, with a very strong Q4 where we added 450,000 mobile customers, supported by strong developments in Chad and Tanzania. In 2012, we also noted a significant increase in 'minutes of use' by our subscribers.

### Information and entertainment

Performance in mobile data was strong (+121% year-on-year in local currency) essentially driven by strong growth in Tanzania, Ghana and Rwanda, the markets in which we have started to roll out 3G networks. We also acquired 3G licenses in DRC and Senegal in 2012. We put significant emphasis on developing our product offering in different solutions, bringing to Africa many of the products popular in our Latin American markets.

Twitter and Facebook over USSD, voice SMS, IVR radio, SMS based web browsing ('Dot Go') and bulk SMS were among the products launched in 2012 in our African markets. In Rwanda, we also launched a music service, 'Tigo Muzika', which by the end of the year was contributing 27% of revenue in the Entertainment category.

## Performance in mobile data was **strong** (+121% year-on-year in local currency)

At the end of 2012, mobile data penetration in Africa stood at 7.7%, up from 4.6% a year ago. This was achieved with only a limited number of markets providing 3G services. In Ghana thanks to our strong focus on data services, we grew our customer base in mobile data, which we believe holds the key for future performance and market position.

### Solutions and Mobile Financial Services

In the fourth quarter MFS was the largest contributor to our growth in Africa, generating more incremental revenue than even the fast growing mobile data business. We launched MFS in DRC in July and in Chad in December. We are now offering Mobile Financial Services in all African markets except Mauritius and Senegal, where we expect to launch the services in 2013. Penetration of MFS is highest in Tanzania, where over 37% of our customer base was using Tigo Pesa in Q4 2012. We have also noted a significant reduction in churn among our MFS customers.

## Penetration of MFS is highest in Tanzania, where over **37%** of our customer base was using Tigo Pesa

In Rwanda, growth in penetration of MFS services has been outstanding. At the end of December, 22% of our customers in Rwanda were active users of MFS, making it the third fastest MFS implementation. The development of MFS is highly dependent upon market conditions such as the regulatory framework, different customer needs, local or international remittances, banking penetration and the image of the telecom industry. Our achievements in Africa with MFS have so far only focused on domestic money transfer, and we have plans to expand our product offering in 2013.

Different lending products have also proven popular in our African markets. In Chad these services helped us reach an unprecedented penetration rate of 94% for SMS users.

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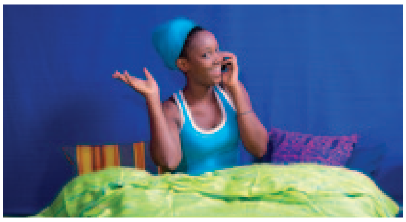
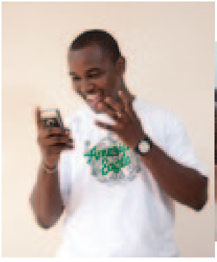
## Branding and distribution

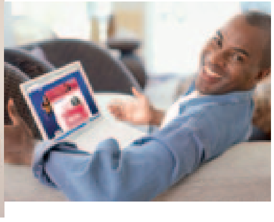
As in Latin America, we have increased the visibility of our brand externally, especially focusing on our 331,000 points of sale. We have also increased the number of our own shops where our customers can trial and experience new services.

During 2012, due to the increasing competition in many of our markets, advertising remained focused on high visibility campaigns and events. One of the most innovative campaigns was the painting of 20,000 moto-taxis in Tigo colors in Rwanda. These campaigns have been complemented by targeted below-the-line marketing activities, for example through direct SMS outreach, or our very popular Facebook pages.

Our direct sales force keeps our presence strong in our markets. We are constantly monitoring and evolving our distribution structure and providing direction to our agents and dealers. We continuously explore new ways to reward and increase the loyalty of our sales force. The launch of Tigo Sales Schools in Ghana, Tanzania and Rwanda is one such initiative, providing comprehensive sales training to our direct sales force to improve the quality of their acquisitions and developing life-long skills of our sellers. Electronic top-ups have also remained high, a market leading 80% in the DRC. Tanzania became the first operation to sell bundles and other products through EPIN and the Tigo Pesa mobile wallet.







## Network developments

Capex in Africa amounted to $430 million in 2012, including investment in license rights in Senegal of $103 million (including the extension in duration and scope of our existing license). The significant investments are necessary to expand the coverage and capacity of our 2G network, upgrade to 3G in the markets we have 3G licenses and to acquire 3G licenses.

In 2012, we acquired 3G licenses in Senegal and in the DRC. In the DRC we also acquired 2 x 4 MHz of spectrum in the 900 MHz band and extended our existing license until 2024. This valuable low frequency spectrum will allow us to more efficiently expand our network in new regions of this large and populous country. We were also granted a 3G license and plan to launch enhanced data services as soon as possible. In the DRC we also re-launched our networks in the Kikwit and Katanga regions.

By the end of 2012 we had almost completed the transfer of our passive network infrastructure to Helios Towers in DRC, Ghana and Tanzania. We have existing site sharing deals with our competitors in most of our markets. Similarly we are looking at increasing the sharing of backbone fiber optic networks, for significant Capex savings.

We continued to closely monitor quality of service and network availability and realized visible improvements as a result of investments in capacity towards the end of 2012.

## Outlook

In 2013 we will continue to focus on increasing penetration in our markets through expanding coverage in strategically important areas and continuing the roll out and launch of 3G services in the markets where we have licenses. In 2013, and thanks to the tower outsourcing deals, we intend to have 80% of our new sites on third party towers. Strict overall cost control will continue.

We see data services, MFS, and pricing permitting, voice, as the main pillars of growth in 2013 in Africa. To continue growing our customer base, we will keep focus on affordability and innovation, introducing more relevant SMS and USSD based products. Based on the excellent performance of MFS in the region in 2012, we are confident that MFS penetration will continue to grow steadily in 2013. We plan to have MFS available in all our markets by the end of 2013.

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# Our **focus remained** on up-selling and cross-selling new services to existing customers

Customer growth in 2012 was 10%, with 4.1 million new mobile customers added in the year, bringing our total base to 47.2 million. Group revenues were up 6.3% to $4,814 million. Local currency organic revenue growth was 8%, in line with our expectations.

Our focus in 2012 remained on up-selling and cross selling new services to our existing customers rather than increasing their absolute number. As penetration of voice services is already high in most of our markets, we believe continuing to offer innovative services to our existing customers and expanding into new areas of business in our markets will enable us to grow faster than our competitors. In the fourth quarter of 2012, our Value Added Services (non-voice) contributed in excess of 35% of recurring revenue. Overall, non-voice services grew by 29% year-on-year.

In the fourth quarter, 35% of our mobile customers in Latin America had an ARPU of $10 or more and generated 86% of revenue for the region. As only 17% of our mobile customers in Latin America and less than 8% in Africa were data users, significant opportunities exist to up-sell data services.

Due mainly to regulatory pressure and increased competition, and despite the steady uptake of data services, overall ARPU declined in 2012. We reported a -3.8% decline in ARPU in local currency in 2012 versus -2.4% in 2011. Stabilizing and growing ARPU, particularly in the high-value customer segment, will remain a key focus in 2013, as will be to increase the number of RGU per mobile customer from 1.8 at December 31, 2012 to 2.5 by 2017.

Despite our continued investments in new services, we managed to achieve a healthy EBITDA margin of 42.9% (43.2% excluding online), which although 3.2pts lower than the prior year, was in line with our guidance. Most of this decline is the result the investments we made in 2012 to build scale in our new business areas outside of voice, such as MFS, mobile data and online services. We expect this trend to continue as we grow further in online and mobile value added services and, in particular, MFS which has a structurally lower EBITDA margin than Communication services.

In 2012 we invested 19.1% of our revenue, or $922 million, in Capex (excluding spectrum, licenses and Cablevision assets). Investment in our 3G network in Africa and increased capacity in Latin America during the year accounted for over $200 million of our Capex. We also invested a further $111 million on upgrading our IT and billing platforms in 2012. This is part of a three year project in which we will invest a total of $300 million.

In the fourth quarter of 2012, our Value Added Services (non-voice) contributed in excess of **35%** of recurring revenue

We made strong progress with our asset productivity measures during 2012. By the end of the year we had transferred most of the towers under our agreements with tower companies in Tanzania and DRC and had transferred close to two-thirds of our towers in Colombia. Transfer of our towers in Ghana was completed in 2011. We now have many direct tower sharing agreements with other operators in Latin America and Africa bringing additional coverage and cost efficiencies. As a consequence in 2013, 80% of the new sites built in Africa will be on third-party towers, reducing the investment for us or enabling us to fast-track our roll out for a similar absolute investment.

In 2012 we received close to $127 million in cash from the transfer of towers to the different tower companies in Tanzania, DRC and Colombia. We expect to receive $40 million in 2013. We will continue to pursue other opportunities to share passive infrastructure which could include 3G or 4G network equipment and spectrum, enabling us to focus on our core activities.

Our cash flow generation in 2012 was a healthy $1.13 billion, albeit 6% lower than in the record year of 2011. Operating free cash flow represented 23% of our revenue in 2012.

At the end of the year our cash position was approximately $1.2 billion. We re-leveraged our balance sheet slightly to a net debt to EBITDA of 1.0x at the end of 2012, up from 0.7x at December 31, 2011. Our gross debt at the end of 2012 was $3, 259 million with 40% of our group gross debt in bonds and 40% from bank financing.

In line with our strategy of finding the right balance between growth and returns, in 2012, we delivered revenue growth in excess of 8% in local currency, a high EBITDA margin at 42.9% and ROIC was 24.4%.

Our **cash flow** generation in 2012 was a healthy **$1.13 billion**

We returned over $731 million to shareholders through a combination of dividends and repurchase of shares under our buy-back program and stated our ambition to progressive dividend growth going forward.

## Central America

Revenue in Central America totaled $1,901 million in 2012, up 4.5% year-on-year in local currency. Our Central American markets were very competitive throughout 2012. Local currency ARPU declined 4% on last year, despite the addition of 1 million mobile customers, almost as the same number as in 2012, bringing the total at year end to 15.6 million.

Our focus remains on cross-selling and up-selling more services to existing customers rather than growing their absolute number, especially in Central America where mobile voice penetration is high.

Our cable business is demonstrating good growth while maintaining a healthy margin, reflecting the attractive opportunity in cable broadband and television services. At the end of 2012, we reached approximately 1.7 million homes passed and 862,000 Revenue Generating Units, 20% up from 2011. Revenue from our cable services in Central America grew by 15.9%.

EBITDA for the year was $958 million and the EBITDA margin was 50.4%, down year-on-year, due primarily to higher subsidy levels in order to drive the uptake of 3G data services and a reduction in higher margin incoming international calls in the overall revenue mix.

Capex in 2012 amounted to $296 million or 15.6% of revenues.

Cash generation continued to be very strong, with OFCF slightly down from 2011 at $528 million or 27.8% of revenues.

Mobile data penetration stood at 15% at the end of 2012 in Central America. With lowering handset prices and increased subsidies, we expect penetration of 3G services to grow in 2013. We will continue to invest in the capacity and quality of our 3G networks and bundle different fixed Internet, Pay TV and mobile services in Central America as we continue to see strong demand for data services with an attractive return on invested capital for Millicom.

Revenue from our cable services in Central America **grew by 15.9%**

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## South America

Revenue grew by 12.9% in 2012 to $1,926 million, with all three markets reporting a strong performance. Mobile ARPU was flat in local currency mainly due to regulatory pressures. In the fourth quarter of 2012, revenues from non-SMS VAS grew 39% in local currency.

EBITDA reached $757 million, up 4.2%, and the EBITDA margin was 39.3%, declining 3.2pt as we continue to invest in handset subsidiaries to drive higher mobile data penetration.

We invested $373 million or 19% of revenues in Capex in South America during the year. During the last quarter of 2012 we renewed our license in Colombia for another 10 years (until February 2023). We will pay an initial amount of $53 million in Q1 2013 for this extension.

Data penetration in South America exceeded 20% at the end of 2012, a sizeable growth from 14.6% at the end of 2011. We expect several spectrum auctions in South America in 2013, notably in Colombia where spectrum in the 2.1 GHz and 1.7 GHz bands is expected to be auctioned. We are interested in acquiring additional spectrum to provide 4G services and to improve the quality of the service we provide to our customers. Acquisition of spectrum, like all our investments, will have to meet our strict financial hurdles.

Cash generation in South America was $393 million, or 20% of revenues.

## Africa

Revenues in Africa declined in 2012 by 0.8% on a reported basis to $974 million, but increased 4.8% in local currency. The uncertainty around our license in Senegal affected revenues in 2012 and was resolved in Q3 2012. ARPU also declined by -7.1% year-on-year.

We anticipate some further ARPU erosion in 2013 in Africa as we focus on affordability of our services in a region where penetration of mobile services and usage remain relatively low. In Ghana, DRC and Tanzania, the markets remained competitive but we have continued to invest to hold our solid market positions. We are confident that with the right level of investment these temporary challenges can be overcome.

EBITDA reached $359 million, down 11%, and the EBITDA margin was 34.8% in Q4 2012 down 6.2 pt year-on-year. We expect margins in Africa to remain under pressure as we defend our market positions in voice and invest in mobile data.

Capex in Africa amounted to $430 million in 2012 or 44% of revenues as we continued our investments in network coverage and 3G and value added services. The Capex in Africa also includes investment in new rights in Senegal of $103 million, including extension of our license in duration and scope. In 2012, we also extended our existing license and purchased further spectrum in the DRC.

At the end of 2012, mobile data penetration in Africa stood at 7.7%, up from 4.6% one year ago. We invested significantly in 3G in Africa during 2012 (circa 17% of revenues) which is testimony to our ambitions for voice and data growth in the region.

Cash generation in Africa in 2012 was $85 million or 8.6% of revenues.

We **invested significantly** in 3G in Africa during 2012

## Categories

In 2012 we still report financial information by our five global categories and separately information regarding the online business we entered in 2012. In 2013, reporting will be aligned to our new organizational structure with the four business areas; Mobile, Cable, Mobile Financial Services, and Commerce and Services.

### Communication: 9% of recurring revenue growth in 2012

In Q4 2012, revenue in voice in the Communication category declined for the first time by 4%, at the same time SMS revenues continued to grow. In 2012, revenues from this category represented 72% of our total revenues in 2012.

We aim to protect our Communication revenue base by segmentation of our offerings and volume elasticity. SMS growth, which remained very healthy in Q4 at 11.3%, is instrumental in achieving this.

### Information: 53% of recurring revenue growth in 2012

In 2012 the Information category (data services) was by far the biggest single contributor to revenue growth, demonstrating the strong appetite and growth potential in data services in our markets. The category represented 11% of our revenue in 2012. The correlation between revenue and traffic growth remained high throughout the year, which supported our decision to invest both in Capex and subsidies for Cable and 3G.

We now have over 6.3 million users of data services representing around 13.4% of our total customer base (up from 10% a year ago). In Latin America, we have close to 4.9 million data users, 17.3% of our customer base. In Africa growth in mobile data has also been strong throughout 2012 and reached 7.7% penetration by year end. This was achieved with only a limited number of markets providing 3G services.

> …the Information category (data services) was by far the biggest single contributor to revenue growth, demonstrating the **strong appetite and growth potential** in data services in our markets

We are confident that all of our customers with ARPU above $10 per month will eventually access data services, demonstrating the potential to further sell the mobile data service inside our customers' base. Growth in penetration is expected to be supported by rapid decline in the price of quality smart phones.

In 2013, we will continue to invest in 3G in Latin America and further expand our 3G coverage in Africa in Tanzania, Ghana, Rwanda, and also in DRC and Senegal where recently we have successfully obtained licenses.

### Entertainment: 12% of recurring revenue growth in 2012

Revenue in the Entertainment category (TV, Ringback tones, games) increased 9% year-on-year, despite the negative impact of a new regulation in Bolivia and represented 5% of our revenues in 2012.

Revenue in Entertainment in Africa remained buoyant in the quarter as we launched several new music products. Year-on-year growth in local currency in Africa reached circa 54% in Q4 2012. For our smart phone customers, we launched unlimited music offers in partnership with Deezer across our entire Latin American footprint. The new services have been well received by customers.

> …**all of our customers** with ARPU above $10 per month will eventually access data services

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## Solutions: 13% of recurring revenue growth in 2012

The Solutions category contributed 3% to our revenues in 2012. Our most successful products in the Solutions category in 2012 continued to be our airtime lending products that give our prepaid customers the convenience to continue using their phones after they have consumed their entire balance. In 2012 over 20% of our airtime was taken up by customers using this innovative and much appreciated solution. This product alone generated in excess of $70 million in revenues in 2012. We also expanded our product offering services under the 'Tigo Care' umbrella: medical appointments, agenda back-up, and emergency calls, for example.

## MFS: 10% of recurring revenue growth in 2012

The Mobile Financial Services category continued to perform well in 2012, contributing $40 million – or 1% – to our revenues. The services comprised of domestic money transfer and payment services in Paraguay, El Salvador, Guatemala, Honduras, Tanzania, Ghana, Rwanda, DRC and Chad. We have also launched international transfer services for customers in Paraguay, El Salvador, and Guatemala.

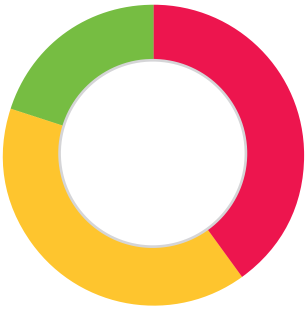
Our MFS category continues to perform well and offers attractive potential in the medium to long term. MFS itself contributed 15% of recurring revenue growth Q4 2012 and 1.2% of recurring revenues with three markets having reached a degree of critical mass. Overall, in the markets that have been live more than a quarter, total MFS penetration reached 12%. In Q4, MFS user ARPU reached $1.24 per month and was $0.86 for the full 2012 year.

Development of MFS is highly dependent upon market conditions such as the regulatory framework, different customer needs, for example, for local or international remittances, banking penetration and the image of the telecom industry.

## E-Commerce and online: 3% of recurring revenue growth in 2012

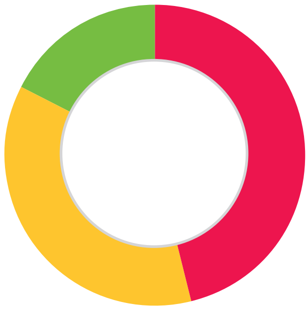
Millicom acquired a 20% stake in the two Rocket Internet subsidiaries Latin America Internet Holding (LIH) and Africa Internet Holding (AIH) in July 2012. By the end of 2012 LIH and AIH, offered online services in five countries in Latin America and eight countries in Africa covering a total of approximately 830 million people or 290 million internet users (Source: World data bank). During 2012 the Online category generated revenue of $13 million and EBITDA losses of $9 million.

### Revenue by region



| | |
|---|---|
| Central America | 40% |
| South America | 40% |
| Africa | 20% |

### EBITDA by region US$m



| | |
|---|---|
| Central America | 958 |
| South America | 757 |
| Africa | 359 |

## Contribution to recurring revenue growth by category

| | 2012 | 2011 |
|---|---|---|
| Communication | **9%** | 41% |
| Information | **53%** | 40% |
| Entertainment | **12%** | 7% |
| Solutions | **13%** | 10% |
| MFS | **10%** | 0% |
| Online | **3%** | – |

## Central America financial highlights – US$m unless otherwise stated

| | 2012 | 2011 | % change |
|---|---|---|---|
| Mobile customers | **15.6** | 14.6 | 6.6 |
| Mobile ARPU | **11.2** | 11.9 | -5.3% |
| Revenue | **1,901** | 1,842 | 3.2 |
| EBITDA | **958** | 958 | 0.0 |
| EBITDA margin % | **50.4** | 52.0 | -1.6 pt |
| Capex | **(296)** | (221) | 33.2 |
| OFCF | **528** | 541 | -2.4 |
| OFCF margin % | **27.8** | 29.4 | -1.6 pt |

## South America financial highlights – US$m unless otherwise stated

| | 2012 | 2011 | % change |
|---|---|---|---|
| Mobile customers | **12.7** | 11.2 | 14.0 |
| Mobile ARPU | **12.8** | 12.9 | -0.5% |
| Revenue | **1,926** | 1,706 | 12.9 |
| EBITDA | **757** | 726 | 4.2 |
| EBITDA margin % | **39.3** | 42.5 | -3.2 pt |
| Capex | **(373)** | (324) | 15.1 |
| OFCF | **393** | 425 | 7.4 |
| OFCF margin % | **20.4** | 24.9 | -4.5 pt |

## Africa financial highlights – US$m unless otherwise stated

| | 2012 | 2011 | % change |
|---|---|---|---|
| Mobile customers | **18.9** | 17.3 | 9.3 |
| Mobile ARPU | **4.4** | 5.1 | -12.4% |
| Revenue | **974** | 982 | -0.8 |
| EBITDA | **359** | 403 | -11.0 |
| EBITDA margin % | **36.9** | 41.1 | -4.2 pt |
| Capex | **(430)** | (297) | 45.1 |
| OFCF | **85** | 263 | -68.1 |
| OFCF margin % | **8.6** | 26.8 | -18.2 pt |

# Our CR reporting is **aligned to** financial reporting

## CR strategy

The CR strategy, which is integrated into our core strategy, aims to move Millicom beyond compliance and industry standards. The strategy is aligned with the principles of the United Nations Global Compact.

Millicom Foundation and CR supports the Corporate Strategy through our Core Business and Community Engagement.


Overall, the CR strategy has four objectives:

1. Gaining competitive advantage as a responsible employer with a strategic approach to ethical business.
2. Enhancing our reputational capital and increasing the transparency of our communications.
3. Creating value as a sustainable business and supporting capacity building in local communities.
4. Identifying opportunities while managing risks to combine cost benefit and social return.

Assessing Millicom's key risks and impacts across different areas of CR, has been the focus in 2012. Results have driven prioritization as well as measurement.

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## Millicom Foundation empowering women and children

At the end of 2012, in line with our new strategy to bring more focus on corporate responsibility, enhance our employer brand and strengthen communities Millicom took the decision to create Millicom Foundation. The strategy of the Millicom Foundation is to support the communities in which we operate through promoting and seizing business opportunities while using technology to mobilize societies and low-income families. The aim is to empower women and children through providing ICT in remote areas by enabling mobile healthcare, supporting entrepreneurship and facilitating education and training.

Millicom Foundation is our tool as digital lifestyle leaders to be present and committed to promoting societies and our customers' social and economic growth.

## CR Governance

Millicom restructured its Integrity and CR organization in Q4 2012. In the new set up, CR is separated from Compliance functions. This change aims to ensure focus on both sustainable opportunities that exist in our markets while at the same time ensuring proper compliance and risk management.

The CR Committee of the Board of Directors oversees management of all CR issues and implementation of the CR strategy. The CR Committee comprises Board members Mia Brunell Livfors and Donna Cordner. Our Group President and CEO, Hans-Holger Albrecht, participates in CR Committee meetings.

The Director of CR holds the operational responsibility for implementation of the CR strategy and reports directly to the CEO and the Chairman of the CR Committee.

## Stakeholder engagement

In 2012 Millicom considerably increased its stakeholder engagement activities to key stakeholder groups beyond customers and employees. Engagement was also tracked and stakeholder feedback collected in a more systematic manner.

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| Stakeholder group | Engagement in 2012 | Important for stakeholder | Resulting actions |
|---|---|---|---|
| Customers | Customer satisfaction surveys<br>Focus groups<br>User understanding<br>Points of sale and call centers | Charitable activities within the communities<br>Quality of service<br>Affordability and transparency of services | More strategic approach to charitable activities, Millicom Foundation<br>Investment on network capacity and quality and affordable VAS<br>More transparency on conditions of services and promotions |
| Employees | Employee engagement survey<br>'Meet the GM' meetings<br>Integrity Line (whistleblower)<br>Performance Appraisal Process | Internal communications<br>Non-retaliation for whistle-blowers | Improved tools for communication (Yammer)<br>Improved whistle-blower process |
| Governments | Meetings on human rights issues<br>Meetings on public/private partnerships<br>Stockholm Internet Forum 2012<br>'ICT in a changing world' by Swedish International Development Agency | ICT and development<br>Internet freedom, freedom of expression | Ongoing discussions on public/private partnerships and support regarding freedom of expression issues. |
| Investors | Over 200 meetings with investors including SRI investors<br>Participation in surveys and questionnaires<br>A number of industry conferences were attended as well | Transparency and communication<br>Risk management<br>Reporting<br>Governance | Quarterly reporting on progress of the CR and compliance, as part of quarterly reports<br>GRI reporting from 2012 onwards |
| NGOs and international organizations | UN Forum on Electronic Waste<br>UN Summit on Business and Human Rights<br>Child and Youth Finance Summit<br>Several one on one meetings | Labor rights, particularly child labor<br>Freedom of expression and privacy | Unicef Children's Rights and Business Principles tool pilot<br>Assessments on labor conditions and children's rights<br>Industry Dialogue principles and stakeholder review |
| Industry | GSMA<br>Telecommunications Industry Dialogue on Freedom of Expression (FoE) and Privacy | ICT and development<br>Human rights and business | Studies and pilots with GSMA Foundation<br>Principles for the telecommunications sector on FoE and privacy |
| Suppliers | Self-assessments and surveys<br>Meetings | Compliance to the Supplier Code of Conduct<br>Investments required for SME suppliers to improve performance | Review of supplier requirements<br>Adjustment to supplier requirements to SMEs and future capacity building |

## Corporate responsibility reporting

In 2012, Millicom reports corporate responsibility information aligned to the Global Reporting Initiative (GRI) for the first time. The report has been externally assured and fulfills disclosures required for the application level C+ of GRI. The full Millicom CR report and GRI table can be found on the Millicom website.

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# We aim to strike the right balance between profitable top line growth, cash flow generation and return on invested capital

Millicom has an enterprise wide approach that empowers key decision makers to strike the right balance of risk with return, aligned to its key strategic and operational objectives. Millicom operates in a dynamic industry and characterized by rapid evolution in technology, consumer demand, and business opportunities. Combined with a focus on emerging markets in various geographic locations, the Group has a proactive approach to identifying, understanding, assessing, monitoring and acting on balancing this myriad of risks and opportunities. Millicom's approach to risk includes an enterprise-wide assessment of key stakeholder objectives, careful alignment of those objectives with strategy and operations, and implementing actions at corporate and operational levels.

Risks are defined as uncertainties that may impact achievement of our main objectives as outlined at our March 2013 Capital Markets Day. We aim to strike the right balance between profitable top line growth, cash flow generation and return on invested capital.

## Millicom's Risk Function

Millicom has a network of risk officers at headquarter, regional and each significant operating country level, led by the Chief Risk Officer. The risk function is tasked with identifying, analyzing, monitoring and coordinating Millicom's approach to balancing risk with returns and reporting to the audit committee on a regular basis. The audit committee is responsible for reviewing the effectiveness of risk function activities and oversight of risk related activities of the Group, and reporting to the wider Board of Directors. Key strategic and operating risks are assessed from an overall group perspective as well as individual country and business categories. Risk action plans comprising ongoing activities that seek to balance risks with returns are developed, implemented and modified over time as the underlying risks evolve. Action steps are implemented both globally and locally by executives and key decision makers.

Risks are inherent in business and Millicom accepts these risks to the extent that opportunities for sufficient returns exist and that adequate systems are in place to effectively manage risks to an acceptable level. Millicom's control environment includes consideration of the impact of its key strategic and operating risks, and is designed and modified continuously accordingly.

The table below sets out a summary of the risks and opportunities we face operating in our various emerging markets and business categories.

| Potential impact | Evolution of the risk | Where we see opportunities | How we balance risk with return |
|---|---|---|---|
| **Financial Risks** | | | |
| Our revenue generating and financing activities are predominantly in currencies other than USD. This creates an exposure to fluctuations in exchange rates that may negatively impact our USD reported results and USD cash flows. | Currency fluctuations in our local operations against our USD reporting currency are outside our control.<br><br>None of the countries in which we operate have hyperinflationary economies or immediate threat of forced currency devaluations.<br><br>In El Salvador and DRC the effective currency of operation is the USD. In Chad and Senegal, the local currencies are pegged to the Euro. | Risks related to currency fluctuations can be minimized through careful cash and funds flow management as well as natural and contracted hedging instruments.<br><br>We continue to see opportunities to reduce our exposure to currency fluctuations by pushing down debt locally and by taking that debt whenever possible in local currency if available and affordable. | We closely monitor exchange rate movements and forecasts and develop scenario analyses and action plans in the event of significant fluctuations in rates.<br><br>The diverse geographical spread of the countries and economies and currencies in which we generate revenues and cash flows reduces our exposure to fluctuations in individual countries.<br><br>We maintain a policy of holding excess cash generated in USD and upstreaming cash to holding companies or cash pooling in USD.<br><br>We push down debt in local currency at local level.<br><br>We repatriate cash as early as possible during the year and through different means: royalties, dividends and management fees, supported by appropriate agreements. |

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## Financial Risks continued

| Potential impact | Evolution of the risk | Where we see opportunities | How we balance risk with return |
|---|---|---|---|
| We follow a strategy involving a mix of debt and equity financing that creates a degree of dependence and therefore exposure to continuing availability of external financing. In the event of economic conditions reducing liquidity in the financial markets in which we have historically raised debt financing we may need to seek financing or refinancing in different markets or at higher prices than in the past. | We have been able to renew or replace existing debt on commercially acceptable terms.<br>We have successfully raised additional financing through bond offerings in Paraguay and Sweden at substantially reduced rates compared to existing facilities. | Our established operation of successful businesses in emerging markets and strong historic cash flow have led to an improvement in our investment grading and we see an opportunity to further leverage this as we continue to seek opportunities to raise finance with reducing recourse or guarantees from the Millicom parent company. This in turn improves our debt raising ability and flexibility for pursuing our strategic objectives. | We seek to balance the various financing risks that we face through a variety of sources of financing and a target mix of variable and fixed interest rates, local currency versus US dollar debt and hedges against fluctuations between financing currencies and the US dollar and variability of interest rates. |
| We have significant amounts of cash balances with financial institutions which exposes us to counterparty risk. | The risk is largely within our control as we can choose which financial institutions we use and specific amounts in each institution. | Our strong financial position and policy to diversify our cash across a number of banks provides us with greater negotiating power and relationships which give us [with] access to a number of sources of additional financing if and when required. | We diversify the location of cash among a variety of banks so that our counterparty risk with individual banks does not exceed limits which we have set based on each banks credit rating. |

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| Potential impact | Evolution of the risk | Where we see opportunities | How we balance risk with return |
|---|---|---|---|
| **Influence of shareholders and insiders** | | | |
| Certain insiders represent entities that have a significant number of Millicom shares, giving them substantial influence over management. | The shareholdings in Millicom of these entities have remained relatively constant in recent years as has the proportion of representation on the Board of Directors. | These entities have similar business interests as Millicom which can lead to additional business opportunities and sharing of knowledge and skills as well as entering into new businesses.<br><br>Opportunities for cost and process efficiencies exist with fellow subsidiaries including procurement, supplier relationships. | Our Board of Directors comprises eight members of whom five are independent Directors. The five member Audit Committee of Millicom comprises four independent directors.<br><br>Business dealings with related parties are performed on an arm's length basis.<br><br>Transactions and balances with related parties (including entities controlled by the largest shareholder) are periodically review and approved by the Audit Committee.<br><br>Directors refrain from participating in decisions and votes where they have conflicts of interest as was the case for the decision related to the investment in Rocket Internet subsidiaries LIH and AIH. |
| Our ability to exercise control over some of our operations is dependent on the consent of shareholders who are not under our control.<br><br>Disagreements or unfavorable terms in agreements governing our joint ventures may adversely affect our operations. | We continue to maintain strong and productive relationships with our fellow shareholders. | Local partners have local expertise and know-how which can lead to opportunities and efficiencies in operating our businesses.<br><br>Skills, knowledge and experience from our local partners reduces risk of entering new countries or new businesses and provides us with opportunities to apply this across our different countries and operations. | We are in constant dialogue with our local partners in Honduras, Guatemala, Colombia, Mauritius, Rwanda and the Rocket Online businesses.<br><br>The shareholders' agreement in Colombia that gives us management rights, and the option agreements we have related to Honduras, and the Rocket Online businesses LIH and AIH enable us to fully control and consolidate those businesses. |

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| Potential impact | Evolution of the risk | Where we see opportunities | How we balance risk with return |
|---|---|---|---|
| **Regulatory, tax and legal risks** | | | |
| The mobile telephony market is heavily regulated and taxed. Regulations in new areas of business such as Mobile Finance Services are often less developed. | Rules and regulations in the markets in which we operate continue to evolve with increasing types and rates of regulation but also increasing clarity on applicability to mobile operators. | Advanced tax planning also enables us to predict and plan for potential changes in tariffs and regulations.<br><br>In addition, the experience we gain in more regulated and taxed markets enables us to transfer knowledge and best practice to less developed markets and react quickly to changes.<br><br>Diversification of products and services from the traditionally heavily regulated communications business reduces our exposure to fluctuations in rates and regulations. | We constantly monitor and review potential changes in regulations and taxes and have implemented a tax risk management system to identify and actively manage these risks.<br><br>Cost cutting opportunities are sought in all aspects of our business to offset the impact of newly introduced or expected changes in taxes and regulations.<br><br>We are mainly operating in 144 different countries which significantly spreads our regulatory, tax and legal risks. Additionally we have diversified tremendously our products/services base with less exposure now to pure telecom operations that are heavily dependent on regulations (which are generally less applicable to Value Added Services). |
| The tax and regulatory environments in many of the countries in which we operate are evolving in such a way that rates and types of tax (including withholding tax) and related charges, and tariff limits are increasing regularly. This may impact the amount and cost of repatriation of cash from our operations and may increase operating costs and/or reduce interconnection revenues. | Taxes and regulatory changes are increasingly impacting the amount of cash available for repatriation relative to cash generated.<br><br>The frequency and type of tax authority and regulatory audits are increasing, raising the risk of claims for payment of additional taxes, or fines. | Regulatory pressures might even open up some opportunities for us to serve our customers better through continuous innovation, especially in our products and pricing. | Taxes and regulatory pressures are part of the constraints we have to deal with in the telecom industry and we constantly look for cost cutting and other opportunities to offset them.<br><br>We have a adopted a tax strategy with a considered approach to risks and uncertainties, particularly where legislation is either underdeveloped or lacking in clarity.<br><br>We apply international practice including OECD conventions in setting transfer prices. |

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## Regulatory, tax and legal risks continued

| Potential impact | Evolution of the risk | Where we see opportunities | How we balance risk with return |
|---|---|---|---|
| The mobile telephony sector may be forced to provide access to its spectrum which may result in additional competition or may be forced to pay high prices to get access to spectrum.. | Demand for high quality spectrum continues to outweigh availability and shortages are expected to continue as demand for data and non-voice services increases.<br><br>In future broadcasters demand for LTE spectrum is likely to increase as broadcasters and media firms seek to gain strongholds in wireless markets. | Our position as an established number one or two operator with contractual rights of renewal in many of our markets positions us favorably for both renewal and new spectrum.<br><br>Our diversifying product and service portfolio enables us to provide services that optimize usage of spectrum and reduce reliance on certain types of spectrum. We are developing opportunities in partnering to deliver such services as TV and Machine to Machine.<br><br>Our strong cellular tower footprint reduces our reliance on particular spectrum. | We actively monitor and execute a strategy to secure high quality spectrum as and when it becomes available based on knowledge of customer needs.<br><br>We believe that our present and future success is very much correlated to our understanding of our customers. We are used to operating in highly competitive environments and expect competition to remain strong.<br><br>We are ready to share spectrum with other operators or competitors if necessary to get access to attractive spectrum and to reduce costs. |
| Many of the telecommunications regulatory regimes and legal systems in the countries in which we operate are underdeveloped compared to those in developed markets. This can lead to uncertainty and unpredictability in application of rules and regulations and reduced levels of transparency and/ or equitableness regarding claims or disputes. | | As a global player operating across two very different geographies; Latin America and Africa, we believe it is part of our duty to contribute positively to building an improved regulatory framework in the markets in which we operate.<br><br>We lead by example in the way we do business and in positively impacting and influencing the economic environments in which we do business. In turn this raises our local and global brand equity.<br><br>Our increasing engagement with key stakeholders in our markets as a corporate citizen promoting governance and ethics strengthens the economic environment. | We proactively engage with regulators, governments and other key stakeholders in our operations. We constantly monitor legal and regulatory developments in our markets and in many countries provide input into developing or enhancing existing rules and regulations.<br><br>We operate our businesses across multiple countries and business units subject to various different regulations. This diversification reduces our exposure to country specific issues.<br><br>Our policies and procedures are based on a backbone of integrity and ethical practices which include promotion of transparency and equity among our business partners and stakeholders in each of our markets. |

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| Potential impact | Evolution of the risk | Where we see opportunities | How we balance risk with return |
| --- | --- | --- | --- |
| **Regulatory, tax and legal risks** continued | | | |
| Most of the countries in which we operate telecommunications businesses do not have universal service obligations (USOs). If such obligations were introduced the profitability of our operations may be negatively impacted. | There have been no recent trends toward introducing USOs in the mobile sector in the telecommunications markets in which we operate.<br>Increasingly high penetration levels in many of our markets reduce the likelihood of introduction of USOs. | In certain markets regulators offer or require investment in coverage expansion as an alternative to cash payments. This can create a cost-effective opportunity to increase our subscriber base with limited additional capital expenditure.<br>Introduction of USOs may present opportunities to further fulfill our social responsibility ambitions. By 2016 we aim to move beyond compliance with applicable laws and internal policy to a model where we actively seek social return as an additional output from our investment. | We proactively engage with regulators, governments and other key stakeholders in our operations. We constantly monitor legal and regulatory developments in our markets and in many countries provide input into developing or enhancing existing rules and regulations.<br>We are actively involved in the countries and communities in which we do business, constantly seeking ways in which the benefits of the services that we provide can be cost effectively provided to a larger base on consumers. |
| Any failure to comply with local or international laws and regulations could result in liabilities, sanctions or restrictions in activities. Any of these events could have a material adverse impact on our business. | Internal compliance, corporate responsibility and integrity activities continued to strengthen during the year. No significant changes noted in the inherent aspects of this risk. | Our presence and reach in many of our markets provides us with significant opportunities to demonstrate our role as leading corporate citizens.<br>In offering affordable access to voice, data, entertainment, mobile financial services, and related solutions we are also investing a meaningful share of our local net profits in corporate social responsibility activities. | Corporate governance and corporate citizenship are embedded in the Millicom culture. We directly associate brand equity with our public profile and see management of our image with customers, regulators and lawmakers in our markets as being closely correlated.<br>We adopt a proactive approach to ensuring current compliance and monitor developments. Scenario and impact analysis is performed regularly on potential developments, and preparatory actions taken in advance of effective dates of new or amended locals and regulations. |

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## Emerging market risks

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| Many of the countries in which we operate have a history of political instability. Any current or future instability may negatively affect our ability to conduct business, revenue and profitability. | While political change has occurred with relatively little instability during 2012 in several of our markets, the political systems in some of our markets (mainly in Africa) remain relatively fragile, and potentially threatened by cross-border conflicts or ongoing warring action from rival groups (for example DRC).<br><br>The recognition of the validity of our license in Senegal in October 2012 has significantly reduced uncertainty in this market. | Political uncertainty typically hinders country growth. Improving stability drives economic growth and provides more opportunities for customers to improve their lives through use of the services that we provide.<br><br>As we contribute positively as an industry to the societies in which we operate, improving stability in our markets can lead to an appreciation of the value of our businesses. | We regularly engage key stakeholders in and monitor political and economic stability in all our markets.<br><br>We have contingency plans in place that enable us to operate under challenging/constrained business environments (such as Senegal during the period in which the validity of our license was challenged).<br><br>Our corporate responsibility initiatives include demonstration of the significant role we play in contributing to economic development in the countries in which we operate. |
| Some of the countries in which we operate have political regimes that may not view foreign business interests favorably and may attempt to expropriate all or part of our local assets or impose controls. | While governmental expropriation of assets does occur in some of our markets (most recently in the energy sector in Bolivia), the overall threat has steadily declined over recent years. | A marked increase in social responsibility programs and stakeholder engagement contributes to an improved profile as a good corporate citizen. We strongly believe that such actions and activities leads to increased customer uptake and loyalty (reduced churn). They also contribute to raising our brand image and government view of our profile. | We are constantly monitoring and managing our local profiles, and engaging with key stakeholders, including government ministries, agencies and regulatory bodies.<br><br>We develop and implement strategies to position our brand and corporate profile highlighting our contributions back to the economies, societies and communities in which we operate. This includes our profile as an employer of choice, charitable actions and our fiscal contributions.<br><br>We have a balanced approach towards leverage. We raise debt at the operating local level and, where possible, on a non-recourse basis. |

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| **Emerging market risks** continued | | | |
| Many of the countries in which we operate lack infrastructure or have infrastructure in relatively poor condition. | Our tower monetization activities and tower sharing arrangements have reduced (shared) many of the direct operational risks connected to operation of cell sites.<br><br>Challenges remain in certain countries where natural and manmade risks and threats to sites threaten coverage and quality of services. These include natural disasters as well as reliability of energy supply. | Further opportunities exist for sharing of passive infrastructure or outsourcing to specialized tower management companies. Such deals generate value in operating efficiency and shared risk generally reduces risk.<br><br>Diversification into online and expansion of cable fixed line services reduces our reliance on infrastructure connected to operation of cell sites for revenue generating activities. | Network optimization and operating efficiency projects are a regular and ongoing part of our actions to minimize tower site outages. We make use of backup generators at many of our sites to ensure our services are constantly available.<br><br>We are continuously looking for site sharing opportunities with other operators and tower management companies.<br><br>Our business continuity plans include assessment of infrastructure related risks to which we devise and implement back-up and other contingency plans including alternate sources of energy. |
| **Macroeconomic risks** | | | |
| An economic downturn, a substantial slowdown in economic growth or deterioration in consumer spending could adversely affect Millicom's operating results and financial conditions. | Most of the economies in which we operate continue to be impacted by global or local economic slowdown. The markets in which we operate in Central America which are to some degree dependent on international remittances remain particularly affected. This increases consumer price sensitivity which typically lowers margins and increases potential churn. | Despite economic conditions, demand for the increasingly diversified range of our services from higher value and target customers continues to increase, in particular data, mobile financial services, entertainment and solutions.<br><br>Many of the economies in our markets continue to outgrow more developed economies, leading to increased disposable income and consumer demand for our products and services.<br><br>We have one of the strongest financial positions in the telecom industry with relatively low leverage and strong cash flow generation. | We are continuously monitoring and refining affordability of our services.<br><br>Operational efficiency management programs in place seek to reduce cost and deploy capex in business areas offering higher return on investments.<br><br>Our business model is focused on cross selling and upselling more services to our high value customers and therefore should enable us a higher resilience to economic conditions than the telecom industry on average.<br><br>In Q4 2012, we generated 81% of our revenues from 27% of our customers at the top of the pyramid, i.e. with an ARPU of $10 or more. We believe these customers are less affected than average to economic slowdown. |

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| **Macroeconomic risks** continued | | | |
| We could be affected by any deterioration of economic environments in developed markets, as some of the regions in which we operate are somewhat dependent on international aid. | | While some of our global competitors might face challenging environments in their home markets due to the economic downturn, in particular those exposed to Europe, they may focus less than in the past focus on emerging markets where we compete. | One third of our customer base is generating less than 1% of our revenues and these customers are the most likely to be impacted first. Whilst our future growth will differ from our projections in the event of a material impact on these customers, our current revenue base and cash flow generation shall be relatively more immune. |
| **Dependence on spectrum and licenses** | | | |
| We face substantial competition in obtaining and renewing licenses, particular in our mobile businesses. | We have successfully renewed and obtained new licenses in our operations in recent years. We see less threat from new entrants in our markets.<br><br>We have successfully obtained licenses for operation of new businesses (such as mobile financial services).<br><br>Diversification of our businesses reduces to some extent, our dependence on one or limited numbers of licenses and our geographical spread of operations further reduces exposure to individual license renewal risk.<br><br>We have resolved the license issue in Senegal. | We expect a degree of consolidation will occur in some of our markets and especially in Africa. This will reduce demand for existing and future spectrum.<br><br>Many of our markets are still to auction or make available spectrum enabling 3G or LTE service provision. As an established operator in all of our markets we see strong opportunities to acquire such spectrum which will enable us to follow our strategy of providing consumers with more value added services. | Our preparation for license renewals and spectrum auctions or allocations starts well in advance of expiry or availability. Our approach focuses on legal requirements, our historic compliance, as well as amounts and sources of financing.<br><br>We have ongoing dialogue with governments and regulators responsible for spectrum and licenses. We are regular participants in industry groups and work with governments in addressing mutual industry issues.<br><br>With penetration levels close to 100% and our extensive distribution footprint in our Latin American markets and in the urban areas of our African markets, we believe that potential new entrants in our markets have limited opportunities to jeopardize our established position.<br><br>We actively support government programs that link social objectives with license acquisitions or renewals. |

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| **Dependence on spectrum and licenses continued** | | | |
| Availability or cost may limit our ability to acquire required or preferred frequency blocks of spectrum in some of our markets. | Governments are opening up additional blocks of spectrum as technologies change.<br><br>The risk of parallel industries (e.g. television) competing for the same spectrum is increasing over time.<br><br>Diversification of our businesses reduces to some extent, our dependence on one or limited blocks of frequency and our geographical spread of operations further reduces exposure to individual frequency related risk. | We consider spectrum an attractive and scarce resource. It is a pre-requisite to operate as a mobile telecommunication service provider.<br><br>Consolidation and our active approach to pursuing acquisition opportunities in some of our markets creates opportunities to obtain spectrum from other operators. Such acquisitions may be less competitive and less costly than direct purchase from governments or regulators.<br><br>Spectrum sharing among competing operators is increasingly common in the industry and we see opportunities in this area particularly in lower cost of acquisition and efficiency in use. | The timing and cost of our investments in spectrum are evaluated carefully against potential returns (ROIC). We consider alternate frequency blocks and the possibility for jointly bidding for spectrum with other operators.<br><br>We evaluate ongoing spectrum needs against current capacity and quality as well as forecast growth or transition to new technologies (from cost of capex and equipment service and customer demand perspectives).<br><br>Over the years, we have developed extensive experience in negotiating license renewals and spectrum prices.<br><br>We actively support government programs that link social objectives with spectrum acquisitions and renewals. |
| **Entering into new businesses** | | | |
| Our growth strategy is supported by constant innovation and acquisition of complementary businesses within the Digital Lifestyle sphere.<br><br>As we enter into new business areas such as mobile financial services, online services and entertainment, we face new and differing risks including: regulatory requirements, employee skills, reputation risk, start-up operating losses and success factors different from those we are familiar with in the telecom business. | While acquisition of new businesses increases risk, we are acquiring knowledge, skills and experience of executives and management driving these businesses (e.g. online) or leveraging from our existing businesses (e.g. cable).<br><br>We have invested considerably in innovation and value added services in people, process and technology to balance risks connected new businesses. | We see significant potential in synergies from combinations of cable, TV, and broadband services with our traditional mobile operations in many of our markets (particularly LATAM) and to a lesser extent with online.<br><br>We believe that expanding our presence to cover more of the spaces and places where people 'connect' in the future will enable us to protect our market share and provide our customers with higher quality and more services in future. We also believe that such positioning will enable us to develop more partnerships with businesses seeking channels to provide services to our customer bases.<br><br>We now target 50% of revenue from non-voice services by 2017. | In 2012 and 2013, we have and will continue to invest in new business categories, and seek to make additional acquisitions if opportunities are available at the right price.<br><br>When necessary, we partner with experts in the business areas we are developing and monitor risks and returns against targets, refining timing and direction as necessary.<br><br>We have a step by step approach to entering into new business areas and markets; we trial first and assess the risks and potential rewards before taking any decision to launch. |

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## Entering into new businesses continued

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| Our future growth is dependent upon our ability to innovate | We have successfully launched many new products and services in recent years and have developed a strong innovation culture within the Group. This enables us to stay up with, and often drive consumer demand and future direction of our industry.<br><br>We are typically ahead of our competitors in the launch of new products and services in our markets (e.g. mobile financial services). | As mobile phones and internet connectivity become increasingly essential in the lives of consumers in our markets, we believe that the quantity and type of services will continue to evolve. Together with a shift toward lower priced smartphones we see significant potential for growth in the innovative products and services we have developed.<br><br>Additional investments in 3G and LTE infrastructure will open up new opportunities for transmission of higher data intensive products and services, and the demand of content providers to use our networks.<br><br>Developments in business areas such as machine to machine also provide us with opportunities to expand the number of devices using our networks. | We have a stringent review and approval process for each stage of the design, development, piloting and scaling up new products and services in our markets. Concepts are piloted in one or a few countries and based on success rolled out to other operations.<br><br>We continue to invest in retaining and recruiting talented people to deliver in the areas of opportunity we have identified and to discover new areas.<br><br>Our investment into online services has brought us a talented and experienced pool of executives and employees skilled in rapid development and deployment of new business concepts. |
| We face risks related to IT systems and billing, in particular as we move away from classic voice and diversify into new businesses with different technical requirements | We are more than 50% through a three year $300 million IT investment program that will see us migrate our legacy IT and billing systems to customer relationship management and convergent billing, as well as a group wide ERP system. | The new state of the art billing and CRM IT platforms will enable us greater insight into the various customer of our customer segments. In turn this will enable us to serve our customers better in many different areas from communication to mobile financial services. | We carefully monitor business requirements against capital expenditure to ensure the timing and amount of our investments match our expected development and competitive needs.<br><br>We adopt a phased approach to implementing new systems with projects tested and piloted in one country before being rolled out to others. |

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Corporate Governance in Millicom is primarily based on Luxembourg and other EU legislation, the listing requirements of NASDAQ OMX Stockholm, the Swedish Code of Corporate Governance and good stock market practice. Within these frameworks, the Board of Directors has developed and continuously evaluates internal guidelines and routines as further described below, in order to ensure quality and transparency throughout the corporate governance within Millicom.

The Company has applied the Swedish Code of Corporate Governance Code from 30 May 2011, when the Company moved its primary listing to the NASDAQ OMX Stockholm and delisted from the NASDAQ Stock Market in the US (following which full deregistration from NASDAQ in the US occurred on October 12, 2012). In accordance with the Swedish Code of Corporate Governance, a more detailed review of how Millicom applies the Code is found in the annual Corporate Governance Report posted on Millicom's website.

The Millicom share is listed on NASDAQ OMX Stockholm through Swedish Depository Receipts.

The Board has adopted work procedures to divide the work between the Board and the President and Chief Executive Officer ('the CEO'). The Chairman has discussions with each member of the Board regarding the work procedures and the evaluation of the Board work. The other members of the Board evaluate the performance of the Chairman each year. The Board also evaluates yearly the performance of the CEO. The main task of the Board committees (Audit, Compensation and CR) is to work on behalf of the Board within their respective areas of responsibility. From time to time, the Board delegates authority to an 'ad hoc' committee so that it may resolve a specific matter on its own without having to go before the full Board for approval.

The Board of Directors has adopted a corporate policy manual, Millicom's central reference for all matters relating to its corporate policies on governance and other matters. Regional policies that are more stringent or detailed than those set out in the corporate policy manual are adopted as necessary. The Company's Code of Ethics is a part of the corporate policy manual. All senior managers and members of the Board of Directors, must sign a statement acknowledging that they have read, understood and will comply with the Code of Ethics.

Following the voluntary delisting from NASDAQ in the United States, Millicom implemented review processes to replace the Securities and Exchange Commission's SOX requirements and further improve the effectiveness and efficiency of its internal controls, aligned with the COSO 2 internal control referential. Besides continuous controls performed by operational and functional management, the internal controls are reviewed in the framework of two complementary group processes: audit of internal control practices in Millicom entities to ensure that they are consistent with the principles and rules defined by the Group, and; global review of internal control systems in the Group based on materiality of related risks. This work is led by the Internal Audit & Control department, reporting to the Audit Committee of the Board.

Millicom's governance position papers, codes of conduct, code of ethics, annual Corporate Governance report and terms and conditions for the Swedish Depositary Receipts are available on its corporate website. www.millicom.com.

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## Annual General Meeting and other General Meetings

Millicom held its Annual General Meeting and Extraordinary General Meeting of Shareholders on May 29, 2012 in Luxembourg. The AGM decided on the following issues, among others:

- Composition of the Board and appointment of a new member
- Approve consolidated accounts
- Shareholder remuneration
- Remuneration of Directors
- Election of external auditors
- Procedures for the Nomination Committee

In addition to the above, an Extraordinary General Meeting was held on December 5, 2012, at which Anders Kronborg was elected as a new board member and a distribution of extraordinary dividend was resolved.

The AGM of Millicom is held in the Grand-Duchy of Luxembourg at the registered office of the Company or at such other place as may be specified in the notice convening the meeting on the last Tuesday of May. If such day is a public holiday, the meeting will be held on the next following business day. The Chairman of the AGM is to be elected by the shareholders.

## Auditors

Ernst & Young S.A., Luxembourg was elected as the external auditor of Millicom in 2012 for a term ending on the day of the 2013 AGM.

In 2012, the Board had five meetings in person and nine by telephone.

### **Allen Sangines-Krause** Chairman

Allen Sangines-Krause (born 1959) was elected to the Board of Millicom in May 2008, and elected Chairman of the Board in May 2010. He is Chairman of the Compensation Committee.

Mr. Sangines-Krause worked for Goldman Sachs between 1993 and 2007, working in a variety of senior positions from COO for Latin America based in Mexico City and New York and most recently as Managing Director out of London. Prior to joining Goldman Sachs, Mr. Sangines-Krause was with Casa de Bolsa Inverlat, in Mexico, and before that he was a Founding Partner of Fidem, S.C., a Mexican investment bank, which was acquired by Casa de Bolsa Inverlat in 1991. Mr. Sangines-Krause currently sits on the Board of Investment AB Kinnevik and is Chairman of Rasaland, a real estate investment fund. He is a member of the Council of the Graduate School of Arts and Sciences of Harvard University.

Number of shares held: 2,318

### **Mia Brunell Livfors** Non-Executive Director

Mia Brunell Livfors (born 1965) was elected a board member at the AGM 2007. She is a member of the Compensation Committee and Chairman of the CR Committee.

Since August 2006, Ms. Brunell has been Chief Executive Officer of Investment AB Kinnevik ("Kinnevik"), a Swedish public company managing a portfolio of long-term investments in a number of public companies such as Millicom. Ms. Brunell joined Kinnevik owned company Modern Times Group MTG AB in 1992, and was appointed CFO in 2001. As CFO, Ms. Brunell played a central role in MTG's development. Currently, Ms. Brunell is the Chairman of the Board of Metro International S.A. and a member of the Board of Tele2 AB, Modern Times Group MTG AB, BillerudKorsnäs AB, CDON Group and H & M Hennes & Mauritz AB. Between 2006 and 2008 Ms. Brunell was a member of the Board of CTC Media, Inc. – a Russian associated company of MTG. She was also a member of the Board of Transcom Worldwide S.A. from 2006 until 2012.

Number of shares held: 2,359

### **Donna Cordner** Non-Executive Director

Donna Cordner (born 1956) was elected to the Board of Millicom in May 2004. She is an independent Director and is a member of the Audit Committee and the CR Committee.

Ms. Cordner was formerly a Managing Director and Global Head of Telecommunications and Media Structured Finance group at Citigroup. She has also held senior management positions at Societe Generale and ABN Amro Bank N.V. in the U.S. and Europe, including as Director of ABN's Latin American Telecommunications Project Finance and Advisory Group. Ms. Cordner was the CEO of HOFKAM Limited, the largest rural microfinance company in Uganda until July 2005. From March 2007 until July 2009 she held senior positions at Tele2 AB including Executive Vice President of Corporate Finance and Treasury as well as CEO for Tele2 Russia. Ms. Cordner is currently a member of the Supervisory Board of Carlsberg Group.

Number of shares held: 14,625 (and 10,000 options held)

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## Paul Donovan Non-Executive Director

Paul Donovan (born 1958). He is an independent Director and a member of the Audit Committee.

Mr. Donovan was elected to the Board of Millicom in May 2009. He was director and Chief Executive Officer of Eircom, Ireland's leading telecommunications company from July 2009 to September 2012. Previously he was Chief Executive, EMAPA Region for the Vodafone Group. Mr. Donovan's background includes a decade in the fast moving consumer goods industry, before he moved into the technology sector, with Apple, BT, Cable and Wireless and Vodafone. His career with Vodafone began in 1999 and since 2004, he was a member of Vodafone's Executive Committee, with responsibility for the Group's operations in Eastern Europe, Middle East and Asia Pacific. Africa, the US, India and China were added to his remit in 2006. Mr. Donovan holds a Bachelor of Arts in Scandinavian Studies from University College London and a Master's Degree in Business Administration from the University of Bradford.

Number of shares held: 1,356

## Kim Ignatius Non-Executive Director

Kim Ignatius (born 1956) was elected to the Board of Millicom in May 2011. He is an independent Director and is Chairman of the Audit Committee.

Mr. Ignatius is the CFO of Sanoma Corporation, the European media group, which he joined in 2008. Previously, Mr. Ignatius was EVP and CFO of TeliaSonera AB between 2003 and 2008 and EVP and CFO of Sonera Oyj between 2000 and 2002. Before joining Sonera, Mr. Ignatius was Group CFO and a member of the Executive Board of Tamro Oyj, a leading pharmaceutical distributor listed on the Helsinki Stock Exchange, between 1997 and 2000. From 1984 to 1996 he worked for Amer Group in a variety of finance and general management roles in both North America and Europe. He started his career with Oy Hanke-Palsbo Ab and Fruehauf Corporation in a series of finance roles. Mr. Ignatius graduated with a B.Sc Economics from the Aalto University School of Economics in Helsinki. He is currently on the Board of Fortnum Corporation where he serves as Chairman of the Audit and Risk Committee.

## Omari Issa Non-Executive Director

Omari Issa (born 1947) was elected to the Millicom Board in May 2010. He is an independent Director and a member of the Audit Committee and the Compensation Committee.

Mr. Issa is the CEO of Investment Climate Facility for Africa and is a Board Member of Geita Gold Mining Company. He is a Tanzanian citizen who is responsible for managing the ICF's seven year program to improve Africa's investment climate and remove barriers to growth. Mr. Issa has extensive business experience in the public and private sectors, having worked in both Africa and abroad. He has first hand experience of the realities of doing business in Africa, having previously worked as Executive Director and Chief Operating Officer of Celtel International, where he played an instrumental role in managing the company's growth and expansion across the continent. Prior to working at Celtel, Mr. Issa spent 14 years with the IFC and six years with the World Bank. Mr. Issa was born in 1947. He has a Bachelor of Science (Honours) from The Polytechnic of Central London, and an MBA from Columbia University, New York.

Number of shares held: 610

## Anders Kronborg Non-Executive Director

Anders Kronborg (born 1964) was elected to the Board of Millicom in December 2012.

Mr. Kronborg, started his career with the Kinnevik group in 2007 when he was appointed Chief Financial Officer of Metro International SA, the international free newspaper group. On May 1, 2012, Mr. Kronborg was appointed Chief Operating Officer (COO) of Investment AB Kinnevik.

As COO, his focus is on the operating and financial development of Kinnevik's portfolio of companies. Prior to joining Metro, Mr. Kronborg gained extensive experience from the financial operations of media businesses. He served as the CFO of Danish Broadcaster TV2 and held numerous executive positions with Danish newspaper group, Berlingske Media A/S. Mr. Kronborg has a master's degree in Economics from Copenhagen University.

## Dionisio Romero Paoletti Non-Executive Director

Dionisio Romero Paoletti (born 1965) was elected to the Board of Millicom in May 2012. He is an independent Director.

Mr. Romero Paoletti, aged 46, is Chairman and President of the Romero Group, a Peruvian business group founded in the late 1800s and today comprising numerous companies across a wide range of sectors from consumer products to textiles, logistics, infrastructure, trading and services. The Group also has a controlling interest in Credicorp (BAP), the largest financial conglomerate in Peru which is listed on the New York and Lima Stock Exchanges. Mr. Romero Paoletti developed his executive career within several companies in the Romero Group and succeeded his father as Chairman of the Group in 2001. He has served as a Board Member of Credicorp and Banco De Credito del Peru since 2003 and as Chairman since 2009. He holds a bachelor's degree in Economics from Brown University and a master's degree in Business Administration from Stanford University.

The Nominations Committee has resolved that:

The following Directors would qualify as independent of major shareholders as well as the Company and its management according to the Swedish Code of Corporate Governance.

Ms. Donna Cordner

Mr. Paul Donovan

Mr. Omari Issa

Mr. Kim Ignatius

Mr. Dionisio Romero Paoletti

The following Directors would not qualify as independent of major shareholders, but independent of the Company and its management according to the Swedish Code of Corporate Governance.

Ms. Mia Brunell Livfors

Mr. Anders Kronborg

Mr. Allen Sangines-Krause

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## Board Meetings

During the 2012 financial year, the Board convened five times at different locations in Europe. In addition, nine telephone conferences were held. The average attendance rate at meetings was 95%. The main topics handled by the Board were:

- Review and approval of financial reports.
- Review and follow-up of internal control and corporate governance.
- Appointment of the new CEO.
- Treasury matters, including significant credit facility agreements.
- Human resource matters, including talent management, succession planning and remuneration guidelines.
- Strategy review, including review of growth opportunities, product portfolio, business model challenges and marketing strategies.
- Several matters regarding acquisition and divestments opportunities and participation in license auctions or tenders.
- Review of 2013 budget.
- Self-evaluation of the Board and evaluation of the CEO.
- Auditor's report and corporate sustainability matters.

## Board Committees

The work of the Board is divided between the Board and its principal committees:

### Audit Committee

The Audit Committee has the responsibility for planning and reviewing the financial reporting process, the preparation of the annual and quarterly financial reports and accounts and the involvement of external auditors in that process. The Audit Committee focuses particularly on compliance with legal requirements, accounting standards, independence of external auditors, audit fees, the internal audit function, the fraud risk assessment, risk management and ensuring that an effective system of internal financial controls is in place. Millicom's directors have established an Audit Committee that convenes at least four times a year, comprising five directors, Mr. Ignatius (Chairman and financial expert), Mr. Donovan, Mr. Issa, Ms. Cordner and Mr. Kronborg. The Audit Committee met ten times during 2012, including five meetings by telephone, and Millicom's external auditors participated in each such meeting.

### Compensation Committee

The Compensation Committee reviews and makes recommendations to the Board of Directors regarding the compensation of the CEO and the other senior managers as well as management succession planning. The Board of Directors, based on a proposal by the Compensation Committee, propose guidelines for remuneration to Senior Management to be approved by the shareholders at the Annual General Meeting. The objective of the guidelines is to ensure that Millicom can attract, motivate and retain executives, within the context of Millicom's international talent pool, which consists of Telecom, Media, FMCG and Online companies. Millicom's Compensation Committee is chaired by Mr. Sangines-Krause. The two other members of the committee are Ms. Brunell Livfors and Mr. Issa. The Compensation Committee meet four times in 2012.

### CR Committee

Millicom's directors have established a Corporate Social Responsibility (CR) Committee that convenes at least two times a year, comprising two directors, Ms. Brunell Livfors (Chairman) and Ms. Cordner. This committee has responsibility for overseeing and making recommendations to the Board regarding the management of CR. The CR committee met three times in 2012.

### Nomination Committee

The Nominations Committee is responsible for preparing proposals for the election of Directors of the Board, Chairman of the Board and auditor, in the case that an auditor should be elected, and their remuneration as well as a proposal on the Chairman of the Annual General Meeting. The Nomination Committee is comprised of Cristina Stenbeck, on behalf of Investment AB Kinnevik, Annika Andersson on behalf of Swedbank Robur funds and William C. Miller on behalf of J.M. Hartwell L.P. The Nomination Committee held its first meeting on Monday, November 26, 2012, and elected Cristina Stenbeck as Chairman.

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**Hans-Holger Albrecht** President and Chief Executive Officer

Hans-Holger Albrecht was appointed President and CEO of Millicom on November 1st 2012.

Previously he was President and CEO of Modern Times Group MTG AB (MTG) for 12 years. Hans-Holger started his career at MTG in 1997 as head of the Pay-TV operations, before being appointed as Business Area Manager in 1999 and thus assuming responsibility for the free-TV division as well. In April 2000, he was appointed Chief Operating Officer (COO) of MTG. Before joining MTG, Hans-Holger worked for the Luxembourg-based media group CLT from 1991 to 1996 and for Daimler-Benz in 1990. Hans-Holger Albrecht studied at the University of Freiburg in Germany, at Yale University in the USA and at the University of Bochum, Germany, where he received a Master of Laws degree (LLM).

**François-Xavier Roger** Senior EVP Chief Financial Officer

François-Xavier Roger was appointed as CFO of Millicom in September 2008.

Previously, he served as Vice-President Corporate Finance and Treasurer of Danone from 2006 to 2008 and as CFO of Danone Asia from 2000 to 2005. He also held various CFO positions in Asia, Africa and LATAM within the Sanofi Group. He majored in Marketing for his MBA at The Ohio State University and has a master's degree in Major Accounting from Audencia Business School in France.

**Mario Zanotti** Senior EVP Operations

Mario Zanotti was appointed as Senior EVP Operations in December 2012.

From late 2011, Mario was COO Categories & Global Sourcing. He joined Millicom in 1992 as General Manager of Telecel in Paraguay. Following this, he became Managing Director of Tele2 Italy and CEO of YXK Systems. In 2002, he served as Head of Central America for Millicom and became Chief Officer LATAM in 2008. Prior to joining Millicom, he worked as an electrical engineer at Itaipu Hydroelectric Power Plant and later as Chief Engineer of the biggest electrical contractor company in Paraguay. He has a degree in Electrical Engineering from the Pontifica Universidade Catolica in Porto Alegre, Brazil and a MBA from INCAE and the Universidad Catolica de Asunción, Paraguay.

## Regis Romero EVP Africa and South America

Regis Romero was appointed as EVP Africa and South America in December 2012.

Prior to this, he was COO Global Markets. He joined Millicom in 1998 as Commercial Manager in Bolivia. He then became COO in Paraguay and Co-Head of Africa before becoming Chief Officer Africa in 2008. Prior to joining Millicom, he worked as an investment consultant for Interamerican Development Bank. He has a bachelor's degree in Business Administration from National University, USA, and a master's degree in Business Management from EDAN in Asunción and has completed the S.E.P at London Business School.

## Jo Leclère EVP of Human Resources

Jo Leclère was appointed Chief HR Officer of Millicom in 2011.

He joined Millicom in February 2009 as Head of Reward & Performance, having previously been VP Operations Europe at Northgate Arinso, a global HR consulting and outsourcing provider. Prior to this position, he was HR Services Director at PricewaterhouseCoopers. He holds a master's degree in Law, a postgraduate degree in Tax and a bachelor's degree in Economics.

## Martin Lewerth EVP of Home and Digital Media

Martin Lewerth was appointed as EVP of Home and Digital Media in December 2012.

Previously, Martin was Executive Vice President Pay-TV and Technology at MTG. Martin joined MTG in 2001 where he served in various management positions including CTO for MTG, CEO for the IPTV distribution, Business area manager for the Pay-TV business and manager responsible for the Group's online strategy and operations. Before joining MTG, Martin worked for the management consulting firm Applied Value and the Swedish company SKF Group. Martin holds a MSc from Chalmers University of Technology in Sweden.

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## Anders Nilsson EVP of Commerce and Services

Anders Nilsson has been appointed as EVP of Commerce and Services in January 2013.

Anders will oversee the Mobile Financial Services business (previously headed by François-Xavier Roger) and the newly created Online division. Prior to joining Millicom, Anders was EVP of Central European Broadcasting at MTG, responsible for free and pay TV operations in the Baltics and free-TV operations in the Czech Republic, Bulgaria and Hungary. Anders joined MTG in 1992 and he successfully headed the Group's Radio and Publishing businesses before serving as MTG's COO and Head of MTG Sweden. Between 2008 and 2010, Anders was also CEO of MTG's Online business area which was spun off in 2010 into what is now CDON.

## Xavier Rocoplan EVP CTIO

Xavier Rocoplan was appointed as EVP and Chief Technical & IT Officer in December 2012.

He was previously Chief Global Networks Officer, a position he held from April 2012. Xavier will continue to report to Mario Zanotti, senior EVP Operations. Xavier joined Millicom in 2000 as CTO in Vietnam and then became CTO for the South East Asian cluster (Cambodia, Laos and Vietnam). In 2004, he was appointed CEO of Paktel in Pakistan, a role he held until 2007. During this time, he launched Paktel's GSM operations and led the process that was concluded with the disposal of the business in 2007. After Millicom's exit from Asia, Xavier was appointed to head the New Corporate Business development unit where he managed the Tower Assets Monetization program which led to the creation of tower companies in Ghana, Tanzania, DRC and Colombia. Xavier holds master's degrees from Ecole Nationale Supérieure des Télécommunications de Paris and from Université Paris IX Dauphine.

## Marc Zagar EVP Controlling and Analytics

Marc Zagar has been appointed EVP of Controlling and Analytics with effect from February 2013.

Marc will report to François-Xavier Roger, Senior EVP and Group CFO. Prior to joining Millicom and since October 2011, Marc Zagar was EVP Finance at MTG. Marc joined MTG in 2001 as Business Area Controller of Viasat broadcasting. In March 2006, he was appointed Chief Operating Officer for MTG's broadcasting businesses. Prior to joining MTG, Marc worked for over ten years in various financial management positions within Vivendi Universal, having started his career with Steelcase Strafor. He graduated with a bachelor's degree from CESEM Business School in Reims, France and has a master's degree from Université Dauphine in Paris.

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# Principal Activities and Background

Millicom is a leading telecommunications and media company providing communications, information, entertainment, solutions, financial, online and e-commerce services in emerging markets, using various combinations of mobile and fixed telephony, cable, broadband and internet businesses, primarily in 16 countries in Central America, South America and Africa. Millicom operates its mobile businesses in El Salvador, Guatemala and Honduras in Central America; in Bolivia, Colombia and Paraguay in South America; and in Chad, the Democratic Republic of Congo ('DRC'), Ghana, Mauritius, Rwanda, Senegal and Tanzania in Africa. In addition Millicom operates cable businesses in El Salvador, Guatemala, Honduras, Costa Rica, Nicaragua and Paraguay and online/e-commerce businesses in several countries.

During 2012 Millicom expanded its reach into cable business in Central America and in Paraguay in South America through the acquisition of several cable businesses. Millicom also entered the Online Services business with the acquisition of a minority stake and controlling options over certain internet based businesses in Latin America (predominantly in Brazil) and Africa.

The Company's shares are traded as Swedish Depositary Receipts on the Stockholm stock exchange under the symbol MIC SDB and over the counter in the US under the symbol MIICF. On October 12, 2012 the Company filed a certificate with the US Securities and Exchange Commission ('SEC') to terminate the registration of its shares. As from that date the Company is no longer subject to the reporting and disclosure requirements of the Exchange Act in the US. The Company has its registered office at 2, Rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg and is registered with the Luxembourg Register of Commerce under the number RCS B 40 630.

## Group Performance

### Results for 2012

The Group continued to experience attractive growth in 2012 despite more challenging economic conditions and a reversal of growth in traditional communications in Q4 2012. The total mobile customer base increased by 10% to 47.2 million compared to 43.1 million at December 31, 2011. In 2012, our emphasis was on building all of our categories with particular focus on value added services including our information and MFS categories. In the last quarter of the year, we generated 35% of revenues from non-voice services. Revenue increased by over 6% to $4,814 million year-on-year in dollar terms and by 8% in local currency.

## The total mobile customer base **increased by 10%**

Total operating profit for the year ended December 31, 2012 was down by 12% to $1,104 million from $1,257 million for the year ended December 31, 2011, reflecting an increased focus on developing resources and infrastructure around value added services, and in encouraging customers to migrate toward data through increased handset subsidies. This focus was also reflected in the normalized net profit attributable to equity holders of the Company as it declined by 14% in 2012 to $655 million from $767 million in 2011. The year-on-year decline in normalized basic earnings of 12% was mainly due to negative foreign exchange movements.

The Group generated operating free cash flow of $1,127 million in 2012, equivalent to 23.4% of revenues, compared to $1,218 million in 2011. Cash and cash equivalents increased to $1,174 million compared to $861 million at December 31, 2011. As at December 31, 2012, the Group had total equity of $2.3 billion compared to $2.4 billion as at December 31, 2011.

The Group's performance throughout 2012 demonstrates our ability to maintain top-line growth and cash flow generation while refocusing on growth opportunities and reacting to market conditions. We have delivered revenue growth and only a slight decline in margins as we invested in new business opportunities.

## Operational/Strategic Developments in 2012

On August 14, 2012 Millicom announced that it had entered into an agreement with Rocket Internet GmbH ('Rocket') whereby Millicom will acquire an initial 20% interest in two subsidiaries of Rocket, Latin America Internet Holding ('LIH') and Africa Internet Holding ('AIH') for Euro 85 million and unconditional options to acquire the remaining shares in each of LIH and AIH by September 2016 at the latest.

On October 2, 2012, Millicom announced the completion of the acquisition of Cablevision Paraguay, the leading pay-TV operator in Asunción. In the fourth quarter, the operation was rebranded, reaching more homes with the Tigo brand.

Millicom announced that it had entered into an agreement with **Rocket Internet**

On October 30, 2012, Millicom successfully issued a five-year SEK 2 billion bond in Sweden. SEK 1.75 billion of the bond was issued with a floating rate coupon of 3 months STIBOR +3.50% and SEK 0.25 billion with a fixed coupon of 5.125%. Proceeds were in part used to finance the investment in the two Berlin-based holding companies of Rocket Internet: Latin America Internet Holdings (LIH) and Africa Internet Holdings (AIH).

On October 31, 2012, Millicom officially welcomed its new President and CEO Hans-Holger Albrecht. Hans-Holger joined Millicom from Modern Times Group (MTG) where he served as President and CEO for over 12 years. Hans-Holger presided over MTG's rapid expansion and development into an industry leading broadcaster with a unique geographical reach, balanced mix of pay and free TV, and strong financial position. Under his leadership, MTG's sales tripled to SEK 13.5 billion, as MTG expanded from its Nordic base into Central & Eastern Europe and Africa, and pioneered new TV distribution markets.

On November 20, 2012, Millicom launched its Mobile Financial Services (MFS) in Chad. At the end of 2012, Millicom had over 4 million MFS users, 12% of customers in countries where MFS has been offered for more than one quarter.

On December 4, 2012, Millicom renewed its license in Colombia for a further ten years. Colombia Movil (a subsidiary of Millicom) renewed its license until February 2023. In February 2013, Colombia Movil will initially pay COP 93 billion (approximately US$ 53 million). The final consideration to be paid for the renewal of the license and 50 MHz of spectrum in the 1900 MHz spectrum band will be determined by the 'Tribunal de Arbitramiento' (Arbitrage Court) in the next 12-18 months.

On December 5, 2012, at the EGM, an exceptional dividend of $3.00 per share was approved and subsequently paid in December 2012.

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On December 7, 2012, Millicom announced the appointment of four new members to its Executive Committee, bringing the total to nine. The team, led by the President and Group CEO, Hans-Holger Albrecht, is comprised of two Senior Executive Vice Presidents and six Executive Vice Presidents. The Senior Executive Vice Presidents are Mario Zanotti (Senior EVP of Operations) and François-Xavier Roger (Senior EVP & CFO). Regis Romero (EVP Africa and South America) and Jo Leclere (EVP of Human Resources) have been joined as Executive Vice Presidents by the newly appointed Xavier Rocoplan (EVP and CTIO), Marc Zagar (EVP Controlling and Analytics), Anders Nilsson (EVP Commerce and Services) and Martin Lewerth (EVP Home and Digital Media).

On December 7, 2012, Millicom announced that its fully owned subsidiary in Paraguay successfully issued a US$ denominated bond. Tigo Paraguay completed the issuance of a 10-year US$ 300 million bond with a fixed coupon of 6.75% Tigo Paraguay used part of the proceeds for refinancing loans used for the Cablevision acquisition.

## During the year we returned **$731 million** to our shareholders

During the year we returned $731 million to our shareholders, through $541 million of dividends (a $2.40 per share ordinary dividend and a $3.00 per share exceptional dividend) and through a share buyback program. On February 12, 2013, we reiterated our ordinary dividend policy of no less than $2.00 per share or a minimum pay-out ratio of 30% and announced that the Board will propose to the AGM in May the payment of an ordinary dividend of $2.64 per share and intend to have a progressive dividend in the future.

### Outlook for the Group

In 2013 the transition from voice to data and from analogue to digital TV is expected to accelerate as we ensure Millicom remains a growth company. Our priorities will be to 1) secure high market share and further monetize mobile data, 2) grow our cable business by exploiting untapped potential, 3) expand our MFS business from its initial success, and 4) explore and further develop e-commerce and online opportunities in our partnership with Rocket Internet. Creation of a leading integrated operator in Colombia with EPM (the leading utility company in the Northwest region of Colombia) would enable us to accelerate our development in cable, whilst offering material opportunities to cross-sell and up-sell innovative and best quality services to customers.

In 2013 we expect EBITDA margin to decline less than in 2012, and remain above 40%, and Capex to revenue to peak at around 20% (both excluding the 'Commerce and Services' area). We have recently increased our focus on costs and Capex avoidance to improve the productivity of our investments and adjust our costs structure to the slowing growth momentum on voice. Building on Millicom's pioneering approach to Value Added Services; we will focus on becoming a Digital leader.

# Independent auditors' report

To the Shareholders of Millicom International Cellular S.A.

Following our appointment by the General Meeting of the Shareholders dated May 29, 2012, we have audited the accompanying consolidated accounts of Millicom International Cellular S.A., which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated accounts as of December 31, 2011 and 2010 and for the years then ended were audited by another auditor which issued an unqualified opinion on March 1, 2012.

## Board of Directors' responsibility for the consolidated accounts

The Board of Directors is responsible for the preparation and fair presentation of these consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

## Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the judgment of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated accounts give a true and fair view of the financial position of Millicom International Cellular S.A. as of December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Olivier LEMAIRE
Luxembourg
March 22, 2013

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# Consolidated income statements

for the years ended December 31, 2012, 2011 and 2010

| | Notes | 2012 US$ millions | 2011 US$ millions | 2010 (As Restated)(i) US$ millions |
|---|---|---|---|---|
| Revenue | 10 | 4,814 | 4,530 | 3,920 |
| Cost of sales | | (1,737) | (1,565) | (1,330) |
| **Gross profit** | | **3,077** | **2,965** | **2,590** |
| Sales and marketing | | (914) | (817) | (737) |
| General and administrative expenses | | (956) | (839) | (739) |
| Other operating expenses | | (122) | (96) | (75) |
| Other operating income | | 19 | 44 | 3 |
| **Operating profit** | 10,11 | **1,104** | **1,257** | **1,042** |
| Interest expense | | (220) | (187) | (215) |
| Interest and other financial income | | 14 | 15 | 15 |
| Revaluation of previously held interests | 5 | – | – | 1,060 |
| Other non-operating income (expenses), net | 13 | 22 | (4) | (62) |
| Loss from associates | 18 | (23) | (10) | (2) |
| **Profit before tax from continuing operations** | | **897** | **1,071** | **1,838** |
| (Charge) credit for taxes | 14 | (393) | 19 | (227) |
| **Profit for the year from continuing operations** | | **504** | **1,090** | **1,611** |
| Profit for the year from discontinued operations, net of tax | 7 | – | 39 | 12 |
| **Net profit for the year** | | **504** | **1,129** | **1,623** |
| Attributable to: | | | | |
| Equity holders of the Company | | 508 | 925 | 1,620 |
| Non-controlling interests | | (4) | 204 | 3 |
| **Earnings per share for the year** | 15 | | | |
| (US$ per common share) | | | | |
| **Basic earnings per share** | | | | |
| – from continuing operations attributable to equity holders | | 5.02 | 8.50 | 14.89 |
| – from discontinued operations attributable to equity holders | | – | 0.37 | 0.08 |
| – for the year attributable to equity holders | | 5.02 | 8.87 | 14.97 |
| **Diluted earnings per share** | | | | |
| – from continuing operations attributable to equity holders | | 5.01 | 8.49 | 14.87 |
| – from discontinued operations attributable to equity holders | | – | 0.37 | 0.08 |
| – for the year attributable to equity holders | | 5.01 | 8.86 | 14.95 |

(i) Restatement – see note 4

The accompanying notes are an integral part of these consolidated financial statements.

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## Consolidated statements of comprehensive income

for the years ended December 31, 2012, 2011 and 2010

| | 2012 US$ millions | 2011 US$ millions | 2010 (As Restated)[(i)] US$ millions |
|---|---|---|---|
| Net profit for the year | 504 | 1,129 | 1,623 |
| **Other comprehensive income:** | | | |
| Exchange differences on translating foreign operations | (55) | (47) | (6) |
| Cash flow hedges | (2) | (3) | (2) |
| **Total comprehensive income for the year** | **447** | **1,079** | **1,615** |
| **Attributable to:** | | | |
| Equity holders of the Company | 469 | 882 | 1,617 |
| Non-controlling interests | **(22)** | **197** | **(2)** |

(i) Restatement – see note 4

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated statements of financial position

as at December 31, 2012 and 2011

| | Notes | 2012 US$ millions | 2011 US$ millions |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Intangible assets, net | 16 | 2,419 | 2,170 |
| Property, plant and equipment, net | 17 | 3,108 | 2,865 |
| Investments in associates | 18 | 193 | 63 |
| Pledged deposits | 19,27 | 47 | 50 |
| Deferred tax assets | 14 | 259 | 317 |
| Other non-current assets | | 86 | 37 |
| **Total Non-Current Assets** | | **6,112** | **5,502** |
| **Current Assets** | | | |
| Inventories | | 93 | 75 |
| Trade receivables, net | 20 | 322 | 277 |
| Amounts due from non-controlling interests and joint ventures | | 81 | 159 |
| Prepayments and accrued income | | 140 | 119 |
| Current income tax assets | | 39 | 24 |
| Supplier advances for capital expenditure | | 44 | 32 |
| Advances to non-controlling interest | | 56 | 34 |
| Other current assets | | 86 | 113 |
| Restricted cash | 21 | 43 | 20 |
| Cash and cash equivalents | 22 | 1,174 | 861 |
| **Total Current Assets** | | **2,078** | **1,714** |
| Assets held for sale | 7 | 21 | 66 |
| **TOTAL ASSETS** | | **8,211** | **7,282** |

The accompanying notes are an integral part of these consolidated financial statements.

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## Consolidated statements of financial position continued

as at December 31, 2012 and 2011

| | Notes | 2012 US$ millions | 2011 US$ millions |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Share capital and premium | 23 | 642 | 663 |
| Treasury shares | 23 | (198) | (378) |
| Put option reserve | 25 | (737) | (737) |
| Other reserves | 26 | (133) | (104) |
| Retained profits | | 1,942 | 1,886 |
| Profit for the year attributable to equity holders | | 508 | 925 |
| **Equity attributable to owners of the Company** | | **2,024** | **2,255** |
| Non-controlling interests | | 312 | 191 |
| **TOTAL EQUITY** | | **2,336** | **2,446** |
| **Liabilities** | | | |
| **Non-current Liabilities** | | | |
| Debt and financing | 27 | 2,566 | 1,817 |
| Derivative financial instruments | 35 | 4 | 8 |
| Provisions and other non-current liabilities | 28 | 127 | 114 |
| Deferred tax liabilities | 14 | 180 | 199 |
| **Total non-current liabilities** | | **2,877** | **2,138** |
| **Current Liabilities** | | | |
| Debt and financing | 27 | 693 | 621 |
| Put option liability | 28 | 730 | 745 |
| Payables and accruals for capital expenditure | | 411 | 334 |
| Other trade payables | | 259 | 224 |
| Amounts due to joint venture partners | | 19 | 93 |
| Accrued interest and other expenses | | 341 | 264 |
| Current income tax liabilities | | 161 | 105 |
| Provisions and other current liabilities | 28 | 379 | 303 |
| **Total current liabilities** | | **2,993** | **2,689** |
| Liabilities directly associated with assets held for sale | 7 | 5 | 9 |
| **TOTAL LIABILITIES** | | **5,875** | **4,836** |
| **TOTAL EQUITY AND LIABILITIES** | | **8,211** | **7,282** |

The accompanying notes are an integral part of these consolidated financial statements.

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## Consolidated statements of cash flows

for the years ended December 31, 2012, 2011 and 2010

| | Notes | 2012 US$ millions | 2011 US$ millions | 2010 (As Restated)[i] US$ millions |
|---|---|---|---|---|
| **Profit before tax from continuing operations** | | **897** | **1,071** | **1,838** |
| **Adjustments for non-operating items:** | | | | |
| Interest expense | | 220 | 187 | 215 |
| Interest and other financial income | | (14) | (15) | (15) |
| Revaluation of previously held interests | | – | – | (1,060) |
| Loss from associates | | 23 | 10 | 2 |
| Other non-operating (income) expenses, net | | (22) | 4 | 62 |
| **Adjustments for non-cash items:** | | | | |
| Depreciation and amortization | 10,11,16,17 | 811 | 739 | 677 |
| Loss (gain) on disposal and impairment of assets, net | 10,11 | 6 | (22) | 16 |
| Share based compensation | 24 | 22 | 17 | 31 |
| | | **1,943** | **1,991** | **1,766** |
| Increase in trade receivables, prepayments and other current assets | | (103) | (57) | (31) |
| Increase in inventories | | (14) | (13) | (13) |
| Increase in trade and other payables | | 201 | 85 | 45 |
| **Changes in working capital** | | **84** | **15** | **1** |
| Interest paid | | (169) | (141) | (171) |
| Interest received | | 11 | 14 | 15 |
| Tax paid | | (284) | (268) | (239) |
| **Net cash provided by operating activities** | | **1,585** | **1,611** | **1,372** |
| **Cash flows from investing activities:** | | | | |
| Acquisition of subsidiaries, and non-controlling interests, net of cash acquired | 5 | (172) | (20) | (5) |
| Proceeds from disposal of subsidiaries and non-controlling interests | | – | 1 | 5 |
| Purchase of intangible assets and licenses | 16 | (159) | (57) | (26) |
| Proceeds from sale of intangible assets | | 2 | – | – |
| Purchase of property, plant and equipment | 17 | (842) | (700) | (597) |
| Proceeds from sale of property, plant and equipment | | 115 | 127 | 37 |
| Disposal of pledged deposits, net | | – | 9 | 2 |
| Disposal of time deposits, net | | – | 3 | 47 |
| Net increase in restricted cash | 21 | (23) | (20) | – |
| Cash (used) provided by other investing activities | | (31) | (35) | 9 |
| **Net cash used by investing activities** | | **(1,110)** | **(692)** | **(528)** |
| **Cash flows from financing activities:** | | | | |
| Loans to associates | | (31) | – | – |
| Short term loans to other non-controlling interests | | (24) | – | – |
| Proceeds from issuance of shares | | – | 1 | 3 |
| Purchase of treasury shares | | (190) | (498) | (300) |
| Proceeds from debt and other financing | 27 | 1,545 | 703 | 1,148 |
| Repayment of debt and financing | 27 | (923) | (792) | (1,397) |
| Advance payments to non-controlling interests | | – | (27) | – |
| Payment of dividends | | (541) | (494) | (789) |
| **Net cash used by financing activities** | | **(164)** | **(1,107)** | **(1,335)** |
| Cash provided by discontinued operations | 7 | – | 53 | – |
| Exchange gains (losses) on cash and cash equivalents | | 2 | (27) | 3 |
| **Net increase (decrease) in cash and cash equivalents** | | **(313)** | **(162)** | **(488)** |
| Cash and cash equivalents at the beginning of the year | | 861 | 1,023 | 1,511 |
| **Cash and cash equivalents at the end of the year** | | **1,174** | **861** | **1,023** |

(i) Restatement – see note 4

The accompanying notes are an integral part of these consolidated financial statements.

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# Consolidated statements of changes in equity

for the years ended December 31, 2012, 2011 and 2010

| | Number of shares '000 | Number of shares held by the Group '000 | Share Capital(i) US$ '000 | Share Premium(i) US$ '000 | Treasury shares US$ '000 | Retained profits(ii) US$ '000 | Put option reserve(iv) US$ '000 | Other reserves(v) US$ '000 | Total Equity Holder's interests US$ '000 | Non-controlling interests(vi) US$ '000 | Total equity US$ '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Attributable to equity holders | | | | | | | |
| **Balance as of January 1, 2010** | **108,648** | **–** | **162,971** | **497,576** | **–** | **1,788,186** | **–** | **(64,930)** | **2,383,803** | **(73,673)** | **2,310,130** |
| Profit for the year(ix) | – | – | – | – | – | 1,620,277 | – | – | 1,620,277 | 2,691 | 1,622,968 |
| Cash flow hedge | – | – | – | – | – | – | – | (1,700) | (1,700) | – | (1,700) |
| Currency translation differences | – | – | – | – | – | – | – | (1,090) | (1,090) | (4,695) | (5,785) |
| Total comprehensive income for the year(ix) | – | – | – | – | – | 1,620,277 | – | (2,790) | 1,617,487 | (2,004) | 1,615,483 |
| Transfer to legal reserve | – | – | – | – | – | (53) | – | 53 | – | – | – |
| Dividends(vii) | – | – | – | – | – | (653,779) | – | – | (653,779) | – | (653,779) |
| Purchase of treasury shares | – | (3,254) | – | – | (300,000) | – | – | – | (300,000) | – | (300,000) |
| Shares issued via the exercise of share options | 145 | – | 218 | 3,874 | – | – | – | (816) | 3,276 | – | 3,276 |
| Share-based compensation(iii) | – | – | – | – | – | – | – | 30,286 | 30,286 | – | 30,286 |
| Directors' shares(iii) | 5 | – | 8 | 424 | – | – | – | – | 432 | – | 432 |
| Issuance of shares under the LTIPs(iii) | 255 | – | 381 | 16,107 | – | – | – | (16,488) | – | – | – |
| Change in scope of consolidation(viii) | – | – | – | – | – | – | – | – | – | 130,843 | 130,843 |
| Dividend to non-controlling shareholders | – | – | – | – | – | – | – | – | – | (9,616) | (9,616) |
| Put option for non-controlling interest(iv)(ix) | – | – | – | – | – | – | (737,422) | – | (737,422) | – | (737,422) |
| **Balance as of December 31, 2010 (As Restated)(ix)** | **109,053** | **(3,254)** | **163,578** | **517,981** | **(300,000)** | **2,754,631** | **(737,422)** | **(54,685)** | **2,344,083** | **45,550** | **2,389,633** |
| **For the year ended December 31, 2011(ix)** | | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | 924,515 | – | – | 924,515 | 204,490 | 1,129,005 |
| Cash flow hedge reserve movement | – | – | – | – | – | – | – | (3,015) | (3,015) | (247) | (3,262) |
| Currency translation differences | – | – | – | – | – | – | – | (39,806) | (39,806) | (6,892) | (46,698) |
| Total comprehensive income for the year | – | – | – | – | – | 924,515 | – | (42,821) | 881,694 | 197,351 | 1,079,045 |
| Transfer to legal reserve | – | – | – | – | – | (61) | – | 61 | – | – | – |
| Dividends(vii) | – | – | – | – | – | (493,909) | – | – | (493,909) | – | (493,909) |
| Purchase of treasury shares | – | (4,646) | – | – | (498,274) | – | – | – | (498,274) | – | (498,274) |
| Cancellation of treasury shares | (4,200) | 4,200 | (6,300) | (20,070) | 401,415 | (375,045) | – | – | – | – | – |
| Shares issued via the exercise of stock options | 40 | 6 | 59 | 1,184 | 592 | (435) | – | (81) | 1,319 | – | 1,319 |
| Share-based compensation(iii) | – | – | – | – | – | – | – | 17,264 | 17,264 | – | 17,264 |
| Issuance of shares under the LTIPs(iii) | 46 | 187 | 70 | 6,025 | 17,908 | (773) | – | (23,230) | – | – | – |
| Sale of Amnet Honduras to non-controlling interests | – | – | – | – | – | 2,207 | – | – | 2,207 | 11,974 | 14,181 |
| Disposal of Laos | – | – | – | – | – | – | – | – | – | (6,493) | (6,493) |
| Dividend to non-controlling shareholders | – | – | – | – | – | – | – | – | – | (57,212) | (57,212) |
| **Balance as of December 31, 2011** | **104,939** | **(3,507)** | **157,407** | **505,120** | **(378,359)** | **2,811,130** | **(737,422)** | **(103,492)** | **2,254,384** | **191,170** | **2,445,554** |

The accompanying notes are an integral part of these consolidated financial statements.

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## Consolidated statements of changes in equity

for the years ended December 31, 2012, 2011 and 2010

| | Number of shares '000 | Number of shares held by the Group '000 | Share Capital(i) US$ '000 | Share Premium(i) US$ '000 | Treasury shares US$ '000 | Retained profits(ii) US$ '000 | Put option reserve(iv) US$ '000 | Other reserves(v) US$ '000 | Total Equity Holder's interests US$ '000 | Non-controlling interests(vi) US$ '000 | Total equity US$ '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Attributable to equity holders | | | | | | | | |
| **Balance as of January 1, 2012** | **104,939** | **(3,507)** | **157,407** | **505,120** | **(378,359)** | **2,811,130** | **(737,422)** | **(103,492)** | **2,254,384** | **191,170** | **2,445,554** |
| Profit for the year | – | – | – | – | – | 508,306 | – | – | 508,306 | (4,718) | 503,588 |
| Cash flow hedge reserve movement | – | – | – | – | – | – | – | (1,118) | (1,118) | (85) | (1,203) |
| Currency translation differences | – | – | – | – | – | – | – | (37,709) | (37,709) | (17,530) | (55,239) |
| Total comprehensive income for the year | – | – | – | – | – | 508,306 | – | (38,827) | 469,479 | (22,333) | 447,146 |
| Dividends(vii) | – | – | – | – | – | (541,133) | – | – | (541,133) | – | (541,133) |
| Purchase of treasury shares | – | (2,106) | – | – | (189,619) | – | – | – | (189,619) | – | (189,619) |
| Cancellation of treasury shares | (3,200) | 3,200 | (4,800) | (15,000) | 344,377 | (324,577) | – | – | – | – | – |
| Share-based compensation(iii) | – | – | – | – | – | – | – | 21,929 | 21,929 | – | 21,929 |
| Issuance of shares under the LTIPs(iii) | – | 237 | – | (1,106) | 25,453 | (11,926) | – | (12,421) | – | – | – |
| Non-controlling interests in Rocket Internet(x) | – | – | – | – | – | – | – | – | – | 160,321 | 160,321 |
| Dividend to non-controlling shareholders | – | – | – | – | – | – | – | – | – | (16,969) | (16,969) |
| Change in scope of consolidation(viii) | – | – | – | – | – | 8,658 | – | – | 8,658 | – | 8,658 |
| **Balance as of December 31, 2012** | **101,739** | **(2,176)** | **152,607** | **489,014** | **(198,148)** | **2,450,458** | **(737,422)** | **(132,811)** | **2,023,698** | **312,189** | **2,335,887** |

(i) Share Capital and Share Premium – see note 23.
(ii) Retained Profits – includes profit for the year attributable to equity holders, of which $126 million (2011: $94 million; 2010: $60 million) are not distributable to equity holders.
(iii) Share-based compensation – see note 24.
(iv) Put option reserve – see note 25.
(v) Other reserves – see note 26.
(vii) Dividends – see note 29.
(viii) Change of scope of consolidation – see note 5.
(ix) Restatement – see note 4.
(x) See note 5.

The accompanying notes are an integral part of these consolidated financial statements.

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# Notes to the consolidated financial statements

as of December 31, 2012, 2011 and 2010

## 1. Corporate information

Millicom International Cellular S.A. (the "Company"), a Luxembourg Société Anonyme, and its subsidiaries, joint ventures and associates (the "Group" or "Millicom") is an international group providing communications, information, entertainment, solutions, financial, online and e-commerce services in emerging markets, using various combinations of mobile and fixed telephony, cable, broadband and internet businesses, primarily in 16 countries in Central America, South America and Africa.

Millicom operates its mobile businesses in El Salvador, Guatemala and Honduras in Central America; in Bolivia, Colombia and Paraguay in South America; and in Chad, the Democratic Republic of Congo ("DRC"), Ghana, Mauritius, Rwanda, Senegal and Tanzania in Africa. In addition Millicom operates cable businesses in El Salvador, Guatemala, Honduras, Costa Rica, Nicaragua and Paraguay and online/e-commerce businesses in several countries (see note 5).

The Company's shares are traded as Swedish Depositary Receipts on the Stockholm stock exchange under the symbol MIC SDB and over the counter in the US under the symbol MIICF. On October 12, 2012 the Company filed a certificate with the US Securities and Exchange Commission ("SEC") to terminate the registration of its shares. As from that date the Company is no longer subject to the reporting and disclosure requirements of the Exchange Act in the US.

The Company has its registered office at 2, Rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg and is registered with the Luxembourg Register of Commerce under the number RCS B 40 630.

On March 22, 2013 the Board of Directors ("Board") authorized these consolidated financial statements for issuance. The approval will be submitted for ratification by the shareholders at the Annual General Meeting on May 28, 2013.

## 2. Summary of consolidation and accounting policies

### 2.1 Basis of preparation

The consolidated financial statements of the Group are presented in US dollars and all values are rounded to the nearest million (US$' million) except where otherwise indicated. The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and liabilities measured at fair value.

In accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, the consolidated financial statements for the year ended December 31, 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

As of December 31, 2012, International Financial Reporting Standards as adopted by the European Union are similar to those published by the International Accounting Standards Board ("IASB"), except for IAS 39—Financial Instruments that has been partially adopted by the European Union and for new standards and interpretations not yet endorsed but effective in future periods. Since the provisions that have not been adopted by the European Union are not applicable to the Group, the consolidated financial statements comply with both International Financial Reporting Standards as issued by the IASB and as adopted by the European Union.

The preparation of financial statements in conformity with IFRS requires management to exercise its judgment in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

### 2.2 Consolidation

The consolidated financial statements of the Group are comprised of the financial statements of the Company and its subsidiaries and joint ventures as at December 31 each year. The financial statements of the subsidiaries and joint ventures are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated.

The acquisition method of accounting is used to account for acquisitions where there is a change in control. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see accounting policy for Goodwill). All acquisition related costs are expensed.

#### Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

#### Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. Gains or losses on disposals to non-controlling interests are recorded in equity. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is also recorded in equity. Non-controlling interest is measured at the proportionate interest in the net assets of the subsidiary.

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# 2. Summary of consolidation and accounting policies continued

## Joint ventures

Millicom determines the existence of joint control by reference to joint venture agreements, articles of association, structures and voting protocols of the boards of directors of those ventures.

Entities that are jointly controlled are consolidated in the financial statements using the proportionate method which includes the Group's share of the assets, liabilities, income and expenses of the joint ventures.

The Group recognizes the portion of gains or losses on the sale of assets to joint ventures that are attributable to other parties in the joint venture. The Group does not recognize its share of profits or losses from purchase of assets by the Group from a joint venture until it resells the assets to a third party. However, if a loss on a transaction provides evidence of a reduction in the net realizable value of current assets or an impairment loss, the loss is recognized immediately.

## Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The cost of shares acquired in associates from sale and lease back transactions with tower companies are initially measured based on the fair values of the towers sold. The fair value of the towers was derived by using the estimated replacement cost of the towers adjusted by an amount for wear and tear taking into consideration the average age of the towers.

The Group's share of post-acquisition profits or losses of associates is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in reserves. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

Gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in the income statement.

## 2.3 Foreign currency translation

### Functional and presentation currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of each subsidiary, joint venture and associate reflects the economic substance of the underlying events and circumstances of these entities. The Company is located in Luxembourg and its subsidiaries, joint ventures and associates operate in different currencies. The Group's consolidated financial statements are presented in U.S. dollars (the "presentation currency"). The functional currency of the Company is the U.S. dollar because of the significant influence of the U.S. dollar on its operations.

### Transactions and balances

Transactions denominated in a currency other than the functional currency are translated into the functional currency using exchange rates prevailing on transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions, and on translation of monetary assets and liabilities denominated in currencies other than the functional currency at year-end exchange rates, are recognized in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges.

### Translation into presentation currency

The results and financial position of all Group entities (none of which operate in an economy with a hyperinflationary functional currency) with functional currency other than the U.S. dollar presentation currency are translated into the presentation currency as follows:

i) Assets and liabilities are translated at the closing rate at the date of the statement of financial position;

ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) All resulting exchange differences are recognized as a separate component of equity ("Currency translation reserve"), in the caption "Other reserves".

On consolidation, exchange differences arising from the translation of net investments in foreign operations, and of borrowing and other currency instruments designated as hedges of such investments, are recorded in equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the consolidated income statement as part of gain or loss on sale.

Goodwill and fair value adjustments arising on acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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## 2. Summary of consolidation and accounting policies continued

The following table presents relevant currency translation rates to the U.S. dollar as of December 31, 2012 and 2011 and average rates for the year ended December 31, 2012.

| Country | Currency | 2012 Average rate | 2012 Year-end rate | 2011 Year-end rate |
|---|---|---|---|---|
| Bolivia | Boliviano | 6.91 | 6.91 | 6.91 |
| Brazil | Real | 2.08 | 2.05 | N/A |
| Chad and Senegal | CFA Franc | 508.79 | 497.50 | 506.98 |
| Colombia | Peso | 1,809.80 | 1,768.23 | 1,942.70 |
| Costa Rica | Costa Rican Colon | 508.56 | 514.32 | 511.84 |
| Ghana | Cedi | 1.84 | 1.88 | 1.64 |
| Guatemala | Quetzal | 7.84 | 7.90 | 7.81 |
| Honduras | Lempira | 19.57 | 20.03 | 19.12 |
| Luxembourg | Euro | 0.77 | 0.76 | 0.77 |
| Mauritius | Rupee | 29.92 | 30.54 | 29.33 |
| Nicaragua | Gold Cordoba | 23.54 | 24.13 | 22.97 |
| Paraguay | Guarani | 4,428.31 | 4,224.00 | 4,478.00 |
| Rwanda | Rwandese Franc | 614.16 | 631.46 | 604.14 |
| Sweden | Krona | 6.74 | 6.50 | 6.88 |
| Tanzania | Shilling | 1,586.01 | 1,581.00 | 1,578.15 |
| UAE (Dubai) | Dirham | 3.67 | 3.67 | 3.67 |

The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and end of the year. Millicom's functional currency in both El Salvador and DRC is the U.S. dollar.

### 2.4 Segment reporting

Management determines operating and reportable segments based on the reports that are used by the Chief Operating Decision Maker ("CODM") to make strategic and operational decisions from both a business and a geographic perspective. The Group's risks and rates of return for its operations are affected predominantly by the fact that it operates in different geographical regions. The businesses are predominantly organized and managed according to the selected geographical regions, which represent the basis for evaluation of past performance and for making decisions about the future allocation of resources.

### 2.5 Property, plant and equipment

Items of property, plant and equipment are stated at historical cost or the lower of fair value and the present value of future minimum lease payments for items under finance leases, less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to acquisition of items. The carrying amount of replaced parts is derecognized.

Depreciation is calculated using the straight-line method over the shorter of the estimated useful life of the asset and the remaining life of the license associated with the assets, unless the renewal of the license is contractually possible.

Estimated useful lives are:

| | |
|---|---|
| Buildings | 40 years or lease period, if shorter |
| Networks (including civil works) | 5 to 15 years |
| Other | 2 to 7 years |

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The assets' residual value and useful life is reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Construction in progress consists of the cost of assets, labor and other direct costs associated with property, plant and equipment being constructed by the Group. Once the assets become operational, the related costs are transferred from construction in progress to the appropriate asset category and depreciation commenced.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to the income statement in the financial period in which they are incurred. Costs of major inspections and overhauls are added to the carrying value of property, plant and equipment and the carrying amount of previous major inspections and overhauls is derecognized.

Equipment installed on customer premises which is not sold to customers is capitalized and amortized over the customer contract period.

A liability for the present value of the cost to remove an asset on both owned and leased sites is recognized when a present obligation for the removal exists. The corresponding cost of the obligation is included in the cost of the asset and depreciated over the useful life of the asset.

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset when it is probable that such costs will result in future economic benefits for the Group and the costs can be measured reliably.

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# 2. Summary of consolidation and accounting policies continued

## 2.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is measured at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is charged to the income statement in the year in which expenditure is incurred.

Intangible assets with finite useful lives are amortized over their estimated useful economic lives using the straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible assets.

### Goodwill

Goodwill represents the excess of cost of an acquisition, over the Group's share in the fair value of identifiable assets less liabilities and contingent liabilities of the acquired subsidiary, joint venture or associate at the date of the acquisition. If the fair value of identifiable assets, liabilities or contingent liabilities or the cost of the acquisition can only be determined provisionally, then goodwill is initially accounted for using provisional values. Within 12 months of the acquisition date, any adjustments to the provisional values are recognized once the fair value of the identifiable assets, liabilities and contingent liabilities, and the cost of the acquisition have been finally determined. Adjustments to provisional fair values are made as if the adjusted fair values had been recognized from the acquisition date. Goodwill on acquisition of subsidiaries and joint ventures is included in "Intangible assets, net". Goodwill on acquisition of associates is included in "investments in associates". Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses on goodwill are not reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition date, allocated to each of the Group's cash generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than an operating segment.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed and the portion of the cash-generating unit retained.

### Licenses

Licenses are recorded at either historical cost or, if acquired in a business combination, at fair value at the date of acquisition. Licenses have a finite useful life and are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost of the licenses over their estimated useful lives.

The terms of licenses, which have been awarded for various periods, are subject to periodic review for, amongst other things, rate setting, frequency allocation and technical standards. Licenses are initially measured at cost and are amortized from the date the network is available for use on a straight-line basis over the license period. Licenses held, subject to certain conditions, are usually renewable and generally non-exclusive. When estimating useful lives of licenses, renewal periods are not usually included.

### Trademarks and customer bases

Trademarks and customer bases are recognized as intangible assets only when acquired or gained in a business combination. Their cost represents fair value at the date of acquisition. Trademarks and customer bases have finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the trademarks and customer bases over their estimated useful lives. The estimated useful lives for trademarks and customer bases are based on specific characteristics of the market in which they exist. Trademarks and customer bases are included in "Intangible assets, net".

Estimated useful lives are:

| | |
|---|---|
| Trademarks | 1 to 15 years |
| Customer bases | 4 to 9 years |

### Indefeasible Rights of Use

Indefeasible rights of use ("IRU") agreements are mainly composed of purchase and/or sale of specified infrastructure, purchase and/or sale of lit fibre capacity and exchange of network infrastructure or lit fibre capacity. These arrangements are either accounted for as leases, service contracts, or partly as leases and partly as service contracts. Determination of the appropriate classification depends on an assessment of the characteristics of the arrangements.

A network capacity contract is accounted for as a lease if, and when:

- The purchaser has an exclusive right to the capacity for a specified period and has the ability to resell (or sub-let) the capacity; and
- The capacity is physically limited and defined; and
- The purchaser bears all costs related to the capacity (directly or not) including costs of operation, administration and maintenance; and
- The purchaser bears the risk of obsolescence during the contract term.

If all of these criteria are not met, the IRU is treated as a service contract.

## 2. Summary of consolidation and accounting policies continued

If the arrangement is, or contains a lease, the lease is accounted for as either an operating lease or a financial lease (see policy note Leases 2.20). A financial lease of an IRU of network infrastructure is accounted for as a tangible asset. A financial lease of an IRU on capacity is accounted for as an intangible asset.

### 2.7 Impairment of non-financial assets

At each reporting date the Group assesses whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for a non-financial asset is required, the Group makes an estimate of the asset's recoverable amount. The Group determines 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 consolidated income statement in expense categories consistent with the function of the impaired asset.

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

### 2.8 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those maturing more than 12 months after the end of the reporting period. These are classified within non-current assets. Loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

### 2.9 De-recognition of Financial Assets and Liabilities

A financial asset (or a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- Rights to receive cash flows from the asset have expired
- Rights to receive cash flows from the asset or obligations to pay the received cash flows in full without material delay have been transferred to a third party under a 'pass-through' arrangement; and either transferred:

(a) Substantially all the risks and rewards of the asset, or

(b) Control of the asset.

When rights to receive cash flows from an asset have been transferred or a pass-through arrangement concluded, an evaluation is made if and to what extent the risks and rewards of ownership have been retained. When the Group has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

### 2.10 Financial instruments

#### Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are financial instruments held for trading. Their fair value is determined by reference to quoted market prices on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of a substantially similar instrument, discounted cash flow analysis and option pricing models. A financial instrument is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

#### Financial instruments that contain obligations to purchase own equity instruments

Contracts that contain obligations for the Company to purchase its own equity instruments for cash or other financial assets are initially recorded as financial liabilities based on the present value of the redemption amounts with a corresponding reserve in equity. Subsequently the carrying value of the liability is remeasured at the present value of the redemption amount with changes in carrying value recorded in other non-operating (expenses) income, net. If the contracts expire without delivery, the carrying amounts of the financial liabilities are reclassified to equity.

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## 2. Summary of consolidation and accounting policies continued

### Financial instruments that contain call options over non-controlling interests

Call option contracts over non-controlling interests that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity.

Contracts over non-controlling interests that require gross cash settlement are also classified as equity instruments. Such call options are initially recognized at fair value and not subsequently remeasured. If a call option is exercised, this initial fair value is included as part of the cost of the acquisition of the non-controlling interest. If an unexercised call option expires or otherwise lapses, the fair value of the call option remains within equity.

Call option contracts over non-controlling interests that require net cash settlement or provide a choice of settlement are classified as financial assets.

Contracts over non-controlling interests that require physical settlement of a variable number of own shares for a variable price are classified as financial assets and changes in the fair value are reported in the income statement. If such a call option is exercised, the fair value of the option at that date is included as part of the cost of the acquisition of the non-controlling interest. If an unexercised call option expires or otherwise lapses, its carrying amount is expensed in the income statement.

### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) Hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);

(b) Hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or

(c) Hedges of a net investment in a foreign operation (net investment hedge).

For transactions designated and qualifying for hedge accounting, at the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements in the hedging reserve are recognized as other comprehensive income. The full fair value of a hedging derivative is classified as a non-current asset or liability when the period to maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability when the remaining period to maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. Gains or loss relating to any ineffective portion is recognized immediately in the income statement within 'other non-operating (expenses) income, net'.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other non-operating (expenses) income, net'.

## 2.11 Discontinued operations and non-current assets (or disposal groups) held for sale and related liabilities

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value (less costs to sell if their carrying amount is expected to be recovered principally through sale, not through continuing use). Liabilities of disposal groups are classified as "Liabilities directly associated with assets held for sale".

Discontinued operations are those with identifiable operations and cash flows (for both operating and management purposes) and represent a major line of business or geographic unit which has been disposed of or is available for sale. Revenues and expenses associated with discontinued operations are presented in a separate line in the consolidated income statement. Comparative figures in the consolidated income statement representing the discontinued operations are reclassified to the separate line.

## 2.12 Inventories

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

## 2.13 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 the Group will not be able to collect amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are indicators of impairment. 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 consolidated income statement within "Cost of sales".

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## 2. Summary of consolidation and accounting policies continued

### 2.14 Deposits

#### Time deposits

Cash deposits with banks with maturities of more than three months that generally earn interest at market rates are classified as time deposits.

#### Pledged deposits

Pledged deposits represent contracted cash deposits with banks that are held as security for debts at corporate or operational entity level. Millicom is unable to access these funds until either the relevant debt is repaid or alternative security is arranged with the lender.

### 2.15 Restricted cash

Cash held with banks related to mobile financial services which is restricted in use due to local regulations, but typically cycled out of the banking system within three months, is denoted as restricted cash.

### 2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### 2.17 Impairment of financial assets

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are recognized in the consolidated income statement.

### 2.18 Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where any Group company purchases the Company's share capital, the consideration paid including any directly attributable incremental costs is shown under "Treasury shares" and deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.19 Borrowings

Borrowings are initially recognized at fair value, net of directly attributable transaction costs. Borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the effective interest rate. Any difference between the initial amount and the maturity amount is recognized in the consolidated income statement over the period of the borrowing.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months from the statement of financial position date.

### 2.20 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and involves an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether or not the arrangement conveys a right to use the asset.

#### Finance leases

Finance leases, which transfer substantially all risks and benefits incidental to ownership of the leased item to the lessee, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Where a finance lease results from a sale and leaseback transaction, any excess of sales proceeds over the carrying amount of the assets is deferred and amortized over the lease term.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets, or the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

#### Operating leases

Operating leases are all other leases that are not finance leases. Operating lease payments are recognized as expenses in the consolidated income statement on a straight-line basis over the lease term.

#### Tower sale and lease back transactions

The sale and lease back of towers and related site operating leases and service contracts are accounted for in accordance with the underlying characteristics of the assets, and the terms and conditions of the lease agreements.

When sale and lease back agreements are concluded, the portions of assets that will not be leased back by Millicom are classified as assets held for sale as completion of their sale is highly probable. Asset retirement obligations related to the towers are classified as liabilities directly associated with assets held for sale.

On transfer to the tower companies, the portion of the towers leased back are accounted for as operating leases or finance leases according to the criteria set out above. The portion of towers being leased back represents the dedicated part of each tower on which Millicom's equipment is located and was derived from the average technical capacity of the towers. Rights to use the land on which the towers are located are accounted for as operating leases, and costs of services for the towers are recorded as operating expenses.

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# 2. Summary of consolidation and accounting policies continued

## 2.21 Provisions

Provisions are recognized when the Group has 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 the Group expects 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.

## 2.22 Trade payables

Trade payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method where the effect of the passage of time is material.

## 2.23 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 the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Recurring revenue consist of monthly subscription fees, airtime usage fees, interconnection fees, roaming fees, revenue from online product and service sales, mobile finance service commissions and fees from other telecommunications services such as data services, short message services and other value added services. Recurring revenues are 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 are 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 revenues 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 credit is used. Unused airtime credit 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., are recognised net of payments to the providers under certain conditions including if the providers are responsible for the content and determining the price paid by the customer. For such services the Group is considered to be acting in substance as an agent. Otherwise the revenue is recognised gross.

Revenue from the sale of handsets and accessories are recognized when the significant risks and rewards of ownership of handsets and accessories have been passed to the buyer.

Revenue arrangements with multiple service deliverables ("Bundled Offers" such as various 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.

Revenue from the sale of online and e-commerce services is recognized as and when the service is provided or on delivery of products to customers, less provision for product returns, based on the amounts expected to be received from customers.

Revenue from sale of capacity is recognized when the capacity has been delivered to the customers, based on the amounts expected to be received from customers.

Revenue from lease of tower space is recognized over the period of the underlying lease contracts. For finance leases revenue is apportioned between the lease of the tower space and interest income (other operating income). Revenue from provision of mobile financial services is recognized once the primary service has been provided to the customer.

## 2.24 Cost of sales

The primary cost of sales incurred by the Group in relation to the provision of services relate to interconnection costs, roaming costs, rental of leased lines and tower infrastructure, costs of handsets and other accessories sold, royalties, commissions, and cost of goods sold. Cost of sales is recorded on an accrual basis.

Cost of sales also includes depreciation and any impairment of network equipment and trade receivables.

## 2.25 Customer acquisition costs

Specific customer acquisition costs, including dealer commissions and handset subsidies, are charged to sales and marketing when the customer is activated.

## 2.26 Employee benefits

### Pension obligations

Pension obligations can result from either a defined contribution plan or a defined benefit plan.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. No further payment obligations exist once the contributions have been paid. The contributions are recognized as employee benefit expenses when they are due. Prepaid contributions are recognized as assets to the extent that a cash refund or a reduction in future payments is available.

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## 2. Summary of consolidation and accounting policies continued

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit pension plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an appropriate discount rate based on maturities of the related pension liability.

#### Share-based compensation

Share awards are granted to management and key employees.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employee becomes fully entitled to the award (the vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market conditions are satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

### 2.27 Taxation

#### Current tax

Current tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those enacted or substantively enacted by the statement of financial position date.

#### 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 unused tax 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 consolidated 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.

### 2.28 Changes in accounting policies

The consolidated financial statements as of December 31, 2012 are prepared in accordance with consolidation and accounting policies consistent with those of the previous financial years.

The following standards, amendments and interpretations issued are not effective for the financial year beginning January 1, 2012 and have not been early adopted.

- IFRS 9, "Financial Instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value, and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2015 or at the date of endorsement by the EU if later.
- IFRS 10, "Consolidated Financial Statements" build on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2014.

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- IFRS 11, "Joint Arrangements", sets out the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. The standard removes the option for an interest in a jointly controlled entity using proportionate consolidation, and requires equity accounting to be applied to investments in a joint venture. The standard is effective for annual periods beginning on or after January 1, 2014.
- IFRS 12, "Disclosure of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group does not expect IFRS 12 to have a significant impact and intends to adopt IFRS 12 in the accounting period beginning on January 1, 2014.
- IFRS 13. "Fair Value Measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS's. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group does not expect IFRS 13 to have a significant impact and intends to adopt IFRS 13 in the accounting period beginning on or after January 1, 2013.
- IAS 27, "Consolidated and Separate Financial Statements", reissued as IAS 27 "Separate Financial Statements", as a result of issuance of IFRS 10, "Consolidated Financial Statements". The standard is effective for annual periods beginning on or after January 1, 2014.
- IAS 28, "Investments in Associates" and, reissued as IAS 28 "Investments in Associates", as a result of issuance of IFRS 11, "Joint Arrangements". The standard is effective for annual periods beginning on or after January 1, 2014.

There are no other IFRS's or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## 3. Significant accounting judgments and estimates

### 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 the control of Millicom. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment.

### Estimates

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.

Accounting for property, plant and equipment, and intangible assets involves the use of estimates for determining fair values at acquisition dates, particularly in the case of such assets acquired in a business combination. Furthermore, the expected useful lives of these assets must be estimated. The determination of fair values of assets and liabilities, as well as of useful lives of the assets is based on management judgment.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies (see note 14).

For critical accounting estimates reference is made to the relevant individual notes to these consolidated financial statements, more specifically note 5—Acquisition of subsidiaries, joint ventures and non-controlling interests; note 7—Discontinued operations and assets held for sale; note 14—Taxes; note 16—Intangible assets, note 17—Property, plant and equipment, note 20—Trade receivables, note 24—Share-based compensation (relating to long-term incentive plans); note 28 – Other noncurrent and current provisions and liabilities (relating to the put option); note 32—Commitments and contingencies; and note 35—Financial instruments.

## 4. Restatement of previously issued financial statements

On January 26, 2012, the board of directors of the Company, based on the recommendation of the audit committee and in consultation with management, concluded that, due to a misstatement in the Group's previously issued consolidated financial statements for the year ended December 31, 2010, and for the quarters ending on September 30, 2010 to September 30, 2011, the Group should restate its consolidated financial statements for the periods then ended.

The restatement followed a reassessment of the accounting treatment of the put option provided to Millicom's partner who holds a 33.3% non-controlling interest in the Honduran operation. As a result, it was determined that, as the put option could be exercised under certain change of control events which could be outside the control of Millicom, the option met the criteria under IAS 32 for recognition as a liability and corresponding equity reserve. Therefore a liability for the put option at July 1, 2010 of $737 million was retroactively recorded.

## 5. Acquisitions of subsidiaries, joint ventures and non-controlling interests

### Year ended December 31, 2012

During the year ended December 31, 2012 Millicom made investments in Rocket Internet businesses in Latin America and Africa (together 'Rocket Acquisitions') and in Cablevision Paraguay ('Cablevision Acquisition').

During the year Millicom also completed the increase of ownership in Navega El Salvador from 55% to 100% and completed other minor acquisitions for consideration of $16 million.

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# 5. Acquisitions of subsidiaries, joint ventures and non-controlling interests continued

## Cablevision Acquisition

On October 2, 2012 Millicom completed its acquisition of the debt and cash free operating businesses of Cable Vision Comunicaciones S.A., Television Dirigida S.A., Consorcio Multipunto Multicanal S.A., Producciones Unicanal S.A. and 100% of the shares of Teledeportes Paraguay S.A. (together "Cablevision") for combined cash consideration of $172 million.

The acquired interests provide Millicom with the ability to govern the operating and financial policies of Cablevision which has been fully consolidated into the Millicom Group financial statements from October 1, 2012.

Millicom provisionally allocated the purchase price of $172 million to the assets acquired, liabilities assumed and contingent liabilities and recognized the following amounts:

| | Cablevision Fair value US$ millions |
|---|---|
| Tangible and intangible assets, net | 107 |
| **Fair value of the net assets acquired and contingent liabilities** | **107** |
| Cash consideration | 172 |
| Goodwill | 65 |

The provisional allocation will be changed on the basis of additional information and assessment of Millicom's share of the fair values of the assets and liabilities acquired.

The goodwill, which is not expected to be tax deductible, is attributable to future customers, know-how, and potential synergies.

Cablevision contributed revenues of $15 million and net profit of $6 million for the period from acquisition to December 31, 2012. If the acquisition had occurred on January 1, 2012, Group revenues from continuing operations for the year ended December 31, 2012 would have been $54 million higher, and the net profit from continuing operations for the same period would have been $17 million higher. These amounts have been calculated using the Group accounting policies.

## Rocket acquisitions

On August 29, 2012 Millicom acquired, for Euro 85 million, and by way of issuance of new shares, 20% interests in two subsidiaries of Rocket Internet GmbH, Latin America Internet Holding ("LIH") and Africa Internet Holding ("AIH") and unconditional options to acquire the remaining shares in each of LIH and AIH (LIH and AIH own several operating entities in Latin America and Africa respectively). The options can be exercised from the August 29, 2012 acquisition date. The first options expire in September 2013 ("First Options") and enable Millicom to increase its stakes to 35%, the second to 50% with expiry in September 2014 ("Second Options") and the third to increase its stakes to 100% with expiry in September 2016 ("Third Options").

The acquired 20% interests, combined with unconditional rights to exercise the First, Second and Third Options, as well as a number of protective governance mechanisms in the LIH and AIH shareholders agreements provide Millicom with the ability to govern the operating and financial policies of AIH, and LIH. While Millicom controls AIH, certain minority shareholder rights per shareholder agreements, including blocking rights, result in Millicom having significant influence in the operating entities in the AIH Group. Millicom's economic ownership of these entities is treated as "investments in associates" (note 18). Investment Kinnevik AB, Millicom's largest shareholder, holds minority interests in certain subsidiaries of LIH and AIH.

As a result of the acquisition and option agreements Millicom has the right to control LIH and AIH, which have been fully consolidated into the Millicom Group financial statements from September 1, 2012.

## LIH

Millicom provisionally allocated the LIH purchase price of Euro 50 million ($64 million) to the assets acquired, liabilities assumed and contingent liabilities and recognized the following amounts:

| | LIH Group Fair value 100% US$ millions |
|---|---|
| Intangible assets, net | 14 |
| Property, plant and equipment, net | 1 |
| Current assets | 9 |
| Cash and cash equivalents | 65 |
| | **89** |
| Current liabilities | 8 |
| Deferred tax liabilities | 5 |
| | **13** |
| Fair value of the net assets acquired and contingent liabilities | **76** |
| Non-controlling interests: | |
| In net assets acquired and contingent liabilities | 62 |
| Less fair value of options (equity instruments) | (15) |
| | **47** |
| Controlling interest | **29** |
| Cash consideration | 64 |
| Goodwill | 35 |

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## 5. Acquisitions of subsidiaries, joint ventures and non-controlling interests continued

The provisional allocation will be changed on the basis of additional information and assessment of Millicom's share of the fair values of the assets and liabilities acquired.

The goodwill, which is not expected to be tax deductible, is attributable to future customers, know-how, potential synergies and the value of development stage projects. The non-controlling interest has been measured as a proportion of the net assets acquired.

LIH contributed revenues of $13 million and net loss of $9 million for the period from acquisition to December 31, 2012.

### AIH

Millicom provisionally allocated the AIH purchase price of Euro 35 million ($45 million) to the assets acquired, liabilities assumed and contingent liabilities and recognized the following amounts:

| | AIH Fair value 100% US$ millions |
|---|---|
| Investment in associates | 100 |
| Cash and cash equivalents | 45 |
| Fair value of the net assets acquired and contingent liabilities | **145** |
| Non-controlling interests: | |
| In net assets acquired and contingent liabilities | 126 |
| Less fair value of options (equity instruments) | (13) |
| | **113** |
| Controlling interest | **32** |
| Cash consideration | 45 |
| Goodwill | 13 |

The provisional allocation will be changed on the basis of additional information and assessment of Millicom's share of the fair values of the assets and liabilities acquired.

The investment in associates represents investments in entities in which AIH has significant influence. The fair value of these investments has been determined based on a discounted cash flow model. The goodwill, which is not expected to be tax deductible, is attributable to future customers, know-how, potential synergies and the value of development stage projects. The non-controlling interest has been measured as a proportion of the net assets acquired.

### Rocket options

At December 31, 2012 the options to acquire the remaining shares in AIH and LIH had not been exercised. These call options are financial instruments which are accounted for in accordance with IAS 32 and 39.

The exercise prices of the First and Second Options of Euro 85 million and Euro 170 million respectively are based on the original equity values of AIH and LIH. The cash invested by Millicom (capital increases) in each of AIH and LIH has increased the equity value of each of the businesses such that the equity value exceeds the exercise prices. As these options are exercisable at fixed prices they are accounted for as equity instruments in accordance with IAS 32. Accordingly, for LIH a provisional value of $15 million and for AIH a provisional value of $12 million has been assigned to the options against non-controlling interests in the consolidated statement of financial position.

The exercise prices of the Third Options are based on the fair market value of the shares at the time of exercise, and as such the option itself does not have any standalone value.

## Year ended December 31, 2011

Millicom did not acquire any subsidiaries, joint ventures or non-controlling interests during the year ended December 31, 2011. At December 31, 2011, the agreement entered into on August 20, 2010 to increase Millicom's ownership in Navega El Salvador from 55% to 100% remained subject to completion.

## Year ended December 31, 2010

In 2010, Millicom gained control over Telefonica Cellular S.A. DE CV, its mobile phone operation in Honduras, and acquired control of Navega S.A. DE CV, its cable operation in Honduras.

### Telefonica Cellular S.A. DE CV

On July 1, 2010 Millicom reached agreement with its local partner in Honduras whereby Millicom's local partner granted Millicom an unconditional call option for the next five years for his 33% stake in Telefonica Cellular S.A. DE CV ("Celtel") and as consideration, Millicom granted a put option for the same duration to the local partner (see notes 28 and 35). The put option can only be exercised in case of a change of control of Millicom International Cellular S.A. or Millicom's subsidiary that holds the shares in Celtel (except if the change of control is in favor of Investment AB Kinnevik, the current largest shareholder of Millicom, or management of Millicom).

Prior to entering into the agreement, Millicom was dependent on the consent of its local partner for strategic decisions related to its Honduran operation, as the shareholders agreement required a vote of 75% of the shares to authorize and approve significant financial and operating policies of Celtel. The call option allows Millicom, unconditionally at any time during the five year period from July 1, 2010 to exercise its right to acquire the 33% stake (and voting rights) of our local partner at a price which Millicom believes represents the strategic value of the asset. The call option therefore conferred to Millicom control over Celtel through its ability to influence and exercise the power to govern the financial and operating policies (develop the future business in Honduras).

Accordingly, Celtel has been fully consolidated into the Millicom Group financial statements from July 1, 2010. Previously, the Honduras operations were proportionately consolidated.

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## 5. Acquisitions of Subsidiaries, Joint Ventures and Non-Controlling Interests continued

Millicom completed the allocation of the purchase price to the assets acquired, liabilities assumed and contingent liabilities during the year ended December 31, 2010. The recognized amounts of identified assets acquired and liabilities assumed as of July 1, 2010 were as follows:

| | Fair value (100%) US$ millions | Previously held interests (66.7%) US$ millions |
|---|---|---|
| Intangible assets, net (i) | 435 | 23 |
| Other investments | 21 | 14 |
| Property, plant and equipment, net | 339 | 226 |
| Trade receivables | 14 | 9 |
| Prepayments and accrued income | 7 | 4 |
| Other current assets | 34 | 24 |
| Cash and cash equivalents | 25 | 16 |
| | **875** | **316** |
| Other non-current liabilities (ii) | 265 | 100 |
| Current debt and other financing | 75 | 50 |
| Trade payables | 6 | 4 |
| Accrued interests and other expenses | 13 | 9 |
| Current income tax liabilities | 17 | 12 |
| Other current liabilities | 52 | 36 |
| | **428** | **211** |
| Non-controlling interests | 147 | |
| Fair value of the net assets acquired and contingent liabilities | **300** | |
| Goodwill arising on change of control | 855 | |
| Previously held interests in Celtel | (105) | |
| Revaluation of the previously held interests in Celtel | 1,049 | |

(i) Intangible assets not previously recognized are trademarks for an amount of $40 million, with estimated useful life of 10 years, customers' list for an amount of $335 million, with estimated useful life of eight to nine years, and telecommunications license for an amount of $21 million, with estimated useful life of 11 years.

(ii) Deferred tax liabilities related to differences between the tax base and the fair value of the identifiable assets acquired amount to $114 million.

The goodwill, which is not expected to be tax deductible, is attributable to the profitability potential of Celtel and the synergies expected to arise. The fair value of the customers' list was ascertained using the discounted excess earnings method, the fair value of the trademark was ascertained using the relief from royalty approach, and the fair value of the telecommunications license against comparable transactions.

The change of control contributed revenues of $100 million and net profit of $1,049 million (including the gain on revaluation of the previously held interest) for the period from acquisition to December 31, 2010. If the change of control had occurred on January 1, 2010, unaudited pro forma Group revenues from continuing operations for the year ended December 31, 2010 would have been $4,018 million, and the unaudited pro forma net profit from continuing operations for the same period, as restated, would have been $1,633 million. These amounts have been calculated using the Group accounting policies.

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## 5. Acquisitions of subsidiaries, joint ventures and non-controlling interests continued

Millicom revalued at fair value its previously held 66.7% interest in Celtel recognizing a gain of $1,049 million, recorded under the caption "Revaluation of previously held interests". The fair value of the previously held interests was determined based on discounted cash flows. The cash flow projections used (adjusted operating profit margins, income tax, working capital and capital expenditure) were estimated by management covering six years. Cash flows beyond this period were extrapolated using a perpetual growth rate of 2%. The valuation was determined using a discount rate of 14.3%.

### Navega S.A. DE CV

As part of a regional shareholding alignment agreement with its local partner in Honduras, on August 20, 2010 Millicom reached agreement with its local partner in Honduras whereby Millicom acquired a further 6% of Navega S.A. DE CV ("Navega Honduras") (formerly Metrored S.A.). As a result of this agreement Millicom has the right to control Navega Honduras, which has been fully consolidated into the Millicom Group financial statements from August 20, 2010. Previously, the results of Navega Honduras were proportionately consolidated. The agreement is expected to facilitate further integration of the cable business and to create synergies.

Millicom completed the allocation of the purchase price to the assets acquired, liabilities assumed and contingent liabilities during the year ended December 31, 2010 and recognized the following amounts:

| | Fair value 100% US$ '000 | Previously held interests 60.72% US$ '000 |
|---|---|---|
| Intangible assets, net | 19,563 | 11,879 |
| Property, plant and equipment, net | 22,875 | 13,890 |
| Other non-current assets | 180 | 109 |
| Trade receivables | 1,988 | 1,207 |
| Prepayments and accrued income | 40 | 25 |
| Other current assets | 482 | 293 |
| Cash and cash equivalents | 3,050 | 1,852 |
| | **48,178** | **29,255** |
| Other non-current liabilities | 3,178 | 1,930 |
| Current debt and other financing | 1,152 | 699 |
| Trade payables | 357 | 217 |
| Accrued interests and other expenses | 1,135 | 689 |
| Current income tax liabilities | 1,035 | 628 |
| Other current liabilities | 2,211 | 1,343 |
| | **9,068** | **5,506** |
| Non-controlling interests | 13,037 | |
| Fair value of the net assets acquired and contingent liabilities | **26,073** | |
| Goodwill arising on change of control | 13,866 | |
| Previously held interests in Navega Honduras | (23,748) | |
| Revaluation of the previously held interests in Navega Honduras | 10,726 | |
| Cost of change of control | 5,465 | |

The goodwill, which is not expected to be tax deductible, is attributable to the profitability potential of Navega Honduras and the synergies expected to arise. The fair value of the customers' list was ascertained using the discounted excess earnings method, and the fair value of the trademark was ascertained using the relief from royalty approach.

Navega Honduras contributed revenues of $1 million and net profit of $20 million (including gain on revaluation) for the period from acquisition to December 31, 2010. If the acquisition had occurred on January 1, 2010, unaudited pro forma Group revenues from continuing operations for the year ended December 31, 2010 would have been $3,924 million, and the unaudited pro forma net profit from continuing operations for the same period, as restated, would have been $1,612 million. These amounts have been calculated using the Group accounting policies.

Millicom revalued at fair value its previously held 60% interest in Navega Honduras recognizing a gain of $11 million, recorded under the caption "Revaluation of previously held interests".

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# 6. Disposals of subsidiaries and joint ventures and non-controlling interests

## Year ended December 31, 2012

There were no disposals of subsidiaries, joint ventures or non-controlling interests during 2012.

## Year ended December 31, 2011

### Millicom Lao Co Ltd

On September 16, 2009 Millicom announced that it signed an agreement for the sale of its 74.1% holding in Millicom Lao Co. Ltd., its Laos operation, to VimpelCom for approximately $65 million in total cash proceeds, payable on completion. The transaction valued the entire Laos operation at an enterprise value of approximately $102 million.

On March 9, 2011 Millicom completed the transaction and received proceeds (net of transaction costs and taxes) from the sale of $53 million, realizing a gain on sale of $37 million. From that date the Laos operation is no longer included in the consolidated financial statements of the Group.

### Amnet Honduras

As part of a regional shareholding alignment agreement with its local partner in Honduras, on March 21, 2011, Millicom reduced its shareholding in Amnet Honduras from 100% to 66.7%, realizing a gain on sale of $2 million, which is recorded in equity as gain on sale to non-controlling interests. The proceeds from the sale amount to $17 million, of which $5 million was received in 2011 and 2012 and $4 million will be received each year for the next three years (in March 2013, March 2014 and March 2015).

## Year ended December 31, 2010

As part of the regional shareholding alignment agreement with its local partner in Guatemala, on August 20, 2010, Millicom disposed of 45% of its interest in Newcom Guatemala ("Amnet Guatemala"). From that date Amnet Guatemala has been accounted for as a joint venture and proportionately consolidated into the Millicom Group financial statements. Previously, the results of the Amnet Guatemala were fully consolidated. There was no significant impact on profit and loss from the disposal.

# 7. Discontinued operations and assets held for sale

### Discontinued operations

There were no discontinued operations in 2012. The results of discontinued operations for the years ended December 31, 2011, and 2010 are presented below:

| | 2011 US$ millions | 2010 US$ millions |
|---|---|---|
| Revenues | 6 | 30 |
| Operating expenses(i) | (3) | (17) |
| **Profit before tax** | **3** | **13** |
| Tax charge | – | (1) |
| Gain from disposal, net | 36 | – |
| **Net profit for the year** | **39** | **12** |

The cash (used) provided by discontinued operations for the years ended December 31, 2011 and 2010 is presented below:

| | 2011 US$ millions | 2010 US$ millions |
|---|---|---|
| Net cash used by operating activities | – | 11 |
| Net cash used by investing activities | – | (16) |
| Net cash provided by financing activities | – | 6 |
| Transfer of cash to assets held for sale | – | (1) |
| Proceeds from the sale of discontinued operations | 53 | – |
| **Cash provided (used) by discontinued operations** | **53** | – |

(i) Xxxx

There were no non-cash investing and financing activities of discontinued operations for the years ended December 31, 2011 and 2010.

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## 7. Discontinued operations and assets held for sale continued

### Assets held for sale

Between 2009 and 2011, Millicom signed various sale and lease back agreements with tower companies in Africa and South America whereby Millicom agreed the sale of tower assets and to lease back a dedicated portion of each tower to locate its network equipment equipment (see note 18). The portions of these assets that will not be leased back by Millicom are classified as assets held for sale as completion of their sale is highly probable.

At December 31, 2012, towers sold but yet to be transferred to tower companies (assets held for sale) of $21 million related to operations in DRC, Colombia, Ghana and Tanzania (December 31, 2011: $66 million related to operations in DRC, Colombia, Ghana and Tanzania).

Asset retirement obligations related to the towers of $5 million (December 31, 2011: $9 million) are classified as liabilities directly associated with assets held for sale.

The major classes of assets and liabilities classified as held for sale as at December 31, 2012, and 2011 are as follows:

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| **Assets held for sale** | | |
| Property, plant and equipment, net | 21 | 66 |
| **Liabilities directly associated with assets held for sale** | | |
| Other non-current liabilities | (5) | (9) |
| **Net assets directly associated with assets held for sale** | **16** | **57** |

## 8. Subsidiaries

The Group has the following significant subsidiaries, which are consolidated:

| Name of the company | Country | Holding December 31, 2012 % of ownership interest | Holding December 31, 2011 % of ownership interest |
|---|---|---|---|
| **Central America** | | | |
| Telemovil El Salvador S.A. | El Salvador | 100.0 | 100.0 |
| Cable El Salvador S.A. de C.V. | El Salvador | 100.0 | 100.0 |
| Navega.com S.A. Succursal El Salvador | El Salvador | 100.0 | 55.0 |
| Telefonica Celular S.A. | Honduras | 66.7 | 66.7 |
| Navega S.A. de CV (formerly Metrored S.A.) (see note 5) | Honduras | 66.7 | 66.7 |
| Cable Costa Rica S.A. | Costa Rica | 100.0 | 100.0 |
| **South America** | | | |
| Telefonica Celular de Bolivia S.A. | Bolivia | 100.0 | 100.0 |
| Telefonica Celular del Paraguay S.A. | Paraguay | 100.0 | 100.0 |
| Colombia Movil S.A. E.S.P. | Colombia | 50.0 + 1 share | 50.0 + 1 share |
| LATAM Internet Holding GmbH | Germany | 20.0 | – |
| **Africa** | | | |
| Millicom Ghana Company Limited | Ghana | 100.0 | 100.0 |
| Sentel GSM S.A. | Senegal | 100.0 | 100.0 |
| MIC Tanzania Limited | Tanzania | 100.0 | 100.0 |
| Oasis S.P.R.L. | Democratic Republic of Congo | 100.0 | 100.0 |
| Millicom Tchad S.A. | Chad | 100.0 | 100.0 |
| Millicom Mauritius Limited | Mauritius | 100.0 | 100.0 |
| Millicom Rwanda Limited | Rwanda | 87.5 | 87.5 |
| Africa Internet Holding GmbH | Germany | 20.0 | – |
| **Unallocated** | | | |
| Millicom International Operations S.A. | Luxembourg | 100.0 | 100.0 |
| Millicom International Operations B.V. | Netherlands | 100.0 | 100.0 |
| MIC Latin America B.V. | Netherlands | 100.0 | 100.0 |
| Millicom Africa B.V. | Netherlands | 100.0 | 100.0 |
| Millicom Holding B.V. | Netherlands | 100.0 | 100.0 |
| Millicom Ireland Limited | Ireland | 100.0 | 100.0 |

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## 9. Interests in joint ventures

The following amounts have been proportionally consolidated into the Group's accounts from continuing operations representing the Group's share of revenue, operating expenses and operating profit in the Group's joint ventures:

| Name of the company | Country | Holding December 31, 2012 % of ownership interest | Holding December 31, 2011 % of ownership interest |
|---|---|---|---|
| **Central America** | | | |
| Comunicaciones Celulares S.A. | Guatemala | 55.0 | 55.0 |
| Navega.com S.A. (see note 5) | Guatemala | 55.0 | 55.0 |
| **Africa** | | | |
| Emtel Limited | Mauritius | 50.0 | 50.0 |

The share of assets and liabilities of the jointly controlled entities at December 31, 2012 and 2011, which are included in the consolidated financial statements, are as follows:

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Current assets | 197 | 235 |
| Non-current assets | 445 | 419 |
| **Total assets** | **642** | **654** |
| Current liabilities | 185 | 206 |
| Non-current liabilities | 241 | 175 |
| **Total liabilities** | **426** | **381** |

The share of revenues and operating expenses of the jointly controlled entities for the years ended December 31, 2012, 2011, and 2010, which are included in the consolidated income statements from continuing operations, are as follows:

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| Revenue | 663 | 650 | 799 |
| Total operating expenses | (389) | (365) | (413) |
| **Operating profit** | **274** | **285** | **386** |

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## 10. Segment information

The Group has businesses in three regions: Central America, South America and Africa.

Revenue, operating profit (loss) and other segment information for the years ended December 31, 2012, 2011 and 2010 is as follows:

| December 31, 2012 | Central America US$ millions | South America US$ millions | Africa US$ millions | Unallocated items US$ millions | Total continuing operations US$ millions | Intercompany elimination US$ millions | Total US$ millions |
|---|---|---|---|---|---|---|---|
| **Revenue** | **1,901** | **1,939** | **974** | **–** | **4,814** | **–** | **4,814** |
| **Operating profit (loss)** | **639** | **491** | **122** | **(148)** | **1,104** | **–** | **1,104** |
| **Add back:** | | | | | | | |
| Depreciation and amortization | 320 | 257 | 233 | 1 | 811 | – | 811 |
| Loss (gain) of disposal and impairment | (1) | – | 4 | 3 | 6 | – | 6 |
| Corporate costs | – | – | – | 144 | 144 | – | 144 |
| **Adjusted operating profit (loss)(i)** | **958** | **748** | **359** | – | **2,065** | – | **2,065** |
| **Additions to:** | | | | | | | |
| Property, plant and equipment | (290) | (303) | (272) | (5) | (870) | – | (870) |
| Intangible assets | (6) | (70) | (158) | (16) | (250) | – | (250) |
| **Capital expenditure** | **(296)** | **(373)** | **(430)** | **(21)** | **(1,120)** | – | **(1,120)** |
| Taxes paid | (131) | (76) | (32) | (45) | (284) | | |
| Changes in working capital | 42 | 3 | 46 | (7) | 84 | | |
| Other movements | (45) | 91 | 142 | 48 | 236 | | |
| **Operating free cash flow (ii)** | **528** | **393** | **85** | **(25)** | **981** | | |
| | | | | | | | |
| **Total Assets(iii)** | **3,570** | **2,604** | **2,050** | **1,068** | **9,292** | **(1,081)** | **8,211** |
| **Total Liabilities** | **1,696** | **1,913** | **2,073** | **1,253** | **6,935** | **(1,060)** | **5,875** |

(i) Adjusted operating profit is used by the management to monitor the segmental performance and for capital management (see note 34).
(ii) Operating free cash flow by segment includes vendor financing of capital equipment as a cash transaction.
(iii) Segment assets include goodwill and other intangibles.

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## 10. Segment information continued

| December 31, 2011 | Central America US$ millions | South America US$ millions | Africa US$ millions | Unallocated items US$ millions | Total continuing operations US$ millions | Discontinued operations (note 7) US$ millions | Intercompany elimination US$ millions | Total US$ millions |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **1,842** | **1,706** | **982** | **–** | **4,530** | **6** | **–** | **4,536** |
| **Operating profit (loss)** | **650** | **505** | **216** | **(114)** | **1,257** | **3** | **–** | **1,260** |
| **Add back:** | | | | | | | | |
| Depreciation and amortization | 303 | 231 | 204 | 1 | 739 | 2 | – | 741 |
| Loss (gain) of disposal and impairment | 5 | (10) | (17) | – | (22) | – | – | (22) |
| Corporate costs | – | – | – | 113 | 113 | – | – | 113 |
| **Adjusted operating profit (loss)(i)** | **958** | **726** | **403** | **–** | **2,087** | **5** | **–** | **2,092** |
| **Additions to:** | | | | | | | | |
| Property, plant and equipment | (220) | (295) | (288) | – | (803) | – | – | (803) |
| Intangible assets | (1) | (29) | (9) | (6) | (45) | – | – | (45) |
| **Capital expenditure** | **(221)** | **(324)** | **(297)** | **(6)** | **(848)** | **–** | **–** | **(848)** |
| Taxes paid | (146) | (77) | (14) | (31) | (268) | | | |
| Changes in working capital | (67) | 15 | 92 | (25) | 15 | | | |
| Other movements | 17 | 85 | 79 | 37 | 218 | | | |
| **Operating free cash flow (ii)** | **541** | **425** | **263** | **(25)** | **1,204** | | | |
| **Total Assets(iii)** | **4,074** | **2,008** | **1,630** | **830** | **8,542** | **–** | **(1,260)** | **7,282** |
| **Total Liabilities** | **1,673** | **1,388** | **1,705** | **927** | **5,693** | **–** | **(857)** | **4,836** |

(i) Adjusted operating profit is used by the management to monitor the segmental performance and for capital management (see note 34).
(ii) Operating free cash flow by segment includes vendor financing of capital equipment as a cash transaction.
(iii) Segment assets include goodwill and other intangibles.

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## 10. Segment information continued

| December 31, 2010 (As restated)[iv] | Central America[v] US$ millions | South America US$ millions | Africa US$ millions | Unallocated items US$ millions | Total continuing operations US$ millions | Discontinued operations (note 7) US$ millions | Intercompany elimination US$ millions | Total US$ millions |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **1,641** | **1,374** | **905** | **–** | **3,920** | **30** | **–** | **3,950** |
| **Operating profit (loss)** | **639** | **362** | **148** | **(107)** | **1,042** | **13** | **–** | **1,055** |
| **Add back:** | | | | | | | | |
| Depreciation and amortization | 250 | 223 | 203 | 1 | 677 | – | – | 677 |
| Loss (gain) of disposal and impairment | 4 | 5 | 7 | – | 16 | – | – | 16 |
| Corporate costs | – | – | – | 106 | 106 | – | – | 106 |
| **Adjusted operating profit (loss)[i]** | **893** | **590** | **358** | **–** | **1,841** | **13** | **–** | **1,854** |
| **Additions to:** | | | | | | | | |
| Property, plant and equipment | (187) | (216) | (274) | – | (677) | (16) | – | (693) |
| Intangible assets | (21) | (28) | (4) | (1) | (54) | – | – | (54) |
| **Capital expenditure** | **(208)** | **(244)** | **(278)** | **(1)** | **(731)** | **(16)** | **–** | **(747)** |
| Taxes paid | (139) | (63) | (9) | (28) | (239) | | | |
| Changes in working capital | 34 | (31) | (28) | 26 | 1 | | | |
| Other movements | 7 | 60 | 102 | (25) | 144 | | | |
| **Operating free cash flow [ii]** | **587** | **312** | **145** | **(28)** | **1,016** | | | |
| | | | | | | | | |
| **Total Assets[iii]** | **3,618** | **1,504** | **1,600** | **650** | **7,372** | **72** | **(449)** | **6,995** |
| **Total Liabilities** | **2,320** | **1,258** | **1,630** | **803** | **6,011** | **47** | **(1,453)** | **4,605** |

(i) Adjusted operating profit is used by the management to monitor the segmental performance and for capital management (see note 34).
(ii) Operating free cash flow by segment includes vendor financing of capital equipment as a cash transaction.
(iii) Segment assets include goodwill and other intangibles.
(iv) Restatement – see note 4.
(v) Includes cable which in 2010 was reported as a separate segment which has now been integrated with mobile operations.

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## 10. Segment information continued

Revenue from continuing operations for the years ended December 31, 2012, 2011 and 2010 by country are as follows:

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| Colombia | 849 | 756 | 612 |
| Honduras | 705 | 673 | 532 |
| Guatemala | 654 | 647 | 571 |
| Paraguay | 649 | 593 | 463 |
| Bolivia | 429 | 357 | 299 |
| El Salvador | 408 | 414 | 453 |
| Other | 1,120 | 1,090 | 990 |
| **Total** | **4,814** | **4,530** | **3,920** |

Non-current assets (intangible assets and property, plant and equipment) as at December 31, 2012 and 2011 by country are as follows:

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Colombia | 713 | 596 |
| Honduras | 1,554 | 1,669 |
| Guatemala | 399 | 392 |
| Paraguay | 474 | 256 |
| Bolivia | 274 | 260 |
| El Salvador | 424 | 438 |
| Other | 1,689 | 1,424 |
| **Total** | **5,527** | **5,035** |

## 11. Analysis of Operating Profit

The Group's operating income and expenses from continuing operations by nature of expense is as follows:

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| Revenue | 4,814 | 4,530 | 3,920 |
| Cost of services rendered and goods sold | (1,134) | (1,007) | (810) |
| Depreciation and amortization (notes 10, 16 and 17) | (811) | (739) | (677) |
| Dealer commissions | (417) | (398) | (355) |
| Employee related costs (note 12) | (345) | (299) | (294) |
| Sites and network maintenance | (220) | (208) | (176) |
| Advertising and promotion | (130) | (127) | (120) |
| Phone subsidies | (179) | (139) | (124) |
| External services | (190) | (155) | (110) |
| Operating lease expense (note 32) | (108) | (96) | (83) |
| Billing and payments | (36) | (33) | (28) |
| Gain (loss) on disposal and impairment of assets, net (note 10) | (6) | 22 | (16) |
| Other income | 19 | 44 | 3 |
| Other expenses | (153) | (138) | (88) |
| **Operating profit** | **1,104** | **1,257** | **1,042** |

The following table summarizes the aggregate amounts paid to Millicom's auditors for the years ended December 31, 2012, 2011 and 2010.

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| Audit fees | 4.8 | 3.6 | 4.2 |
| Audit related fees | – | 0.2 | 0.6 |
| Tax fees | 0.2 | 0.1 | – |
| Other fees | 0.8 | – | 0.1 |
| **Total** | **5.8** | **3.9** | **4.9** |

## 12. Employee Related Costs

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| Wages and salaries | (238) | (209) | (196) |
| Social security | (29) | (24) | (21) |
| Share-based compensation (see note 24) | (22) | (17) | (31) |
| Other employee related costs(i) | (56) | (49) | (46) |
| **Total** | **(345)** | **(299)** | **(294)** |

(i) Includes pension costs and other benefits.

The average number of permanent employees during the years ended December 31, 2012, 2011 and 2010 was as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Continuing operations | 8,273 | 6,526 | 6,109 |
| Discontinued operations | – | 128 | 237 |
| **Total average number of permanent employees** | **8,273** | **6,654** | **6,346** |

## 13. Other non-operating (expenses) income, net

| | 2012 US$ millions | 2011 US$ millions | 2010 (As restated)(i) |
|---|---|---|---|
| Change in carrying value of put option(i) | 15 | 24 | (32) |
| Change in fair value of derivatives | (6) | (2) | (15) |
| Revaluation of previously held interest (see note 5) | 9 | – | – |
| Other exchange (losses), net | 2 | (26) | (15) |
| Other non-operating expenses | 2 | – | – |
| **Other non-operating (expenses) income, net** | **22** | **(4)** | **(62)** |

(i) Restatement – see note 4.

## 14. Taxes

Taxes mainly comprise income taxes of subsidiaries and joint ventures. As a Luxembourg commercial company, the Company is subject to all taxes applicable to a Luxembourg Société Anonyme. Due to losses incurred and brought forward, no taxes based on income in Luxembourg have been computed for 2012, 2011 and 2010.

The effective tax rate on continuing operations is 44% (2011: 2%), 2010: 12%). Currently Millicom operations are in jurisdictions with income tax rates of 6% to 40% (2011 and 2010: 10% to 40%).

The reconciliation between the weighted average statutory tax rate and the effective average tax rate is as follows:

| | 2012 % | 2011 % | 2010 % |
|---|---|---|---|
| Weighted average statutory tax rate(i) | 16 | 24 | 23 |
| Recognition of previously unrecorded tax losses | – | (29) | – |
| Unrecognized current year tax losses(ii) | 2 | 1 | 7 |
| Non-taxable income and non-deductible expenses, net | 6 | 1 | – |
| Taxes based on revenue | 2 | (6) | (7) |
| Income taxes at other than statutory tax rates | 3 | 4 | 2 |
| Withholding taxes on transfers between operating and non-operating entities | 8 | 3 | 3 |
| Write-back of tax provision | 3 | – | – |
| Non-taxable gain arising from revaluation of previously held interests | – | – | (16) |
| Effect on change in tax rate | 4 | – | – |
| **Effective tax rate** | **44** | **(2)** | **12** |

(i) The weighted average statutory tax rate has been determined by dividing the aggregate statutory tax charge of each subsidiary and joint venture, which was obtained by applying the statutory tax rate to the profit or loss before tax, by the aggregate profit before tax excluding the impact of the revaluation of Honduras in 2010 (see note 5).

(ii) Unrecognized current year tax losses mainly consist of tax losses at the Company level and tax losses recorded in the Group's operations in the DRC, Rwanda and Tanzania (2011: DRC, Rwanda and Tanzania; 2010: DRC, Rwanda and Colombia).

## 14. Taxes continued

The credit (charge) for income taxes from continuing operations is shown in the following table and recognizes that revenue and expense items may affect the financial statements and tax returns in different periods (temporary differences):

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| Current income tax credit (charge) | (326) | (278) | (223) |
| Net deferred income tax benefit (expense) | (67) | 297 | (4) |
| Credit/(charge) for taxes | **(393)** | **19** | **(227)** |
| **(A) Profit After Tax** | **504** | **1,090** | |
| (1) Current Income Tax | (326) | (278) | |
| (2) Deferred Income Tax | (67) | 297 | |
| **(B) Total income tax (1) + (2)** | **(393)** | **19** | |
| **(C) Profit Before Tax = (A)+(B)** | **897** | **1,071** | |
| (3) Effective tax rate (B)/(C) | 44% | (2%) | |
| (4) Weighted average tax rate | 16% | 24% | |
| **(D) Theoretical Income Tax (C)*(4)** | **(142)** | **(262)** | |
| **Difference to explain =(B)-(D)** | **(251)** | **281** | |
| Non taxable and deductible items | (52) | 6 | |
| Items taxed with another tax rate | (24) | (49) | |
| Withholding tax | (72) | (39) | |
| Provision PY underestimate | (24) | – | |
| Tax based on revenues and other taxes | (24) | 50 | |
| Impact of changes in tax rates on DTA | (39) | – | |
| Unrecognized tax losses | (16) | (6) | |
| (Use)/recognition of DTA | – | 319 | |
| **Total** | **(251)** | **281** | |

The tax effects of significant items of the Group's deferred income tax asset and liability as of December 31, 2012 and 2011 are as follows:

| | Consolidated balance sheets | | Consolidated income statements | | |
|---|---|---|---|---|---|
| | 2012 US$ millions | 2011 US$ millions | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
| Loss carry-forwards | 134 | 182 | (48) | 182 | (6) |
| Provision for doubtful debtors | 14 | 9 | 5 | 5 | 1 |
| Temporary differences between book and tax basis of intangible assets and property, plant and equipment | (56) | 5 | (61) | 50 | (2) |
| Deferred tax liabilities recognized as part of the acquisition of Celtel (see note 5) | (81) | (94) | 13 | 11 | 8 |
| Deferred tax liabilities recognized as part of the acquisition of Amnet (see note 5) | (13) | (19) | 6 | 6 | 6 |
| Deferred tax liabilities recognized as part of the acquisition of Navega (see note 5) | (2) | (2) | – | 1 | 1 |
| Deferred tax liabilities recognized as part of the acquisition of LIH Group (see note 5) | (5) | – | (5) | – | – |
| Other temporary and translation differences | 88 | 37 | 51 | 41 | (12) |
| **Deferred tax benefit (expense)** | | | **(39)** | **296** | **(4)** |
| **Deferred tax assets (liabilities), net** | **79** | **118** | | | |
| Reflected in the statements of financial position as: | | | | | |
| Deferred tax assets | 259 | 317 | | | |
| Deferred tax liabilities | (180) | (199) | | | |

Deferred income tax assets and liabilities reflect temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

As the Group was in a position to control the timing of the reversal of the temporary differences and it was unlikely that such differences would reverse in a foreseeable future, no deferred tax liability was recognized in respect of $3,826 million (2011: $3,352 million) of unremitted earnings of subsidiaries and joint ventures. Furthermore, it was not practicable to estimate the amount of unrecognized deferred tax liabilities in respect of these unremitted earnings.

## 14. Taxes continued

At December 31, 2012 the deferred tax assets of $207 million in our Colombian operation represent the expected and remaining unutilised portion of a tax credit of $308 million that was recognized in our Colombian operation in 2011. The credit related to expected utilization of tax loss carry-forwards and other temporary differences related mainly to property, plant and equipment and intangible assets. The expected utilisation of the tax loss carry-forwards was based on an assessment by management that sufficient taxable profit will be available to allow the benefit of the deferred tax asset to be utilised. At December 31, 2012 the deferred tax assets of $207 million in our Colombian operation represent the expected and remaining unutilised portion of a tax credit of $308 million that was recognized in our Colombian operation in 2011. The credit related to expected utilization of tax loss carry-forwards and other temporary differences related mainly to property, plant and equipment and intangible assets. The expected utilisation of the tax loss carry-forwards was based on an assessment by management that sufficient taxable profit will be available to allow the benefit of the deferred tax asset to be utilised.

A change in the corporate income tax rate in Colombia from 33% to 25% effective January 1, 2013 resulted in a write-down in the value of the deferred tax asset by $25 million in 2012.

Total unrecognized tax loss carry-forwards relating to continuing operations amounted to $267 million as at December 31, 2012 (2011: $169 million, 2010: $775 million) of which $236 million expire within one to five years (2011: $169 million, 2010: $775 million and $31 million which have no expiry (2011: nil, 2010: nil). In addition the Company has unrecognized net tax losses of $1,793 million (2011: $1,742 million) that do not expire for which deferred tax assets have not been recognized as taxable profits may not be available to utilize these losses.

## 15. Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of dilutive potential shares.

Net profit and share data used in the basic and diluted earnings per share computations are as follows:

| | 2012 US$ millions | 2011 US$ millions | 2010 (As restated)(i) US$ millions |
|---|---|---|---|
| **Basic** | | | |
| Net profit attributable to equity holders from continuing operations | 508 | 886 | 1,611 |
| Net profit attributable to equity holders from discontinued operations | – | 39 | 9 |
| Net profit attributable to equity holders to determine the basic earnings per share | 508 | 925 | 1,620 |
| **Diluted** | | | |
| Net profit attributable to equity holders from continuing operations | 508 | 886 | 1,611 |
| Net profit attributable to equity holders from continuing operations used to determine the diluted earnings per share | 508 | 886 | 1,611 |
| Net profit attributable to equity holders from discontinued operations | – | 39 | 9 |
| Net profit attributable to equity holders to determine the diluted earnings per share | 508 | 925 | 1,620 |

| | 2012 '000 | 2011 '000 | 2010 '000 |
|---|---|---|---|
| Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share | 101,332 | 104,196 | 108,219 |
| Effect of dilution: | | | |
| Potential incremental shares as a result of share options | 93 | 105 | 177 |
| Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution | 101,425 | 104,301 | 108,396 |

(i) Restatement – see note 4

To calculate earnings per share amounts for discontinued operations, the weighted average number of shares for both basic and diluted amounts is as per the table above.

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## 16. Intangible Assets

Movements in intangible assets in 2012 were as follows:

| | Goodwill US$ millions | Licenses US$ millions | Customers' lists US$ millions | Other(ii) US$ millions | Total US$ millions |
|---|---|---|---|---|---|
| Opening balance, net | 1,415 | 213 | 370 | 172 | 2,170 |
| Change in the composition of the Group (see note 5) | 130 | – | 44 | 21 | 195 |
| Additions (see note 10) | – | 155 | – | 95 | 250 |
| Amortization charge(i) | – | (41) | (69) | (44) | (154) |
| Transfers | – | 3 | – | (3) | – |
| Other movements | – | – | – | 3 | 3 |
| Exchange rate movements | (37) | (3) | (10) | 5 | (45) |
| **Closing balance, net** | **1,508** | **327** | **335** | **249** | **2,419** |
| **As at December 31, 2012** | | | | | |
| Cost or valuation | 1,508 | 571 | 532 | 518 | 3,129 |
| Accumulated amortization | – | (244) | (197) | (269) | (710) |
| **Net** | **1,508** | **327** | 335 | **249** | **2,419** |

(i) The amortization charge for Licenses and Other is recorded under the caption "General and administrative expenses".
(ii) The caption "Other" includes mainly those intangible assets identified in business combinations (i.e. trademarks). (See note 5).

Movements in intangible assets in 2011 were as follows:

| | Goodwill US$ millions | Licenses US$ millions | Customers' lists US$ millions | Other(ii) US$ millions | Total US$ millions |
|---|---|---|---|---|---|
| Opening balance, net | 1,428 | 238 | 433 | 184 | 2,283 |
| Change in the composition of the Group (see note 5) | – | – | 5 | – | 5 |
| Additions (see note 10) | – | 13 | – | 32 | 45 |
| Amortization charge(i) | – | (35) | (65) | (41) | (141) |
| Transfers | – | 4 | – | (4) | – |
| Other movements | – | (1) | – | – | (1) |
| Exchange rate movements | (13) | (6) | (3) | 1 | (21) |
| **Closing balance, net** | **1,415** | **213** | **370** | **172** | **2,170** |
| **As at December 31, 2011** | | | | | |
| Cost or valuation | 1,415 | 409 | 503 | 362 | 2,689 |
| Accumulated amortization | – | (196) | (133) | (190) | (519) |
| **Net** | **1,415** | **213** | **370** | **172** | **2,170** |

(i) The amortization charge for Licenses and Other is recorded under the caption "General and administrative expenses".
(ii) The caption "Other" includes mainly those intangible assets identified in business combinations (i.e. trademarks).

The following table provides details of cash used for intangible asset additions:

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| Additions | 250 | 45 | 54 |
| Change in suppliers advances | 1 | – | – |
| Change in capex accruals and payables | (92) | 12 | (28) |
| **Cash used from continuing operations for intangible asset additions** | **159** | **57** | **26** |

### Impairment test of goodwill

As at December 31, 2012, management tested goodwill for impairment. The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill is allocated.

The recoverable amount of a cash-generating unit ("CGU") or group of CGUs is determined based on discounted cash flows. The cash flow projections used (adjusted operating profit margins, income tax, working capital, capital expenditure and license renewal cost) are extracted from financial budgets approved by management and the Board covering a period of three years apart from our new business in Rwanda where six years has been used (2011: six years). The planning horizon reflects industry practice in the countries where the Group operates. Cash flows beyond this period are extrapolated using a perpetual growth rate of 2% (2011: 2%).
No impairment losses were recorded on goodwill for the years ended December 31, 2012, 2011 and 2010.

Sensitivity analysis was performed on key assumptions within the impairment tests. The sensitivity analysis determined that sufficient margin exists from realistic changes to the assumptions that would not impact the overall results of the testing. For DRC and Senegal, the estimated recoverable amount exceeded the carrying value by less than 10%. As a consequence, a negative change including change in price, volume, cost discount rate and/or future capital expenditure could cause the estimated recoverable amount to decline below carrying value and trigger an impairment which would be recorded in the income statement.

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## 16. Intangible Assets continued

The recoverable amounts have been determined for the cash generating units based on the following discount rates for the years ended December 31, 2012 and 2011:

| | Discount rate after tax | |
|---|---|---|
| | 2012 | 2011 |
| Central America | 7.5%–11.4% | 8.2%–12.7% |
| South America | 7.4%–10.8% | 8.0%–11.2% |
| Africa | 8.4%–15.2% | 8.9%–14.6% |

The allocation of goodwill to cash generating units, net of exchange rate movements, is shown below:

| Millicom's operations in: | 2012 US$ millions | [2011] US$ millions |
|---|---|---|
| Honduras (see note 5) | 883 | 926 |
| El Salvador | 194 | 185 |
| Costa Rica | 137 | 138 |
| Paraguay | 76 | 4 |
| Colombia | 57 | 52 |
| Guatemala | 40 | 36 |
| Senegal | 35 | 34 |
| DRC | 11 | 11 |
| Other | 75 | 29 |
| **Total Goodwill** | **1,508** | **1,415** |

## 17. Property, Plant and Equipment

Movements in intangible assets in 2012 were as follows:

| | Network equipment[iv] US$ millions | Land and Buildings US$ millions | Construction in Progress US$ millions | Other[i] US$ millions | Total US$ millions |
|---|---|---|---|---|---|
| Opening balance, net | 2,428 | 69 | 240 | 128 | 2,865 |
| Change in the composition of the Group (note 5)[iii] | 20 | 2 | 1 | 8 | 31 |
| Additions (including sale and leaseback) | 52 | 8 | 793 | 49 | 902 |
| Impairments and net disposals | (97) | (1) | (2) | (4) | (104) |
| Depreciation charge[ii](v) | (584) | (8) | – | (65) | (657) |
| Asset retirement obligations | 6 | – | – | – | 6 |
| Transfers | 659 | 7 | (718) | 52 | – |
| Transfer to assets held for sale (see note 7) | 44 | – | – | – | 44 |
| Exchange rate movements | 12 | – | 8 | 1 | 21 |
| **Closing Balance at December 31, 2012** | **2,540** | **77** | **322** | **169** | **3,108** |
| Cost or valuation | | | | | |
| Accumulated depreciation | 5,213 | 99 | 322 | 422 | 6,056 |
| **Net** | **(2,673)** | **(22)** | **–** | **(253)** | **(2,948)** |
| | **2,540** | **77** | **322** | **169** | **3,108** |
| | **2,540** | **77** | **322** | **169** | **3,108** |

(i) "Other" mainly includes office equipment and motor vehicles.

(ii) The depreciation charge for network equipment is recorded under the caption "Cost of sales" and the depreciation charge for Land and Buildings and Other is recorded under "General and administrative expenses".

(iii) The change in the composition of the Group corresponded to the acquisition of Cablevision Paraguay and other minor investments.

The net carrying amount of network equipment under finance leases at December 31, 2012, mainly comprising towers from the sale and lease back transactions with tower companies, was $195 million.

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## 17. Property, Plant and Equipment continued

Movements in tangible assets in 2011 were as follows:

| | Network equipment(iv) US$ millions | Land and Buildings US$ millions | Construction in Progress US$ millions | Other(i) US$ millions | Total US$ millions |
|---|---|---|---|---|---|
| Opening balance, net | 2,396 | 54 | 207 | 112 | 2,768 |
| Change in the composition of the Group (note 5)(iii) | 2 | – | 3 | – | 5 |
| Additions (including sale and leaseback) | 127 | 9 | 721 | 22 | 879 |
| Impairments and net disposals | (99) | (1) | (7) | (2) | (109) |
| Depreciation charge(ii) | (550) | (3) | – | (45) | (598) |
| Asset retirement obligations | 5 | – | – | – | 5 |
| Transfers | 630 | 12 | (685) | 43 | – |
| Transfer to assets held for sale (see note 7) | (56) | – | – | – | (56) |
| Exchange rate movements | (27) | (2) | 1 | (1) | (29) |
| **Closing balance at December 31, 2011** | **2,428** | **69** | **240** | **128** | **2,865** |
| Cost or valuation | 4,557 | 85 | 240 | 345 | 5,227 |
| Accumulated depreciation | (2,129) | (16) | – | (217) | (2,362) |
| **Net** | **2,428** | **69** | **240** | **128** | **2,865** |

(i) "Other" mainly includes office equipment and motor vehicles.

(ii) The depreciation charge for network equipment is recorded under the caption "Cost of sales" and the depreciation charge for Land and Buildings and Other is recorded under the caption "General and administrative expenses".

(iii) The change in the composition of the Group corresponded to other minor investments.

The net carrying amount of network equipment under finance leases at December 31, 2011, mainly comprising towers from sale and lease back transactions with tower companies, was $133 million.

Borrowing costs capitalized for the years ended December 31, 2011 and 2010 were not significant.

The following table provides details of cash used for the purchase of property, plant and equipment:

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| Additions | 870 | 803 | 693 |
| Additions from discontinued operations | – | – | (16) |
| Subtotal | 870 | 803 | 677 |
| | | | |
| Change in suppliers advances | 3 | (2) | (12) |
| Change in capex accruals and payables | (21) | (63) | 23 |
| Vendor financing and finance leases (see note 31) | (10) | (38) | (91) |
| **Cash used from continuing operations for purchase of property, plant and equipment** | **842** | **700** | **597** |

## 18. Investments in associates

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Helios Towers Tanzania | 26 | 29 |
| Helios Towers DRC | 29 | 16 |
| Helios Towers Ghana | 17 | 17 |
| ATC Colombia BV | 20 | – |
| Africa e-Commerce Holding (see note 5) | 100 | – |
| Others | 1 | 1 |
| **Total** | **193** | **63** |

### Helios Towers Tanzania, DRC and Ghana

The carrying value of the 40% investment stakes in Helios Tower companies in Tanzania, DRC and Ghana comprises initial cost, measured at Millicom's interest in the fair value of the tower sites transferred to the tower companies (see note 7), after elimination of intercompany gains on sale. The carrying values have subsequently been changed to reflect Millicom's share in the losses of the tower companies which amounted to $18 million in 2012 (2011: $10 million). Revenue in 2012 of the tower companies amounted to $82 million. At December 31, 2012 total assets amounted to $295 million and total liabilities $124 million.

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## 18. Investments in associates continued

### ATC Colombia BV

In December 2011, Millicom exercised an option to acquire a 40% stake in the holding company (ATC Colombia BV), of ATC Infraco (the company to which Millicom sold its towers). By December, 2012 Millicom had invested cash of $35 million in ATC Colombia BV. The amount of the investment is derived from the value of the tower assets transferred to ATC Infraco (see note 7).

Through a Millicom subsidiary, Millicom also had an unconditional option to acquire a minority equity interest of up to 40% in ATC Sitios de Colombia S.A.S. (ATC Sitios), another tower subsidiary of American Tower in Colombia. The option expired on December 21, 2012.

Millicom has provided Colombia Móvil's other shareholders with separate unconditional options to acquire up to half of Millicom's interest in ATC Colombia BV. The options expire on July 18, 2013. At December 31, 2012 the fair values of the options were not significant.

## 19. Non-current pledged deposits

As at December 31, 2012, non-current pledged deposits amounted to $47 million (2011: $49 million) and mainly related to security over financing of Millicom's operation in Chad (see note 27).

## 20. Trade receivables, net

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Gross trade receivables | 430 | 349 |
| Less: provisions for impairment of receivables | (108) | (72) |
| **Trade receivables, net** | **322** | **277** |

Nominal value less impairment is assumed to approximate the fair value of trade receivables (see note 34).

As at December 31, 2012 and 2011, the ageing analysis of trade receivables is as follows:

| | Neither past due nor impaired US$ millions | Past due (net of impairments) <30 days US$ millions | 30–90 days US$ millions | >90 days US$ millions | Total US$ millions |
|---|---|---|---|---|---|
| **2012** | | | | | |
| Telecom operators | 72 | 21 | 23 | – | 116 |
| Own customers | 94 | 19 | 21 | – | 134 |
| Others | 40 | 23 | 9 | – | 72 |
| **Total** | **206** | **63** | **53** | **–** | **322** |
| **2011** | | | | | |
| Telecom operators | 73 | 31 | 21 | 1 | 126 |
| Own customers | 71 | 15 | 13 | 3 | 101 |
| Others | 34 | 9 | 6 | – | 50 |
| **Total** | **178** | **55** | **40** | **4** | **277** |

## 21. Restricted cash

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Mobile financial services | 43 | 20 |
| **Restricted cash** | **43** | **20** |

Mobile financial services cash where restricted based on local regulations.

## 22. Cash and cash equivalents and restricted cash

Cash and cash equivalents are comprised as follows:

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Cash and cash equivalents in U.S. dollars | 628 | 510 |
| Cash and cash equivalents in other currencies | 546 | 351 |
| **Total cash and cash equivalents** | **1,174** | **861** |

Cash balances are diversified among leading international banks and in domestic banks within the countries where we operate.

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# 23. Share capital

## Share capital and share premium

The authorized registered share capital of the Company is 133,333,200 shares (2011: 133,333,200). As at December 31, 2012, the total subscribed and fully paid-in share capital and premium was $642 million (2011: $663 million) consisting of 101,739,217 (2011: 104,939,217) registered common shares with par value of $1.50 (2011: $1.50) each.

The following table summarizes movements in issued share capital for the years ended December 31, 2012 and 2011:

| | 2012 Number of shares | 2011 Number of shares |
|---|---|---|
| Issued share capital as of January 1 | **104,939,217** | **109,053,120** |
| Exercise of share options(i) | – | 39,622 |
| Shares to employees and directors(i) | – | 46,475 |
| **Total issuance of shares during the year** | **–** | **86,097** |
| **Cancellation of shares during the year** | **(3,200,000)** | **(4,200,000)** |
| **Issued share capital as of December 31** | **101,739,217** | **104,939,217** |

(i) In addition, 236,150 LTIP shares were issued from treasury shares during 2012 (2011: 6,179 of share options and 186,681 of LTIP shares).

During 2012 the Company repurchased 2,106,070 shares for $190 million under a share buy-back program (2011: 4,646,241 shares) for $498 million.

The Company reduced its issued share capital by $5 million in 2012 (2011: $6 million), by way of cancellation of 3.2 million treasury shares (2011: 4.2 million shares) having a par value of $1.50 each.

# 24. Share-based compensation

Share-based compensation comprises share options and long term incentive plans.

## Share options

Until May 30, 2006, share options were granted to directors, senior executives, officers and selected employees. The exercise price of the granted options was equal to or higher than the market price of the shares on the date of grant. The options were conditional on the employee or director completing one to five years of service (the vesting period) and were exercisable starting from one year to five years from the grant date.

Options granted prior to 2005 have an indefinite life and in 2005 a twenty year life. Shares issued when share options are exercised have the same rights as common shares.

The following table summarizes information about share options outstanding and exercisable at December 31, 2012. The market price of the Company's shares as at December 31, 2012 was SEK 562.50 (2011: SEK 698.50), approximately $86.48 (2011: $100.20).

| | Options outstanding | | Options exercisable | |
|---|---|---|---|---|
| Range of exercise price $ | Weighted average exercise price | Number outstanding at December 31, 2012 | Weighted average exercise price | Number exercisable at December 31, 2012 |
| 20.56 | 20.56 | 35,000 | 20.56 | 35,000 |
| 25.05–29.75 | 26.93 | 33,332 | 26.93 | 33,332 |
| 31.88–35.91 | 35.16 | 66,664 | 35.16 | 66,664 |
| **20.56–35.91** | **29.34** | **134,996** | **29.34** | **134,996** |

Share options outstanding at the end of the year have the following expiry dates, exercise prices and terms:

| Date issued | Number of options outstanding as at December 31, 2012 | Exercise price $ | Terms |
|---|---|---|---|
| May 1996, May 1997, May 1998, and May 2004 | 99,996 | 25.05–35.91 | Exercisable immediately. Options have an indefinite life. |
| May 2005 | 35,000 | 20.56 | Exercisable immediately. Options have a 20 year life. |

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## 24. Share-based compensation continued

The following table summarizes the Company's share options as of December 31, 2012, 2011 and 2010, and changes during the years then ended:

| | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | Average exercise price in $ per share | Number of options | Average exercise price in $ per share | Number of options | Average exercise price in $ per share | Number of options |
| **Outstanding at beginning of year** | **29.34** | **134,996** | **29.06** | **183,797** | **26.21** | **329,788** |
| Expired/forfeited | – | – | 20.56 | (3,000) | 25.05 | (686) |
| Exercised | – | – | 28.80 | (45,801) | 22.58 | (145,305) |
| **Outstanding at end of year** | **29.34** | **134,996** | **29.34** | **134,996** | **29.06** | **183,797** |
| **Exercisable at end of year** | **29.34** | **134,996** | **29.34** | **134,996** | **29.06** | **183,797** |

### Long-term incentive plans

#### 2009

Long-term incentive awards for 2009 ("2009 LTIPs") were approved by the Board on June 16, 2009. The 2009 LTIPs consist of a deferred share awards plan and a performance shares plan.

Shares granted under the deferred plan are based on past performance and vested 16.5% on each of January 1, 2010 and January 1, 2011 and 67% on January 1, 2012.

Shares granted under the performance plan vested at the end of the three year period ended January 1, 2012 and were 50% subject to a market condition that was based on the Total Shareholder Return (TSR) of Millicom compared to the TSR of a peer group of companies during the three year period of the plan, and 50% subject to a performance condition, based on EPS. A fair value per share subject to the market condition was determined and applied to the total potential number of performance shares, and expensed over the vesting period.

In 2012, 101,101 treasury shares were issued under the 2009 performance shares plan and 89,519 treasury shares issued under the deferred share plan.

The total charge for the 2009 LTIPs of $12 million was recorded over the service period (2009 to 2011).

#### 2010

Long- term incentive awards for 2010 ("2010 LTIPs") were approved by the Board on November 27, 2009. The 2010 LTIPs consist of a deferred share awards plan and a performance shares plan, the mechanisms of which are the same as the 2009 LTIPs.

In 2012, no shares were issued under the 2010 performance shares plan and 23,248 treasury shares issued under the deferred share plan.

The total charge for the 2010 LTIPs of $16 million was recorded over the service period (2010 to 2012).

#### 2011

Long-term incentive awards for 2011 ("2011 LTIPs") were approved by the Board on February 1, 2011. The 2011 LTIPs consist of a deferred share awards plan and a performance shares plan.

Shares granted under the deferred share awards plan are based on past performance and vest 16.5% on each of January 1, 2012 and January 1, 2013 and 67% on January 1, 2014.

Shares granted under the performance plan vest at the end of the three year period ending January 1, 2014, subject to performance conditions, 50% based on Return on Capital Investment (ROIC) and 50% based on EPS. Prior to September 2011, the vesting conditions were 50% based on EPS and 50% on a market condition that was based on the ranking of the TSR of Millicom compared to the FTSE Global Telecoms Index adjusted to add three peer companies ("Adjusted Global Telecoms Index"). As this index was discontinued during 2011, the compensation committee approved the replacement of this condition with the ROIC condition.

In 2012, no shares were issued under the 2011 performance share plan and 22,282 treasury shares were issued under the deferred share plan.

The total charge for the 2011 LTIPs was estimated as of December 31, 2011 at $22 million, and is being recorded over the service period (2011 to 2013).

#### 2012

Long-term incentive awards for 2012 ("2012 LTIPs") were approved by the Board on January 27, 2012. The 2012 LTIP's consist of a deferred share awards plan and a performance shares plan, the mechanisms of which are the same as the 2011 LTIPs.

Shares granted under the deferred share awards plan are based on past performance and vest 16.5% on each of January 1, 2013 and January 1, 2014 and 67% on January 1, 2015. Shares under the performance plan vest at the end of the three year period ending January 1, 2015.

In 2012, no shares were issued under either the performance share plan or the deferred share plan.

The total charge for the 2012 LTIPs estimated at $25 million, is being recorded over the service period (2012 to 2014).

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## 24. Share-based compensation continued

The number of share awards expected to vest under the long-term incentive plans is as follows:

| | Performance shares 2012 | Deferred share awards 2012 | Performance shares 2011 | Deferred share awards 2011 | Performance shares 2010 | Deferred share awards 2010 |
|---|---|---|---|---|---|---|
| Plan share awards | 104,178 | 161,787 | 106,947 | 146,556 | 81,862 | 153,960 |
| Share awards granted(i) | 3,763 | 5,658 | 6,640 | 7,727 | 9,368 | 15,274 |
| Revision for actual and expected forfeitures | (3,756) | (7,520) | (11,054) | (20,572) | (18,735) | (28,966) |
| Revision for expectations in respect of performance conditions | – | – | – | – | – | – |
| Shares issued | – | – | – | (22,282) | (706) | (48,881) |
| **Share awards expected to vest** | **104,185** | **159,925** | **102,533** | **111,429** | **71,789** | **91,387** |

(i) Additional shares granted including consideration for the impact of the special dividends paid in 2012, 2011 and 2010 (see note 29), and vest at the end of the performance and deferred share plans.

### Total share-based compensation expense

Total share-based compensation for years ended December 31, 2012, 2011 and 2010 was as follows:

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| 2008 LTIPs | – | – | 21 |
| 2009 LTIPs | – | 3 | 4 |
| 2010 LTIPs | 5 | 5 | 6 |
| 2011 LTIPs | 7 | 9 | – |
| 2012 LTIPs | 10 | – | – |
| **Total share-based compensation expense** | **22** | **17** | **31** |

## 25. Put option reserve

On July 1, 2010, in exchange for an unconditional five year call option, the Company granted to its non-controlling interest in our operation in Honduras a five year conditional put option over his 33.3% shareholding (see note 28). A put option reserve in the amount of $737 million was recognised representing the present value of the redemption price of the put option at that date.

## 26. Other reserves

| | Legal reserve US$ '000 | Equity-settled transaction reserve US$ '000 | Hedge reserve US$ '000 | Currency translation reserve US$ '000 | Total US$ '000 |
|---|---|---|---|---|---|
| **As at January 1, 2010** | **16,245** | **25,754** | **–** | **(106,929)** | **(64,930)** |
| Transfer from retained profits | 53 | – | – | – | 53 |
| Shares issued via the exercise of share options | – | (816) | – | – | (816) |
| Share-based compensation | – | 30,286 | – | – | 30,286 |
| Issuance of shares—2007, 2008, and 2009 LTIPs | – | (16,488) | – | – | (16,488) |
| Cash flow hedge reserve movement | – | – | (1,700) | – | (1,700) |
| Currency translation movement | – | – | – | (1,090) | (1,090) |
| **As at December 31, 2010** | **16,298** | **38,736** | **(1,700)** | **(108,019)** | **(54,685)** |
| Transfer from retained profits | 61 | – | – | – | 61 |
| Shares issued via the exercise of share options | – | (81) | – | – | (81) |
| Share based compensation | – | 17,264 | – | – | 17,264 |
| Issuance of shares—2008, 2009, and 2010 LTIPs | – | (23,230) | – | – | (23,230) |
| Cash flow hedge reserve movement | – | – | (3,015) | – | (3,015) |
| Currency translation movement | – | – | – | (39,806) | (39,806) |
| **As at December 31, 2011** | **16,359** | **32,689** | **(4,715)** | **(147,825)** | **(103,492)** |
| Share-based compensation | – | 21,929 | – | – | 21,929 |
| Issuance of shares—2009, 2010, and 2011 LTIPs | – | (12,421) | – | – | (12,421) |
| Cash flow hedge reserve movement | – | – | (1,118) | – | (1,118) |
| Currency translation movement | – | – | – | (37,709) | (37,709) |
| **As at December 31, 2012** | **16,359** | **42,197** | **(5,833)** | **(185,534)** | **(132,811)** |

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## 26. Other reserves continued

### Legal reserve

If the Company reports an annual net profit on a non-consolidated basis, Luxembourg law requires appropriation of an amount equal to at least 5% of the annual net profit to a legal reserve until such reserve equals 10% of the issued share capital. This reserve is not available for dividend distribution.

No appropriation was required in 2012 as the 10% minimum level was reached in 2011 and maintained in 2012. At the Company's Annual General Meeting in May 2011, the shareholders voted to transfer $61,000 from retained profits to the legal reserve.

### Equity-settled transaction reserve

The cost of share options and LTIPs is recognized as an increase in the equity-settled transaction reserve over the period in which the performance and/or service conditions are rendered. When the options are exercised their cost is transferred from the equity-settled transaction reserve to share premium. When shares under the different LTIPs vest and are issued, the corresponding reserve is transferred to share capital and share premium.

### Currency translation reserve

For the purposes of consolidating joint ventures, associates and subsidiaries with functional currencies other than the U.S. dollar, statements of financial position are translated to U.S. dollars using the closing exchange rate. Income statements are translated to U.S. dollars at the average exchange rates during the year. The currency translation reserve includes foreign exchange gains and losses arising from the translation of financial statements.

## 27. Borrowings

Borrowings due after more than one year:

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Debt and financing: | | |
| El Salvador 8% Senior Notes (ii) | 440 | 437 |
| SEK Senior Notes (xii) | 304 | – |
| Paraguay 6.75% Senior Notes (ix) | 293 | – |
| Bank financing | 1,461 | 1,411 |
| Non-controlling shareholders | 243 | 264 |
| Finance leases | 200 | 138 |
| Vendor financing | 40 | 43 |
| **Total non-current other debt and financing** | **2,981** | **2,293** |
| Less: portion payable within one year | (415) | (476) |
| **Total other debt and financing due after more than one year** | **2,566** | **1,817** |

Borrowings due within one year:

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Debt and financing: | | |
| Bank financing | 236 | 121 |
| Vendor financing | 10 | 6 |
| Finance leases | 32 | 18 |
| **Total current other debt and financing** | **278** | **145** |
| Portion of non-current debt payable within one year | 415 | 476 |
| **Total other debt and financing due within one year** | **693** | **621** |

# 27. Borrowings continued

## Other debt and financing

Millicom's share of total other debt and financing analyzed by location is as follows:

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Colombia[(i)] | 547 | 543 |
| El Salvador[(ii)] | 440 | 437 |
| Honduras[(iii)] | 229 | 258 |
| Tanzania[(iv)] | 183 | 197 |
| Guatemala[(v)] | 219 | 221 |
| Ghana[(vi)] | 76 | 118 |
| Other Central America[(vii)] | 172 | 132 |
| Chad[(viii)] | 98 | 108 |
| Paraguay[(ix)] | 379 | 98 |
| Bolivia[(x)] | 198 | 71 |
| DRC[(xi)] | 124 | 96 |
| Luxembourg[(xii)] | 304 | – |
| Other | 290 | 159 |
| **Total other debt and financing** | **3,259** | **2,438** |
| Of which: | | |
| Due after more than 1 year | 2,566 | 1,817 |
| Due within 1 year | 693 | 621 |

Significant individual financing facilities are described below:

### (i) Colombia

In March 2008, Colombia Móvil S.A. E.S.P ("Colombia Móvil"), Millicom's operation in Colombia, entered into a COP391 billion, Club Deal five year facility with Colombian banks. This facility bears interest at Deposits to Fixed Terms ("DTF") plus 4.5% and is 50% 5 by the Company. As at December 31, 2012, $34 million (2011: $93 million was outstanding on this facility.

Colombia Móvil S.A. E.S.P. also had local currency loans from its non-controlling shareholders outstanding as at December 31, 2012 of $243 million (2011: $264 million (2010: $308 million). These loans bear interest at DTF plus 4.15% and mature between 2014 and 2015.

In addition, as at December 31, 2012 Colombia Móvil S.A. E.S.P. had $169 million (2011: $116 million) of other debt and financing, in U.S. dollars and local currency as well as finance lease payables of $68 million relating to lease of tower space from ATC Sitios Infraco S.A.S. (2011: $52 million).

### (ii) El Salvador

On September 23, 2010, Telemóvil Finance Co. Ltd., a fully owned subsidiary of Millicom in the Cayman Islands issued $450 million aggregate principal amount of 8% Senior Unsecured Guaranteed Notes (the "8% Senior Notes") due on October 1, 2017. The 8% Senior Notes were issued for $444 million representing 98.68% of the aggregate principal amount. Distribution and other transaction fees of $9 million reduced the total proceeds from issuance to $435 million. The 8% Senior Notes have an 8% per annum coupon with an 8.25% yield and are payable semi-annually in arrears on April 1 and October 1. The effective interest rate is 8.76%.

The 8% Senior Notes are general unsecured obligations of Telemóvil Finance Co. Ltd and rank equal in right of payment with all future unsecured and unsubordinated obligations of Millicom. The 8% Senior Notes are guaranteed by Telemóvil El Salvador, S.A., a Millicom subsidiary.

Telemóvil Finance Co. Ltd has options to partially or fully redeem the 8% Senior Notes as follows:

(i) Full or partial redemption at any time prior to October 1, 2014 for 100% of the principal to be redeemed, or the present value of the remaining scheduled payments of principal to be redeemed and interest, whichever is higher.

(ii) Full or partial redemption at any time on or after October 1, 2014 for the following percentage of principal to be redeemed, plus accrued and unpaid interest and all other amounts dues, if any:

| | |
|---|---|
| October 1, 2014 | 104% |
| October 1, 2015 | 102% |
| October 1, 2016 | 100% |

These options represent embedded derivatives which, in accordance with IAS 39 have been valued and determined to be closely related to the underlying bond.

(iii) Redemption of up to 35% of the original principal of the 8% Senior Notes if, prior to October 1, 2013, Telemóvil El Salvador receives proceeds from issuance of shares, at a repurchase price of 108% of the principal amount to be redeemed plus accrued and unpaid interest and all other amounts due, if any, on the redeemed notes.

If either Millicom, Telemóvil Finance Co. Ltd or Telemóvil El Salvador, S.A. experience a Change of Control Triggering Event, defined as a rating decline resulting from a change in control, each holder will have the right to require repurchase of its notes at 101% of their principal amount plus accrued and unpaid interest and all other amounts due, if any.

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## 27. Borrowings continued

### (iii) Honduras

Telefonica Celular S.A., Millicom's operation in Honduras, has facilities with several local and international banks maturing between 2013 and 2020. These facilities are in U.S. dollars and in Lempiras and are unsecured. Interest rates are either fixed or variable, ranging as of December 31, 2011 and 2012 between 3.9% and 10.5%. As at December 31, 2012, the amount of outstanding debt under these facilities was $229 million.

### (iv) Tanzania

In December 2008, Millicom Tanzania Limited entered into facilities totalling $228 million comprising of a five year local currency syndicated tranche for TZS95 billion at the 180 days treasury bill rate plus 3%, a seven year $116 million EKN guaranteed financing with 45% of the facility fixed at 4.1% and 55% of the facility at $ LIBOR plus 0.665% and a seven year $40 million tranche with Proparco at $ LIBOR plus 2.5%. All tranches are 100% guaranteed by the Company. As at December 31, 2012, the amount outstanding under these facilities was $103 million (2011: $155 million).

In December 2010, the operation signed a sale and lease-back agreement with Helios Towers Tanzania (note 18), a direct subsidiary of Helios Towers Africa, for most of its cell sites transferred to Helios Towers in 2011 and 2012. As at December 31, 2012, $80 million was outstanding on the finance lease as part of the lease back agreement (2011: $40 million).

In March 2007, Millicom Tanzania Limited entered into a five year Citi-Opic facility, bearing interest at a rate of $ LIBOR plus 2.5%, composed of a $17.4 million $ Tranche and a Tranche in local currency up to the equivalent of $5 million. The outstanding U.S. dollar amount under these facilities as at December 31, 2011 amounted to $2 million (2010: $7 million). This loan was fully repaid in March 2012.

### (v) Guatemala

In 2011 Comcel and its sister companies Asesoria en Telecomunicaciones S.A. (Asertel), Distribuidora Central de Comunicaciones, S.A. (COCENSA), Distribuidora Internacional de Comunicaciones, S.A. (INTERNACOM) and Distribuidora de Comunicaciones de Occidente, S.A. (COOCSA) entered into a $215 million syndicated loan with Citibank, Scotiabank, Banco General, RBC and HSBC which was fully disbursed in 2011, Millicom's share of the facility at December 31, 2012 amounted to $129 million.

As at December 31, 2012, Comcel had financing of $33 million (Millicom's share of outstanding debt) with Citibank bearing a fixed rate of 5.35% in OPIC Tranche A, variable rate of 1.40% in EKN, variable rate of 4.37% in a syndicated loan (2011: $27 million), and $43 million with Bancolombia maturing in 2017 bearing a floating interest rate at 4.31% (2011: $53 million) and other financing with local banks of the equivalent of $6 million (2011: $6 million).

Comcel also had another five year facility with IFC for $100 million, bearing interest at $ LIBOR plus 4.50%. This loan was fully repaid during 2011.

### (vi) Ghana

In December 2007 Millicom (Ghana) Limited, Millicom's operation in Ghana, entered into a $60 million local five year facility. The loan bears interest at $ LIBOR plus 2%. In parallel a $80 million offshore seven year DFI (Development Finance Institution) financing which bears interest at $ LIBOR plus 2.25% was arranged. As at December 31, 2011, $72 million (2010: $102 million) was outstanding under these facilities. In August 2012, Millicom Ghana breached certain financial covenants under the loan agreement. In September 2012, it obtained a waiver for these covenants for 12 months. These loans were fully repaid during 2012.

In December 2009 the operation entered into a 3.5 year $22 million Ericsson arranged financing with EKN and Nordea priced at $ LIBOR + 0.85% fully guaranteed by the Company. As at December 31, 2012, $6 million was outstanding under this facility (2011: $19 million).

An additional facility of $9 million was provided by Nordea in May 2011 priced at Cost of Funds plus 2.5% fully guaranteed by the Company. As at December 31, 2011, $5 million was outstanding under this facility. This loan was fully repaid during 2012.

In January 2010, the operation signed a sale and lease back agreement with Helios Towers Ghana, a direct subsidiary of Helios Towers Africa, for most of its cell sites, transferred to Helios Towers in 2010 and 2011. As at December 31, 2012, $20 million was outstanding on the finance lease as part of the lease back agreement (2011: $27 million).

In June 2012, the operation entered into a one year facility for $50 million with Standard Bank bearing interest at $ LIBOR one month plus 1.95%.

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## 27. Borrowings continued

### (vii) Cable Central America

In September 2009, Millicom Cable N.V., a subsidiary of the Company, refinanced with a two year, $250 million senior term loan facility fully guaranteed by the Company with Standard Bank, RBS, Nordea, DnB Nor, and Morgan Stanley. This loan agreement is allocated to the three main Amnet operating entities in Costa Rica, El Salvador, and Honduras. The loan bore interest for the first six months at $ LIBOR plus 4.5%, for months seven to twelve at $ LIBOR plus 4.75% and thereafter the margin increases by an incremental 25 basis points per quarter.

During the course of 2010 Millicom's cable businesses in Honduras and Costa Rica obtained financing under a $105 million seven year club deal fixed rate facility with HSBC, Bancocolombia and Citibank bearing interest at 6.7% in Costa Rica and a $30 million seven year bilateral fixed rate financing from Banco Industrial bearing interest at 7% in Honduras. As at December 31, 2012, $94 million was outstanding under the facility in Costa Rica (2011: $99 million) and $32 million for the facility in Honduras (2011: $33 million).

### (viii) Chad

In May and August 2007, Millicom's operation in Chad signed respectively a $31 million five year Facility with China Development Bank bearing interest at $ LIBOR +2% and a Euro 15 million five year facility with Proparco bearing interest at Euribor +2%. As at December 31, 2012, the amount outstanding under this facility was $1 million which was repaid in January 2013 (2011: $4 million).

In May 2009, Millicom Chad entered into a XAF 6 billion five year facility co-arranged by Societe Generale Cameroun and Financial Bank priced at a fixed interest rate of 7%, fully guaranteed by the Company. At the same date, Millicom Chad signed a XAF 21 billion five year Subordinated Facility with Societe Generale Tchad with interest at TIAO +1.85% and guaranteed by Nordea. This guarantee is secured by a pledged deposit of $44 million by the Company (see note 19). As at December 31, 2012 $8 million and $42 million respectively were outstanding under these facilities (2011: $12 million and $41 million respectively).

In December 2009 the operation signed a XAF 9.25 billion five year fixed rate financing with the IFC bearing interest at 8%. This facility is guaranteed by Millicom. As at December 31, 2012 the amount outstanding under this facility was $18 million (2011: $17 million).

In January 2010 the operation entered into a three year deferred payment agreement with Huawei for $50 million, guaranteed by Millicom and bearing interest at LIBOR +3.75%. As at December 31, 2012 the amount outstanding under this agreement was $14 million (2011: $15 million).

In July 2010, Millicom Chad signed a XAF 8 billion five year facility co-arranged by Proparco and BICEC (Banque Internationale du Cameroun pour l'Epargne et Le Credit) at a fixed interest rate of 8%, guaranteed by Millicom. As at December 31, 2012 the amount outstanding under this facility was $12 million (2011: $15 million).

### (ix) Paraguay

On December 7, 2012, Telefónica Celular del Paraguay S.A., Millicom's fully owned subsidiary in Paraguay issued $300 million aggregate principal amount of 6.75% Senior Unsecured Notes (the "6.75% Senior Notes") due on December 13, 2022. The 6.75% Senior Notes were issued at 100% of the aggregate principal amount. Distribution and other transaction fees of $7 million reduced the total proceeds from issuance to $293 million. The 6.75% Senior Notes have a 6.75% per annum coupon with interest payable semi-annually in arrears on June 13 and December 13. The effective interest rate is 7.12%.

The 6.75% Senior Notes are general unsecured obligations of Telefónica Celular del Paraguay S.A. and rank equal in right of payment with all future unsecured and unsubordinated obligations of Telefónica Celular del Paraguay S.A. The 6.75% Senior Notes are unguaranteed.

Telefónica Celular del Paraguay S.A. has options to partially or fully redeem the 6.75% Senior Notes as follows:

(i) Full or partial redemption at any time prior to December 13, 2017, for the highest of, 100% of the principal to be redeemed or, the present value of the remaining scheduled payments of principal to be redeemed and interest.

(ii) Full or partial redemption at any time on or after December 13, 2017 for the following percentage of principal to be redeemed, plus accrued and unpaid interest and all other amounts dues, if any:

| | |
|---|---|
| December 13, 2017 | 103.375% |
| December 13, 2018 | 102.25% |
| December 13, 2019 | 101.125% |
| December 13, 2020 | 100.00% |
| December 13, 2021 | 100.00% |

These options represent embedded derivatives which, in accordance with IAS 39 have been valued and determined to be closely related to the underlying bond.

(iii) Redemption of up to 35% of the original principal of the 6.75% Senior Notes if, prior to December 13, 2015, Telefónica Celular del Paraguay S.A. receives proceeds from issuance of shares, at a redemption price of 106.75% of the principal amount to be redeemed plus accrued and unpaid interest and all other amounts due, if any, on the redeemed notes.

If Telefónica Celular del Paraguay S.A. experiences a Change of Control Triggering Event, defined as a rating decline resulting from a change in control, each holder will have the right to require repurchase of its notes at 101% of their principal amount plus accrued and unpaid interest and all other amounts due, if any.

In July 2008, Telefonica Cellular Del Paraguay S.A. (Telecel), Millicom's operation in Paraguay entered into a $100 million, eight year loan with the European Investment Bank ("EIB"). The loan bears interest at rates between $ LIBOR plus 0.234% and $ LIBOR plus 0.667%. The outstanding amount as at December 31, 2012 was $85 million (2011: $95 million). The EIB loan is guaranteed for commercial risks by a group of banks. The commission guarantee fee is 1.25% per annum.

In addition as at December 31, 2012 Telecel had $0.5 million (2011: $3 million) of other debt and financing outstanding.

### (x) Bolivia

In December 2007, Telefonica Celular de Bolivia SA ("Telecel Bolivia"), Millicom's operation in Bolivia, signed a financing agreement for $40 million with the Nederlandse Financieringsmaatschappij Voor Ontwikkelingslanden, N.V. (FMO), also known as the Netherlands Development Finance Company. The A tranche of $20 million was provided directly by the FMO, is repayable over seven years and bears interest at $ LIBOR plus 2.25%. The B tranche of $20 million is provided equally by Nordea and Standard Bank, is repayable over five years and bears interest at $ LIBOR plus 2%. Both tranches are guaranteed by the Company. As of December 31, 2012, $7 million of this financing agreement corresponding to the "A" tranche of the FMO's loan was outstanding (2011: $16 million).

## 27. Borrowings continued

In March 2008, Telecel Bolivia signed a four year and nine months financing agreement for $30 million with International Finance Corporation. The loan bears interest at $ LIBOR plus 2% and is fully guaranteed by the Company. As at December 31, 2012, this loan was fully repaid.

In May 2012, Telecel Bolivia repaid entirely its seven bilateral loans in local currency bearing a fixed rate ranging from 4.5% to 6.5% that amounted $46 million in 2011 (2010: $44 million).

In May 2012, Telecel Bolivia issued Bs 1.36 billion aggregate principal amount of 4.75% due on April 2, 2020. Distribution and other transaction fees of Bs 5 million reduced the total proceeds from issuance to Bs 1.32 billion or US$191 million. The bond has a 4.75% per annum coupon with interest payable semi-annually in arrears in May and November. The effective interest rate is 4.79%.

### (xi) Democratic Republic of Congo

In September 2006, Oasis S.P.R.L. ("Oasis"), Millicom's operation in the Democratic Republic of Congo, entered into a $106 million, seven year loan from the China Development Bank to finance equipment purchases from Huawei. The loan bears interest at $ LIBOR plus 2% and is repayable over 17 equal quarterly installments commencing in 2009. This financing is 100% guaranteed by the Company. As of December 31, 2012, $15 million was outstanding under this facility (2011: $35 million).

In September 2009, Oasis entered into a seven year $80 million financing with the IFC guaranteed by Millicom and bearing interest at LIBOR +5%. As at December 31, 2012 the outstanding amount under this facility was $78 million (2011: $28 million).

In addition at December 31, 2012, Oasis had other debt and financing of $31 million (2011: $33 million), mainly consisting of $24 million of finance leases related to towers and $7 million of vendor financing from Huawei, bearing interest at LIBOR + 3% and guaranteed by Millicom.

### (xii) Luxembourg

On October 30, 2012 Millicom issued senior unsecured floating rate notes of Swedish Kronor ("SEK") 1.75 billion and senior unsecured fixed rate notes of SEK 0.25 billion. The floating rate notes were issued for 100% of the principal amount and the fixed rate notes for 99.699% of the principal amount and both are repayable in five years. The floating rate notes bear interest at the three month Swedish Interbank Offering rate ("STIBOR") + 3.5% per annum and the fixed rate notes bear interest at 5.125% per annum. At the same time Millicom entered into various cross currency interest swap contracts whereby Millicom will sell SEK and receive USD to hedge against exchange rate fluctuations (see note 34).

The bonds can be early redeemed between October 2013 and October 2016 at 101% of the issuance price. These options represent embedded derivatives which, in accordance with IAS 39, have been valued and determined to be closely related to the underlying bond.

## Fair value of financial liabilities

Borrowings are recorded at amortized cost. The fair value of borrowings as at December 31, 2012 and 2011 is as follows:

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Other debt and financing | 2,682 | 2,263 |
| **Fair value of total debt** | **2,682** | **2,263** |

When the quoted price of the borrowings in an active market is not available, the fair value of the borrowings is calculated by discounting the expected future cash flows at market interest rates.

The nominal value of the other financial liabilities is deemed to approximate their fair values (see note 35).

## Guarantees

Millicom has issued guarantees to secure certain obligations of some of its operations under financing agreements. Outstanding amounts under the guarantees and the guarantee periods as of December 31, 2012 and 2011 are shown below. Amounts covered by bank guarantees are recorded in the consolidated statements of financial position under the caption "Other debt and financing" and amounts covered by supplier guarantees are recorded under the caption "Trade payables" or "Other debt and financing" depending on the underlying terms and conditions.

**As of December 31, 2012**

| | Bank and other financing guarantees[(i)] | |
|---|---|---|
| Terms | Outstanding exposure US$ millions | Maximum exposure US$ millions |
| 0–1 year | 278 | 470 |
| 1–3 years | 196 | 305 |
| 3–5 years | 315 | 355 |
| **Total** | **789** | **1,130** |

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## 27. Borrowings continued

**As of December 31, 2011**

| Terms | Bank and other financing guarantees[i] Outstanding exposure US$ millions | Maximum exposure US$ millions |
|---|---|---|
| 0–1 year | 29 | 105 |
| 1–3 years | 231 | 383 |
| 3–5 years | 272 | 355 |
| More than 5 years | 186 | 225 |
| **Total** | **718** | **1,068** |

(i) The guarantee ensures payment by the guarantor of outstanding amounts of the underlying loans in the case of non-payment by the obligor.

### Pledged assets

The Group's share of total debt and financing secured by either pledged assets, pledged deposits issued to cover letters of credit, or guarantees issued by the Company as at December 31, 2012 is $1,391 million (2011: $1,384 million). Assets pledged by the Group over this debt and financing at the same date amount to $131 million (2011: $383 million) of which $87 million (2011: $335 million) were pledged over property, plant and equipment.

The following table provides details of net debt change for the years 2012, 2011 and 2010:

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| Total Debt and financing | 3,259 | 2,438 | 2,352 |
| Less: Financial instruments (assets) related to debt | (6) | – | – |
| Less: cash and short-term deposits | (1,262) | (931) | (1,084) |
| Net debt at the end of the year | **1,991** | **1,507** | **1,268** |

Net debt includes interest bearing loans and borrowings, less cash and cash equivalents and pledged and time deposits related to bank borrowings.

## 28. Other non-current and current provisions and liabilities

Provisions and other non-current liabilities are comprised as follows:

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Non-current legal provisions (note 32) | 6 | 5 |
| Long-term portion of asset retirement obligations | 62 | 51 |
| Long-term portion of deferred income on tower deals | 51 | 51 |
| Other | 8 | 7 |
| **Total** | **127** | **114** |

Provisions and other current liabilities are comprised as follows:

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Put option | 730 | 745 |
| Deferred revenues | 151 | 133 |
| Customer deposits | 22 | 22 |
| Current legal provisions (note 32) | 7 | 2 |
| Other tax payables | 71 | 70 |
| Current provisions[i] | 16 | 15 |
| Derivative financial instruments | 7 | 15 |
| Customer and distributor cash balances (Tigo cash) | 47 | 19 |
| Other | 58 | 27 |
| **Total** | **1,109** | **1,048** |

(i) Includes tax and other contingencies for $4 million (2011: $4 million) that were assumed as part of the Amnet and Navega acquisitions. The former shareholders of Amnet and Navega placed in escrow $35 million and $3 million respectively to cover these contingencies. Therefore a corresponding financial asset of $4 million (2011: $4 million) has been recorded within "Other current assets".

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# 28. Other non-current and current provisions and liabilities continued

## Put option

On July 1 2010, Millicom reached an agreement with its local partner in Honduras whereby Millicom's local partner granted Millicom an unconditional call option for a duration of five years for his 33% stake in Celtel, the Honduran operation (see notes 5 and 35). At the same time, and as consideration for the call option, Millicom granted a put option for the same duration to its local partner. The put option becomes exercisable on a change of control of Millicom International Cellular S.A., or Millicom's subsidiary that holds the shares in Celtel (except if the change of control is in favor of Investment AB Kinnevik, the current largest shareholder of Millicom, or management of Millicom).

A change of control event may occur at Millicom level which is beyond the control of Millicom. Such an event would trigger the ability of our local partner to exercise his put option at his discretion. Therefore, the put option is a financial liability as defined in IAS 32 and is recorded as a current liability. The liability is measured at the present value of the redemption price of the put option which amounted to $730 million at December 31, 2012 (2011: $745 million).

The redemption price of the put option is based on a multiple of the EBITDA of Celtel. The multiple is based on a change of control transaction multiple of Millicom. Management estimated the change of control transaction multiple of Millicom from a trading multiple of Millicom adding a control premium (based upon comparable transactions from the industry).

# 29. Dividends

On December 5, 2012 an extraordinary dividend of $3.00 per share from Millicom's retained profits as at December 31, 2011 was approved at an Extraordinary General Meeting and distributed in December 2012.

On May 29, 2012 a dividend distribution of $2.40 per share from Millicom's retained profits as at December 31, 2011 was approved by the shareholders at the Annual General Meeting and distributed in June 2012.

On December 2, 2011 an extraordinary dividend of $3.00 per share from Millicom's retained profits as at December 31, 2010 was approved at an Extraordinary General Meeting and distributed in December 2011.

On May 31, 2011 a dividend distribution of $1.80 per share from Millicom's retained profits as at December 31, 2010 was approved by the shareholders at the Annual General Meeting and distributed in June 2011.

# 30. Directors' and officers' remuneration

## Directors

The remuneration of the members of the Board of Directors of the Company comprises an annual fee. Between May 2006 and May 2010 directors remuneration also included share-based compensation (restricted shares). Director remuneration is proposed by the nominations committee and approved by the shareholders at the Annual General Meeting of shareholders (the "AGM").

The remuneration charge for the Board for the years ended December 31, 2012, 2011 and 2010 was as follows:

| | Chairman | | Other members of the board | | Total |
|---|---|---|---|---|---|
| | No. of shares | US$ '000 | No. of shares | US$ '000 | US$ '000 |
| **2012 Fees** | | **210** | | **787** | **997** |
| 2011 Fees | | 203 | | 697 | 900 |
| 2010 Fees | | 77 | | 444 | 521 |
| Restricted share-based compensations(i) | 1,007 | 82 | 4,270 | 350 | 432 |
| **Total** | | 159 | | 794 | 953 |

(i) See note 24.
(ii) Restricted shares could not be sold for one year from date of issue.

The number of shares and share options beneficially owned by the directors as at December 31, 2012 and 2011 was as follows:

| | Chairman | Other members of the Board | Total |
|---|---|---|---|
| **2012** | | | |
| Shares | 2,318 | 18,950 | 21,268 |
| Share options | – | 10,000 | 10,000 |
| **2011** | | | |
| Shares | 2,318 | 19,560 | 21,878 |
| Share options | – | 10,000 | 10,000 |

## Officers

The remuneration of the Officers of the Company ("Officers") comprises an annual base salary, an annual bonus, share-based compensation, social security contributions, pension contributions and other benefits. The bonus and share-based compensation plans are based on actual performance (including individual and Group performance). Up until May 2006, the Officers were issued share options. Subsequent to May 2006, the Officers were issued restricted shares. Share-based compensation is granted once a year by the compensation committee of the Board. The annual base salary and other benefits of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are proposed by the Compensation Committee and approved by the Board.

On October 31, 2012 the Board appointed Hans-Holger Albrecht, who was a Director of Millicom since May 2010, to succeed Mikael Grahne as President and CEO.

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## 30. Directors' and officers' remuneration continued

The remuneration charge for the Officers for the years ended December 31, 2012, 2011 and 2010 was as follows:

| | Current Chief Executive Officer US$ '000 | Former Chief Executive Officer US$ '000 | Current Chief Financial Officer US$ '000 |
|---|---|---|---|
| **2012** | | | |
| Base salary | 633 | 1,265 | 662 |
| Bonus | – | 1,554 | 719 |
| Pension | 134 | 379 | 108 |
| Other benefits | 44 | 187 | 59 |
| **Total** | **811** | **3,385** | **1,548** |
| Share-based compensation:(i)(ii) | – | 3,431 | 1,533 |
| **2011** | | | |
| Base salary | – | 1,323 | 676 |
| Bonus | – | 1,915 | 798 |
| Pension | – | 406 | 105 |
| Other benefits | – | 158 | 71 |
| **Total** | – | **3,802** | **1,650** |
| Share-based compensation:(i)(ii) | – | 2,862 | 1,267 |
| **2010** | | | |
| Base salary | – | 1,261 | 614 |
| Bonus | – | 1,823 | 624 |
| Pension | – | 385 | 112 |
| Other benefits | – | 178 | 74 |
| **Total** | – | **3,647** | **1,424** |
| Share-based compensation:(i) | | | |
| Shares issued/charge under long term incentive plans(ii) | – | 2,874 | 1,243 |
| Charge for share options | – | 5 | – |

(i) See note 24.

(ii) Share awards of 33,209 and 13,964 were granted in 2012 under the 2012 LTIPs to the former CEO and CFO. Share awards of 34,937 and 14,814 were granted in 2011 under the 2011 LTIPs to the former CEO and CFO. Share awards of 41,628 and 19,891 were granted in 2010 under the 2010 LTIPs to the former CEO and CFO.

The number of shares and unvested share awards beneficially owned by senior management as at December 31, 2012 and 2011 was as follows:

| | Chief Executive Officer | Former Chief Executive Officer | Chief Financial Officer | Total |
|---|---|---|---|---|
| **2012** | | | | |
| Shares | 610 | – | 23,402 | 24,012 |
| Share awards not vested | – | – | 46,044 | 46,044 |
| **2011** | | | | |
| Shares | 610 | 666,193 | 7,800 | 674,603 |
| Share awards not vested | – | 105,063 | 45,228 | 150,291 |

### Severance payments

If employment of the executives is terminated by Millicom, severance payment of up to 12 months' salary is payable.

## 31. Non-cash investing and financing activities

The following table gives details of non-cash investing and financing activities for continuing operations for the years ended December 31, 2012, 2011 and 2010.

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| **Investing activities** | | | |
| Acquisition of property, plant and equipment (see note 17) | (10) | (38) | (91) |
| Asset retirement obligations (see note 17) | (6) | (5) | 17 |
| **Financing activities** | | | |
| Vendor financing and finance leases (see note 17) | 10 | 38 | 91 |
| Share-based compensation (see note 24) | 22 | 17 | 31 |

## 32. Commitments and contingencies

### Operational environment

Millicom operates in emerging markets, namely Latin America and Africa, characterized by evolving regulatory, political, technological and economic environments. These characteristics result in uncertainties that may affect future operations, the ability to conduct business, transact foreign exchange, repatriate funds and repay debt and which may impact agreements with other parties. In the normal course of business, Millicom faces uncertainties regarding taxation, interconnect rates, license renewal and tariff arrangements, which can have a significant impact on the long-term economic viability of its operations.

### Litigation

The Company and its operations are contingently liable with respect to lawsuits and other matters that arise in the normal course of business. As of December 31, 2012, the total amount of claims against Millicom's operations was $955 million (December 31, 2011: $127 million) of which $1 million (December 31, 2011: $1 million) relate to joint ventures. As at December 31, 2012, $13 million (December 31, 2011: $7 million) has been provided for these claims in the consolidated statement of financial position. Management is of the opinion that while it is impossible to ascertain the ultimate legal and financial liability with respect to these claims, the ultimate outcome of these contingencies is not anticipated to have a material effect on the Group's financial position and operations.

#### Ghana

Included in the total claims above is a lawsuit which was filed against our subsidiary in Ghana (Millicom Ghana) by E-Talk Limited (E-Talk) in November 2011, alleging that Millicom Ghana terminated a July 2006 contract with insufficient notice. The total value of the claim is approximately $30 million, including various general damages, loss of expected revenues and punitive damages. Pre-trial talks were held with the plaintiff with no resolution in the Commercial Court in Accra on April 28, 2012 and the Court has asked the parties to provide more information. Management considers this claim as opportunistic and without foundation, in so far as it was filed more than four years after the events on which the plaintiff bases its claim and takes the view that no provision should be made for this claim.

#### Colombia

Also included in the total claims is a claim filed with the Civil Chamber of Bogota in Colombia against the entire mobile operator industry of Colombia, including our subsidiary in Colombia, by a group of approximately twenty individuals. The claimants allege damages and losses suffered from third parties through illegal use of cellular phones in extortion attempts against the claimants, and are claiming a collective total of approximately $753 million from the mobile operators. The case has been inactive, with the exception of a mandatory settlement conference held among the parties under the court's supervision, which did not result in any settlement agreement. It is expected that the litigation will move towards an evidence-presentation phase. Management considers this claim to be entirely spurious and without foundation or substance. As a result, management is of the view that no provision should be made for this claim.

#### Sentel GSM S.A. ("Sentel") license

In 2012, Millicom and the government of the Republic of Senegal signed an agreement whereby the validity of the license of Millicom's subsidiary in Senegal was recognized by both parties, and all existing legal claims and current law suits were withdrawn. In addition, Millicom was granted a technological neutral, global license, including a 3G license, an alignment of its license terms with those of the other operators, additional rights over spectrum, certain investment protection rights, and its current license term is extended until 2028. In consideration for these additional license and spectrum rights Millicom paid $103 million to the government of the Republic of Senegal (see note 16).

#### Taxation

The Group faces regular tax investigations in the countries where it operates. As of December 31, 2012, the Group estimates potential tax claims amounting to $85 million of which a tax provision of $11 million has been recorded. Management is of the opinion that while it is impossible to quantify the ultimate financial liability with respect to these assessments, the ultimate outcome of these contingencies is not anticipated to have a material effect on the Group's financial position and operations.

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# 32. Commitments and contingencies continued

## Lease commitments

### Operating Leases:

The Group has the following annual commitments lease as of December 31, 2012 and 2011.

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| **Operating lease commitments** | | |
| Within: one year | 82 | 62 |
| Between: one to five years | 187 | 158 |
| After: five years | 130 | 19 |
| **Total** | **399** | **239** |

Operating leases mainly comprise agreements containing commitments relating to land and buildings including towers sold and leased back. The operating lease terms and conditions reflect normal market conditions. Total operating lease expense from continuing operations was $108 million in 2012 (2011: $96 million, 2010: $83 million—see note 11). Finance leases:

### Financial Leases:

The Group's future minimum payments on finance leases were $512 million at December 31, 2012 (2011: $453 million) and mainly comprised leased towers in Ghana, Tanzania, DRC and Colombia under 12 year leases (see note 17) and tower sharing in other countries. Other financial leases are not material and mainly consist of lease agreements relating to vehicles used by the Group.

The Group has the following finance lease commitments as of December 31, 2012 and 2011.

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| **Finance lease commitments** | | |
| Within: one year | 45 | 37 |
| Between: one to five years | 187 | 153 |
| After: five years | 280 | 263 |
| **Total** | **512** | **453** |

Lease liabilities connected to these leases were $232 million at December 31, 2012 (2011: $156 million).

## Capital commitments

As of December 31, 2012 the Company and its subsidiaries and joint ventures have fixed commitments to purchase network equipment, land and buildings, other fixed assets and intangible assets (including approximately $53 million in Colombia for a license renewal) for a value of $367 million (2011: $370 million), of which $50 million (2011: $46 million) relate to joint ventures, from a number of suppliers.

Millicom is also committed to supporting Colombia Móvil S.A., its operation in Colombia, through loans and warranties. The maximum commitment is $238 million and remains until the time the total support from Millicom equals the support from the founding shareholders of Colombia Móvil S.A.

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## 32. Commitments and contingencies continued

### Dividends

The ability of the Company to make dividend payments is subject to, among other things, the terms of indebtedness, legal restrictions and the ability to repatriate funds from Millicom's various operations. As at December 31, 2012, $126 million (December 31, 2011: $94 million) of Millicom's retained profits represent statutory reserves and are unable to be distributed to owners of the Company.

### Foreign currency forward contracts

As of December 31, 2012, the Group held foreign currency forward contracts to sell Colombian Pesos in exchange for U.S. dollars for a nominal amount of $43 million (2011: $84 million). Net exchange losses on these forward contracts for the year were $6 million (2011: $2 million).

## 33. Related party transactions

The Company conducts transactions with its principal shareholder, Investment AB Kinnevik ("Kinnevik") and subsidiaries, with tower companies in which it holds a direct or indirect equity interest in Ghana, DRC, Tanzania and Colombia (see note 7), and with a subsidiary of a non-controlling interest in Colombia. Transactions with related parties are conducted on normal commercial terms and conditions.

### Kinnevik

The Company's principal shareholder is Kinnevik. Kinnevik is a Swedish holding company with interests in the telecommunications, media, publishing, paper and financial services industries. As of December 31, 2012 and 2011, Kinnevik owned approximately 38% of Millicom (2011: 36%). During 2012 and 2011, Kinnevik did not purchase any Millicom shares. There are no significant loans made by Millicom to or for the benefit of these related parties.

During 2012 and 2011 the Company purchased services from Kinnevik subsidiaries including fraud detection, procurement and professional services.

### Helios Towers and American Towers

The Group acquired a 40% equity investment in the associate company Helios Towers Ghana in 2010 and in the associate companies Helios Towers DRC, Helios Towers Tanzania and ATC Colombia B.V. in 2011 ("Tower companies"). Millicom sold and leased back a portion of its tower assets in each of these countries and received related tower operation and management services (see notes 7 and 18). The Group has future lease commitments in respect of the Tower companies (see note 32).

On October 18, 2011, DRC provided Helios Towers DRC with a financing facility for maximum of $38 million (of which principal of $30 million). Amounts under the facility are guaranteed by Helios Towers Africa, the parent company of Helios Towers DRC, as well as by pledge of its shares in Helios Towers DRC. Outstanding amounts under the facility bear interest at LIBOR + 7.5% per annum until October 17, 2012 and thereafter increase by 100bps each year until the maturity date of October 17, 2015. Interest is either repayable on June 15 and December 15 of each year or add to the principal.

### UNE EPM Telecomunicaciones S.A.

The Group operation in Colombia leases portions of its tower assets under finance leases to UNE EPM Telecomunicaciones S.A. (UNE), a minority shareholder in Millicom's Colombian operation.

The following transactions were conducted with related parties:

| | 2012 US$ millions | 2011 US$ millions | 2010 US$ millions |
|---|---|---|---|
| Purchases of goods and services (Kinnevik) | 8 | 6 | 4 |
| Lease of towers and related services (Associates) | 107 | 22 | 9 |
| Gain on sale of towers (Associates) | 16 | 54 | 8 |
| Revenue from lease of towers (UNE) | 1 | – | – |
| Interest income (Helios Towers DRC loan) | 1 | – | – |
| **Total** | **144** | **82** | **20** |

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## 33. Related party transactions continued

As at December 31, the Company had the following balances with related parties:

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| **Payables** | | |
| Finance lease payables | 188 | 127 |
| Other accounts payable | 12 | 10 |
| **Total** | **200** | **137** |
| Receivables from sale of towers | – | 77 |
| Loan to Helios Towers DRC | 32 | – |
| **Total** | **32** | **77** |

## 34. Financial risk management

### Terms, conditions and risk management policies

Exposure to interest rate, foreign currency, non-repatriation, liquidity, capital management and credit risks arise in the normal course of Millicom's business. The Group analyses each of these risks individually as well as on an interconnected basis and defines and implements strategies to manage the economic impact on the Group's performance in line with its financial risk management policy. Millicom's risk management strategies may include the use of derivatives. Millicom's policy prohibits the use of such derivatives in the context of speculative trading.

### Interest rate risk

Interest rate risk generally arises on borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's exposure to risk of changes in market interest rates relates to both of the above. To manage the risk, the Group's policy is to maintain a combination of fixed and floating rate debt with target for the debt to be equally distributed between fixed and variable rates. The Group actively monitors borrowings against target and applies a dynamic interest rate hedging approach. The target mix between fixed and floating rate debt is reviewed periodically. The purpose of Millicom's policy is to achieve an optimal balance between cost of funding and volatility of financial results, while taking into account market conditions as well as our overall business strategy. At December 31, 2012, approximately 55% of the Group's borrowings are at a fixed rate of interest or for which variable rates have been swapped for fixed rates with interest rate swaps (2011: 51%).

### Interest rate swaps

To comply with internal policies, in January, 2010 Millicom entered into an interest rate swap to hedge the interest rate risk of the floating rate debt in three different countries (Tanzania, DRC and Ghana). The interest rate swap was issued in January, 2010 for a nominal amount of $100 million, with maturity January, 2013. During the three month period ending September 30, 2012 the Tanzania and Ghana hedges were assessed as ineffective and, as the value of these hedges are not expected to change significantly between September 30, 2012 and their expiry in January, 2013, the corresponding cash flow reserve was recycled to the income statement. At December 31, 2012 the DRC hedge was assessed as ineffective and the corresponding cash flow reserve was recycled to the income statement.

In 2010 Millicom entered into interest rate swaps to hedge the interest rate risks on floating rate debts in Honduras and Costa Rica. The interest rate swap in Honduras was issued for a nominal amount of $30 million, with maturity in 2015, and in Costa Rica for a nominal amount of $105 million with maturity in 2017.

In October 2012, Millicom issued senior unsecured floating rate notes of Swedish Kronor ("SEK") 1.75 billion and senior unsecured fixed rate notes of SEK 0.25 billion (see note 27). At the same time Millicom entered into various cross currency interest swap contracts whereby Millicom will sell SEK and receive U.S. dollar to hedge against exchange rate fluctuations for the notional amount of SEK 2 billion and interest payments on this principal. Millicom will also hedge against interest rate fluctuations on the floating rate notes of SEK 1.75 billion by receiving variable interest at STIBOR +3.5% and paying a fixed rate of 5.125%. As the timing and amounts of the cash flows under the swap agreements match the cash flows under the bonds the swaps assessed as highly effective, thus qualified for cash flow hedge accounting, and, as a result, the effective portion of the fair value change of the swap was recorded against other comprehensive income. Cash flows under the swaps amount to approximately SEK 101 million per year for the years 2013 through to 2017 related to interest on the bond and SEK 2 billion in 2017 related to the principal.

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## 34. Financial risk management continued

The table below summarizes, as at December 31, 2012, our fixed rate debt and floating rate debt:

| | Amounts due within | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1 year | 1–2 years | 2–3 years | 3–4 years | 4–5 years | >5 years | Total |
| | (in millions of U.S. dollars, except percentages) | | | | | | |
| Fixed rate | 305 | 140 | 94 | 102 | 109 | 928 | 1,678 |
| Weighted average nominal interest rate | 4.34% | 7.34% | 7.35% | 5.78% | 6.39% | 9.16% | 7.64% |
| Floating rate | 388 | 333 | 254 | 187 | 347 | 72 | 1,581 |
| Weighted average nominal interest rate | 5.61% | 6.92% | 7.33% | 5.22% | 5.30% | 12.43% | 6.36% |
| **Total** | **693** | **473** | **348** | **289** | **456** | **1,000** | **3,259** |
| Weighted average nominal interest rate | 5.05% | 7.04% | 7.33% | 5.42% | 5.56% | 9.36% | 7.45% |

The table below summarizes, as at December 31, 2011, our fixed rate debt and floating rate debt:

| | Amounts due within | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1 year | 1–2 years | 2–3 years | 3–4 years | 4–5 years | >5 years | Total |
| | (in millions of U.S. dollars, except percentages) | | | | | | |
| Fixed rate | 261 | 119 | 135 | 97 | 45 | 585 | 1,242 |
| Weighted average nominal interest rate | 4.37% | 6.02% | 6.13% | 5.66% | 6.02% | 8.85% | 6.98% |
| Floating rate | 360 | 194 | 191 | 194 | 199 | 58 | 1,196 |
| Weighted average nominal interest rate | 5.31% | 5.50% | 4.75% | 6.27% | 5.98% | 2.17% | 5.37% |
| **Total** | **621** | **313** | **326** | **291** | **244** | **643** | **2,438** |
| Weighted average nominal interest rate | 4.91% | 5.70% | 5.32% | 6.06% | 5.99% | 5.19% | 6.97% |

A 100 basis point fall or rise in market interest rates for all currencies in which the Group had borrowings at December 31, 2012, would increase or reduce profit before tax from continuing operations for the year by approximately $16 million (2011: $12 million).

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# 34. Financial risk management continued

## Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures where the Group operates. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Millicom seeks to reduce its foreign currency exposure through a policy of matching, as far as possible, assets and liabilities denominated in foreign currencies. In some cases, Millicom may borrow in U.S. dollars where it is either commercially more advantageous for joint ventures and subsidiaries to incur debt obligations in U.S. dollars or where U.S. dollar denominated borrowing is the only funding source available to a joint venture or subsidiary. In these circumstances, Millicom accepts the remaining currency risk associated with financing its joint ventures and subsidiaries, principally because of the relatively high cost of forward cover, when available, in the currencies in which the Group operates.

The following table summarizes debt denominated in U.S. dollars and other currencies at December 31, 2012 and 2011.

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| **Total US$** | **2,191** | **1,606** |
| Colombia | 507 | 504 |
| Chad | 84 | 86 |
| Tanzania | 97 | 35 |
| Honduras | 96 | 89 |
| Bolivia | 191 | 46 |
| Ghana | 19 | 19 |
| Guatemala | 53 | 11 |
| Other | 21 | 42 |
| **Total non-US$ currencies** | **1,068** | **832** |
| **Total** | **3,259** | **2,438** |

At December 31, 2012, if the U.S. dollar had weakened/strengthened by 10% against the other functional currencies of our operations and all other variables held constant, then profit before tax from continuing operations would have increased/decreased by $99 million and $121 million respectively (2011: $112 million and $137 million respectively). This increase/decrease in profit before tax would have mainly been as a result of the conversion of the results of our operations with functional currencies other than the US dollar.

## Non-repatriation risk

Most of the operations receive substantially all of their revenue in the currency of the countries in which they operate. The Group derives substantially all its revenue through funds generated by local operations and, therefore, Millicom is dependent on their ability to transfer funds to the Company.

Although there are foreign exchange controls in some of the countries in which Millicom Group companies operate, none of these countries currently significantly restrict the ability of these operations to pay interest, dividends, technical service fees, royalties or repay loans by exporting cash, instruments of credit or securities in foreign currencies. However, existing foreign exchange controls may be strengthened in countries where the Group operates, or foreign exchange controls may be introduced in countries where the Group operates that do not currently impose such restrictions, in which case, the Company's ability to receive funds from the operations will subsequently be restricted, which would impact the Company's ability to pay dividends to its shareholders.

In addition, in some countries, it may be difficult to convert large amounts of local currency into foreign currency because of limited foreign exchange markets. The practical effects of this are time delays in accumulating significant amounts of foreign currency and exchange risk, which could have an adverse effect on the Group's results of operations.

## Credit and Counterparty risk

Financial instruments that potentially subject the Group to credit risk are primarily cash and cash equivalents, pledged deposits, letters of credit, trade receivables, amounts due from joint venture partners, supplier advances and other current assets and derivatives. Counterparties to agreements relating to the Group's cash and cash equivalents, pledged deposits and letters of credit are significant financial institutions with investment grade ratings. Management does not believe there are significant risks of non-performance by these counterparties. Management has taken steps to diversify its banking partners. We are also managing the allocation of deposits across banks so that the Group's counterparty risk with a given bank stays within limits which have been set based on each bank's credit rating. This way we are avoiding any significant exposure to a specific party.

A large portion of turnover comprises prepaid airtime. For customers for whom telecom services are not prepaid, the Group follows risk control procedures to assess the credit quality of the customer, taking into account its financial position, past experience and other factors.

Accounts receivable are mainly derived from balances due from other telecom operators. Credit risk of other telecom operators is limited due to the regulatory nature of the telecom industry, in which licenses are normally only issued to creditworthy companies. The Group maintains a provision for impairment of trade receivables based upon expected collectability of all trade receivables.

As the Group has a large number of internationally dispersed customers, there is no significant concentration of credit risk with respect to trade receivables.

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# 34. Financial risk management continued

## Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group has incurred significant indebtedness but also has significant cash balances. Millicom evaluates its ability to meet its obligations on an ongoing basis using a recurring liquidity planning tool. This tool considers the operating net cash flows generated from its operations and the future cash needs for borrowing and interest payments and capital and operating expenditures required in maintaining and developing local business.

The Group manages its liquidity risk through use of bank overdrafts, bank loans, vendor financing, Export Credit Agencies and Development Finance Institutions ("DFI") loans, bonds and finance leases. Millicom believes that there is sufficient liquidity available in the markets to meet ongoing liquidity needs. Additionally, Millicom is able to arrange offshore funding through the use of Export Credit Agency guarantees and DFIs (IFC, PROPARCO, DEG and FMO), who have been established specifically to finance development in the Group's markets. Millicom is diversifying its financing with commercial banks representing about 38% of its gross financing, Bonds 38%, Development Finance Institutions 8%, partners 8%, financial leases 7% and suppliers 1%. The Group is therefore not dependent on a few sources of financing but is relying on various financing opportunities.

The tables below summarize the maturity profile of the Group's net financial liabilities at December 31, 2012 and 2011.

| Year ended 31 December 2012 | Less than 1 year US$ millions | 1 to 5 years US$ millions | >5 years US$ millions | Total US$ millions |
|---|---|---|---|---|
| Total borrowings (see note 27) | (693) | (1,566) | (1,000) | (3,259) |
| Cash and cash equivalent | 1,174 | – | – | 1,174 |
| Restricted cash | 43 | – | – | 43 |
| Pledged deposit (relating to bank borrowings) | 3 | 47 | – | 50 |
| **Net cash (debt)** | **527** | **(1,519)** | **(1,000)** | **(1,992)** |
| Future interest commitments(i) | (211) | (558) | (47) | (816) |
| Trade payables (excluding accruals) | (404) | – | – | (404) |
| Derivative financial instruments | (7) | (4) | – | (11) |
| Put option | (730) | – | – | (730) |
| Other financial liabilities (including accruals) | (998) | – | – | (998) |
| Trade receivables | 322 | – | – | 322 |
| Other financial assets | 199 | 86 | – | 285 |
| **Net financial asset (liability)** | **(1,302)** | **(1,995)** | **(1,047)** | **(4,344)** |

| Year ended 31 December 2011 | Less than 1 year US$ millions | 1 to 5 years US$ millions | >5 years US$ millions | Total US$ millions |
|---|---|---|---|---|
| **Total borrowings (see note 27)** | **(621)** | **(1,174)** | **(643)** | **(2,438)** |
| Cash and cash equivalent | 861 | – | – | 861 |
| Restricted cash | 20 | – | – | 20 |
| Pledged deposit (relating to bank borrowings) | – | 50 | – | 50 |
| **Net cash (debt)** | **260** | **(1,124)** | **(643)** | **(1,507)** |
| Future interest commitments(i) | (136) | (342) | (26) | (504) |
| Trade payables (excluding accruals) | (341) | – | – | (341) |
| Derivative financial instruments | (15) | (8) | – | (23) |
| Put option | (745) | – | – | (745) |
| Other financial liabilities (including accruals) | (862) | – | – | (862) |
| Trade receivables | 277 | – | – | 277 |
| Other financial assets | 335 | 37 | – | 372 |
| **Net financial asset (liability)** | **(1,227)** | **(1,437)** | **(669)** | **(3,333)** |

(i) Includes unamortized difference between carrying amount and nominal amount of debts.

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## 34. Financial risk management continued

### Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and imposed restrictions such as debt covenants and local regulations. To maintain or adjust the capital structure, the Group may make dividend payments to shareholders, return capital to shareholders or issue new shares. Millicom has a Ba1 rating by one independent rating agency, namely Moody's, which is just one notch below investment grade. The Group monitors capital using primarily a net debt to adjusted operating profit ratio, as well as a set of other indicators.

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Net debt (see note 27) | 1,991 | 1,507 |
| Adjusted operating profit (see note 10) | 2,065 | 2,087 |
| | Ratio | Ratio |
| **Net debt to adjusted operating profit ratio** | **1.0** | **0.7** |

The Group reviews its gearing ratio (net debt divided by total capital plus net debt) periodically. Net debt includes interest bearing loans and borrowings, less cash and cash equivalents and pledged deposits related to bank borrowings. Capital represents equity attributable to the equity holders of the parent.

| | 2012 US$ millions | 2011 US$ millions |
|---|---|---|
| Net debt (see note 27) | 1,991 | 1,507 |
| Equity | 2,336 | 2,446 |
| **Net debt and equity** | 4,327 | 3,953 |
| **Gearing ratio** | **46%** | **38%** |

## 35. Financial instruments

The fair value of Millicom's financial instruments is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of all financial assets and all financial liabilities except debt and financing approximate their carrying value largely due to the short-term maturities of these instruments. The fair values of all debt and financing have been estimated by the Group based on discounted future cash flows at market interest rates.

The following table shows the carrying and fair values of financial instruments as at December 31, 2012 and 2011:

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | 2012 US$ millions | 2011 US$ millions | 2012 US$ millions | 2011 US$ millions |
| **FINANCIAL ASSETS** | | | | |
| **Loans and receivables** | | | | |
| Pledged deposits | 47 | 50 | 47 | 50 |
| Other non-current assets | 86 | 37 | 86 | 37 |
| Trade receivables, net | 322 | 277 | 322 | 277 |
| Amounts due from non-controlling interests and JV partners | 81 | 159 | 81 | 159 |
| Prepayments and accrued income | 140 | 119 | 140 | 119 |
| Advances to non-controllng interest | 56 | 34 | 56 | 34 |
| Other current assets | 86 | 113 | 86 | 113 |
| Restricted cash | 43 | 20 | 43 | 20 |
| Cash and cash equivalents | 1,174 | 861 | 1,174 | 861 |
| **Total** | **2,035** | **1,670** | **2,035** | **1,670** |
| Current | 1,903 | 1,583 | 1,903 | 1,583 |
| Non-current | 132 | 87 | 132 | 87 |
| **FINANCIAL LIABILITIES** | | | | |
| Debt and financing (see note 27) | 3,259 | 2,438 | 2,682 | 2,263 |
| Trade payables | 259 | 224 | 259 | 224 |
| Payables and accruals for capital expenditure | 411 | 334 | 411 | 334 |
| Derivative financial instruments | 11 | 23 | 11 | 23 |
| Put option | 730 | 745 | – | – |
| Amounts due to non-controlling interests and JV partners | 19 | 93 | 19 | 93 |
| Accrued interest and other expenses | 341 | 264 | 341 | 264 |
| Other liabilities | 140 | 74 | 140 | 74 |
| **Total** | **5,170** | **4,195** | **3,863** | **3,275** |
| Current | 2,591 | 2,364 | 1,861 | 1,619 |
| Non-current | 2,579 | 1,831 | 2,002 | 1,656 |

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# 35. Financial instruments continued

## Call option and put option related to Telefonica Cellular S.A. DE CV (Celtel)

As described in note 5, on July 1, 2010 Millicom reached agreement with its local partner in Honduras whereby Millicom's local partner granted Millicom an unconditional call option for the next five years for his 33% stake in Telefonica Celtel and as consideration, Millicom granted a conditional put option for the same duration to the local partner.

The put option can only be exercised on a change of control of Millicom International Cellular S.A. or Millicom's subsidiary that holds the shares in Celtel (except if the change of control is in favor of Investment AB Kinnevik, the current largest shareholder of Millicom, or management of Millicom). Millicom believe that a change of control transaction that triggers the local partner's right to exercise his put is currently highly unlikely to happen during the term of the put option and have therefore determined the fair value of the put option to be immaterial at both December 31, 2012 and 2011.

The call option price is a fixed multiple of the EBITDA of Celtel in the year the option is exercised. As the fixed multiple exceeded the fair value multiples (based on comparable transactions and including a control premium) at December 31, 2012 and 2011, and as there were no expectations that the Honduran market characteristics would significantly change over the term of the call option, Millicom determined the fair value of the call option to be immaterial at both December 31, 2012 and 2011.

## Fair value measurement hierarchy

Effective January 1, 2009, Millicom adopted the amendment to IFRS 7 for financial instruments that are measured in the Statement of Financial Position at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2—Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3—Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Derivative financial instruments are measured with reference to level 2, except for the call options in Colombia (see note 7), the call and put options in Honduras (see note 5 and note 28) and the call options for Rocket (see note 5) which are measured with reference to level 3. The Honduras put option liability is carried at the present value of the redemption amount and is therefore excluded from the fair value hierarchy. No other financial instruments are measured at fair value.

# 36. Subsequent events

## Deregistration from NASDAQ US

As described in note 1, on October 12, 2012 the Company filed a certificate with the US Securities and Exchange Commission ("SEC") to terminate the registration of its shares. As from January 11, 2013 the termination of our reporting and disclosure obligations under the US Exchange Act became fully effective. Millicom shares will continue to trade in the USA over the counter.

## Dividend

On February 12, 2013 Millicom announced that the Board will propose to the Annual General Meeting of the shareholders a dividend distribution of $2.64 per share to be paid out of Millicom's profits for the year ended December 31, 2012 subject to the Board's approval of the 2011 Consolidated Financial Statements of the Group.

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## Financial calendar

First quarter results: April 17, 2013
Second quarter results: July 17, 2013
Third quarter results: October 21, 2013
Full year results 2013: February 2014