

United Telecommunications Services (UTS) N.V.
Consolidated Annual Financial Statements 2013



KPMG Accountants B.V.
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Introduction

Management of the UTS Group hereby presents its Annual Report for the financial year ended December 31, 2013.

Forward-looking statements

Some of the statements we have made in this Annual Report are 'forward-looking statements'. These statements are based on our beliefs and assumptions and on information currently available to us. These include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance or expense improvements and the effects of future legislation and/or regulation. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words 'believe', 'expect', 'plan', 'intend', 'anticipate', 'estimate', 'predict', 'potential', 'continue', 'may', 'will', 'should', 'could', 'shall', or the negative of these terms or similar expressions. Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. No undue reliance should be put on any forward-looking statements. We have neither the intention nor an obligation to update forward-looking statements after distribution of this Annual Report.



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Message from the CEO

United Telecommunication Services (UTS) is the leading provider of video, high-speed Internet, voice and mobile services to residential and business customers in the markets it serves. UTS operates in a fiercely competitive environment with rapidly changing technologies and faces major challenges which are caused by both external as well as internal developments. We have taken a market driven approach with regards to structuring the new Five Year Strategic Plan. Mainly driven by the lack of scale and lack of deep pockets, in combination with the broad portfolio and strong market presence, UTS uses differentiation as the most suitable long-term strategy.

Over the past few years, UTS has been a major driver of the local, mobile Internet revolution. We have invested and executed aggressively, and today our network is best in class, reaches hundreds of thousands of people and comes out on top in a variety of third-party tests for speed and reliability. This has helped to ignite a wave of innovation that is transforming how we manage our lives, connect with others and operate our businesses. It's hard to overstate the impact of this revolution, or our company's role in it. Simply put, we have created the framework for the fastest, largest technology transformation in our lifetime. Mobile networks are becoming the platform for most of the world's digital cargo—including voice, data and, increasingly, video—giving rise to complete new industries such as mobile commerce, mobile video delivery, telemedicine and distance learning that represent the next growth wave in our industry. This is where the new, post-transaction, UTS will have the biggest value-creating opportunity of all—not just in wireless, but across our entire services.

In 2013, we extended the reach and capacity of our wireless, fiber and submarine cables networks. We substantially initiated the build-up of our 4G LTE wireless network. In addition, we accelerated our transition to a more efficient technology platform by converting copper lines to fiber. We continued deploying high-speed fiber connections to the business customer locations (FTTB) and to the new land development projects. Our all-fiber residential network (FTTH) now connects a growing number of households. Broadband services on fiber will be a real growth driver in the near future. In 2013 UTS continued undertaking major network upgrades including: investments in further upgrading the core network. We also continue to redefine our residential broadband network around VDSL, which provides broadband access on the legacy copper network all the way to customers' homes.

In 2013 the implementation of the high capacity submarine fiber cable -Alonso de Ojeda II- originating from Aruba as a redundant route for the submarine cable Alonso de Ojeda I has been completed. UTS is now on its way to realize a very important high capacity cable in order to provide high speed and redundant capacity to business and residential customers. We have turned up high-speed undersea cables to the major sea cable network in this hemisphere and have deployed highly secure mesh architecture to provide the reliability and redundancy these networks require. We also upgraded our global backbone networks giving us a big head start in handling explosion of video traffic in the years ahead.

As leader in HDTV on the island of Curaçao, UTS, through its subsidiary TDS, kept offering distinct attractive packages for HDTV and SDTV, which have been well accepted by our customers not withstanding stiff competition in this area. In line with the UTS focus on triple and quad play offerings, TDS was firmly embedded in all communications to the clients and the public in general. Furthermore TDS continued investing in the quality of its signals and several preventive maintenance programs have been implemented and executed.

Antilliaanse Televisie Maatschappij (ATM) had a difficult time during 2013. Due to the tough market conditions, ATM has seen its revenues decrease in 2013. In addition to this the relationship with UTS has been extensively debated in the parliament of Curaçao. As a result of these debates recently the shareholders of UTS have taken the decision for UTS to transfer ATM's operations back to the Government.

The rapid network investment program to counter infrastructure competition on Curaçao, the adversity against higher line rental fees, which would have allowed UTS to build reserves to replace the access network, the worsened market conditions and the general opposition against the Surinamese business venture together with limited political support on improving internal efficiency has resulted in the financial position of UTS being stretched and consequently it has a material adverse effect on our financial position.

Revenue growth continues to be tempered by declines in our voice revenues, mainly because of the transformation from voice to data and the increased use of VOIP services. In recent years and also during 2013, total switched access lines decreased. We have experienced continuing access line decrease in our Wireline segment as customers are switching to alternative technologies such as wireless, and Voice Over Internet Protocol (VoIP) or terminate service permanently as businesses closed or consumers left residences due to the weakened economy. To compensate for the shrinking market for traditional voice service, we will continue to build our Wireline segment around data, video and advanced business services areas where demand for reliable high-speed connections is growing.

Revenues in the business market were also under pressure with lower traffic volume and continued price pressure. We will continue to expand our capacity to address the foreseeable increase of bandwidth for the business community.

Our gross revenues have experienced a decline in the last three years due to fierce competition from local and international competitors. Despite the fact that we succeeded to reduce forcefully our operational expenses, this was not enough to compensate for the loss of revenues we have experienced during the last years. Additionally, technological developments have changed the behavior and demand of the customers. Consequently margins on services and products in the telecom industry have decreased significantly. Maintaining a status quo would mean negative net results with negative cash flow and as a consequence we would be unable to continue investing in the required infrastructure and consequently losing our competitive position.

Given that at almost 6% of GDP, total spending on telecommunications services in the Curacao market is already at the top end of international range, UTS is unlikely to be able to compensate market share loss with price increases.

In addition to the above-mentioned developments we have seen that - contrary to what is happening in other countries in the region, the regulator has continued to encourage aggressive competition in all segments of the market. This despite the fact that we are operating in an outdated telecommunication legislation and consecutively without proper level playing field for all operators. One important note with this regard is that the regulator should be pro-active in making sure that all providers on the market comply with the universal service obligation stipulated in their concessions. By doing so competitors would not be able to "cherry pick" the most profitable areas to roll out their network leaving the less economical attractive areas such as rural and non-rural high-cost areas, low income subscribers for UTS to provide service without getting proper compensation from universal service fund. Also the regulator should require such telecommunication operators to pay into the Universal Service Obligation Fund for the benefit of UTS. The Government's regulatory policy has certainly put pressure on the mobile market and has destabilized the fixed telecommunications market on Curaçao.

Since 2009 until now several initiatives have been initiated as part of the business transformation which already had consequences for processes, systems, tasks & responsibilities and structure. Since 2011 the corporate strategy and business model have been realigned in order to continue to support these initiatives.

To strengthen our competitive positioning, we are forced to make structural changes in almost every aspect of our operations over the coming five years.

UTS will need to find ways to make up this potential revenue loss. Since the Curaçao market is largely saturated and the fierce competitive environment, we cannot expect to compensate the decrease in revenues by increasing prices. Considering this as a fact, new revenues streams and growth can only come from international markets and/or other related business, entirely new services (such as mobile payments) and structural initiatives (such as USO funds). To earn profits for our shareholder and to ensure long-term survival, we must urgently address internal efficiency as well.

Although on short-term the focus is on improving efficiency, service delivery, productivity, the long-term strategy is based on growth and increasing volume, to create a sustainable basis for profitability. Over the next two years the main strategic objective for the UTS Group is to ensure the long-term financial health of the Group, whilst maintaining market share and revenues. Once we are clearly on the path to healthy profit margins and long-term financial health, we will shift the focus to growth.

Therefore, we have been forced to take drastic measures to mitigate above-mentioned developments. Among these measures are:

- Divesting our business ventures in Suriname and St. Kitts & Nevis
- Concentrating our operations in two main buildings on Curaçao
- Reducing Staff significantly 200 people, which the decision of voluntarily layoff by means of a
a
severance scheme took place in the year 2013 and in the year 2014 a number of 115 employees left the
company using the voluntarily layoff by means of a severance scheme.
- Selling our stake in CTEX
- Sell half of our participation in a new submarine cable system (PCCS) with a third party

It is according to our strategic business plan 2011 to 2015 imperative to improve our profitability to generate sufficient cash to finance our future investments. Following this same plan we undertook several strategic initiatives to transform our operation for the future, while driving non-value adding costs out of the organization. On the short term the most pressing areas for UTS are the reduction of operating expenses and the mitigation of the effects of competitive activities. The reorganization therefore is an unavoidable measure to be taken with regards to rightsizing: both reductions of the staff OPEX as well as quality improvement of the workforce are essential to achieve the required financial targets and ensure the long term competitive positioning.

As the EBITDA is the indicator whether the company is generating sufficient cash flow to pay its investments, the current situation indicates that in the nearby future UTS will not be able to provide for its investments and this poses UTS to a business continuity risk. If UTS continues doing 'Business as Usual', it will most likely continue to face decreasing revenues volumes and profitability, jeopardizing its position. Therefore the corporate strategy and business model have been realigned in order to maximize its competitive position and to create a governance structure that enables profitable growth (UTS Strategy Plan 2011-2015), aiming at a five year goal: 'To be the Best Rated Quad-Play Service Provider in the Caribbean'.

We expect that competition will continue to intensify with traditional, non-traditional and emerging service providers seeking increased market share. In addition, lack of or a reduced level of regulation of comparable alternatives (e.g. cable, wireless and VoIP providers) has lowered costs for these alternative communications service providers. As a result, we face fierce competition as well as some new opportunities in significant portions of our business.

Also, we expect to continue experiencing access line losses as customers continue to switch to alternate technologies. In other words competition continues to increase for telecommunications and information services. Technological advances have expanded the types and uses of services and products available.

Despite of this challenging environment, we believe that we will retain key aspects of our wireline business by providing superior network reliability, offering innovative product bundles that include high-speed Internet access, digital television and local and long distance voice services, offering more robust IP products and service and accelerating our data center services. Also, we are convinced that UTS faces growing price competition and also competition based on the quality and features from rivals including providers of Over The Top services (OTT) which seek to diminish the role of UTS. So, I believe the coming years will be the most dynamic our industry has ever seen. The pace of innovation will accelerate. Customer expectations for communications that are mobile, ultra-fast and effortless will continue to soar. Network usage will grow as well, driven by ever richer data applications and a dramatic increase in video of all kinds. And for providers, all of these will make consistent investment and relentless innovation more important than ever, as new technology replaces the old much faster.

However, we have to be alert on the international financial crisis and the volatile economy -such as inflationary or recessionary trends- which will have negatively influenced the financial results of our business. However, we still believe that there is potential for growth in this market. To position our company for sustainable, long term profitability, we are directing our capital spending to consolidate the mobile voice, video and data service as well as expanded services to enterprise customers. We are convinced that our focus on the fundamentals of running a good business, including operating excellence and financial discipline, gives us the ability to plan and manage through changing economic conditions.

Furthermore last year Management of UTS continued with the negotiations with the labor union about the conditions of employment. A final agreement has been reached for the years 2011-2014 and UTS' management expects to maintain a good work relationship with the labor union for the interest of the company.

Finally, our achievements in 2013 come with the great talent, dedication and hard work of our employees. We want to express our appreciation and gratitude to all our employees who continued to show their dedication to customers. Their adherence to our values continues in bad times as well as good and is one of the major reasons we are optimistic about our future, despite the challenges of the current economic developments. As we look ahead, we are confident about the direction our business is heading to and convinced by our potential for making the difference in the markets we served and in this dynamic industry. The key to success in all of these areas is talent and organizational agility. The dynamic changes underway in our industry require new skills. Our industry's pace also means we need to rethink the way we work together, so we can deliver better service, maximize creativity, move faster and adapt to changes more quickly.

To succeed as a market leader in 2014, we need to do what we did in 2013: continue with reducing cost, deliver consistent world class and superb service and retain and even grow our market share. In the end, building an enduring company all comes back to customers and financial health of our company. Management and employees should be committed to translating that commitment into actions that earn our customers' loyalty every time we come to work. After all the final key to sustained success in our industry is a sound financial foundation, which gives us the ability to continually invest and grow our business for the long term.

United Telecommunication Services N.V., Curaçao

We all take great pride in being part of a company that plays such an important role and that is so closely connected to the communities we serve. Our employees are dedicated to their mission and on their behalf, I thank you for your continued confidence in our company.
I'm thankful to our Supervisory Board of Directors for its guidance and support during 2013.

P.T. de Geus

Chief Executive Officer



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Vision, Mission, Core Values and Corporate Objectives 2013

Introduction

Over the next two years the main strategic objective for the UTS Group is to return to industry norms for financial performance to ensure the long term financial health of the Group, whilst maintaining market share and revenues. Once UTS is clearly on the path to healthy profit margins and long term financial health, the focus will shift to growth.

Vision

From a strategic perspective, UTS committed itself to a future of leadership and growth in the most transformative technology of our time -the mobile internet and fixed internet. UTS made that commitment knowing the potential was enormous for customers, for society, for our economy and for our Shareholders. As bold as our vision was, and as fast as we've already grown, it's now clear that especially the mobile internet revolution is exceeding everyone's expectations. Think about all that we've seen in the past last years. smartphone adoption has soared, mobile applications that make smartphones and tablets even smarter, have exploded and innovation has exploded across this high growth ecosystem, and it continues to accelerate encompassing network providers, device makers, application developers and customers.

For the strategic planning 5 year cycle, UTS has adopted the vision to be the Best Rated Quad-Play Service Provider in the Caribbean. In this vision the UTS Group delivers Fixed Telephony, Mobile Voice & Data, High-speed Internet Access and TV & Video services, either as packages or individual services to consumers and business customers in its current markets.

To be best rated means to be best regarded by the customer when measured not just in its own markets but also across the Caribbean region. UTS will be seen as best in terms of quality, offering the best range of product propositions, offering the best seamless experience between fixed and mobile platforms, and best overall in customer service. Being *best* means leading not just in Curaçao but in as many other UTS markets as possible and also scoring higher than other quad play operators.

Quad play or quadruple play means the commercially integrated provision of broadband, mobile, television and fixed voice telephony. Many operators tend to focus on the technological elements of quad play but UTS believes that the commercial elements of the customer propositions are far more important in achieving the goal. The UTS vision of quad play goes beyond simple price discounting bundles, although such bundling and share reduction is of great importance. To move beyond price as a source of advantage, quad play customer propositions must offer not just cheaper but also more convenient and qualitatively better customer experiences. Choice and personalization will be central to the new propositions. Convenience and time-savings are also important - for example ease of access to specific entertainment or local news would be one way in which qualitatively the better customer experience could be achieved. The whole industry is developing and testing new services and is learning to live and benefit from the huge growth in the popularity of applications on mobile devices and, in future, on the Internet enabled television. Although UTS is too small as an operator to sensibly aspire to be an innovator or pioneer on the very leading-edge, the UTS Group certainly can and will be an early adopter. UTS will *partner* with leaders of emerging markets, offering a useful test market and as an enthusiastic partner with a quad-play network platform that is extremely capable.



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The term *service provider* puts the emphasis very much on the delivery of services. This entails a significant cultural change in UTS. UTS will continue its commercially driven approach, which requires a change of focus to service delivery and customer propositions rather than technology. Of course the fundamental enabler of delivery is the network and it is vital that UTS' network is modern, well run and effective in competing against some rivals. But the network and its operations must be driven by the market & customer propositions and support rather than seek to lead those functions.

UTS has taken a market driven approach with regards to structuring its new Five Year Strategic plan. Each of the six Strategic Action Areas is chosen so it can be communicated, understood and acted upon in its own right and having its own rationale and objectives. The Strategic Action Areas are not mutually exclusive but will over-lap to some extent and therefore support and reinforce each other. In moving forward towards the above

mentioned vision, UTS will continue deploying -during the remainder of the five years period- a series of strategic initiatives structured into nine Strategic Action Areas:

"Gigabit Curaçao"
"You-Me-Us"
"Agility"
"Build the Brand"
"Mobile Matters"
"Service Experience"
"Leveraging Partnerships"
"Wholesale Business"
"Corporate"

"Gigabit Curaçao" encompasses technology and service initiatives aiming to capture the 'technological high-ground' whereas "You-Me-Us" captures initiatives concerning social relationships between UTS and its customers as well as between UTS employees. "Agility" to the contrary highlights activities aiming to improve internal efficiency. "Build the Brand" focuses on initiatives to maximize brand synergies and long term customer loyalty across the Group while "Mobile Matters" outlines initiatives building on UTS's particular strengths in mobile networks and services. "Service Experience" which is a key area denotes activities involving cultural change and constant staff training to build on UTS's unique ability to combine fixed, mobile, data and TV but also ensuring the customer experience from ordering the service. "Leveraging Partnerships": Strategies in this area are aimed to leverage UTS core strengths and seek partnerships to counter some of its structural weaknesses, such as limited scale. Included in this area is outsourcing. "Wholesale" contains activities to provide a "second line of defense" so that where revenue is lost in the retail market then at least part can be recovered using wholesale services provided to competitors. "Corporate" deals with strategies affecting or at the level of the Group overall or in shared functions or shared overheads.

Mission

In 2011, we developed and formalized our strategic plan to keep navigating into the turbulent environment which UTS operates. We also revised our strategies to use our technology to address the challenges in the markets we serve. We made good progress last year. We laid the groundwork to achieve our commercial goals, which helps us identify and accelerate deployment of technology solutions that create added value to our customers.



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