

NII HOLDINGS INC  
Form 10-Q  
October 31, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from            to

Commission file number 0-32421

NII HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

91-1671412

(State or other jurisdiction of

(I.R.S. Employer Identification No.)

incorporation or organization)

1875 Explorer Street, Suite 1000

20190

Reston, Virginia

(Zip Code)

(Address of principal executive offices)

(703) 390-5100

(Registrant's telephone number, including area code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated  
filer ☐

Smaller reporting company ☐

(Do not check if a  
smaller reporting  
company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒  
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

| Title of Class                            | Number of Shares<br>Outstanding<br>on October 28, 2013 |
|-------------------------------------------|--------------------------------------------------------|
| Common Stock, \$0.001 par value per share | 172,438,555                                            |

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NII HOLDINGS, INC. AND SUBSIDIARES  
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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

NII HOLDINGS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands, except par values)  
 Unaudited

|                                                                                                                                                                        | September 30,<br>2013 | December 31,<br>2012 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                          |                       |                      |
| Current assets                                                                                                                                                         |                       |                      |
| Cash and cash equivalents                                                                                                                                              | \$1,578,638           | \$1,371,173          |
| Short-term investments                                                                                                                                                 | 318,717               | 204,834              |
| Accounts receivable, less allowance for doubtful accounts of \$74,623 and \$108,676                                                                                    | 599,083               | 674,459              |
| Handset and accessory inventory                                                                                                                                        | 385,438               | 323,329              |
| Deferred income taxes, net                                                                                                                                             | 221,583               | 175,753              |
| Assets held for sale                                                                                                                                                   | —                     | 97,393               |
| Prepaid expenses and other                                                                                                                                             | 433,385               | 488,091              |
| Total current assets                                                                                                                                                   | 3,536,844             | 3,335,032            |
| Property, plant and equipment, net                                                                                                                                     | 3,356,327             | 3,531,271            |
| Intangible assets, net                                                                                                                                                 | 1,042,384             | 1,125,382            |
| Deferred income taxes, net                                                                                                                                             | 419,917               | 367,181              |
| Assets held for sale                                                                                                                                                   | —                     | 400,300              |
| Other assets                                                                                                                                                           | 520,136               | 463,911              |
| Total assets                                                                                                                                                           | \$8,875,608           | \$9,223,077          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                            |                       |                      |
| Current liabilities                                                                                                                                                    |                       |                      |
| Accounts payable                                                                                                                                                       | \$313,577             | \$424,177            |
| Accrued expenses and other                                                                                                                                             | 989,207               | 969,793              |
| Deferred revenues                                                                                                                                                      | 134,482               | 144,105              |
| Current portion of long-term debt                                                                                                                                      | 93,297                | 94,039               |
| Liabilities held for sale                                                                                                                                              | —                     | 127,911              |
| Total current liabilities                                                                                                                                              | 1,530,563             | 1,760,025            |
| Long-term debt                                                                                                                                                         | 5,697,760             | 4,765,505            |
| Deferred revenues                                                                                                                                                      | 11,972                | 14,007               |
| Deferred tax liabilities                                                                                                                                               | 103,249               | 58,189               |
| Liabilities held for sale                                                                                                                                              | —                     | 12,735               |
| Other long-term liabilities                                                                                                                                            | 314,300               | 296,168              |
| Total liabilities                                                                                                                                                      | 7,657,844             | 6,906,629            |
| Commitments and contingencies (Note 6)                                                                                                                                 |                       |                      |
| Stockholders' equity                                                                                                                                                   |                       |                      |
| Undesignated preferred stock, par value \$0.001, 10,000 shares authorized — 2013 and 2012, no shares issued or outstanding — 2013 and 2012                             | —                     | —                    |
| Common stock, par value \$0.001, 600,000 shares authorized — 2013 and 2012, 172,438 shares issued and outstanding — 2013, 171,653 shares issued and outstanding — 2012 | 172                   | 171                  |
| Paid-in capital                                                                                                                                                        | 1,504,640             | 1,481,662            |

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|                                            |             |             |
|--------------------------------------------|-------------|-------------|
| Retained earnings                          | 554,260     | 1,458,056   |
| Accumulated other comprehensive loss       | (841,308)   | (623,441)   |
| Total stockholders' equity                 | 1,217,764   | 2,316,448   |
| Total liabilities and stockholders' equity | \$8,875,608 | \$9,223,077 |

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

NII HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME

(in thousands, except per share amounts)

Unaudited

|                                                                             | Three Months Ended September<br>30, |              | Nine Months Ended September<br>30, |               |
|-----------------------------------------------------------------------------|-------------------------------------|--------------|------------------------------------|---------------|
|                                                                             | 2013                                | 2012         | 2013                               | 2012          |
| Operating revenues                                                          |                                     |              |                                    |               |
| Service and other revenues                                                  | \$1,054,248                         | \$1,341,481  | \$3,551,498                        | \$4,146,885   |
| Handset and accessory revenues                                              | 47,017                              | 65,886       | 140,166                            | 214,266       |
|                                                                             | 1,101,265                           | 1,407,367    | 3,691,664                          | 4,361,151     |
| Operating expenses                                                          |                                     |              |                                    |               |
| Cost of service (exclusive of depreciation and amortization included below) | 364,437                             | 370,060      | 1,156,536                          | 1,176,838     |
| Cost of handsets and accessories                                            | 217,117                             | 209,279      | 657,284                            | 634,090       |
| Selling, general and administrative                                         | 456,412                             | 545,551      | 1,435,180                          | 1,606,989     |
| Provision for doubtful accounts                                             | 25,861                              | 43,119       | 76,423                             | 130,019       |
| Impairment and restructuring charges                                        | 21,341                              | 13,983       | 147,229                            | 23,313        |
| Depreciation                                                                | 162,665                             | 150,706      | 496,200                            | 437,108       |
| Amortization                                                                | 16,189                              | 14,415       | 47,090                             | 32,035        |
|                                                                             | 1,264,022                           | 1,347,113    | 4,015,942                          | 4,040,392     |
| Operating (loss) income                                                     | (162,757)                           | ) 60,254     | (324,278)                          | ) 320,759     |
| Other expense                                                               |                                     |              |                                    |               |
| Interest expense, net                                                       | (134,962)                           | ) (103,880)  | ) (394,866)                        | ) (267,290)   |
| Interest income                                                             | 9,289                               | 13,227       | 24,781                             | 25,305        |
| Foreign currency transaction (losses) gains, net                            | (4,835)                             | ) 10,730     | (86,103)                           | ) (42,574)    |
| Other income (expense), net                                                 | 4,472                               | (7,340)      | ) (8,615)                          | ) (22,223)    |
|                                                                             | (126,036)                           | ) (87,263)   | ) (464,803)                        | ) (306,782)   |
| (Loss) income from continuing operations before income tax provision        | (288,793)                           | ) (27,009)   | ) (789,081)                        | ) 13,977      |
| Income tax provision                                                        | (4,338)                             | ) (34,669)   | ) (74,726)                         | ) (135,070)   |
| Net loss from continuing operations                                         | (293,131)                           | ) (61,678)   | ) (863,807)                        | ) (121,093)   |
| Loss from discontinued operations, net of income taxes                      | (6,810)                             | ) (20,740)   | ) (39,989)                         | ) (51,247)    |
| Net loss                                                                    | \$(299,941)                         | ) \$(82,418) | ) \$(903,796)                      | ) \$(172,340) |
| Net loss from continuing operations, per common share, basic and diluted    | \$(1.70)                            | ) \$(0.36)   | ) \$(5.02)                         | ) \$(0.71)    |
| Net loss from discontinued operations, per common share, basic and diluted  | (0.04)                              | ) (0.12)     | ) (0.23)                           | ) (0.30)      |
| Net loss, per common share, basic and diluted                               | \$(1.74)                            | ) \$(0.48)   | ) \$(5.25)                         | ) \$(1.01)    |
| Weighted average number of common shares outstanding, basic and diluted     | 172,438                             | \$171,632    | 172,116                            | 171,448       |
| Comprehensive loss, net of income taxes                                     |                                     |              |                                    |               |
| Foreign currency translation adjustment                                     | \$(20,129)                          | ) \$56,221   | \$(218,306)                        | ) \$(61,222)  |
| Other                                                                       | 4,231                               | (659)        | ) 439                              | (2,319)       |
| Other comprehensive (loss) income                                           | (15,898)                            | ) 55,562     | (217,867)                          | ) (63,541)    |

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|                          |            |   |           |   |              |   |            |   |
|--------------------------|------------|---|-----------|---|--------------|---|------------|---|
| Net loss                 | (299,941   | ) | (82,418   | ) | (903,796     | ) | (172,340   | ) |
| Total comprehensive loss | \$(315,839 | ) | \$(26,856 | ) | \$(1,121,663 | ) | \$(235,881 | ) |

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

NII HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN  
STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2013

(in thousands)

Unaudited

|                                                            | Common Stock |        | Paid-in     | Retained    | Accumulated              | Total                |
|------------------------------------------------------------|--------------|--------|-------------|-------------|--------------------------|----------------------|
|                                                            | Shares       | Amount | Capital     | Earnings    | Other Comprehensive Loss | Stockholders' Equity |
| Balance, January 1, 2013                                   | 171,653      | \$171  | \$1,481,662 | \$1,458,056 | \$ (623,441 )            | \$ 2,316,448         |
| Net loss                                                   | —            | —      | —           | (903,796 )  | —                        | (903,796 )           |
| Other comprehensive loss                                   | —            | —      | —           | —           | (217,867 )               | (217,867 )           |
| Share-based payment expense                                | —            | —      | 26,737      | —           | —                        | 26,737               |
| Issuance of restricted stock and exercise of stock options | 785          | 1      | —           | —           | —                        | 1                    |
| Other                                                      | —            | —      | (3,759 )    | —           | —                        | (3,759 )             |
| Balance, September 30, 2013                                | 172,438      | \$172  | \$1,504,640 | \$554,260   | \$ (841,308 )            | \$ 1,217,764         |

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

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NII HOLDINGS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the Nine Months Ended September 30, 2013 and 2012  
 (in thousands)  
 Unaudited

|                                                                                           | 2013        | 2012        |
|-------------------------------------------------------------------------------------------|-------------|-------------|
| Cash flows from operating activities:                                                     |             |             |
| Net loss                                                                                  | \$(903,796) | \$(172,340) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: |             |             |
| Loss from discontinued operations                                                         | 39,989      | 51,247      |
| Amortization of debt discount and financing costs                                         | 34,500      | 15,824      |
| Depreciation and amortization                                                             | 543,290     | 469,143     |
| Provision for losses on accounts receivable                                               | 76,423      | 130,019     |
| Foreign currency transaction losses, net                                                  | 86,103      | 42,574      |
| Impairment charges, restructuring charges and losses on disposals of fixed assets         | 143,405     | 32,298      |
| Deferred income tax provision (benefit)                                                   | 38,172      | (17,218)    |
| Share-based payment expense                                                               | 27,628      | 39,276      |
| Other, net                                                                                | 47,839      | 24,980      |
| Change in assets and liabilities:                                                         |             |             |
| Accounts receivable, gross                                                                | (57,779)    | (97,536)    |
| Handset and accessory inventory                                                           | (84,634)    | 22,774      |
| Prepaid expenses and other                                                                | (32,763)    | (247,660)   |
| Other long-term assets                                                                    | (32,012)    | (53,553)    |
| Accounts payable, accrued expenses and other                                              | (21,922)    | 49,070      |
| Total operating cash (used in) provided by continuing operations                          | (95,557)    | 288,898     |
| Total operating cash (used in) provided by discontinued operations                        | (7,160)     | 14,093      |
| Net cash (used in) provided by operating activities                                       | (102,717)   | 302,991     |
| Cash flows from investing activities:                                                     |             |             |
| Capital expenditures                                                                      | (551,953)   | (784,364)   |
| Purchases of long-term and short-term investments                                         | (1,772,379) | (1,157,600) |
| Proceeds from sales of long-term and short-term investments                               | 1,619,551   | 1,382,328   |
| Payments for acquisitions, purchases of licenses, capitalized interest and other          | (59,280)    | (84,656)    |
| Total investing cash used in continuing operations                                        | (764,061)   | (644,292)   |
| Total investing cash provided by (used in) discontinued operations                        | 276,695     | (22,563)    |
| Net cash used in investing activities                                                     | (487,366)   | (666,855)   |
| Cash flows from financing activities:                                                     |             |             |
| Gross proceeds from issuance of senior notes                                              | 1,600,000   | —           |
| Borrowings under equipment financing facilities                                           | 110,157     | 222,494     |
| Repayments of convertible notes                                                           | —           | (212,782)   |
| Repayments of bank loans, equipment financing facilities and other                        | (864,019)   | (283,435)   |
| Other, net                                                                                | (20,044)    | (22,508)    |
| Total financing cash provided by (used in) continuing operations                          | 826,094     | (296,231)   |
| Total financing cash used in discontinued operations                                      | (2,363)     | (99,843)    |
| Net cash provided by (used in) financing activities                                       | 823,731     | (396,074)   |
| Effect of exchange rate changes on cash and cash equivalents                              | (38,501)    | 5,038       |
| Change in cash and cash equivalents held for sale                                         | 12,318      | (19,345)    |
| Net increase (decrease) in cash and cash equivalents                                      | 207,465     | (774,245)   |
| Cash and cash equivalents, beginning of period                                            | 1,371,173   | 2,310,659   |

|                                          |             |             |
|------------------------------------------|-------------|-------------|
| Cash and cash equivalents, end of period | \$1,578,638 | \$1,536,414 |
|------------------------------------------|-------------|-------------|

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

NII HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1. Basis of Presentation

General. Our unaudited condensed consolidated financial statements have been prepared under the rules and regulations of the Securities and Exchange Commission, or the SEC. While they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements, they reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for interim periods. In addition, the year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

You should read these condensed consolidated financial statements in conjunction with the consolidated financial statements and notes contained in our annual report on Form 10-K for the year ended December 31, 2012 and our quarterly reports on Form 10-Q for the three months ended March 31, 2013 and June 30, 2013. You should not expect results of operations for interim periods to be an indication of the results for a full year.

Accumulated Other Comprehensive Loss. The components of our accumulated other comprehensive loss, net of taxes, are as follows:

|                                                    | September 30, 2013 | December 31, 2012 |
|----------------------------------------------------|--------------------|-------------------|
|                                                    | (in thousands)     |                   |
| Cumulative foreign currency translation adjustment | \$(834,684)        | \$(616,378)       |
| Other                                              | (6,624)            | (7,063)           |
|                                                    | \$(841,308)        | \$(623,441)       |

Supplemental Cash Flow Information.

|                                                                                                        | Nine Months Ended September 30, 2013 | 2012      |
|--------------------------------------------------------------------------------------------------------|--------------------------------------|-----------|
|                                                                                                        | (in thousands)                       |           |
| Capital expenditures                                                                                   |                                      |           |
| Cash paid for capital expenditures, including capitalized interest on property, plant and equipment    | \$551,953                            | \$784,364 |
| Change in capital expenditures accrued and unpaid or financed, including accreted interest capitalized | 49,606                               | 152,575   |
|                                                                                                        | \$601,559                            | \$936,939 |
| Interest costs                                                                                         |                                      |           |
| Interest expense, net                                                                                  | \$394,866                            | \$267,290 |
| Interest capitalized                                                                                   | 64,433                               | 98,616    |
|                                                                                                        | \$459,299                            | \$365,906 |

For the nine months ended September 30, 2013, we had \$145.1 million in non-cash financing, primarily related to borrowings under our equipment financing facility in Mexico and co-location capital lease obligations on our communication towers in Brazil and Mexico. For the nine months ended September 30, 2012, we had \$189.7 million in non-cash financing, primarily related to borrowings under our equipment financing facilities in Mexico and Chile, the short-term financing of imported handsets and infrastructure in Brazil and co-location capital lease obligations on our communication towers.

Revenue-Based Taxes. We record revenue-based taxes and other excise taxes on a gross basis as a component of both service and other revenues and selling, general and administrative expenses in our consolidated financial statements. For the three and nine months ended September 30, 2013, we recognized \$36.9 million and \$130.0 million,

respectively, in revenue-based taxes and other excise taxes. For the three and nine months ended September 30, 2012, we recognized \$50.8 million and \$161.3 million, respectively, in revenue-based taxes and other excise taxes.

**Impairment and Restructuring Charges.** In September 2013, Nextel Mexico recognized \$8.6 million in restructuring charges related to the separation of employees in conjunction with actions taken to realign staffing and other resources and reduce general and administrative expenses in our Mexican operating company.

NII HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

We also recognized a \$5.9 million asset impairment at the corporate level in September 2013 related to the discontinuation of the development of certain network features.

In August 2013, we recognized \$6.8 million in contract termination costs incurred in connection with the sublease of certain excess space located in one of our corporate office buildings.

In January 2013, we began evaluating the feasibility of discontinuing the broader use of software previously developed for use in multiple markets to support our customer relationship management systems and the possibility of restricting its ongoing use to one market. As a result of this evaluation, and in connection with the preparation of our financial statements for the first quarter of 2013, we recognized a non-cash asset impairment charge of \$85.3 million related to the discontinuation of this software, of which \$42.8 million was recognized at the corporate level, \$33.5 million was recognized by Nextel Chile and \$9.0 million was recognized by Nextel Mexico.

In addition, during the first quarter of 2013, we restructured our outsourcing agreements with Nokia Siemens Networks, or NSN, under which NSN provides specified network operations and infrastructure management services. We decided to restructure these agreements to reduce the scope of the services provided by NSN, to facilitate the transition of those services to us and to establish the terms on which further transitions of services and the termination of the NSN arrangements could be implemented in each of our markets. Under the agreements in effect prior to this restructuring, we classified a portion of the base contractual fees as a prepayment and were recognizing this prepayment over the life of the previous agreement. As a result of the restructuring with NSN, we recognized a non-cash charge of \$39.9 million relating to the write-off of the remainder of the prepayment.

In the second and third quarters of 2012, we recognized \$23.3 million in non-cash impairment charges related to the write-off of two of our technology projects, the majority of which was at the corporate level.

Total impairment and restructuring charges for the three and nine months ended September 30, 2013 and 2012 were as follows (in thousands):

|                                            | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|--------------------------------------------|----------------------------------|----------|---------------------------------|----------|
|                                            | 2013                             | 2012     | 2013                            | 2012     |
| Brazil                                     | \$—                              | \$2,168  | \$23,814                        | \$2,437  |
| Mexico                                     | 8,598                            | 173      | 29,684                          | 439      |
| Argentina                                  | —                                | —        | 3,779                           | 73       |
| Chile                                      | —                                | —        | 33,709                          | 527      |
| Corporate                                  | 12,743                           | 11,642   | 56,243                          | 19,837   |
| Total impairment and restructuring charges | \$21,341                         | \$13,983 | \$147,229                       | \$23,313 |

Net Loss Per Common Share, Basic and Diluted. Basic net loss per common share is computed by dividing adjusted net loss attributable to common shares by the weighted average number of common shares outstanding for the period. Diluted net loss per common share reflects the potential dilution of securities that could participate in our earnings, but not securities that are antidilutive, including stock options with an exercise price greater than the average market price of our common stock.

Our unvested restricted stock awards, or RSAs, contain non-forfeitable rights to dividends, whether paid or unpaid. As a result, our RSAs are considered participating securities because their holders have the right to participate in earnings with common stockholders. We use the two-class method to allocate net income between common shares and other participating securities.

As presented for the three and nine months ended September 30, 2013 and 2012, our calculation of diluted net loss per common share is based on the weighted average number of common shares outstanding during those periods and does not include other potential common shares, including shares issuable upon the potential exercise of stock options under our stock-based employee compensation plans, restricted common shares issued under those plans or common shares resulting from the potential conversion of our 3.125% convertible notes prior to their maturity on June 30, 2012 since their effect would have been antidilutive to our net loss per common share for those periods. For the three and nine months ended September 30, 2013, we did not include 12.8 million or 12.3 million stock options, respectively, and 3.5 million or 2.5 million in restricted stock, respectively, in our calculation of diluted net loss per common share because their effect would have been antidilutive to our net loss per common

NII HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

share for those periods. For the three and nine months ended September 30, 2012, we did not include 13.9 million or 13.3 million stock options, respectively, and 2.9 million or 2.0 million in restricted stock, respectively, in our calculation of diluted net loss per common share because their effect would have been antidilutive to our net loss per common share for those periods.

Reclassifications. We have reclassified some prior period amounts in our condensed consolidated financial statements to conform to our current year presentation.

New Accounting Pronouncements. There were no new accounting standards issued during the three or nine months ended September 30, 2013 that materially impacted our condensed consolidated financial statements or could materially impact our financial statements or related disclosures in a future period.

Note 2. Significant Transactions

In August 2013, Nextel Brazil and Nextel Mexico agreed to sell 2,790 and 1,666 transmitter and receiver sites, respectively, to American Tower Corporation in two separate transactions for total estimated proceeds based on current foreign currency exchange rates of \$432.3 million and \$391.2 million, respectively, subject to certain adjustments, including adjustments based on the actual number of towers sold. Both Nextel Brazil and Nextel Mexico agreed to lease these sites from American Tower for a minimum initial lease term of 12 years with optional additional renewals. NII International Telecom, S.C.A., or NIIT, which is an indirect subsidiary of NII Holdings, Inc., agreed to provide certain credit support with respect to the lease obligations of Nextel Brazil. The transaction agreements provide that all payments, including the purchase price and site rental, will be made in local currencies. As a result, the estimated U.S. dollar-denominated proceed amounts are subject to changes in the values of the local currencies relative to the U.S. dollar. We expect the initial closings to include about 4,000 transmitter and receiver sites, which will be followed by subsequent closings as certain closing requirements relating to the remaining sites are satisfied. The agreement with American Tower provides for a post-closing period during which certain adjustments can be made to the purchase price of each transferred site based on the verification of information relevant to that site. During this post-closing adjustment period, the proceeds from these transactions will be accounted for under the deposit method and payments received from American Tower will be recorded as a deposit liability. After any price adjustments are determined, we will calculate the gain on the sale of the sites, which will be recognized over the lease term.

Note 3. Discontinued Operations

Sale of Nextel Peru. On August 19, 2013, we, together with our wholly-owned subsidiaries NII Mercosur Telecom, S.L. and NII Mercosur Moviles, S.L., both of which are companies existing under Spanish law, completed the sale of all of the outstanding equity interests of our wholly-owned subsidiary, Nextel del Peru, S.A., or Nextel Peru, to Empresa Nacional de Telecomunicaciones S.A. and one of its subsidiaries, Entel Inversiones, S.A., both of which are companies existing under Chilean law and which we refer to collectively as Entel, for \$405.5 million in cash, which includes \$50.0 million that was deposited in escrow on our behalf to satisfy potential indemnification claims. The aggregate value we received reflects estimated adjustments for cash, debt and working capital balances as of the closing date and is subject to post-closing working capital adjustments. In connection with the disposal of our Nextel Peru operation, we recognized losses of \$1.4 million and \$2.7 million for the three and nine months ended September 30, 2013. We also entered into a transition services agreement, pursuant to which we and our subsidiaries will provide certain services to Entel in order to facilitate the transition of Nextel Peru. For the year ended December 31, 2012, Nextel Peru had total operating revenues of \$343.3 million.

In connection with the sale of Nextel Peru to Entel, we have reported Nextel Peru as a discontinued operation in this quarterly report on Form 10-Q. Accordingly, we reclassified Nextel Peru's results of operations for all periods presented to reflect Nextel Peru as discontinued operations. Unless otherwise noted, amounts included in these notes to our condensed consolidated financial statements exclude amounts attributable to discontinued operations. The major components of loss from discontinued operations related to Nextel Peru were as follows (in thousands):

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|                                                        | Three Months Ended September 30, |             | Nine Months Ended September 30, |             |
|--------------------------------------------------------|----------------------------------|-------------|---------------------------------|-------------|
|                                                        | 2013                             | 2012        | 2013                            | 2012        |
| Operating revenues                                     | \$ 39,783                        | \$ 84,529   | \$ 204,982                      | \$ 259,718  |
| Operating expenses                                     | (43,915)                         | (112,812)   | (239,915)                       | (331,478)   |
| Other (expense) income, net                            | (1,283)                          | 515         | (1,501)                         | 1,363       |
| Loss before income tax provision                       | (5,415)                          | (27,768)    | (36,434)                        | (70,397)    |
| Income tax benefit (provision)                         | —                                | 7,028       | (900)                           | 19,150      |
|                                                        | (5,415)                          | (20,740)    | (37,334)                        | (51,247)    |
| Loss on disposal of Nextel Peru                        | (1,395)                          | —           | (2,655)                         | —           |
| Loss from discontinued operations, net of income taxes | \$ (6,810)                       | \$ (20,740) | \$ (39,989)                     | \$ (51,247) |

The components of assets and liabilities classified as held for sale as of December 31, 2012 consisted of the following (in thousands):

|                                                                      | December 31, 2012 |
|----------------------------------------------------------------------|-------------------|
| <b>ASSETS</b>                                                        |                   |
| Cash and cash equivalents                                            | \$12,318          |
| Accounts receivable, less allowance for doubtful accounts of \$4,245 | 31,278            |
| Handset and accessory inventory                                      | 26,375            |
| Prepaid expenses and other                                           | 27,422            |
| Property, plant and equipment, net                                   | 353,676           |
| Intangible assets, net                                               | 39,290            |
| Other assets                                                         | 7,334             |
| Total assets                                                         | \$497,693         |
| <b>LIABILITIES</b>                                                   |                   |
| Accounts payable                                                     | \$61,365          |
| Accrued expenses and other                                           | 45,995            |
| Deferred revenues                                                    | 17,346            |
| Current portion of long-term debt                                    | 3,205             |
| Long-term debt                                                       | 3,453             |
| Other long-term liabilities                                          | 9,282             |
| Total liabilities                                                    | \$140,646         |

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Note 4. Debt

|                                                     | September 30,<br>2013<br>(in thousands) | December 31,<br>2012 |
|-----------------------------------------------------|-----------------------------------------|----------------------|
| NII Capital Corp. senior notes, net                 | \$2,728,279                             | \$2,725,303          |
| NII International Telecom, S.C.A. senior notes, net | 1,610,290                               | —                    |
| Bank loans                                          | 503,446                                 | 1,190,980            |
| Equipment financing                                 | 583,709                                 | 557,043              |
| Capital leases and tower financing obligations      | 364,947                                 | 346,879              |
| Brazil import financing                             | —                                       | 37,422               |
| Other                                               | 386                                     | 1,917                |
| Total debt                                          | 5,791,057                               | 4,859,544            |
| Less: current portion                               | (93,297)                                | (94,039)             |
|                                                     | \$5,697,760                             | \$4,765,505          |

Senior Notes.

7.875% Senior Notes due 2019. In May 2013, we issued \$700.0 million aggregate principal amount of a new series of senior notes, which we refer to as the 7.875% notes, for which we received \$691.7 million in net cash proceeds, after deducting \$8.3 million of initial purchasers' discounts, commissions and offering costs that we are amortizing into interest expense over the six-year term of the notes. We utilized substantially all of the net proceeds from this offering to repay in full our Mexican peso-denominated bank loan in Mexico, one of our Brazilian real-denominated bank loans in Brazil and all of our import financing loans in Brazil. The remainder of the proceeds from this offering will be used to repay certain other Brazil bank loans. Substantially all of the repayments were completed at the end of the third quarter of 2013. We have submitted our intent to repay the remaining \$36.7 million, but the completion of this repayment is subject to certain administrative processes in Brazil. In connection with these repayments, we expensed \$6.5 million in unamortized deferred financing costs and recognized an immaterial loss on extinguishment of debt. The 7.875% notes are senior unsecured obligations of NIIT, which is an indirect subsidiary of NII Holdings, Inc., and are guaranteed by NII Holdings, Inc. This guarantee is full and unconditional; however, NII Holdings, Inc. is not subject to any of the restrictive covenants in the indenture governing the 7.875% notes. Subject to certain exceptions, the 7.875% notes rank equally in right of payment with all existing and future unsecured and unsubordinated indebtedness of NIIT and NII Holdings, Inc., including the 11.375% notes described below, and are effectively junior to all existing and future secured indebtedness of NIIT and NII Holdings, Inc. to the extent of the assets securing that indebtedness. In addition, the notes are effectively senior to all of NII Capital Corp.'s unsecured indebtedness. No subsidiaries of NIIT guarantee the notes. As a result, the notes are structurally subordinated to all existing and future liabilities and obligations of the subsidiaries of NIIT. The notes bear interest at a rate of 7.875% per year, which is payable semi-annually in arrears on February 15 and August 15, beginning on August 15, 2013, and will mature on August 15, 2019.

Prior to February 15, 2016, NIIT may redeem up to 35% of the notes at a redemption price equal to 107.875% of the principal amount, plus accrued and unpaid interest, using the proceeds of certain equity offerings by NII Holdings. NIIT may, however, only make such a redemption if, after the redemption, at least 65% of the aggregate principal amount of the notes issued remains outstanding. Prior to February 15, 2017, NIIT may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus a "make-whole" premium and accrued and unpaid interest. In addition, NIIT may redeem any of the notes, in whole or in part, at any time on or after February 15, 2017 at the redemption prices presented below (expressed as percentages of the principal amount), plus accrued and unpaid interest, if any, to the date of redemption:



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| Year | Redemption Price |
|------|------------------|
| 2017 | 103.938%         |
| 2018 | 101.969%         |
| 2019 | 100.000%         |

Upon the occurrence of specified events involving a change of control, holders of the notes may require NIIT to purchase their notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest.

In addition, in accordance with the indenture governing the 7.875% notes, if we have not repaid or refinanced the \$800.0 million outstanding of our existing 10.0% senior notes due 2016 on or prior to May 15, 2016, NIIT will be required to offer to repurchase all of the 7.875% notes at a price equal to 100% of the principal amount.

The indenture governing the notes restricts our ability to make upstream payments to NII Holdings, Inc., other than payments for interest on existing NII Capital Corp. notes and operating expenses of NII Holdings, Inc. In addition, this indenture, among other things, limits NIIT's ability and the ability of some of its subsidiaries to:

- incur additional indebtedness and issue preferred stock;
- create liens or other encumbrances;
- place limitations on distributions from restricted subsidiaries;
- pay dividends, acquire shares of our capital stock or make investments;
- prepay subordinated indebtedness or make other restricted payments;
- issue or sell capital stock of restricted subsidiaries;
- issue guarantees;
- sell or exchange assets;
- enter into transactions with affiliates; and
- merge or consolidate with another entity.

These covenants are subject to a number of qualifications and exceptions.

**11.375% Senior Notes due 2019.** In February 2013, we issued \$750.0 million aggregate principal amount of a new series of senior notes, which we refer to as the 11.375% notes, for which we received \$733.5 million in net cash proceeds, after deducting \$16.5 million of commissions and offering costs that we are amortizing into interest expense over the six-year term of the notes. In April 2013, we issued an additional \$150.0 million aggregate principal amount of the 11.375% notes at a premium with an issue price of 107.25% of the principal amount of the notes plus accrued interest from February 19, 2013. In connection with this transaction, we received net cash proceeds of \$159.8 million, after deducting \$0.8 million in commissions and offering costs. The 11.375% notes issued in April 2013 are fully fungible with, rank equally with and form a single series with the 11.375% notes issued in February 2013.

The 11.375% notes are senior unsecured obligations of NIIT and are guaranteed by NII Holdings, Inc. This guarantee is full and unconditional; however, NII Holdings, Inc. is not subject to any of the restrictive covenants in the indenture governing the 11.375% notes. Subject to certain exceptions, the 11.375% notes rank equally in right of payment with all existing and future unsecured and unsubordinated indebtedness of NIIT and NII Holdings, Inc., including the 7.875% notes, and are effectively junior to all existing and future secured indebtedness of NIIT and NII Holdings, Inc. to the extent of the assets securing that indebtedness. In addition, the notes are effectively senior to all of NII Capital Corp.'s unsecured indebtedness. No subsidiaries of NIIT guarantee the notes. As a result, the notes are structurally subordinated to all existing and future liabilities and obligations of the subsidiaries of NIIT. The notes bear interest at a rate of 11.375% per year, which is payable semi-annually in arrears on February 15 and August 15, beginning on August 15, 2013, and will mature on August 15, 2019.



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Prior to February 15, 2016, NIIT may redeem up to 35% of the notes at a redemption price equal to 111.375% of the principal amount, plus accrued and unpaid interest, using the proceeds of certain equity offerings by NII Holdings. NIIT may, however, only make such a redemption if, after the redemption, at least 65% of the aggregate principal amount of the notes issued remains outstanding. Prior to February 15, 2017, NIIT may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus a "make-whole" premium and accrued and unpaid interest. In addition, NIIT may redeem any of the notes, in whole or in part, at any time on or after February 15, 2017 at the redemption prices presented below (expressed as percentages of the principal amount), plus accrued and unpaid interest, if any, to the date of redemption:

| Year | Redemption Price |
|------|------------------|
| 2017 | 105.688%         |
| 2018 | 102.844%         |
| 2019 | 100.000%         |

Upon the occurrence of specified events involving a change of control, holders of the notes may require NIIT to purchase their notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest.

In addition, in accordance with the indenture governing the 11.375% notes, if we have not repaid or refinanced the \$800.0 million outstanding of our existing 10.0% senior notes due 2016 on or prior to May 15, 2016, NIIT will be required to offer to repurchase all of the 11.375% notes at a price equal to 100% of the principal amount.

The indenture governing the notes restricts our ability to make upstream payments to NII Holdings, Inc., other than payments for interest on existing NII Capital Corp. notes and operating expenses of NII Holdings, Inc. The indenture governing the 11.375% notes also includes covenants that are substantially similar to the covenants contained in the indentures governing NIIT's 7.875% senior notes due 2019, including the related qualifications and exceptions.

#### Equipment Financing.

During the third quarter of 2013, Nextel Brazil and Nextel Mexico entered into amendments to their existing U.S. dollar-denominated loan agreements with the China Development Bank under which Nextel Brazil is able to borrow up to \$500.0 million and Nextel Mexico is able to borrow up to \$375.0 million to finance infrastructure equipment and certain other costs related to the deployment of their WCDMA-based networks. These amendments adjust certain financial covenants through June 30, 2015 in order to provide Nextel Brazil and Nextel Mexico greater operating flexibility, provide for a parent company guarantee from NII Holdings during this period, add a requirement that the net proceeds received from the sale of our transmitter and receiver sites described in Note 2 above remain in the respective markets and establish a minimum level of cash and cash equivalents to be held in each market.

#### Convertible Notes.

**3.125% Convertible Notes.** During the three months ended March 31, 2012, we purchased \$74.0 million face amount of our 3.125% convertible notes through a combination of open market purchases and private transactions for an aggregate purchase price of \$74.4 million, plus accrued interest. The remaining principal balance of our 3.125% convertible notes matured on June 15, 2012.

**Adoption of Authoritative Guidance on Convertible Debt Instruments.** We were required to separately account for the debt and equity components of our former 3.125% convertible notes in a manner that reflected our nonconvertible debt (unsecured debt) borrowing rate. Because our 3.125% convertible notes matured in June 2012, there was no remaining value of the debt and equity components of our 3.125% convertible notes as of September 30, 2013 and December 31, 2012.

We did not recognize any interest expense on our 3.125% convertible notes for the three or nine months ended September 30, 2013 or for the three months ended September 30, 2012. The amount of interest expense recognized on our 3.125% convertible notes and effective interest rates for the nine months ended September 30, 2012 were as follows (dollars in thousands):



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|                                               |         |   |
|-----------------------------------------------|---------|---|
| Contractual coupon interest                   | \$2,383 |   |
| Amortization of discount on convertible notes | 2,718   |   |
| Interest expense, net                         | \$5,101 |   |
| Effective interest rate on convertible notes  | 7.15    | % |

Note 5. Fair Value Measurements

Available-for-Sale Securities.

As of September 30, 2013 and December 31, 2012, available-for-sale securities include \$156.6 million and \$204.8 million, respectively, in short-term investments made by Nextel Brazil in two investment funds and certificates of deposit with a Brazilian bank. These funds invest primarily in Brazilian government bonds, long-term, low-risk bank certificates of deposit and Brazilian corporate debentures. As of September 30, 2013 and December 31, 2012, there were no material unrealized gains or losses associated with these investments.

As a result of favorable market conditions during the third quarter of 2013, we sold \$150.0 million in certificates of deposit for an immaterial gain. Prior to the third quarter of 2013, we classified these investments as held-to-maturity and recorded them at amortized cost. As a result of this sale, we transferred the remaining \$162.1 million in short-term investments and \$38.1 million in long-term investments held at one of our Spanish subsidiaries from held-to-maturity to available-for-sale and recognized an immaterial unrealized gain, which we recorded as other comprehensive income during the three months ended September 30, 2013.

We account for our available-for-sale securities at fair value in accordance with the Financial Accounting Standards Board's, or the FASB's, authoritative guidance surrounding the accounting for investments in debt and equity securities. The fair value of the Brazilian securities is based on the net asset value of the funds. The fair value of the certificates of deposit held at the corporate level is based on quoted market prices for the individual instruments. In our judgment, both of these types of securities trade with sufficient daily observable market activity to support a Level 1 classification within the fair value hierarchy.

Financial Instruments.

Long-Term Debt Instruments.

The carrying amounts and estimated fair values of our long-term debt instruments are as follows:

|                                                     | September 30, 2013 |                         | December 31, 2012  |                         |
|-----------------------------------------------------|--------------------|-------------------------|--------------------|-------------------------|
|                                                     | Carrying<br>Amount | Estimated<br>Fair Value | Carrying<br>Amount | Estimated<br>Fair Value |
|                                                     | (in thousands)     |                         |                    |                         |
| NII Capital Corp. senior notes, net                 | \$2,728,279        | \$2,226,115             | \$2,725,303        | \$2,256,070             |
| NII International Telecom, S.C.A. senior notes, net | 1,610,290          | 1,595,134               | —                  | —                       |
| Bank loans and other                                | 503,832            | 455,220                 | 1,230,319          | 1,194,875               |
| Equipment financing                                 | 583,709            | 559,616                 | 557,043            | 494,284                 |
|                                                     | \$5,426,110        | \$4,836,085             | \$4,512,665        | \$3,945,229             |

We estimated the fair values of our senior notes using quoted market prices. Because our fair value measurement is based on market prices, we consider this Level 1 in the fair value hierarchy.

Bank loans and other consists primarily of loans with certain banks in Brazil and Mexico. We estimated the fair value of these bank loans, as well as the fair value of our equipment financing, utilizing inputs such as U.S. Treasury security yield curves, prices of comparable bonds, LIBOR and zero-coupon yield curves, U.S. Treasury bond rates and credit spreads on comparable publicly traded bonds and consider these measurements to be Level 2 in the fair value hierarchy.



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Other Financial Instruments.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable contained in our condensed consolidated balance sheets approximate their fair values due to the short-term nature of these instruments. The fair values of our derivative instruments are not material.

Note 6. Commitments and Contingencies

Brazilian Contingencies.

Nextel Brazil has received various assessment notices from state and federal Brazilian authorities asserting deficiencies in payments related primarily to value-added taxes, excise taxes on imported equipment and other non-income based taxes. Nextel Brazil has filed various administrative and legal petitions disputing these assessments. In some cases, Nextel Brazil has received favorable decisions, which are currently being appealed by the respective governmental authority. In other cases, Nextel Brazil's petitions have been denied, and Nextel Brazil is currently appealing those decisions. Nextel Brazil is also disputing various other claims. Nextel Brazil did not reverse any material accrued liabilities related to contingencies during the three or nine months ended September 30, 2013 or 2012.

As of September 30, 2013 and December 31, 2012, Nextel Brazil had accrued liabilities of \$73.3 million and \$73.0 million, respectively, related to contingencies, all of which were classified as a component of other long-term liabilities, and \$12.5 million and \$20.7 million of which related to unasserted claims, respectively. We currently estimate the range of reasonably possible losses related to matters for which Nextel Brazil has not accrued liabilities, as they are not deemed probable, to be between \$352.1 million and \$356.1 million as of September 30, 2013. We are continuing to evaluate the likelihood of probable and reasonably possible losses, if any, related to all known contingencies. As a result, future increases or decreases to our accrued liabilities may be necessary and will be recorded in the period when such amounts are determined to be probable and reasonably estimable.

Legal Proceedings.

We are subject to claims and legal actions that may arise in the ordinary course of business. We do not believe that any of these pending claims or legal actions will have a material effect on our business, financial condition, results of operations or cash flows.

Note 7. Income Taxes

|                                                                      | Three Months Ended<br>September 30,<br>2013      2012 |              | Nine Months Ended<br>September 30,<br>2013      2012 |               |
|----------------------------------------------------------------------|-------------------------------------------------------|--------------|------------------------------------------------------|---------------|
|                                                                      | (in thousands)                                        |              |                                                      |               |
| (Loss) income from continuing operations before income tax provision | \$ (288,793 )                                         | \$ (27,009 ) | \$ (789,081 )                                        | \$ 13,977     |
| Current income tax benefit(provision)                                | \$ 10,024                                             | \$ (27,150 ) | \$ (36,554 )                                         | \$ (152,288 ) |
| Deferred income tax (provision) benefit                              | (14,362 )                                             | (7,519 )     | (38,172 )                                            | 17,218        |
| Total income tax provision                                           | \$ (4,338 )                                           | \$ (34,669 ) | \$ (74,726 )                                         | \$ (135,070 ) |

The \$30.3 million and \$60.3 million decreases in the consolidated income tax provision from the three and nine months ended September 30, 2012 to the same periods in 2013 are due to increases in consolidated pre-tax book

losses, primarily in Mexico and Brazil, and reductions in withholding taxes on intercompany charges. These decreases were partially offset by an additional valuation allowance on the deferred tax assets of one of our Mexican subsidiaries.

We are subject to income taxes in both the United States and the non-U.S. jurisdictions in which we operate. Certain of our entities are under examination by the relevant taxing authorities for various tax years. The earliest years that remain subject to examination by jurisdiction are: Chile - 1993; U.S. - 1999; Argentina and Mexico - 2006; Brazil - 2007; and Luxembourg,

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Netherlands and Spain - 2009. We regularly assess the potential outcome of current and future examinations in each of the taxing jurisdictions when determining the adequacy of the provision for income taxes.

The following table shows a reconciliation of our unrecognized tax benefits according to the FASB's authoritative guidance on accounting for uncertainty in income taxes for the nine months ended September 30, 2013 (in thousands):

|                                                |          |
|------------------------------------------------|----------|
| Unrecognized tax benefits - December 31, 2012  | \$35,639 |
| Additions for current year tax positions       | 153      |
| Foreign currency translation adjustment        | (284 )   |
| Unrecognized tax benefits - September 30, 2013 | \$35,508 |

The unrecognized tax benefits that could potentially reduce our future effective tax rate, if recognized, were \$4.6 million and \$4.8 million as September 30, 2013 and December 31, 2012, respectively.

We record interest and penalties associated with uncertain tax positions as a component of our income tax provision.

We assessed the realizability of our deferred tax assets during the third quarter of 2013, consistent with the methodology we employed for the same period in 2012. In that assessment, we considered the reversal of existing temporary differences associated with deferred tax assets and liabilities, future taxable income, tax planning strategies and historical and future pre-tax book income (as adjusted for permanent differences between financial and tax accounting items) in order to determine if it is "more-likely-than-not" that the deferred tax asset will be realized. As a result of this assessment, in 2012 and 2013, we continued to record a full valuation allowance on the deferred tax assets of each of our U.S. subsidiaries, our Chilean subsidiaries and our foreign holding companies.

During the second quarter of 2013, we established a \$99.9 million valuation allowance on the deferred tax assets of one of our Mexican subsidiaries. In accordance with FASB's authoritative guidance on accounting for income taxes, we evaluated all available evidence, both positive and negative, in reaching this conclusion. In evaluating the need for a valuation allowance, we considered the following negative evidence: (1) a history of cumulative U.S. GAAP pre-tax book losses projected for the three-year period ending in 2013; (2) there are no tax planning strategies available that would allow Nextel Mexico to utilize all of these deferred tax assets; and (3) Nextel Mexico is expected to continue to generate negative pre-tax results for the foreseeable future. The projection of future pre-tax losses substantially increased during the second quarter of 2013, resulting in us concluding that it is "more-likely-than-not" the deferred tax assets would not be realized. Therefore, we recorded a full valuation allowance with respect to the deferred tax assets of this Mexican subsidiary. This conclusion continued to apply in the third quarter of 2013, and during the quarter, this valuation allowance increased by \$35.7 million.

With respect to our other companies, we determined that the realizability of their deferred tax assets had not changed. Although realization is not assured, we believe that it is more likely than not that all of the deferred tax assets will be realized; however, the amount realized could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. We will continue to evaluate the amount of the valuation allowance for all of our foreign and U.S. companies throughout the remainder of 2013 to determine the appropriate level of valuation allowance.

#### Note 8. Segment Reporting

We have determined that our reportable segments are those that are based on our method of internal reporting, which disaggregates our business by geographic location. We evaluate performance of these segments and provide resources to them based on operating income before depreciation, amortization and impairment and restructuring charges, which we refer to as segment earnings. During the year ended December 31, 2012, as a result of increased segment losses at our Chilean operating segment and decreased segment earnings at some of our other operating segments, we

determined that Nextel Chile was a reportable segment based on the segment reporting thresholds. As a result, our reportable segments are: (1) Brazil, (2) Mexico, (3) Argentina, and (4) Chile. The results of operations of our corporate headquarters are included in the "Corporate and Eliminations" column in the table below. We have recast our segment information for the three and nine months ended September 30, 2012 to present Nextel Chile as a reportable segment.

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|                                          | Brazil         | Mexico      | Argentina | Chile       | Corporate<br>and<br>Eliminations | Consolidated |
|------------------------------------------|----------------|-------------|-----------|-------------|----------------------------------|--------------|
|                                          | (in thousands) |             |           |             |                                  |              |
| Three Months Ended September 30, 2013    |                |             |           |             |                                  |              |
| Operating revenues                       | \$490,952      | \$442,023   | \$158,170 | \$15,632    | \$(5,512)                        | \$1,101,265  |
| Segment earnings (losses)                | \$42,507       | \$32,130    | \$36,507  | \$(32,580)  | \$(41,126)                       | \$37,438     |
| Less:                                    |                |             |           |             |                                  |              |
| Impairment and restructuring charges     |                |             |           |             |                                  | (21,341)     |
| Depreciation and amortization            |                |             |           |             |                                  | (178,854)    |
| Foreign currency transaction losses, net |                |             |           |             |                                  | (4,835)      |
| Interest expense and other, net          |                |             |           |             |                                  | (121,201)    |
| Loss before income tax benefit           |                |             |           |             |                                  | \$(288,793)  |
| Capital expenditures                     | \$120,658      | \$89,187    | \$13,219  | \$4,486     | \$3,357                          | \$230,907    |
| Three Months Ended September 30, 2012    |                |             |           |             |                                  |              |
| Operating revenues                       | \$693,189      | \$523,220   | \$178,505 | \$14,664    | \$(2,211)                        | \$1,407,367  |
| Segment earnings (losses)                | \$162,866      | \$147,800   | \$50,045  | \$(49,588)  | \$(71,765)                       | \$239,358    |
| Less:                                    |                |             |           |             |                                  |              |
| Impairment and restructuring charges     |                |             |           |             |                                  | (13,983)     |
| Depreciation and amortization            |                |             |           |             |                                  | (165,121)    |
| Foreign currency transaction gains, net  |                |             |           |             |                                  | 10,730       |
| Interest expense and other, net          |                |             |           |             |                                  | (97,993)     |
| Loss before income tax provision         |                |             |           |             |                                  | \$(27,009)   |
| Capital expenditures                     | \$171,461      | \$137,772   | \$11,688  | \$28,702    | \$16,375                         | \$365,998    |
| Nine Months Ended September 30, 2013     |                |             |           |             |                                  |              |
| Operating revenues                       | \$1,705,468    | \$1,458,734 | \$489,155 | \$55,544    | \$(17,237)                       | \$3,691,664  |
| Segment earnings (losses)                | \$307,497      | \$172,753   | \$130,690 | \$(106,984) | \$(137,715)                      | \$366,241    |
| Less:                                    |                |             |           |             |                                  |              |
| Impairment and restructuring charges     |                |             |           |             |                                  | (147,229)    |
| Depreciation and amortization            |                |             |           |             |                                  | (543,290)    |
| Foreign currency transaction losses, net |                |             |           |             |                                  | (86,103)     |
| Interest expense and other, net          |                |             |           |             |                                  | (378,700)    |
| Loss before income tax provision         |                |             |           |             |                                  | \$(789,081)  |
| Capital expenditures                     | \$333,366      | \$225,723   | \$21,177  | \$12,484    | \$8,809                          | \$601,559    |
| Nine Months Ended September 30, 2012     |                |             |           |             |                                  |              |
| Operating revenues                       | \$2,230,010    | \$1,588,785 | \$512,153 | \$33,911    | \$(3,708)                        | \$4,361,151  |

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|                                          |             |             |           |              |              |             |
|------------------------------------------|-------------|-------------|-----------|--------------|--------------|-------------|
| Segment earnings (losses)                | \$584,358   | \$445,137   | \$132,042 | \$(118,610 ) | \$(229,712 ) | \$813,215   |
| Less:                                    |             |             |           |              |              |             |
| Impairment and restructuring charges     |             |             |           |              | (23,313 )    |             |
| Depreciation and amortization            |             |             |           |              | (469,143 )   |             |
| Foreign currency transaction losses, net |             |             |           |              | (42,574 )    |             |
| Interest expense and other, net          |             |             |           |              | (264,208 )   |             |
| Income before income tax provision       |             |             |           |              | \$13,977     |             |
| Capital expenditures                     | \$396,503   | \$337,398   | \$36,113  | \$82,782     | \$84,143     | \$936,939   |
| September 30, 2013                       |             |             |           |              |              |             |
| Identifiable assets                      | \$3,891,822 | \$2,449,778 | \$479,317 | \$191,145    | \$1,863,546  | \$8,875,608 |
| December 31, 2012                        |             |             |           |              |              |             |
| Identifiable assets                      | \$4,191,668 | \$2,458,361 | \$484,343 | \$199,365    | \$1,889,340  | \$9,223,077 |

NII HOLDINGS, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

Note 9. Condensed Consolidating Financial Statements

In 2011, we issued \$1.45 billion in aggregate principal amount of our 7.625% senior notes due in 2021. In addition, during 2009, we issued senior notes totaling \$1.3 billion in aggregate principal amount comprised of our 10.0% senior notes due 2016 and our 8.875% senior notes due 2019. All of these senior notes are senior unsecured obligations of NII Capital Corp., our wholly-owned domestic subsidiary, and are guaranteed on a senior unsecured basis by NII Holdings and all of its current and future first tier and domestic restricted subsidiaries, other than NII Capital Corp. No foreign subsidiaries will guarantee the senior notes unless they are first tier subsidiaries of NII Holdings. These guarantees are full and unconditional, as well as joint and several.

In connection with the issuance of the senior notes and the guarantees thereof, we are required to provide certain condensed consolidating financial information. Included in the tables below are condensed consolidating balance sheets as of September 30, 2013 and December 31, 2012, as well as condensed consolidating statements of operations for the three and nine months ended September 30, 2013 and 2012 and condensed consolidating statements of cash flows for the nine months ended September 30, 2013 and 2012, of: (a) the parent company, NII Holdings, Inc.; (b) the subsidiary issuer, NII Capital Corp.; (c) the guarantor subsidiaries on a combined basis; (d) the non-guarantor subsidiaries on a combined basis; (e) consolidating adjustments; and (f) NII Holdings, Inc. and subsidiaries on a consolidated basis.

In connection with the preparation of our condensed consolidated financial statements for the third quarter of 2013, we made certain immaterial adjustments to our condensed consolidating statement of cash flows for the nine months ended September 30, 2012 to reflect the proper classification of cash flows related to intercompany transactions in which the parent company made direct payments on behalf of certain guarantor subsidiaries. We will also make similar adjustments to our condensed consolidating statements of cash flows for comparative periods presented in future filings. This condensed consolidating financial information is provided in connection with outstanding senior notes that are fully and unconditionally guaranteed by a group of our subsidiaries. These adjustments did not affect the assets available to the group of subsidiaries guaranteeing our senior notes; did not change the net decrease in cash and cash equivalents for the parent company, the issuer, the guarantor subsidiaries or the non-guarantor subsidiaries; and had no impact on consolidated amounts. The substantial majority of these adjustments had the effect of a) decreasing the parent company's net cash outflows from operating activities and increasing the parent company's net cash outflows from investing activities by \$133.2 million, and b) increasing the guarantors' net cash outflows from operating activities by \$135.0 million, increasing the guarantors' net cash outflows from investing activities by \$74.3 million and increasing the guarantors' net cash inflows from financing activities by \$209.3 million.

In addition, in connection with the preparation of our condensed consolidated financial statements for the third quarter of 2013, we made certain immaterial adjustments to our condensed consolidating statement of cash flows for the six months ended June 30, 2013 to reflect the proper classification of cash flows related to certain intercompany interest and dividend payments. These adjustments did not affect the assets available to the group of subsidiaries guaranteeing our senior notes; did not change the net decrease in cash and cash equivalents for the parent company, the issuer, the guarantor subsidiaries or the non-guarantor subsidiaries; and had no impact on consolidated amounts. The substantial majority of these adjustments had the effect of a) increasing the issuer company's net cash inflows from operating activities and increasing the issuer company's net cash outflows from financing activities by \$99.8 million and b) increasing the guarantors' net cash outflows from operating activities and decreasing the guarantors' net cash outflows from investing activities by \$48.7 million with offsetting changes to the consolidating adjustments.



NII HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET

As of September 30, 2013

|                                                 | NII<br>Holdings,<br>Inc. (Parent)<br>(in thousands) | NII Capital<br>Corp.<br>(Issuer)(1) | Guarantor<br>Subsidiaries(2) | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------|-----------------------------------------------------|-------------------------------------|------------------------------|-----------------------------------|------------------------------|--------------|
| <b>ASSETS</b>                                   |                                                     |                                     |                              |                                   |                              |              |
| <b>Current assets</b>                           |                                                     |                                     |                              |                                   |                              |              |
| Cash and cash equivalents                       | \$503,834                                           | \$—                                 | \$ 2,140                     | \$1,072,664                       | \$—                          | \$1,578,638  |
| Short-term investments                          | —                                                   | —                                   | —                            | 318,717                           | —                            | 318,717      |
| Accounts receivable, net                        | —                                                   | —                                   | 381                          | 598,702                           | —                            | 599,083      |
| Short-term intercompany<br>receivables          | 25,772                                              | 117,230                             | 53,908                       | 5,726                             | (202,636 )                   | —            |
| Handset and accessory<br>inventory              | —                                                   | —                                   | —                            | 385,438                           | —                            | 385,438      |
| Deferred income taxes, net                      | 1                                                   | —                                   | 124                          | 187,259                           | 34,199                       | 221,583      |
| Prepaid expenses and other                      | 3,812                                               | —                                   | 5,493                        | 424,080                           | —                            | 433,385      |
| Total current assets                            | 533,419                                             | 117,230                             | 62,046                       | 2,992,586                         | (168,437 )                   | 3,536,844    |
| Property, plant and<br>equipment,<br>net        | —                                                   | —                                   | 132,301                      | 3,224,313                         | (287 )                       | 3,356,327    |
| Investments in and advances<br>to<br>affiliates | 2,631,996                                           | 2,385,246                           | 2,442,038                    | —                                 | (7,459,280 )                 | —            |
| Intangible assets, net                          | 18,000                                              | —                                   | —                            | 1,024,384                         | —                            | 1,042,384    |
| Deferred income taxes, net                      | 16,744                                              | —                                   | —                            | 419,917                           | (16,744 )                    | 419,917      |
| Long-term intercompany<br>receivables           | 1,467,815                                           | 3,733,047                           | 576,605                      | 1,354                             | (5,778,821 )                 | —            |
| Other assets                                    | 14,884                                              | 34,157                              | 13,944                       | 457,151                           | —                            | 520,136      |
| Total assets                                    | \$4,682,858                                         | \$6,269,680                         | \$ 3,226,934                 | \$8,119,705                       | \$(13,423,569 )              | \$8,875,608  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>     |                                                     |                                     |                              |                                   |                              |              |
| <b>Current liabilities</b>                      |                                                     |                                     |                              |                                   |                              |              |
| Accounts payable                                | \$—                                                 | \$—                                 | \$ 3,315                     | \$310,262                         | \$—                          | \$313,577    |
| Short-term intercompany<br>payables             | 463,926                                             | 127,710                             | 1,484,532                    | 110,278                           | (2,186,446 )                 | —            |
| Accrued expenses and other                      | —                                                   | 78,226                              | 13,712                       | 897,249                           | 20                           | 989,207      |
| Deferred revenues                               | —                                                   | —                                   | —                            | 134,482                           | —                            | 134,482      |
| Current portion of long-term<br>debt            | —                                                   | —                                   | 5,617                        | 87,680                            | —                            | 93,297       |
| Total current liabilities                       | 463,926                                             | 205,936                             | 1,507,176                    | 1,539,951                         | (2,186,426 )                 | 1,530,563    |
| Long-term debt                                  | 23                                                  | 2,728,280                           | 34,337                       | 2,935,120                         | —                            | 5,697,760    |
| Deferred revenues                               | —                                                   | —                                   | —                            | 11,972                            | —                            | 11,972       |
| Deferred tax liabilities                        | —                                                   | 2,950                               | 15,081                       | 101,962                           | (16,744 )                    | 103,249      |
|                                                 | 2,968,512                                           | —                                   | 10,390                       | 817,481                           | (3,796,383 )                 | —            |

Long-term intercompany  
payables

|                                               |             |             |              |             |                 |             |
|-----------------------------------------------|-------------|-------------|--------------|-------------|-----------------|-------------|
| Other long-term liabilities                   | 32,633      | —           | 10,486       | 271,181     | —               | 314,300     |
| Total liabilities                             | 3,465,094   | 2,937,166   | 1,577,470    | 5,677,667   | (5,999,553 )    | 7,657,844   |
| Total stockholders' equity                    | 1,217,764   | 3,332,514   | 1,649,464    | 2,442,038   | (7,424,016 )    | 1,217,764   |
| Total liabilities and<br>stockholders' equity | \$4,682,858 | \$6,269,680 | \$ 3,226,934 | \$8,119,705 | \$(13,423,569 ) | \$8,875,608 |

(1) NII Capital Corp. is the issuer of our 7.625% senior notes due 2021, our 10.0% senior notes due 2016 and our 8.875% senior notes due 2019.

(2) Represents our subsidiaries that have provided guarantees of the obligations of NII Capital Corp. under our 7.625% senior notes due 2021, our 10.0% senior notes due 2016 and our 8.875% senior notes due 2019.

NII HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET

As of December 31, 2012

|                                                 | NII<br>Holdings,<br>Inc. (Parent)<br>(in thousands) | NII Capital<br>Corp.<br>(Issuer) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------|-----------------------------------------------------|----------------------------------|---------------------------|-----------------------------------|------------------------------|--------------|
| <b>ASSETS</b>                                   |                                                     |                                  |                           |                                   |                              |              |
| Current assets                                  |                                                     |                                  |                           |                                   |                              |              |
| Cash and cash equivalents                       | \$735,022                                           | \$—                              | \$6,469                   | \$629,682                         | \$—                          | \$1,371,173  |
| Short-term investments                          | —                                                   | —                                | —                         | 204,834                           | —                            | 204,834      |
| Accounts receivable, net                        | —                                                   | —                                | 1,820                     | 672,639                           | —                            | 674,459      |
| Short-term intercompany<br>receivables          | 19,716                                              | 79,899                           | 39,332                    | 6,564                             | (145,511 )                   | —            |
| Handset and accessory<br>inventory              | —                                                   | —                                | —                         | 323,329                           | —                            | 323,329      |
| Deferred income taxes, net                      | —                                                   | —                                | 4,947                     | 174,539                           | (3,733 )                     | 175,753      |
| Assets held for sale                            | —                                                   | —                                | —                         | 97,393                            | —                            | 97,393       |
| Prepaid expenses and other                      | 6,617                                               | —                                | 10,001                    | 471,473                           | —                            | 488,091      |
| Total current assets                            | 761,355                                             | 79,899                           | 62,569                    | 2,580,453                         | (149,244 )                   | 3,335,032    |
| Property, plant and equipment,<br>net           | —                                                   | —                                | 223,888                   | 3,307,670                         | (287 )                       | 3,531,271    |
| Investments in and advances<br>to<br>affiliates | 2,717,390                                           | 2,291,029                        | 2,387,897                 | —                                 | (7,396,316 )                 | —            |
| Intangible assets, net                          | 18,000                                              | —                                | —                         | 1,107,382                         | —                            | 1,125,382    |
| Deferred income taxes, net                      | 13,683                                              | —                                | —                         | 367,181                           | (13,683 )                    | 367,181      |
| Long-term intercompany<br>receivables           | 2,377,064                                           | 3,762,924                        | 736,152                   | 166,075                           | (7,042,215 )                 | —            |
| Assets held for sale                            | —                                                   | —                                | —                         | 400,300                           | —                            | 400,300      |
| Other assets                                    | 16,280                                              | 38,942                           | 22,356                    | 386,333                           | —                            | 463,911      |
| Total assets                                    | \$5,903,772                                         | \$6,172,794                      | \$3,432,862               | \$8,315,394                       | \$(14,601,745 )              | \$9,223,077  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>     |                                                     |                                  |                           |                                   |                              |              |
| Current liabilities                             |                                                     |                                  |                           |                                   |                              |              |
| Accounts payable                                | \$—                                                 | \$—                              | \$5,927                   | \$418,250                         | \$—                          | \$424,177    |
| Short-term intercompany<br>payables             | 597,678                                             | 132,136                          | 1,555,745                 | 488,937                           | (2,774,496 )                 | —            |
| Accrued expenses and other                      | 3,734                                               | 59,490                           | 28,760                    | 881,416                           | (3,607 )                     | 969,793      |
| Deferred revenues                               | —                                                   | —                                | 22                        | 144,083                           | —                            | 144,105      |
| Current portion of long-term<br>debt            | —                                                   | —                                | 12,851                    | 81,188                            | —                            | 94,039       |
| Liabilities held for sale                       | —                                                   | —                                | —                         | 127,911                           | —                            | 127,911      |
| Total current liabilities                       | 601,412                                             | 191,626                          | 1,603,305                 | 2,141,785                         | (2,778,103 )                 | 1,760,025    |
| Long-term debt                                  | 23                                                  | 2,725,303                        | 39,493                    | 2,000,686                         | —                            | 4,765,505    |

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|                                            |             |             |             |             |                 |             |
|--------------------------------------------|-------------|-------------|-------------|-------------|-----------------|-------------|
| Deferred revenues                          | —           | —           | —           | 14,007      | —               | 14,007      |
| Deferred tax liabilities                   | —           | 2,950       | 11,945      | 56,977      | (13,683 )       | 58,189      |
| Long-term intercompany payables            | 2,953,494   | —           | 8,778       | 1,452,434   | (4,414,706 )    | —           |
| Liabilities held for sale                  | —           | —           | —           | 12,735      | —               | 12,735      |
| Other long-term liabilities                | 32,395      | —           | 14,900      | 248,873     | —               | 296,168     |
| Total liabilities                          | 3,587,324   | 2,919,879   | 1,678,421   | 5,927,497   | (7,206,492 )    | 6,906,629   |
| Total stockholders' equity                 | 2,316,448   | 3,252,915   | 1,754,441   | 2,387,897   | (7,395,253 )    | 2,316,448   |
| Total liabilities and stockholders' equity | \$5,903,772 | \$6,172,794 | \$3,432,862 | \$8,315,394 | \$(14,601,745 ) | \$9,223,077 |

NII HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME  
For the Three Months Ended September 30, 2013

|                                                                              | NII Holdings, Inc. (Parent)<br>(in thousands) | NII Capital Corp. (Issuer) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Adjustments | Consolidated  |
|------------------------------------------------------------------------------|-----------------------------------------------|----------------------------|------------------------|----------------------------|---------------------------|---------------|
| Operating revenues                                                           | \$—                                           | \$—                        | \$777                  | \$1,101,256                | \$(768)                   | ) \$1,101,265 |
| Operating expenses                                                           |                                               |                            |                        |                            |                           |               |
| Cost of revenues (exclusive of depreciation and amortization included below) | —                                             | —                          | —                      | 581,554                    | —                         | 581,554       |
| Selling, general and administrative                                          | 748                                           | —                          | 38,077                 | 419,671                    | (2,084)                   | ) 456,412     |
| Provision for doubtful accounts                                              | —                                             | —                          | —                      | 25,861                     | —                         | 25,861        |
| Impairment and restructuring charges                                         | —                                             | —                          | 12,741                 | 8,600                      | —                         | 21,341        |
| Management fee and other                                                     | —                                             | —                          | 9,959                  | (2,835)                    | ) (7,124)                 | ) —           |
| Depreciation and amortization                                                | —                                             | —                          | 5,524                  | 173,330                    | —                         | 178,854       |
|                                                                              | 748                                           | —                          | 66,301                 | 1,206,181                  | (9,208)                   | ) 1,264,022   |
| Operating loss                                                               | (748)                                         | ) —                        | (65,524)               | ) (104,925)                | ) 8,440                   | (162,757 )    |
| Other income (expense)                                                       |                                               |                            |                        |                            |                           |               |
| Interest expense, net                                                        | (141)                                         | ) (60,271)                 | ) (323)                | ) (74,227)                 | ) —                       | (134,962 )    |
| Intercompany interest expense                                                | (59,183)                                      | ) —                        | (15)                   | ) (12,821)                 | ) 72,019                  | —             |
| Interest income                                                              | 227                                           | —                          | 2                      | 9,060                      | —                         | 9,289         |
| Intercompany interest income                                                 | 76                                            | 71,762                     | 181                    | —                          | (72,019)                  | ) —           |
| Foreign currency transaction losses, net                                     | —                                             | —                          | —                      | (4,835)                    | ) —                       | (4,835 )      |
| Equity in loss of affiliates                                                 | (255,170)                                     | ) (235,362)                | ) (235,810)            | ) —                        | 726,342                   | —             |
| Other income, net                                                            | 8,115                                         | —                          | 666                    | 4,131                      | (8,440)                   | ) 4,472       |
|                                                                              | (306,076)                                     | ) (223,871)                | ) (235,299)            | ) (78,692)                 | ) 717,902                 | (126,036 )    |
| Loss from continuing operations before income tax benefit (provision)        | (306,824)                                     | ) (223,871)                | ) (300,823)            | ) (183,617)                | ) 726,342                 | (288,793 )    |
| Income tax benefit (provision)                                               | 6,883                                         | (4,311)                    | (1,449)                | (45,383)                   | ) 39,922                  | (4,338 )      |
| Net loss from continuing operations                                          | (299,941)                                     | ) (228,182)                | ) (302,272)            | ) (229,000)                | ) 766,264                 | (293,131 )    |
| Loss from discontinued operations, net of income taxes                       | —                                             | —                          | —                      | (6,810)                    | ) —                       | (6,810 )      |
| Net loss                                                                     | \$(299,941)                                   | ) \$(228,182)              | ) \$(302,272)          | ) \$(235,810)              | ) \$766,264               | \$(299,941 )  |

Comprehensive loss, net of  
income taxes

|                                         |              |              |              |              |           |              |
|-----------------------------------------|--------------|--------------|--------------|--------------|-----------|--------------|
| Foreign currency translation adjustment | \$(20,129 )  | \$(20,155 )  | \$(20,155 )  | \$(20,155 )  | \$60,465  | \$(20,129 )  |
| Other                                   | 4,231        | 4,231        | 4,231        | 4,231        | (12,693 ) | 4,231        |
| Other comprehensive loss                | (15,898 )    | (15,924 )    | (15,924 )    | (15,924 )    | 47,772    | (15,898 )    |
| Net loss                                | (299,941 )   | (228,182 )   | (302,272 )   | (235,810 )   | 766,264   | (299,941 )   |
| Total comprehensive loss                | \$(315,839 ) | \$(244,106 ) | \$(318,196 ) | \$(251,734 ) | \$814,036 | \$(315,839 ) |

NII HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME  
For the Three Months Ended September 30, 2012

|                                                                                     | NII<br>Holdings,<br>Inc. (Parent)<br>(in thousands) | NII Capital<br>Corp.<br>(Issuer) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated  |
|-------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------|---------------------------|-----------------------------------|------------------------------|---------------|
| Operating revenues                                                                  | \$—                                                 | \$—                              | \$768                     | \$1,408,851                       | \$(2,252)                    | ) \$1,407,367 |
| Operating expenses                                                                  |                                                     |                                  |                           |                                   |                              |               |
| Cost of revenues (exclusive of<br>depreciation and amortization—<br>included below) |                                                     | —                                | 13                        | 580,749                           | (1,423)                      | ) 579,339     |
| Selling, general and<br>administrative                                              | 766                                                 | —                                | 64,259                    | 483,593                           | (3,067)                      | ) 545,551     |
| Provision for doubtful<br>accounts                                                  | —                                                   | —                                | —                         | 43,119                            | —                            | 43,119        |
| Impairment and restructuring<br>charges                                             | —                                                   | —                                | 11,642                    | 2,341                             | —                            | 13,983        |
| Management fee and other                                                            | —                                                   | —                                | (41,813)                  | ) 65,026                          | (23,213)                     | ) —           |
| Depreciation and amortization                                                       | —                                                   | —                                | 9,018                     | 156,103                           | —                            | 165,121       |
|                                                                                     | 766                                                 | —                                | 43,119                    | 1,330,931                         | (27,703)                     | ) 1,347,113   |
| Operating (loss) income                                                             | (766)                                               | ) —                              | (42,351)                  | ) 77,920                          | 25,451                       | 60,254        |
| Other income (expense)                                                              |                                                     |                                  |                           |                                   |                              |               |
| Interest expense, net                                                               | —                                                   | (57,632)                         | ) (494)                   | ) (45,894)                        | ) 140                        | (103,880)     |
| Intercompany interest expense                                                       | (59,182)                                            | ) —                              | (3)                       | ) (16,230)                        | ) 75,415                     | —             |
| Interest income                                                                     | 625                                                 | —                                | 1                         | 12,741                            | (140)                        | ) 13,227      |
| Intercompany interest income                                                        | 3,596                                               | 71,762                           | 57                        | —                                 | (75,415)                     | ) —           |
| Foreign currency transaction<br>gains, net                                          | —                                                   | —                                | —                         | 10,730                            | —                            | 10,730        |
| Equity in loss of affiliates                                                        | (69,451)                                            | ) (15,962)                       | ) (14,044)                | ) —                               | 99,457                       | —             |
| Other income (expense), net                                                         | 25,420                                              | —                                | 10                        | (7,258)                           | ) (25,512)                   | ) (7,340)     |
|                                                                                     | (98,992)                                            | ) (1,832)                        | ) (14,473)                | ) (45,911)                        | ) 73,945                     | (87,263)      |
| (Loss) income from continuing<br>operations before income tax                       | (99,758)                                            | ) (1,832)                        | ) (56,824)                | ) 32,009                          | 99,396                       | (27,009)      |
| benefit (provision)                                                                 |                                                     |                                  |                           |                                   |                              |               |
| Income tax benefit (provision)                                                      | 17,340                                              | (8,768)                          | ) (16,700)                | ) (25,313)                        | ) (1,228)                    | ) (34,669)    |
| Net (loss) income from<br>continuing operations                                     | (82,418)                                            | ) (10,600)                       | ) (73,524)                | ) 6,696                           | 98,168                       | (61,678)      |
| Loss from discontinued<br>operations, net of income taxes                           | —                                                   | —                                | —                         | (20,740)                          | ) —                          | (20,740)      |
| Net loss                                                                            | \$(82,418)                                          | ) \$(10,600)                     | ) \$(73,524)              | ) \$(14,044)                      | ) \$98,168                   | \$(82,418)    |
| Comprehensive (loss) income,<br>net of income taxes                                 |                                                     |                                  |                           |                                   |                              |               |
| Foreign currency translation                                                        | \$56,221                                            | \$56,221                         | \$56,221                  | \$56,221                          | \$(168,663)                  | ) \$56,221    |

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|                            |           |   |          |   |           |   |           |
|----------------------------|-----------|---|----------|---|-----------|---|-----------|
| adjustment                 |           |   |          |   |           |   |           |
| Other                      | (659      | ) | (659     | ) | (659      | ) | (659      |
| Other comprehensive income | 55,562    |   | 55,562   |   | 55,562    |   | 55,562    |
| Net loss                   | (82,418   | ) | (10,600  | ) | (73,524   | ) | (82,418   |
| Total comprehensive (loss) |           |   |          |   |           |   |           |
| income                     | \$(26,856 | ) | \$44,962 |   | \$(17,962 | ) | \$(26,856 |

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NII HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME  
For the Nine Months Ended September 30, 2013

|                                                                                          | NII<br>Holdings,<br>Inc. (Parent)<br>(in thousands) | NII Capital<br>Corp.<br>(Issuer) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated  |
|------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------|---------------------------|-----------------------------------|------------------------------|---------------|
| Operating revenues                                                                       | \$—                                                 | \$—                              | \$2,313                   | \$3,691,655                       | \$(2,304)                    | ) \$3,691,664 |
| Operating expenses                                                                       |                                                     |                                  |                           |                                   |                              |               |
| Cost of revenues (exclusive<br>of<br>depreciation and<br>amortization<br>included below) | —                                                   | —                                | —                         | 1,813,820                         | —                            | 1,813,820     |
| Selling, general and<br>administrative                                                   | 2,345                                               | —                                | 131,048                   | 1,308,128                         | (6,341)                      | ) 1,435,180   |
| Provision for doubtful<br>accounts                                                       | —                                                   | —                                | —                         | 76,423                            | —                            | 76,423        |
| Impairment and restructuring<br>charges                                                  | —                                                   | —                                | 89,029                    | 58,200                            | —                            | 147,229       |
| Management fee and other                                                                 | —                                                   | —                                | (44,351)                  | ) 69,366                          | (25,015)                     | ) —           |
| Depreciation and<br>amortization                                                         | —                                                   | —                                | 21,429                    | 521,861                           | —                            | 543,290       |
|                                                                                          | 2,345                                               | —                                | 197,155                   | 3,847,798                         | (31,356)                     | ) 4,015,942   |
| Operating loss                                                                           | (2,345)                                             | ) —                              | (194,842)                 | ) (156,143)                       | ) 29,052                     | (324,278)     |
| Other income (expense)                                                                   |                                                     |                                  |                           |                                   |                              |               |
| Interest expense, net                                                                    | (419)                                               | ) (179,546)                      | ) (1,100)                 | ) (213,801)                       | ) —                          | (394,866)     |
| Intercompany interest<br>expense                                                         | (175,617)                                           | ) —                              | (42)                      | ) (38,822)                        | ) 214,481                    | —             |
| Interest income                                                                          | 799                                                 | —                                | 8                         | 23,974                            | —                            | 24,781        |
| Intercompany interest income                                                             | 1,226                                               | 212,947                          | 308                       | —                                 | (214,481)                    | ) —           |
| Foreign currency transaction<br>losses, net                                              | —                                                   | —                                | —                         | (86,103)                          | ) —                          | (86,103)      |
| Equity in loss of affiliates                                                             | (766,624)                                           | ) (622,252)                      | ) (619,874)               | ) —                               | 2,008,750                    | —             |
| Other income (expense), net                                                              | 28,731                                              | —                                | 611                       | (8,905)                           | ) (29,052)                   | ) (8,615)     |
|                                                                                          | (911,904)                                           | ) (588,851)                      | ) (620,089)               | ) (323,657)                       | ) 1,979,698                  | (464,803)     |
| Loss from continuing<br>operations before income tax                                     | (914,249)                                           | ) (588,851)                      | ) (814,931)               | ) (479,800)                       | ) 2,008,750                  | (789,081)     |
| benefit (provision)                                                                      |                                                     |                                  |                           |                                   |                              |               |
| Income tax benefit<br>(provision)                                                        | 10,453                                              | (12,251)                         | ) (7,042)                 | ) (100,085)                       | ) 34,199                     | (74,726)      |
| Net loss from continuing<br>operations                                                   | (903,796)                                           | ) (601,102)                      | ) (821,973)               | ) (579,885)                       | ) 2,042,949                  | (863,807)     |
| Loss from discontinued<br>operations, net of income                                      | —                                                   | —                                | —                         | (39,989)                          | ) —                          | (39,989)      |

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|                                            |               |              |               |              |             |               |
|--------------------------------------------|---------------|--------------|---------------|--------------|-------------|---------------|
| taxes                                      |               |              |               |              |             |               |
| Net loss                                   | \$(903,796 )  | \$(601,102 ) | \$(821,973 )  | \$(619,874 ) | \$2,042,949 | \$(903,796 )  |
| Comprehensive loss, net of<br>income taxes |               |              |               |              |             |               |
| Foreign currency translation<br>adjustment | \$(218,306 )  | \$(218,226 ) | \$(218,226 )  | \$(218,226 ) | \$654,678   | \$(218,306 )  |
| Other                                      | 439           | 439          | 439           | 439          | (1,317 )    | 439           |
| Other comprehensive loss                   | (217,867 )    | (217,787 )   | (217,787 )    | (217,787 )   | 653,361     | (217,867 )    |
| Net loss                                   | (903,796 )    | (601,102 )   | (821,973 )    | (619,874 )   | 2,042,949   | (903,796 )    |
| Total comprehensive loss                   | \$(1,121,663) | \$(818,889 ) | \$(1,039,760) | \$(837,661 ) | \$2,696,310 | \$(1,121,663) |

NII HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME  
For the Nine Months Ended September 30, 2012

|                                                                                      | NII<br>Holdings,<br>Inc. (Parent)<br>(in thousands) | NII Capital<br>Corp.<br>(Issuer) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated   |
|--------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------|---------------------------|-----------------------------------|------------------------------|----------------|
| Operating revenues                                                                   | \$—                                                 | \$—                              | \$2,304                   | \$4,362,634                       | \$(3,787)                    | ) \$4,361,151  |
| Operating expenses                                                                   |                                                     |                                  |                           |                                   |                              |                |
| Cost of revenues (exclusive of<br>depreciation and amortization—<br>included below)  |                                                     | —                                | 72                        | 1,812,280                         | (1,424)                      | ) 1,810,928    |
| Selling, general and<br>administrative                                               | 2,413                                               | 1                                | 221,561                   | 1,391,997                         | (8,983)                      | ) 1,606,989    |
| Provision for doubtful<br>accounts                                                   | —                                                   | —                                | —                         | 130,019                           | —                            | 130,019        |
| Impairment and restructuring<br>charges                                              | —                                                   | —                                | 19,837                    | 3,476                             | —                            | 23,313         |
| Management fee and other                                                             | —                                                   | —                                | (127,356)                 | ) 190,795                         | (63,439)                     | ) —            |
| Depreciation and amortization                                                        | —                                                   | —                                | 24,616                    | 444,527                           | —                            | 469,143        |
|                                                                                      | 2,413                                               | 1                                | 138,730                   | 3,973,094                         | (73,846)                     | ) 4,040,392    |
| Operating (loss) income                                                              | (2,413)                                             | ) (1)                            | ) (136,426)               | ) 389,540                         | 70,059                       | 320,759        |
| Other income (expense)                                                               |                                                     |                                  |                           |                                   |                              |                |
| Interest expense, net                                                                | (3,972)                                             | ) (171,870)                      | ) (1,609)                 | ) (89,979)                        | ) 140                        | (267,290 )     |
| Intercompany interest expense                                                        | (176,260)                                           | ) —                              | (3)                       | ) (48,140)                        | ) 224,403                    | —              |
| Interest income                                                                      | 1,881                                               | —                                | 125                       | 23,439                            | (140)                        | ) 25,305       |
| Intercompany interest income                                                         | 10,455                                              | 213,771                          | 56                        | 121                               | (224,403)                    | ) —            |
| Foreign currency transaction<br>losses, net                                          | —                                                   | —                                | —                         | (42,574)                          | ) —                          | (42,574 )      |
| Equity in (loss) income of<br>affiliates                                             | (83,644)                                            | ) 70,064                         | 73,561                    | —                                 | (59,981)                     | ) —            |
| Other income (expense), net                                                          | 48,309                                              | —                                | 22                        | (436)                             | ) (70,118)                   | ) (22,223 )    |
|                                                                                      | (203,231)                                           | ) 111,965                        | 72,152                    | (157,569)                         | ) (130,099)                  | ) (306,782 )   |
| (Loss) income from<br>continuing operations before<br>income tax benefit (provision) | (205,644)                                           | ) 111,964                        | (64,274)                  | ) 231,971                         | (60,040)                     | ) 13,977       |
| Income tax benefit (provision)                                                       | 33,304                                              | (15,844)                         | ) (39,384)                | ) (107,163)                       | ) (5,983)                    | ) (135,070 )   |
| Net (loss) income from<br>continuing operations                                      | (172,340)                                           | ) 96,120                         | (103,658)                 | ) 124,808                         | (66,023)                     | ) (121,093 )   |
| Loss from discontinued<br>operations, net of income<br>taxes                         | —                                                   | —                                | —                         | (51,247)                          | ) —                          | (51,247 )      |
| Net (loss) income                                                                    | \$(172,340)                                         | ) \$96,120                       | \$(103,658)               | ) \$73,561                        | \$(66,023)                   | ) \$(172,340 ) |

Comprehensive (loss) income,  
net

of income taxes

|                                         |              |             |              |             |           |              |
|-----------------------------------------|--------------|-------------|--------------|-------------|-----------|--------------|
| Foreign currency translation adjustment | \$(61,222 )  | \$(61,222 ) | \$(61,222 )  | \$(61,222 ) | \$183,666 | \$(61,222 )  |
| Other                                   | (2,319 )     | (2,319 )    | (2,319 )     | (2,319 )    | 6,957     | (2,319 )     |
| Other comprehensive loss                | (63,541 )    | (63,541 )   | (63,541 )    | (63,541 )   | 190,623   | (63,541 )    |
| Net (loss) income                       | (172,340 )   | 96,120      | (103,658 )   | 73,561      | (66,023 ) | (172,340 )   |
| Total comprehensive (loss) income       | \$(235,881 ) | \$32,579    | \$(167,199 ) | \$10,020    | \$124,600 | \$(235,881 ) |

NII HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Nine Months Ended September 30, 2013

|                                                                                          | NII<br>Holdings,<br>Inc. (Parent)<br>(in thousands) | NII Capital<br>Corp.<br>(Issuer) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated  |
|------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------|---------------------------|-----------------------------------|------------------------------|---------------|
| Cash flows from operating activities:                                                    |                                                     |                                  |                           |                                   |                              |               |
| Net loss                                                                                 | \$ (903,796 )                                       | \$ (601,102 )                    | \$ (821,973 )             | \$ (619,874 )                     | \$ 2,042,949                 | \$ (903,796 ) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities | 809,240                                             | 653,552                          | 707,180                   | 731,126                           | (2,092,859 )                 | 808,239       |
| Total operating cash (used in) provided by continuing operations                         | (94,556 )                                           | 52,450                           | (114,793 )                | 111,252                           | (49,910 )                    | (95,557 )     |
| Total operating cash used in discontinued operations                                     | —                                                   | —                                | —                         | (7,160 )                          | —                            | (7,160 )      |
| Net cash (used in) provided by operating activities                                      | (94,556 )                                           | 52,450                           | (114,793 )                | 104,092                           | (49,910 )                    | (102,717 )    |
| Cash flows from investing activities:                                                    |                                                     |                                  |                           |                                   |                              |               |
| Capital expenditures                                                                     | —                                                   | —                                | (11,580 )                 | (540,373 )                        | —                            | (551,953 )    |
| Payments for purchases of licenses                                                       | —                                                   | —                                | —                         | (42,105 )                         | —                            | (42,105 )     |
| Purchases of long-term and short-term investments                                        | —                                                   | —                                | —                         | (1,772,379 )                      | —                            | (1,772,379 )  |
| Proceeds from sales of long-term and short-term investments                              | —                                                   | —                                | —                         | 1,619,551                         | —                            | 1,619,551     |
| Investments in subsidiaries                                                              | (135,714 )                                          | (2,540 )                         | (1,259 )                  | —                                 | 139,513                      | —             |
| Transfers to and from restricted cash                                                    | —                                                   | —                                | —                         | (17,351 )                         | —                            | (17,351 )     |
| Other, net                                                                               | —                                                   | —                                | —                         | 160                               | 16                           | 176           |
| Total investing cash used in continuing operations                                       | (135,714 )                                          | (2,540 )                         | (12,839 )                 | (752,497 )                        | 139,529                      | (764,061 )    |
| Total investing cash provided by discontinued operations                                 | —                                                   | —                                | —                         | 276,695                           | —                            | 276,695       |
| Net cash used in investing activities                                                    | (135,714 )                                          | (2,540 )                         | (12,839 )                 | (475,802 )                        | 139,529                      | (487,366 )    |
| Cash flows from financing activities:                                                    |                                                     |                                  |                           |                                   |                              |               |
| Gross proceeds from issuance of senior notes                                             | —                                                   | —                                | —                         | 1,600,000                         | —                            | 1,600,000     |

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|                                                                  |           |           |           |             |          |             |
|------------------------------------------------------------------|-----------|-----------|-----------|-------------|----------|-------------|
| Borrowings under equipment financing facilities                  | —         | —         | —         | 110,157     | —        | 110,157     |
| Payment of line of credit                                        | —         | —         | —         | (327,762    | ) —      | (327,762 )  |
| Repayments under syndicated loan facilities                      | —         | —         | —         | (473,917    | ) —      | (473,917 )  |
| Repayments of import financing loans                             | —         | —         | —         | (37,422     | ) —      | (37,422 )   |
| Repayments under tower financing and other borrowings            | —         | —         | (12,391   | ) (12,527   | ) —      | (24,918 )   |
| Capital contributions                                            | —         | 20        | 135,694   | 3,799       | (139,513 | ) —         |
| Proceeds from intercompany borrowings                            | —         | (49,910   | ) —       | —           | 49,910   | —           |
| Other, net                                                       | (918      | ) (20     | ) —       | (19,090     | ) (16    | ) (20,044 ) |
| Total financing cash (used in) provided by continuing operations | (918      | ) (49,910 | ) 123,303 | 843,238     | (89,619  | ) 826,094   |
| Total financing cash used in discontinued operations             | —         | —         | —         | (2,363      | ) —      | (2,363 )    |
| Net cash (used in) provided by financing activities              | (918      | ) (49,910 | ) 123,303 | 840,875     | (89,619  | ) 823,731   |
| Effect of exchange rate changes on cash and cash equivalents     | —         | —         | —         | (38,501     | ) —      | (38,501 )   |
| Change in cash and cash equivalents held for sale                | —         | —         | —         | 12,318      | —        | 12,318      |
| Net (decrease) increase in cash and cash equivalents             | (231,188  | ) —       | (4,329    | ) 442,982   | —        | 207,465     |
| Cash and cash equivalents, beginning of period                   | 735,022   | —         | 6,469     | 629,682     | —        | 1,371,173   |
| Cash and cash equivalents, end of period                         | \$503,834 | \$—       | \$2,140   | \$1,072,664 | \$—      | \$1,578,638 |

NII HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Nine Months Ended September 30, 2012

|                                                                                                   | NII<br>Holdings,<br>Inc. (Parent)<br>(in thousands) | NII Capital<br>Corp.<br>(Issuer) | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|---------------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------|---------------------------|-----------------------------------|------------------------------|--------------|
| Cash flows from operating activities:                                                             |                                                     |                                  |                           |                                   |                              |              |
| Net (loss) income                                                                                 | \$(172,340 )                                        | \$96,120                         | \$(103,658 )              | \$73,561                          | \$(66,023 )                  | \$(172,340 ) |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities | 177,070                                             | 117,574                          | 20,471                    | 431,606                           | (285,483 )                   | 461,238      |
| Total operating cash provided by (used in) continuing operations                                  | 4,730                                               | 213,694                          | (83,187 )                 | 505,167                           | (351,506 )                   | 288,898      |
| Total operating cash provided by discontinued operations                                          | —                                                   | —                                | —                         | 14,093                            | —                            | 14,093       |
| Net cash provided by (used in) operating activities                                               | 4,730                                               | 213,694                          | (83,187 )                 | 519,260                           | (351,506 )                   | 302,991      |
| Cash flows from investing activities:                                                             |                                                     |                                  |                           |                                   |                              |              |
| Capital expenditures                                                                              | —                                                   | —                                | (74,287 )                 | (710,077 )                        | —                            | (784,364 )   |
| Payments for purchases of licenses                                                                | —                                                   | —                                | —                         | (85,404 )                         | —                            | (85,404 )    |
| Purchases of long-term and short-term investments                                                 | —                                                   | —                                | —                         | (1,157,600 )                      | —                            | (1,157,600 ) |
| Proceeds from sales of short-term investments                                                     | 224,330                                             | —                                | —                         | 1,157,998                         | —                            | 1,382,328    |
| Investments in subsidiaries                                                                       | (268,332 )                                          | (7,404 )                         | —                         | —                                 | 275,736                      | —            |
| Intercompany borrowing, capital contribution and other, net                                       | —                                                   | —                                | —                         | 448                               | 300                          | 748          |
| Total investing cash used in continuing operations                                                | (44,002 )                                           | (7,404 )                         | (74,287 )                 | (794,635 )                        | 276,036                      | (644,292 )   |
| Total investing cash used in discontinued operations                                              | —                                                   | —                                | —                         | (22,563 )                         | —                            | (22,563 )    |
| Net cash used in investing activities                                                             | (44,002 )                                           | (7,404 )                         | (74,287 )                 | (817,198 )                        | 276,036                      | (666,855 )   |
| Cash flows from financing activities:                                                             |                                                     |                                  |                           |                                   |                              |              |
| Borrowings under vendor financing                                                                 | —                                                   | —                                | —                         | 222,494                           | —                            | 222,494      |

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|                                                                 |            |            |            |            |           |              |   |
|-----------------------------------------------------------------|------------|------------|------------|------------|-----------|--------------|---|
| Repayments under syndicated loan facilities                     | —          | —          | —          | (78,994    | ) —       | (78,994      | ) |
| Repayments under import financing loans                         | —          | —          | —          | (137,858   | ) —       | (137,858     | ) |
| Repayments of convertible notes                                 | (212,782   | ) —        | —          | —          | —         | (212,782     | ) |
| Intercompany dividends                                          | —          | (151,186   | ) (100,320 | ) (100,000 | ) 351,506 | —            |   |
| Capital contributions                                           | —          | —          | 268,332    | 7,404      | (275,736  | ) —          |   |
| Other, net                                                      | (3,228     | ) (778     | ) (15,024  | ) (69,761  | ) (300    | ) (89,091    | ) |
| Total financing cash (used in) provided by continued operations | (216,010   | ) (151,964 | ) 152,988  | (156,715   | ) 75,470  | (296,231     | ) |
| Total financing cash used in discontinued operations            | —          | —          | —          | (99,843    | ) —       | (99,843      | ) |
| Net cash (used in) provided by financing activities             | (216,010   | ) (151,964 | ) 152,988  | (256,558   | ) 75,470  | (396,074     | ) |
| Effect of exchange rate changes on cash and cash equivalents    | —          | —          | —          | 5,038      | —         | 5,038        |   |
| Change in cash and cash equivalents held for sale               | —          | —          | —          | (19,345    | ) —       | (19,345      | ) |
| Net (decrease) increase in cash and cash equivalents            | (255,282   | ) 54,326   | (4,486     | ) (568,803 | ) —       | (774,245     | ) |
| Cash and cash equivalents, beginning of period                  | 1,042,358  | 956        | 8,416      | 1,258,929  | —         | 2,310,659    |   |
| Cash and cash equivalents, end of period                        | \$ 787,076 | \$ 55,282  | \$ 3,930   | \$ 690,126 | \$ —      | \$ 1,536,414 |   |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

INDEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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## Introduction

The following is a discussion and analysis of:

our consolidated financial condition as of September 30, 2013 and December 31, 2012 and our consolidated results of operations for the three- and nine-month periods ended September 30, 2013 and 2012; and

significant factors which we believe could affect our prospective financial condition and results of operations.

You should read this discussion in conjunction with our annual report on Form 10-K for the year ended December 31, 2012 and our quarterly reports on Form 10-Q for the three months ended March 31, 2013 and June 30, 2013, including, but not limited to, the discussion regarding our critical accounting policies and estimates, as described below. Historical results may not indicate future performance. See "Forward Looking Statements" and "Item 1A. — Risk Factors" in our annual report on Form 10-K for risks and uncertainties that may impact our future performance.

We refer to our operating companies by the countries in which they operate, such as Nextel Brazil, Nextel Mexico, Nextel Argentina and Nextel Chile.

## Discontinued Operations

In August 2013, we, together with our wholly-owned subsidiaries NII Mercosur Telecom, S.L. and NII Mercosur Moviles, S.L., both of which are companies existing under Spanish law, completed the sale of all of the outstanding equity interests of our wholly-owned subsidiary, Nextel del Peru, S.A., or Nextel Peru, to Empresa Nacional de Telecomunicaciones S.A. and one of its subsidiaries, Entel Inversiones, S.A., both of which are companies existing under Chilean law and which we refer to collectively as Entel, for \$405.5 million in cash, which includes \$50.0 million that was deposited in escrow on our behalf to satisfy potential indemnification claims. The aggregate value we received reflects estimated adjustments for cash, debt and working capital balances as of the closing date and is subject to post-closing working capital adjustments. In connection with the disposal of our Nextel Peru operation, we recognized losses of \$1.4 million and \$2.7 million for the three and nine months ended September 30, 2013. We also entered into a transition services agreement, pursuant to which we and our subsidiaries will provide certain services to Entel in order to facilitate the transition of Nextel Peru.

In connection with the sale of Nextel Peru to Entel, we have reported Nextel Peru as a discontinued operation in this quarterly report on Form 10-Q. Accordingly, we reclassified Nextel Peru's results of operations for all periods presented to reflect Nextel Peru as discontinued operations. Unless otherwise noted, amounts included in the following results of operations discussions exclude amounts attributable to discontinued operations.

## Business Overview

We provide wireless communication services under the Nextel™ brand, primarily targeted at meeting the needs of subscribers who use our services to improve the productivity of their businesses and subscribers who make the individual decision to use our service for both professional and personal needs. Our subscribers generally value our broad set of value-added services, including our Nextel Direct Connect® feature, and our high level of customer service. As we deploy our next generation networks using wideband code division multiple access, or WCDMA, technology in our markets, we plan to extend our target market to include additional business subscribers and consumers who exhibit above average usage, revenue and loyalty characteristics and who we believe will be attracted to the services supported by our new networks and the quality of our customer service.

We provide our services through operating companies located in Brazil, Mexico, Argentina and Chile with our principal operations located in major business centers and related transportation corridors of these countries. We provide our services in major urban and suburban centers with high population densities where we believe there is a concentration of the country's business users and economic activity. We believe that the growing economic base, increase in the middle and upper classes and lower wireline service penetration encourage the use of the mobile wireless communications services that we offer and plan to offer in the future. Our new WCDMA-based networks are expected to serve these major business centers and, in some instances, a broader geographic area in order to meet the requirements of our spectrum licenses.

Our original networks utilize integrated digital enhanced network, or iDEN, technology developed by Motorola, Inc. to provide our mobile services on our 800 MHz spectrum holdings in all of our markets. Our next generation networks utilize WCDMA technology, which is a standards-based technology that has been deployed by carriers throughout the world. These technologies allow us to use our spectrum efficiently and offer multiple wireless services integrated into a variety of handset and data devices.

The services we currently offer include:

- mobile telephone service;

- push-to-talk services, including Nextel Direct Connect®, Prip® and International Direct Connect® services, which allow subscribers to talk to each other instantly;
- value-added services, including text messaging services; mobile internet services; e-mail services; location-based services, which include the use of Global Positioning System, or GPS, technologies; digital media services; and a wide ranging set of applications available via our content management system, as well as the Android open application market;
- business solutions, such as security, work force management, logistics support and other applications that help our business subscribers improve their productivity; and
- voice and data roaming services.

Our deployment of WCDMA-based networks enables us to offer a wider range of products and services that are supported by that technology, including data services provided at substantially higher speeds than can be delivered on our iDEN networks. These new networks also support our unique push-to-talk services that provide significant differentiation from our competitors' offerings. In the third quarter of 2013, our WCDMA-based network reached geographic coverage parity with our iDEN network in Mexico. As a result, we currently offer services supported by our WCDMA-based network in about 120 cities in Mexico, including Mexico City, Guadalajara and Monterrey and in cities located near the Mexico/U.S. border. In Brazil, we are currently offering services supported by our WCDMA-based network in over 150 cities, including cities in and around Sao Paulo, and we expect to begin offering services in Rio de Janeiro in the fourth quarter of 2013. We plan to expand the coverage and quality of our new networks in Brazil and Mexico throughout the remainder of 2013 and continuing into 2014. We also offer service on our WCDMA-based network in Chile. Our current spectrum holdings and WCDMA-based networks enable us to deploy long-term evolution, or LTE, which we expect to deploy in select cities in 2014.

Our goal is to generate increased revenues and increase the number of subscriber units operating on our networks, which we refer to as our subscriber base, by providing differentiated wireless communications services that are valued by our existing and potential customers while improving our profitability and cash flow over the long term. Our strategy for achieving this goal is based on several core principles, including:

- focusing on higher value customer segments such as segments that comprise the small, medium and large business markets, as well as certain targeted consumer market segments that value our differentiated wireless communications services;
- offering a broad array of differentiated services and devices that build upon and complement our push-to-talk services, including Nextel Direct Connect® and Prip® services, which offer instantaneous communication at the touch of a button;
- building on the strength of the unique positioning of the Nextel brand;
- capitalizing on the effectiveness and efficiency of our focused and dedicated distribution channels; and
- offering a superior customer experience.

In pursuit of this goal, we are expanding our distribution and service channels to create more accessible and efficient ways for our subscribers to purchase our services and utilize our subscriber support teams. Historically, we have focused on postpaid rate plans. With the expansion of our target customer base, we have been offering more prepaid rate plans in some of our markets and expect our sales of these types of service plans to increase over time.

We also expect to use domestic and international roaming agreements to cost effectively expand our service to areas in our markets that we do not currently serve or plan to serve using our own networks and to provide our customers with services when they travel to other countries.

#### Competitive Environment.

We believe that the wireless communications industry in the markets in which we operate has been and will continue to be highly competitive on the basis of price, the types of services offered, the diversity of handsets offered, speed of data access and the quality of service. In each of our markets, we compete with at least two large, well-capitalized competitors with substantial financial and other resources. Our competitors typically have more extensive distribution channels than ours or are able to use their scale advantages to acquire subscribers at a lower cost than we can, and most of them have implemented network technology upgrades that support high speed internet access and data services, making it more difficult for us to compete effectively in areas where our new networks have not been fully

deployed. Some of these competitors also have the ability to offer bundled telecommunications services that include local, long distance, subscription television and data services, and can offer a larger variety of handsets with a wide range of prices, brands and features. In addition, the financial strength and operating scale of some of these competitors allows them to offer aggressive pricing plans, including those targeted at attracting our existing subscribers.

We compete with other communications service providers, including other wireless communications companies and wireline telephone companies, based primarily on our high quality customer service and differentiated wireless service offerings and products, including our Direct Connect services that make it easier for our subscribers to communicate quickly and efficiently. We expect to continue to focus on this differentiated approach as we offer services on our new WCDMA-based networks and pursue our plans to extend our target market. Historically, our largest competitors have focused their marketing efforts on subscribers in the mass market retail and consumer segments who purchase services largely on the basis of price rather than quality of service, but recently those competitors have placed more emphasis on attracting postpaid subscribers within our target segments, which are considered the premium segments in our markets because they typically generate higher average monthly revenue per subscriber. With this shift in focus, some of our largest competitors have recently begun to concentrate on enhancing their customer service and customer care functions, which may minimize the value of the quality of our customer service as a point of differentiation and enable those competitors to compete more effectively with us. Although competitive pricing of services and the variety and pricing of handsets are often important factors in a customer's decision making process, we believe that the users who primarily make up our targeted subscriber base are also likely to base their purchase decisions on quality of service and customer support, as well as on the availability of differentiated features and services, like our Direct Connect services, that make it easier for them to communicate quickly, efficiently and economically.

#### Strategic Approach.

Over the past year, we have experienced increased competition and operational challenges in our markets, particularly in Brazil and Mexico, as we have worked to build and deploy our WCDMA networks. During the third quarter of 2013, these challenges proved to be more difficult than we anticipated, and in some cases, we did not effectively execute our plans to address those challenges. As a result, we experienced deteriorating operational metrics, including with respect to subscriber growth and customer retention. To address these issues, we are taking actions to improve the quality and coverage of our WCDMA networks in Brazil and Mexico and have also implemented a set of initiatives designed to generate growth, streamline our organization, improve our competitive agility and reduce costs that are not critical to our growth strategy.

We have implemented a comprehensive strategy that we believe will position us to achieve our long-term goal of generating profitable growth. Some of the key components of that strategy are as follows:

**Deploying Our New Networks.** We strive to continue to expand and improve the innovative and differentiated services we offer, which requires that we continue to invest in, evaluate and, if appropriate, deploy new services and enhancements to our existing services. To support this effort, we have acquired additional spectrum rights and are deploying our new WCDMA-based networks that will enable us to offer a wider variety of applications and services, particularly applications and services that are supported by high speed internet access. Use of the WCDMA technology will also increase our network capacity and will reduce the cost of supporting the services we offer when compared to second generation and other prior technologies. These new networks will allow us to continue to offer the differentiated services that our current subscribers rely on while expanding our products and services using the new handsets and devices, service offerings, applications and pricing plans made possible by the new networks to target an expanded subscriber base. We also plan to deploy LTE in select cities in our markets in 2014.

The following chart details our significant spectrum holdings in each of our markets in spectrum bands that support the WCDMA technology:

| Country | Spectrum Band   | Amount/Coverage                                                    |
|---------|-----------------|--------------------------------------------------------------------|
| Brazil  | 1.9 GHz/2.1 GHz | 20 MHz in 11 of 13 regions (includes all major metropolitan areas) |
| Mexico  | 1.7 GHz/2.1 GHz | 30 MHz nationwide                                                  |
| Chile   | 1.7 GHz/2.1 GHz | 60 MHz nationwide                                                  |

In the future, we may consider opportunities to acquire additional spectrum in our current or other markets. Our decision whether to acquire rights to use additional spectrum would likely be affected by a number of factors, including the spectrum bands available for purchase, the expected cost of acquiring that spectrum, the availability and terms of any financing that we would be required to raise in order to acquire the spectrum and build the networks that will provide services that use that spectrum and the availability and cost of compatible network and subscriber

equipment.

Additionally, we have significant spectrum holdings in the 800 MHz specialized mobile radio, or SMR, spectrum band that support our iDEN networks. Our 800 MHz holdings in each of our markets are as follows:

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| Country   | Amount/Coverage (1) (2)                 |
|-----------|-----------------------------------------|
| Brazil    | 15 MHz nationwide weighted average      |
| Mexico    | 20 MHz nationwide weighted average      |
| Argentina | 20 - 22 MHz nationwide weighted average |
| Chile     | 15 MHz nationwide weighted average      |

(1) Weighted average coverage is a function of the population in each country, as well as the amount of spectrum. Spectrum amounts vary greatly across regions and cities.

(2) This band was recently standardized and is available for use with long-term evolution, or LTE, technology. The implementation of LTE technology would require support from and actions by the regulators in some of our markets. We also have additional spectrum holdings in some of our markets, including 20 MHz of 1.8 GHz in Brazil and 10 MHz of 1.9 GHz and 50 MHz of 3.5 GHz in Mexico.

As we make the transition from our iDEN networks to our new WCDMA-based networks, we will evaluate ways in which we can use our 800 MHz spectrum to support existing or new services. In Brazil and Argentina, our current 800 MHz spectrum holdings are largely contiguous, making it possible to use that spectrum to support future technologies if certain technical, operational and regulatory requirements are met, including, for example, the availability of compatible network and subscriber equipment. The availability of that equipment will likely depend upon a number of factors, including the technology decisions made by other wireless carriers and the willingness of infrastructure and device manufacturers to produce the required equipment. In Mexico and Chile, our 800 MHz spectrum is either partially contiguous or non-contiguous. As a result, while it may be feasible to use a portion of the spectrum that is contiguous to support future technologies, it will be necessary to reconfigure the spectrum band to increase the amount of contiguous spectrum for it to be used to efficiently support those technologies. It is likely that the implementation of such a reconfiguration would require support from and actions by the regulators in those markets to be effective.

**Focusing on Our Core Markets.** We operate our business with a focus on generating growth in operating income and cash flow over the long term and enhancing our profitability by attracting and retaining high value wireless customers while maintaining appropriate controls on costs. To support this goal, we plan to continue to expand the coverage of our WCDMA-based networks in our markets, focusing particularly on our key markets in Brazil and Mexico, and to increase our existing subscriber base while managing our costs in a manner designed to support that growth and improve our operating results. We have also made significant capital and other investments as we pursue our plans to deploy new networks that utilize WCDMA and LTE technology, and we expect those investments to continue, particularly in Brazil and Mexico. While these investments are expected to increase our costs and negatively impact our profitability in the near term as we incur the costs of our new networks while building the subscriber base served by them, we believe that over the long term these investments in our new networks will enhance the competitiveness of our service offerings while continuing to support the differentiated services and superior customer service that have historically been significant factors supporting our growth.

Consistent with this strategy, we have implemented and will continue to implement changes in our business to support our planned growth and to better align our organization and costs with our operational and financial goals. These changes have included reductions in our headquarters staff in connection with the reorganization of the roles and responsibilities of our headquarters and market teams and staff reductions in our market operations designed to reduce costs while maintaining the support necessary to meet our customers' needs. We are continuing to evaluate our operations and expect to continue to realign and reduce personnel over the coming months as we seek to better align our costs and organizational structure with our growth strategy. We are also taking steps to improve the performance and efficiency of our supporting systems and functions, including implementing improvements to our information technology and related supporting systems and processes, and modifications to some of our key vendor relationships that are designed to improve the overall quality and efficiency of the service provided and enhance the quality of the service we provide our customers.

Finally, as we make the transition to our new networks and implement changes to our business strategy that are designed to improve our operating results while expanding our subscriber base and profitably growing our business,

we expect that we will allocate more of our financial and other resources to our operations in Brazil and Mexico, which, for the first nine months of 2013, collectively produced \$3,164.2 million, or 86%, of our total consolidated operating revenues. While we will also continue to support our operations in our other markets, this change in emphasis makes it appropriate for us to consider and explore a variety of strategic options for these markets, such as partnerships, service arrangements and asset sales in an effort to maximize the value of those businesses. Consistent with this change in emphasis, in August 2013, we sold all of the outstanding equity interests of Nextel Peru to Entel for \$405.5 million, which includes \$50.0 million that was deposited in escrow on our behalf to satisfy potential indemnification claims. See Note 3 to our condensed consolidated financial statements for more information.

**Target Customers.** Our main focus is on high value customer segments such as segments that comprise the small, medium and large business markets, as well as certain targeted consumer market segments that value our differentiated wireless communications services, including our push-to-talk services and our high level of customer service. As we deploy our WCDMA-based networks, we plan to extend our target market to include additional corporate and business customers and consumers who exhibit above average usage, revenue and loyalty characteristics and who we believe will be attracted to the services supported by our new networks and the quality of our customer service.

**Providing Differentiated Services and a Superior Customer Experience.** We differentiate ourselves from our competitors by offering unique services like our push-to-talk services. These services provide significant value to our subscribers by allowing instantaneous communication at the touch of a button. In 2012, we began offering Direct Connect push-to-talk service on our WCDMA-based networks as part of our effort to maintain this key point of differentiation. Also, in April 2013, Nextel Mexico began offering a new push-to-talk service, which we refer to as Prip. The Prip service utilizes customized software and network technology, is designed to operate on a wide range of standard smartphones and operates on WiFi, as well as on WCDMA- and LTE-based networks outside our markets, where data roaming services are available, including in the U.S. The Prip service enables subscribers using the application to communicate using a push-to-talk solution with any other Prip or Direct Connect subscribers on our iDEN, WCDMA and LTE networks and with subscribers to Sprint's push-to-talk service. Our competitors have introduced competitive push-to-talk products, and while we do not believe that these services offer the same level of performance as our push-to-talk services in terms of latency, quality, reliability or ease of use, our competitors could deploy new or upgraded technologies in their networks that could enable them to implement new features and services that compete more effectively with our services.

We have also historically added further value by designing customized business solutions that enhance the productivity of our subscribers based on their individualized business needs. These business solutions include fleet and workforce management services that utilize the unique capabilities of our data network, such as vehicle and delivery tracking, GPS technology, order entry processing and workforce monitoring applications.

In addition to our unique service offerings, we seek to further differentiate ourselves by providing a higher level of customer service than our competitors. We work proactively with our customers to match them with service plans that offer greater value based on the customer's usage patterns. After analyzing customer usage and expense data, we strive to minimize a customer's per minute costs while increasing overall usage of our array of services, thereby providing higher value to our customers while increasing our monthly revenues. This goal is also furthered by our efforts during and after the sales process to educate customers about our services, the features and services supported by our multi-function handsets and rate plans. We have also implemented proactive customer retention programs in an effort to increase customer satisfaction and retention.

**Building on the Strength of the Nextel Brand.** Since 2002, we have offered services under the Nextel brand. As a result of our efforts, the Nextel brand is recognized across our markets as standing for both quality of service and the differentiated services and subscriber support we provide. This positioning of our brand allowed us to successfully build our subscriber base of high value customers who are attracted to our differentiated services and our reputation for providing a high quality subscriber experience. To expand the value of that positioning, in 2011 we launched a new brand identity in each of our markets and at the corporate level, which we believe enhances the recognition of our brand and unifies our brand identity across our markets as we deploy our WCDMA-based networks and seek to expand our target market to include new customer segments.

**Expanding and Focusing on our Distribution Channels.** We use a variety of distribution channels that include direct sales representatives, indirect sales agents, retail stores and kiosks, and other subscriber-convenient sales channels, and we are targeting those channels at specific subscriber segments to deliver our service more efficiently and economically. Our direct sales channel primarily focuses on businesses that value our industry expertise and differentiated services, including our ability to design customized business solutions that meet their specific business needs. As we extend our target market to include more consumers, we are expanding our distribution channels to make our services more widely accessible while simultaneously shifting and rebalancing some of our locations and distribution structure. These changes to the structure of our distribution channels will continue to allow them to serve

as additional points of customer care, collections and brand promotion. We are also expanding our other subscriber-convenient channels, which include telesales and online channels, to give our prospective and existing subscribers easier ways to purchase our services. We are making these investments to more efficiently serve our subscribers and improve the overall productivity of all of our distribution channels and, therefore, we expect to see our average sales and related costs to acquire subscribers decline over time.

Focusing on Major Business Centers. Because we target high value subscribers, our operations have focused primarily on large urban markets, which have a concentration of medium to high usage business subscribers and consumers and account for a high proportion of total economic activity in each of their respective countries. We believe these markets offer favorable long-term growth prospects for our wireless communications services while offering the cost benefits associated with providing services in more concentrated population centers. Our new networks are expected to serve both these major business centers and, in some instances, a broader geographic area in order to meet the requirements of our spectrum licenses. In addition, we expect to use domestic roaming agreements to cost effectively expand our service to network coverage in areas in our markets that we do not currently serve or plan to serve using our own networks.

Preserving Support for iDEN. The iDEN networks that we operate allow us to offer differentiated services like Direct Connect and International Direct Connect while offering high quality voice telephony and other innovative services. The iDEN technology is unique in that it is the only widespread, commercially available technology that operates on non-contiguous spectrum and is optimal for operating efficiently on the 800 MHz SMR spectrum that we currently own. Because Motorola Mobility and Motorola Solutions are the sole suppliers of iDEN technology, we are dependent on their support of the evolution of the iDEN technology. In the past, we relied heavily on Motorola Solutions and Motorola Mobility for the development of new features for our iDEN networks and handsets. In recent years, we have slowed the introduction of new updates, thereby relying less on new features and device functionality to support our iDEN network.

Historically, Sprint Corporation, or Sprint, was one of the largest purchasers of iDEN technology and provided significant support with respect to new product development for that technology, but that support declined as Sprint pursued its plans to deactivate its U.S. iDEN network. As a result, in recent years, we have led the majority of all iDEN product and handset development activity in support of our subscribers' needs.

As we make the transition to our new WCDMA-based networks, and with Sprint no longer supporting iDEN in the U.S., the reduction in demand for iDEN network equipment may, over time, make it uneconomic for Motorola Solutions to continue to provide the same level of ongoing support for our iDEN network infrastructure, and it may become more costly for us to continue to support those networks. We also expect that this transition and the reduction in demand for iDEN handsets could affect Motorola Mobility's ability or willingness to provide support for the development of new iDEN handsets beyond their contractual obligations and may also result in an increase in our costs for those handsets, including handsets that are capable of operating on both our iDEN and WCDMA networks. In anticipation of Sprint's decision to shut down its iDEN network in the U.S., Nextel Mexico took a number of steps designed to address the impact on its subscribers, including:

- educating subscribers on the impact of the network changes;
- accelerating the deployment of our WCDMA network in the Mexico/U.S. border region;
- providing our customers additional network coverage through a roaming agreement with a U.S. carrier;
- offering service plans designed to encourage our subscribers' migration to new WCDMA handsets; and
- offering our new Prip service.

As expected, the deactivation of Sprint's iDEN network in June 2013 resulted in changes to the connections previously available between our subscribers and their contacts in the U.S., as well as their ability to roam in the U.S. These changes had an adverse impact on our customers' experience in using our services, which resulted in an increase in the number of calls to customer care and a higher level of subscriber deactivations and customer turnover.

Nextel Mexico is continuing to take actions designed to address these issues, including actively improving the capacity and coverage of its WCDMA-based network, working to improve service along the Mexico/U.S. border by enhancing roaming capabilities in the U.S., and continuing to work with Sprint to implement improvements to the solutions that allow our WCDMA subscribers to use push-to-talk services to communicate with Sprint's customers who use push-to-talk service in the U.S. Differences in the nature and quality of the services that we are able to provide using our WCDMA network compared to services historically available on our iDEN network, particularly in the area near the Mexico/U.S. border, may have a continued negative impact on our existing subscribers' willingness to remain on our iDEN network or to make the transition to service on our WCDMA-based network, which could result in further increases in deactivations and customer turnover.

In 2011, Motorola completed a separation of its mobile devices and home division into two separate public entities: Motorola Mobility, Inc., to which our iDEN handset supply agreements have been assigned; and Motorola Solutions, Inc., to which our iDEN network infrastructure supply agreements have been assigned. In addition, we are parties to arrangements and agreements with Motorola that have now been assigned to and assumed by Motorola Solutions and Motorola Mobility and that are designed to provide us with a continued source of iDEN network equipment and handsets. In May 2012, Google, Inc. completed its acquisition of Motorola Mobility, which is our primary supplier of iDEN handsets. We do not currently expect any change to Motorola's commitment to deliver iDEN handsets as a result of Google's acquisition of Motorola Mobility. Examples of our existing arrangements with both Motorola entities include:

Agreements for the supply of iDEN network infrastructure, which are now held by Motorola Solutions, Inc. and are effective through December 31, 2014. Under these agreements, Motorola agreed to maintain an adequate supply of the iDEN equipment used in our business for the term of the agreement and to continue to invest in the development of new iDEN infrastructure features.

Agreements for the supply of iDEN handsets, which are now held by Motorola Mobility, Inc. and are effective through December 31, 2016. Under these agreements, Motorola agreed to maintain an adequate supply of the iDEN handsets used in our business and to continue to invest in the development of new iDEN devices. In addition, we agreed to handset volume purchase commitments with respect to certain handset models and pricing parameters linked to the volume of our handset purchases, and Motorola agreed to continue to deliver new handsets using the iDEN platform as we develop our WCDMA-based networks in coming years.

The obligations of both Motorola entities under our existing agreements, including the obligation to supply us with iDEN handsets and network equipment, remain in effect.

#### Unrestricted Subsidiary

In the first quarter of 2013, our Chilean operating segment, which we refer to as Nextel Chile, was designated as an unrestricted subsidiary under the terms of the indentures relating to our senior notes. For the three and nine months ended September 30, 2013, Nextel Chile had total operating revenues of \$15.6 million and \$55.5 million, respectively, segment losses of \$32.6 million and \$107.0 million, respectively, and net losses of \$33.3 million and \$168.9 million, respectively. As of September 30, 2013, Nextel Chile had total assets of \$191.1 million and total liabilities of \$293.6 million.

#### Subscriber Units in Commercial Service

As we make the transition to our WCDMA-based networks, we will be able to offer a substantially broader range of services and subscriber units that support voice services, including our push-to-talk services, data services and, in some cases, both. In some instances, we offer customers the option of purchasing services by acquiring the subscriber identity module, or SIM, cards from us separately, providing the customer with the flexibility to use the SIM cards in one or more devices that they acquire from us or from other sources. In addition, certain subscriber units that we offer support two SIM cards, enabling subscribers to seamlessly transition between our iDEN and WCDMA networks on the same device. Because these handsets include two SIM cards and require two contracts, they are reported as two subscribers for regulatory and external reporting purposes consistent with industry practice. Accordingly, each of these dual SIM handsets that are provisioned with two separate SIM cards is included in the table below as two "Subscriber Units in Commercial Service." We use the term "subscriber unit," which we also refer to as a subscriber, to represent an active SIM card, which is the level at which we have tracked and will continue to track subscribers. The table below provides an overview of our subscriber units in commercial service in the countries indicated as of September 30, 2013 and December 31, 2012.

|                                                             | Brazil (1)<br>(in thousands) | Mexico (1) | Argentina | Chile (1) | Total (1) |
|-------------------------------------------------------------|------------------------------|------------|-----------|-----------|-----------|
| Subscriber units in commercial service — December 31, 2012  | 3,846.3                      | 3,901.7    | 1,755.6   | 198.4     | 9,702.0   |
| Net subscriber additions (deactivations)                    | 41.8                         | (247.1)    | ) 209.5   | 29.7      | 33.9      |
| Subscriber units in commercial service — September 30, 2013 | 3,888.1                      | 3,654.6    | 1,965.1   | 228.1     | 9,735.9   |

(1) Includes subscriber units on both our iDEN and WCDMA-based networks.

#### Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the condensed consolidated financial statements and accompanying notes. Although we believe that our estimates, assumptions and judgments are reasonable, they are based upon presently available information. Due to the inherent uncertainty involved in making those estimates, actual results reported in future periods could differ from those estimates.

As described in more detail in our annual report on Form 10-K under “Management's Discussion and Analysis of Financial Condition and Results of Operations,” we consider the following accounting policies to be the most important to our financial position and results of operations or policies that require us to exercise significant judgment and/or estimates:

- revenue recognition;
- allowance for doubtful accounts;
- depreciation of property, plant and equipment;

amortization of intangible assets;  
asset retirement obligations;  
foreign currency;  
loss contingencies; and  
income taxes.

There have been no material changes to our critical accounting policies and estimates during the three or nine months ended September 30, 2013 compared to those discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K.

## Results of Operations

Operating revenues primarily consist of wireless service revenues and revenues generated from the sale of handsets and accessories. Service revenues primarily include fixed monthly access charges for mobile telephone service and two-way radio and other services, including revenues from calling party pays programs and variable charges for airtime and two-way radio usage, long-distance charges, international roaming revenues derived from calls placed by our customers and revenues generated from broadband data services we provide on our third generation networks. Digital handset and accessory revenues represent revenues we earn on the sale of handsets and accessories to our customers.

In addition, we also have other less significant sources of revenues. These revenues primarily include revenues generated from our handset maintenance programs, handset insurance, roaming revenues generated from other companies' customers that roam on our networks and co-location rental revenues from third-party tenants that rent space on our towers.

Cost of revenues primarily includes the cost of providing wireless service and the cost of handset and accessory sales.

Cost of providing wireless service consists of:

- costs of interconnection with local exchange carrier facilities;
- costs relating to terminating calls originated on our network on other carriers' networks;
- direct switch, transmitter and receiver site costs, including property taxes;
- expenses related to our handset maintenance programs; and
- insurance costs, utility costs, maintenance costs, spectrum license fees and rent for the network switches and transmitter sites used to operate our mobile networks.

Interconnection costs have fixed and variable components. The fixed component of interconnection costs consists of monthly flat-rate fees for facilities leased from local exchange carriers, primarily for circuits required to connect our transmitter sites to our network switches, to connect our switches and to connect our networks with those of other carriers. The variable component of interconnection costs, which fluctuates in relation to the volume and duration of wireless calls, generally consists of per-minute use fees charged by wireline and wireless carriers relating to wireless calls from our handsets that terminate on their networks. Cost of digital handset and accessory sales consists largely of the cost of the handset and accessories, order fulfillment and installation-related expenses, as well as write-downs of digital handset and related accessory inventory for shrinkage or obsolescence.

Our service and other revenues and the variable component of our cost of service are primarily driven by the number of handsets in service. Our digital handset and accessory revenues and cost of digital handset and accessory sales are primarily driven by the number of new handsets placed into service, as well as handset upgrades provided to existing customers.

Selling and marketing expenses include all of the expenses related to acquiring subscribers to our services.

General and administrative expenses include expenses related to revenue-based taxes, billing, customer care, collections including bad debt, repairs and maintenance of management information systems, spectrum license fees, corporate overhead and share-based payment for stock options and restricted stock.

In accordance with accounting principles generally accepted in the United States, we translated the results of operations of our operating segments into U.S. dollars using the average exchange rates for the three and nine months

ended September 30, 2013 and 2012. The following table presents the average exchange rates we used to translate the results of operations of our operating segments, as well as changes from the average exchange rates utilized in prior periods.

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|                | Three Months Ended September 30, |        |                |
|----------------|----------------------------------|--------|----------------|
|                | 2013                             | 2012   | Percent Change |
| Brazilian real | 2.29                             | 2.03   | (13)%          |
| Mexican peso   | 12.92                            | 13.19  | 2%             |
| Argentine peso | 5.59                             | 4.61   | (21)%          |
| Chilean peso   | 507.37                           | 482.63 | (5)%           |

  

|                | Nine Months Ended September 30, |        |                |
|----------------|---------------------------------|--------|----------------|
|                | 2013                            | 2012   | Percent Change |
| Brazilian real | 2.12                            | 1.92   | (10)%          |
| Mexican peso   | 12.68                           | 13.24  | 4%             |
| Argentine peso | 5.28                            | 4.47   | (18)%          |
| Chilean peso   | 488.25                          | 489.43 | —              |

Late in 2012 and continuing into 2013, foreign currency exchange rates in Brazil and Argentina depreciated in value relative to the U.S. dollar. In addition, foreign currency rates in Mexico depreciated in value relative to the U.S. dollar during 2012 but strengthened during the first nine months of 2013. The following table presents the currency exchange rates in effect at the end of each of the quarters in 2012, as well as at the end of the first, second and third quarters of 2013 compared to the prior year. If the values of these exchange rates depreciate from current levels relative to the U.S. dollar, our future operating results and the values of our assets held in local currencies will be adversely affected.

|                | 2012   |        |           |          | 2013   |        |           |
|----------------|--------|--------|-----------|----------|--------|--------|-----------|
|                | March  | June   | September | December | March  | June   | September |
| Brazilian real | 1.82   | 2.02   | 2.03      | 2.04     | 2.01   | 2.22   | 2.23      |
| Mexican peso   | 12.80  | 13.67  | 12.92     | 13.01    | 12.35  | 13.19  | 13.01     |
| Argentine peso | 4.38   | 4.53   | 4.70      | 4.92     | 5.12   | 5.39   | 5.79      |
| Chilean peso   | 487.44 | 501.84 | 473.77    | 479.96   | 472.03 | 507.16 | 504.20    |

To provide better insight into the results of our operating segments, we present the year-over-year percentage change in each of the line items presented on a consolidated basis and for Nextel Brazil, Nextel Mexico and Nextel Argentina on a constant currency basis in the "Constant Currency Change from Previous Year" columns in the tables below. The comparison of results for these line items on a constant currency basis shows the impact of changes in foreign currency exchange rates (i) by adjusting the relevant measures for the three and nine months ended September 30, 2012 to amounts that would have resulted if the average foreign currency rates for the three and nine months ended September 30, 2012 were the same as the average foreign currency exchange rates that were in effect for the three and nine months ended September 30, 2013; and (ii) by comparing the constant currency financial measures for the three and nine months ended September 30, 2012 to the actual financial measures for the three and nine months ended September 30, 2013. This constant currency comparison applies consistent exchange rates to the operating revenues earned in foreign currencies and to the other components of segment earnings and net loss for the three and nine months ended September 30, 2012, other than certain components of those measures consisting of U.S. dollar-based operating expenses, which were not adjusted. The constant currency information reflected in the tables below is not a measurement under accounting principles generally accepted in the United States and should be considered in addition to, but not as a substitute for, the information contained in our results of operations.

## a. Consolidated

|                                                                                         | Three<br>Months<br>Ended<br>September<br>30, 2013 | % of<br>Consolidated<br>Operating<br>Revenues | Three<br>Months<br>Ended<br>September<br>30, 2012 | % of<br>Consolidated<br>Operating<br>Revenues | Actual Change from<br>Previous Year |         | Constant<br>Currency<br>Change<br>from<br>Previous<br>Year |  |
|-----------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------|---------------------------------------------------|-----------------------------------------------|-------------------------------------|---------|------------------------------------------------------------|--|
|                                                                                         |                                                   |                                               |                                                   |                                               | Dollars                             | Percent | Percent                                                    |  |
|                                                                                         | (dollars in thousands)                            |                                               |                                                   |                                               |                                     |         |                                                            |  |
| Operating revenues                                                                      |                                                   |                                               |                                                   |                                               |                                     |         |                                                            |  |
| Service and other<br>revenues                                                           | \$1,054,248                                       | 96                                            | % \$1,341,481                                     | 95                                            | % \$(287,233 )                      | (21 )%  | (15)%                                                      |  |
| Handset and accessory<br>revenues                                                       | 47,017                                            | 4                                             | % 65,886                                          | 5                                             | % (18,869 )                         | (29 )%  | (22)%                                                      |  |
|                                                                                         | 1,101,265                                         | 100                                           | % 1,407,367                                       | 100                                           | % (306,102 )                        | (22 )%  | (16)%                                                      |  |
| Cost of revenues                                                                        |                                                   |                                               |                                                   |                                               |                                     |         |                                                            |  |
| Cost of service (exclusive<br>of<br>depreciation and<br>amortization<br>included below) | 364,437                                           | 33                                            | % 370,060                                         | 26                                            | % (5,623 )                          | (2 )%   | 7%                                                         |  |
| Cost of handset and<br>accessory<br>sales                                               | 217,117                                           | 20                                            | % 209,279                                         | 15                                            | % 7,838                             | 4       | % 4%                                                       |  |
|                                                                                         | 581,554                                           | 53                                            | % 579,339                                         | 41                                            | % 2,215                             | —       | 5%                                                         |  |
| Selling and marketing<br>expenses                                                       | 143,852                                           | 13                                            | % 185,329                                         | 13                                            | % (41,477 )                         | (22 )%  | (19)%                                                      |  |
| General and<br>administrative<br>expenses                                               | 312,560                                           | 29                                            | % 360,222                                         | 26                                            | % (47,662 )                         | (13 )%  | (7)%                                                       |  |
| Provision for doubtful<br>accounts                                                      | 25,861                                            | 2                                             | % 43,119                                          | 3                                             | % (17,258 )                         | (40 )%  | (33)%                                                      |  |
| Impairment and<br>restructuring charges                                                 | 21,341                                            | 2                                             | % 13,983                                          | 1                                             | % 7,358                             | 53      | % 53%                                                      |  |
| Depreciation and<br>amortization                                                        | 178,854                                           | 16                                            | % 165,121                                         | 12                                            | % 13,733                            | 8       | % 16%                                                      |  |
| Operating (loss) income                                                                 | (162,757 )                                        | (15 )%                                        | 60,254                                            | 4                                             | % (223,011 )                        | NM      | NM                                                         |  |
| Interest expense, net                                                                   | (134,962 )                                        | (12 )%                                        | (103,880 )                                        | (7 )%                                         | (31,082 )                           | 30      | % 34%                                                      |  |
| Interest income                                                                         | 9,289                                             | 1                                             | % 13,227                                          | 1                                             | % (3,938 )                          | (30 )%  | (28)%                                                      |  |
| Foreign currency<br>transaction<br>(losses) gains, net                                  | (4,835 )                                          | —                                             | 10,730                                            | 1                                             | % (15,565 )                         | (145 )% | NM                                                         |  |
| Other income (expense),<br>net                                                          | 4,472                                             | —                                             | (7,340 )                                          | (1 )%                                         | 11,812                              | (161 )% | (165)%                                                     |  |
| Loss from continuing<br>operations before income<br>tax benefit (provision)             | (288,793 )                                        | (26 )%                                        | (27,009 )                                         | (2 )%                                         | (261,784 )                          | NM      | NM                                                         |  |
| Income tax provision                                                                    | (4,338 )                                          | (1 )%                                         | (34,669 )                                         | (2 )%                                         | 30,331                              | (87 )%  | (87)%                                                      |  |
| Net loss from continuing                                                                | (293,131 )                                        | (27 )%                                        | (61,678 )                                         | (4 )%                                         | (231,453 )                          | NM      | NM                                                         |  |

|                           |             |   |     |         |            |    |    |        |                        |
|---------------------------|-------------|---|-----|---------|------------|----|----|--------|------------------------|
| operations                |             |   |     |         |            |    |    |        |                        |
| Loss from discontinued    |             |   |     |         |            |    |    |        |                        |
| operations, net of income | (6,810      | ) | —   | (20,740 | )          | (2 | )% | 13,930 | (67 )% (67)%           |
| taxes                     |             |   |     |         |            |    |    |        |                        |
| Net loss                  | \$ (299,941 | ) | (27 | )%      | \$ (82,418 | )  | (6 | )%     | \$ (217,523 ) 264 % NM |

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|                                                                                         | Nine Months<br>Ended<br>September<br>30, 2013 | % of<br>Consolidated<br>Operating<br>Revenues |   | Nine Months<br>Ended<br>September<br>30, 2012 | % of<br>Consolidated<br>Operating<br>Revenues | Actual Change from<br>Previous Year |              | Constant<br>Currency<br>Change<br>from<br>Previous<br>Year |
|-----------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|---|-----------------------------------------------|-----------------------------------------------|-------------------------------------|--------------|------------------------------------------------------------|
|                                                                                         |                                               |                                               |   |                                               |                                               | Dollars                             | Percent      | Percent                                                    |
|                                                                                         | (dollars in thousands)                        |                                               |   |                                               |                                               |                                     |              |                                                            |
| Operating revenues                                                                      |                                               |                                               |   |                                               |                                               |                                     |              |                                                            |
| Service and other<br>revenues                                                           | \$3,551,498                                   | 96                                            | % | \$4,146,885                                   | 95                                            | %                                   | \$(595,387 ) | (14 )% (10)%                                               |
| Handset and accessory<br>revenues                                                       | 140,166                                       | 4                                             | % | 214,266                                       | 5                                             | %                                   | (74,100 )    | (35 )% (30)%                                               |
|                                                                                         | 3,691,664                                     | 100                                           | % | 4,361,151                                     | 100                                           | %                                   | (669,487 )   | (15 )% (11)%                                               |
| Cost of revenues                                                                        |                                               |                                               |   |                                               |                                               |                                     |              |                                                            |
| Cost of service (exclusive<br>of<br>depreciation and<br>amortization<br>included below) | 1,156,536                                     | 31                                            | % | 1,176,838                                     | 27                                            | %                                   | (20,302 )    | (2 )% 4%                                                   |
| Cost of handset and<br>accessory<br>sales                                               | 657,284                                       | 18                                            | % | 634,090                                       | 15                                            | %                                   | 23,194       | 4 % —                                                      |
|                                                                                         | 1,813,820                                     | 49                                            | % | 1,810,928                                     | 42                                            | %                                   | 2,892        | — 3%                                                       |
| Selling and marketing<br>expenses                                                       | 448,334                                       | 12                                            | % | 543,631                                       | 12                                            | %                                   | (95,297 )    | (18 )% (15)%                                               |
| General and<br>administrative<br>expenses                                               | 986,846                                       | 27                                            | % | 1,063,358                                     | 24                                            | %                                   | (76,512 )    | (7 )% (3)%                                                 |
| Provision for doubtful<br>accounts                                                      | 76,423                                        | 2                                             | % | 130,019                                       | 3                                             | %                                   | (53,596 )    | (41 )% (36)%                                               |
| Impairment and<br>restructuring charges                                                 | 147,229                                       | 4                                             | % | 23,313                                        | 1                                             | %                                   | 123,916      | NM NM                                                      |
| Depreciation and<br>amortization                                                        | 543,290                                       | 15                                            | % | 469,143                                       | 11                                            | %                                   | 74,147       | 16 % 21%                                                   |
| Operating (loss) income                                                                 | (324,278 )                                    | (9 )%                                         |   | 320,759                                       | 7                                             | %                                   | (645,037 )   | (201 )% (207)%                                             |
| Interest expense, net                                                                   | (394,866 )                                    | (10 )%                                        |   | (267,290 )                                    | (6 )%                                         |                                     | (127,576 )   | 48 % 51%                                                   |
| Interest income                                                                         | 24,781                                        | —                                             |   | 25,305                                        | —                                             |                                     | (524 )       | (2 )% (1)%                                                 |
| Foreign currency<br>transaction<br>losses, net                                          | (86,103 )                                     | (2 )%                                         |   | (42,574 )                                     | (1 )%                                         |                                     | (43,529 )    | 102 % NM                                                   |
| Other expense, net                                                                      | (8,615 )                                      | —                                             |   | (22,223 )                                     | —                                             |                                     | 13,608       | (61 )% (62)%                                               |
| (Loss) income from<br>continuing operations<br>before income tax<br>provision           | (789,081 )                                    | (21 )%                                        |   | 13,977                                        | —                                             |                                     | (803,058 )   | NM NM                                                      |
| Income tax provision                                                                    | (74,726 )                                     | (2 )%                                         |   | (135,070 )                                    | (3 )%                                         |                                     | 60,344       | (45 )% (44)%                                               |
| Net loss from continuing<br>operations                                                  | (863,807 )                                    | (23 )%                                        |   | (121,093 )                                    | (3 )%                                         |                                     | (742,714 )   | NM NM                                                      |

|                                                        |              |        |              |       |              |        |       |
|--------------------------------------------------------|--------------|--------|--------------|-------|--------------|--------|-------|
| Loss from discontinued operations, net of income taxes | (39,989 )    | (1 )%  | (51,247 )    | (1 )% | 11,258       | (22 )% | (22)% |
| Net loss                                               | \$(903,796 ) | (24 )% | \$(172,340 ) | (4 )% | \$(731,456 ) | NM     | NM    |

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NM-Not Meaningful

Our consolidated subscriber base decreased 1% from September 30, 2012 to September 30, 2013. In addition, consolidated operating revenues on a reported basis for the three and nine months ended September 30, 2013 decreased 22% and 15%, respectively, compared to the same periods in 2012, primarily due to the combined impact of lower average revenue per subscriber in local currency, declines in local currency values relative to the U.S. dollar and the reduction in the subscriber base. From both the three and nine months ended September 30, 2012 to the same periods in 2013, our consolidated operating revenues decreased 16% and 11% on a constant currency basis driven by a decline in our average revenue per subscriber.

Beginning earlier this year and intensifying in the third quarter of 2013, Nextel Mexico experienced significant disruption to its business plans due in part to the impact of Sprint's decision to deactivate its iDEN network on June 30, 2013. Nextel Mexico experienced higher iDEN customer turnover and was not able to effectively offset the loss of iDEN subscribers with new WCDMA subscribers, in part because the coverage and capacity of its WCDMA network was not sufficient to support the significant subscriber loading and migration of subscribers resulting from the deactivation of Sprint's iDEN network. The deactivation of Sprint's iDEN network also resulted in changes to the connections previously available between our subscribers and their contacts in the U.S., as well as their ability to roam in the U.S. These changes had an adverse impact on our customers' experience in using

their services and created a negative perception of our services in Mexico, which has made it more difficult for us to attract and retain subscribers there. During the third quarter of 2013, Nextel Mexico took actions designed to improve its WCDMA network performance, including by adding capacity and coverage to its network in the area along the U.S./Mexico border. We believe that these actions will help to stabilize Nextel Mexico's business and set the stage for growth in 2014.

Nextel Brazil began offering services on its WCDMA network in Sao Paulo during the third quarter of 2013, but for most of this quarter, Nextel Brazil was competing using its iDEN network, which does not support data services that are competitive with the higher speed data services offered by its competitors. As a result, Nextel Brazil's focus during the third quarter of 2013 was on retaining customers on its iDEN network, which resulted in lower average revenue per subscriber, as some customers migrated to lower rate plans. Also, Nextel Brazil experienced higher customer turnover as its customers were targeted by competitors' aggressive offers. We believe that the expansion of our WCDMA networks and our broader launch of WCDMA services in the coming months will significantly improve Nextel Brazil's competitive position, but we expect that Nextel Brazil will continue to experience lower levels of average revenue per subscriber in local currency for the remainder of 2013 compared to 2012.

As we continue to build our WCDMA-based networks in Brazil and Mexico, we are incurring incremental expenses, particularly related to cost of service. We believe that our planned deployment of these networks will enable us to offer new and differentiated services to a larger base of subscribers, but we do not expect a significant increase in operating revenues for services provided using the networks until after these networks reach certain minimum quality and coverage levels that will be sufficient to meet our customers' needs. These additional expenses related to building our WCDMA-based networks, combined with the impact of weaker average foreign currency exchange rates and lower average revenue per subscriber in local currency, led to an increase in our consolidated cost of revenues and general and administrative expenses as percentages of consolidated operating revenues for the three and nine months ended September 30, 2013 compared to the same periods in 2012.

For the nine months ended September 30, 2013, our investments in consolidated capital expenditures were \$601.6 million, which represents a 36% decrease from the first nine months of 2012. We plan to continue to invest in the deployment of our WCDMA-based networks throughout the remainder of 2013, with a particular focus on building those networks and improving results in our largest markets in Brazil and Mexico. As a result, we expect our consolidated capital expenditures for the remainder of 2013 to be significant but at lower levels than in 2012.

We plan to continue to support our operations in Argentina and Chile while also exploring strategic options for these markets, such as partnerships, service arrangements and asset sales to maximize the value of those businesses and generate additional liquidity. Consistent with this change in emphasis, in August 2013, we completed the sale of all of the outstanding equity interests of Nextel Peru to Entel for \$405.5 million in cash, which includes \$50.0 million that was deposited in escrow on our behalf to satisfy potential indemnification claims. See Note 3 to our condensed consolidated financial statements for more information.

In September 2013, Nextel Mexico recognized \$8.6 million in restructuring charges related to the separation of employees in conjunction with actions taken to realign staffing and other resources and reduce general and administrative expenses in our Mexican operating company. We also recognized \$5.9 million at the corporate level in September 2013 related to the discontinuation of the development of certain network features. In addition, in August 2013, we recognized \$6.8 million in contract termination costs incurred in connection with the sublease of certain excess space located in one of our corporate office buildings.

In January 2013, we began evaluating the feasibility of discontinuing the broader use of software previously developed for use in multiple markets to support our customer relationship management systems and the possibility of restricting its ongoing use to one market. As a result of this evaluation, and in connection with the preparation of our financial statements for the first quarter of 2013, we recognized a non-cash asset impairment charge of \$85.3 million related to the discontinuation of this software, of which \$42.8 million was recognized at the corporate level, \$33.5 million was recognized by Nextel Chile and \$9.0 million was recognized by Nextel Mexico.

In addition, during the first quarter of 2013, we restructured our outsourcing agreements with Nokia Siemens Networks, or NSN, under which NSN provides specified network operations and infrastructure management services. We decided to restructure these agreements to reduce the scope of the services provided by NSN, to facilitate the

transition of those services to us and to establish the terms on which further transitions of services and the termination of the NSN arrangements could be implemented in each of our markets. Under the agreements in effect prior to this restructuring, we classified a portion of the base contractual fees as a prepayment and were recognizing this prepayment over the life of the previous agreement. As a result of the restructuring with NSN, we recognized a non-cash charge of \$39.9 million relating to the write-off of the remainder of the prepayment.

#### 1. Operating revenues

As discussed above, the \$287.2 million, or 21%, and \$595.4 million, or 14%, decreases in consolidated service and other revenues on a reported basis, and 15% and 10% on a constant currency basis, from the three and nine months ended September 30, 2012 to the same periods in 2013 were primarily due to the year-over-year decline in subscribers, decreases in consolidated average revenue per subscriber caused by an increase in the number of subscribers on lower rate service plans in both Brazil and

Mexico, as well as adjustments to promotional offers in response to a more competitive environment in Brazil and retention credits offered to certain customers in Mexico. These decreases in consolidated service and other revenues on a reported basis also reflect weaker average foreign currency exchange rates in Brazil and Argentina, which were partially offset by a slightly stronger foreign currency exchange rate in Mexico.

## 2. Cost of revenues

Consolidated cost of revenues remained relatively stable on a reported basis from the three and nine months ended September 30, 2012 to the same periods in 2013 primarily as a result of \$59.3 million, or 57%, and \$128.7 million, or 37%, increases in consolidated direct switch and transmitter and receiver site costs resulting from a substantial increase in the number of sites in service from September 30, 2012 to September 30, 2013 as a result of the deployment of our WCDMA networks in Brazil and Mexico. These increases were partially offset by \$51.3 million, or 29%, and \$113.8 million, or 20%, decreases in consolidated interconnect costs related to lower interconnect minutes of use in Brazil and Mexico and a decline in mobile termination rates in Brazil, decreases in consolidated service and repair costs resulting from the utilization of more refurbished handsets and a lower overall number of repaired handsets, and weaker average foreign currency exchange rates in Brazil and Argentina that were partially offset by slightly stronger foreign currency exchange rates in Mexico. On a constant currency basis, consolidated cost of revenues increased 5% and 3% for the three and nine month periods ending September 30, 2013 compared to the three and nine month periods ending September 30, 2012.

Consolidated cost of revenues as a percentage of consolidated operations revenues increased from 41% and 42% in the three and nine months ended September 30, 2012 to 53% and 49% in the three and nine months ended September 30, 2013 primarily as a result of declines in operating revenues over the same periods.

## 3. Selling and marketing expenses

Significant factors contributing to the \$41.5 million, or 22%, and \$95.3 million, or 18%, decreases in consolidated selling and marketing expenses on a reported basis in the three and nine months ended September 30, 2013 compared to the same periods in 2012, and 19% and 15% decreases on a constant currency basis, included \$17.3 million, or 36%, and \$35.9 million, or 28%, decreases in consolidated advertising expenses resulting from fewer advertising campaigns launched in 2013 compared to 2012 and a reduction in commissions generated through direct and indirect channels, mostly in Brazil and Mexico.

## 4. General and administrative expenses

The \$47.7 million, or 13%, and \$76.5 million, or 7%, decreases in consolidated general and administrative expenses on a reported basis, and 7% and 3% on a constant currency basis, in the three and nine months ended September 30, 2013 compared to the same periods in 2012 were primarily the result of decreases in consulting and other outside service costs at the corporate level, as well as a decrease in revenue-based taxes in Brazil associated with a decline in Nextel Brazil's operating revenues.

Consolidated general and administrative expenses as a percentage of consolidated operating revenues increased from 26% and 24% in the three and nine months ended September 30, 2012 to 28% and 27% in the three and nine months ended September 30, 2013 largely as a result of declines in operating revenues over the same periods.

## 5. Provision for doubtful accounts

The \$17.3 million, or 40%, and \$53.6 million, or 41%, decreases in the consolidated provision for doubtful accounts on a reported basis, and 33% and 36% decreases on a constant currency basis, in the three and nine months ended

September 30, 2013 compared to the same periods in 2012 is mostly attributable to changes made to Nextel Brazil's collection and retention policy and other processes in the fourth quarter of 2012 in connection with efforts to deactivate unprofitable customers. These changes resulted in increases in the consolidated provision for doubtful accounts in the fourth quarter of 2012 and improved customer credit quality in 2013.

#### 6. Impairment and restructuring charges

Consolidated impairment and restructuring charges recognized in 2013 primarily related to the discontinuation of our use of software relating to customer relationship management, the restructuring of our outsourcing agreements with NSN and the separation of employees in Mexico described above.

#### 7. Depreciation and amortization

The \$13.7 million, or 8%, and \$74.1 million, or 16%, increases in consolidated depreciation and amortization on a reported basis, and 16% and 21% increases on a constant currency basis, from the three and nine months ended September 30, 2012 to the same periods in 2013 are principally the result of increases in consolidated property, plant and equipment in service resulting from investments in our new WCDMA-based networks.

#### 8. Interest expense, net

The \$31.1 million, or 30%, and \$127.6 million, or 48%, increases in consolidated net interest expense on a reported basis, and 34% and 51% increases on a constant currency basis, from the three and nine months ended September 30, 2012 to the same periods in 2013 are largely related to interest incurred in connection with the issuance of \$900.0 million in 11.375% senior notes in February and April 2013 and \$700.0 million in 7.875% senior notes in May 2013, as well as lower capitalized interest.

#### 9. Foreign currency transaction losses, net

The \$43.5 million, or 102%, increase in consolidated foreign currency losses from the nine months ended September 30, 2012 to the same period in 2013 are primarily the result of the impact of the depreciation in the value of the Brazilian real relative to the U.S. dollar on Nextel Brazil's U.S. dollar-denominated net liabilities, partially offset by the appreciation in the value of the Mexican peso relative to the U.S. dollar on Nextel Mexico's U.S. dollar-denominated net liabilities.

#### 10. Income tax provision

The \$30.3 million, or 87%, and \$60.3 million, or 45%, decreases in the consolidated income tax provision from the three and nine months ended September 30, 2012 to the same periods in 2013 are mostly due to increases in the deferred tax benefit recognized in Brazil on a higher pre-tax book loss and a reduction in withholding taxes, partially offset by the establishment of a full valuation allowance on the deferred tax assets of one of our Mexican subsidiaries.

## b. Nextel Brazil

|                                                                    | September<br>30, 2013 | % of<br>Nextel<br>Brazil's<br>Operating<br>Revenues | September<br>30, 2012 | % of<br>Nextel<br>Brazil's<br>Operating<br>Revenues | Actual Change from<br>Previous Year | Change<br>from<br>Previous<br>Year | Constant<br>Currency<br>Change<br>from<br>Previous<br>Year |
|--------------------------------------------------------------------|-----------------------|-----------------------------------------------------|-----------------------|-----------------------------------------------------|-------------------------------------|------------------------------------|------------------------------------------------------------|
|                                                                    |                       |                                                     |                       |                                                     | Dollars                             | Percent                            | Percent                                                    |
| (dollars in thousands)                                             |                       |                                                     |                       |                                                     |                                     |                                    |                                                            |
| Three Months Ended                                                 |                       |                                                     |                       |                                                     |                                     |                                    |                                                            |
| Operating revenues                                                 |                       |                                                     |                       |                                                     |                                     |                                    |                                                            |
| Service and other revenues                                         | \$465,506             | 95                                                  | % \$660,585           | 95                                                  | % \$(195,079)                       | (30)                               | % (21)%                                                    |
| Handset and accessory<br>revenues                                  | 25,446                | 5                                                   | % 32,604              | 5                                                   | % (7,158)                           | (22)                               | % (12)%                                                    |
|                                                                    | 490,952               | 100                                                 | % 693,189             | 100                                                 | % (202,237)                         | (29)                               | % (20)%                                                    |
| Cost of revenues                                                   |                       |                                                     |                       |                                                     |                                     |                                    |                                                            |
| Cost of service (exclusive of<br>depreciation and<br>amortization) | 182,029               | 37                                                  | % 222,661             | 32                                                  | % (40,632)                          | (18)                               | % (9)%                                                     |
| Cost of handset and accessory<br>sales                             | 67,822                | 14                                                  | % 49,907              | 7                                                   | % 17,915                            | 36                                 | % 42%                                                      |
|                                                                    | 249,851               | 51                                                  | % 272,568             | 39                                                  | % (22,717)                          | (8)                                | % 1%                                                       |
| Selling and marketing<br>expenses                                  | 47,052                | 10                                                  | % 61,698              | 9                                                   | % (14,646)                          | (24)                               | % (14)%                                                    |
| General and administrative<br>expenses                             | 134,523               | 27                                                  | % 160,386             | 24                                                  | % (25,863)                          | (16)                               | % (6)%                                                     |
| Provision for doubtful accounts                                    | 17,019                | 3                                                   | % 35,671              | 5                                                   | % (18,652)                          | (52)                               | % (46)%                                                    |
| Segment earnings                                                   | \$42,507              | 9                                                   | % \$162,866           | 23                                                  | % \$(120,359)                       | (74)                               | % (69)%                                                    |
| Nine Months Ended                                                  |                       |                                                     |                       |                                                     |                                     |                                    |                                                            |
| Operating revenues                                                 |                       |                                                     |                       |                                                     |                                     |                                    |                                                            |
| Service and other revenues                                         | \$1,641,358           | 96                                                  | % \$2,116,143         | 95                                                  | % \$(474,785)                       | (22)                               | % (14)%                                                    |
| Handset and accessory<br>revenues                                  | 64,110                | 4                                                   | % 113,867             | 5                                                   | % (49,757)                          | (44)                               | % (37)%                                                    |
|                                                                    | 1,705,468             | 100                                                 | % 2,230,010           | 100                                                 | % (524,542)                         | (24)                               | % (15)%                                                    |
| Cost of revenues                                                   |                       |                                                     |                       |                                                     |                                     |                                    |                                                            |
| Cost of service (exclusive of<br>depreciation and<br>amortization) | 604,418               | 36                                                  | % 699,137             | 31                                                  | % (94,719)                          | (14)                               | % (5)%                                                     |
| Cost of handset and accessory<br>sales                             | 158,543               | 9                                                   | % 163,950             | 8                                                   | % (5,407)                           | (3)                                | % —                                                        |
|                                                                    | 762,961               | 45                                                  | % 863,087             | 39                                                  | % (100,126)                         | (12)                               | % (4)%                                                     |
| Selling and marketing<br>expenses                                  | 142,626               | 8                                                   | % 197,320             | 9                                                   | % (54,694)                          | (28)                               | % (20)%                                                    |
| General and administrative<br>expenses                             | 442,041               | 26                                                  | % 477,455             | 21                                                  | % (35,414)                          | (7)                                | % 2%                                                       |
| Provision for doubtful accounts                                    | 50,343                | 3                                                   | % 107,790             | 5                                                   | % (57,447)                          | (53)                               | % (48)%                                                    |
| Segment earnings                                                   | \$307,497             | 18                                                  | % \$584,358           | 26                                                  | % \$(276,861)                       | (47)                               | % (39)%                                                    |

Nextel Brazil represented 46% of our consolidated operating revenues for the nine months ended September 30, 2013 compared to 51% in the nine months ended September 30, 2012. In addition, Nextel Brazil's subscriber base decreased

6% from September 30, 2012 to September 30, 2013 and comprised 40% of our consolidated subscriber base as of September 30, 2013 compared to 42% as of September 30, 2012.

Over the last two years, Nextel Brazil has operated in a competitive environment that reflected a significant increase in promotional activity, including price reductions and other special offers, by its competitors. In the second quarter of 2012, Nextel Brazil modified its subscriber retention initiatives, changed its commission structure and focused on better aligning its subscriber base with the value offered by our services. Nextel Brazil also introduced new rate plans designed to improve its average revenue per subscriber and made adjustments to its credit procedures, including the implementation of more stringent credit policies for new subscribers. These measures helped to stabilize Nextel Brazil's average revenue per subscriber during the remainder of 2012. In the fourth quarter of 2012, Nextel Brazil took steps to accelerate the deactivation of certain subscribers who were identified as being unprofitable, which resulted in about a 292,000 net subscriber loss during the fourth quarter of 2012. These steps included the implementation of changes to Nextel Brazil's collection and retention policy and other processes designed to accelerate the deactivation of certain subscribers who had not made timely payments for services. These measures helped to reduce Nextel Brazil's provision for doubtful accounts in 2013 compared to 2012.

Nextel Brazil began offering services on its WCDMA network in Sao Paulo during the third quarter of 2013, but for most of this quarter, Nextel Brazil was competing using its iDEN network, which does not support data services that are competitive with the higher speed data services offered by its competitors. As a result, Nextel Brazil's focus during the third quarter of 2013 was on retaining customers on its iDEN network, which resulted in lower average revenue per subscriber, as some customers migrated to lower rate plans. Also, Nextel Brazil experienced higher customer turnover as its customers were targeted by competitors' aggressive offers. We believe that the expansion of our WCDMA networks and our broader launch of WCDMA services in the coming months will improve Nextel Brazil's competitive position, but we expect that Nextel Brazil will continue to experience lower levels of average revenue per subscriber in local currency for the remainder of 2013 compared to 2012.

We continued to invest in the development of our planned WCDMA-based network in Brazil in the nine months ended September 30, 2013. As a result, Nextel Brazil incurred increased operating expenses, which led to a reduction in Nextel Brazil's segment earnings margin from 26% in the nine months ended September 30, 2012 to 18% in the same period in 2013, and capital expenditures of \$333.4 million for the nine months ended September 30, 2013, which represented 55% of our consolidated capital expenditures, compared to 42% of our consolidated capital expenditures in same period in 2012. We expect the incremental expenses relating to the deployment of the WCDMA-based network in Brazil to continue throughout 2013, but we do not expect a corresponding increase in operating revenues for services provided using the networks until after these networks reach certain minimum coverage levels that will be sufficient to meet our customers' needs.

The average value of the Brazilian real depreciated relative to the U.S. dollar by 13% and 10% during the three and nine months ended September 30, 2013 compared to the average values that prevailed during the same periods in 2012. As a result, the components of Nextel Brazil's results of operations for the three and nine months ended September 30, 2013, after translation into U.S. dollars, reflect lower revenues and expenses in U.S. dollars than would have occurred if the Brazilian real had not depreciated relative to the U.S. dollar. If the value of the Brazilian real remains at levels similar to the end of the third quarter of 2013 or depreciates further relative to the U.S. dollar, Nextel Brazil's future results of operations may be adversely affected.

Nextel Brazil's segment earnings decreased \$120.4 million, or 74%, and \$276.9 million, or 47%, on a reported basis, and 69% and 39% on a constant currency basis, in the three and nine months ended September 30, 2013 compared to the same periods in 2012 as a result of the following:

#### 1. Operating revenues

The \$195.1 million, or 30%, and \$474.8 million, or 22%, decreases in service and other revenues in the three and nine months ended September 30, 2013 compared to the same periods in 2012 are primarily the result of the year-over-year decline in Nextel Brazil's subscriber base, lower average revenues per subscriber in local currency as described above and weaker foreign currency exchange rates. On a constant currency basis, Nextel Brazil's total operating revenues decreased 21% and 14% for the three and nine month periods ending September 30, 2013 compared to the three and nine month periods ending September 30, 2012.

#### 2. Cost of revenues

The \$22.7 million, or 8%, and \$100.1 million, or 12%, decreases in cost of revenues on a reported basis in the three and nine months ended September 30, 2013 compared to the same periods in 2012 is largely due to \$41.0 million, or 35%, and \$92.1 million, or 24%, decreases in interconnect costs related to decreases in interconnect minutes of use, lower mobile termination rates and decreases in service and repair costs caused by the utilization of more refurbished handsets. These decreases were partially offset by increases in cost of handset and accessory sales mostly related to a reserve for unfulfilled handset purchase commitments that Nextel Brazil recognized in the third quarter of 2013. On a constant currency basis, Nextel Brazil's total cost of revenues increased 1% for the third quarter of 2013 compared to the third quarter of 2012 and decreased 4% for the nine month period ended September 30, 2013 compared to the same period in 2012. Despite these decreases, Nextel Brazil's cost of revenues increased as a percentage of operating

revenues as a result of the more significant year-over-year decline in operating revenues described above.

In November 2012, Brazil's telecommunications regulatory agency approved the transition to a cost-based model for determining mobile termination rates beginning in 2016 and additional reductions in those rates for 2013 through 2015 as part of the transition to the cost-based rates. The transition rules also provide for a partial "bill and keep" settlement process that applies the settlement of mobile termination charges between smaller operators like Nextel Brazil and its larger competitors, which has the effect of further reducing the mobile termination charges of the smaller operators. The benefit of this partial bill and keep settlement process, which applies to services provided on our WCDMA network, declines as mobile termination rates in Brazil make the transition to a cost-based model. We expect these changes will reduce the cost to provide wireless services to our customers as we transition subscribers to our WCDMA-based network in Brazil.

### 3. Selling and marketing expenses

The \$14.6 million, or 24%, and \$54.7 million, or 28%, decreases in selling and marketing expenses on a reported basis, and 14% and 20% decreases on a constant currency basis, in the three and nine months ended September 30, 2013 compared to the same periods in 2012 are largely due to significantly lower advertising costs resulting from fewer advertising campaigns in the nine months of 2013 compared to the same periods in 2012 and decreases in commissions and payroll expenses that resulted from lower gross subscriber additions.

### 4. General and administrative expenses

The \$25.9 million, or 16%, and \$35.4 million, or 7%, decreases in general and administrative expenses on a reported basis in the three and nine months ended September 30, 2013 compared to the same periods in 2012 are largely due to significant decreases in revenue-based taxes associated with the decline in operating revenues described above. On a constant currency basis, Nextel Brazil's general and administrative expenses decreased 6% from the third quarter of 2012 to the third quarter of 2013 and increased 2% from the nine months ended September 30, 2012 to the same period in 2013.

### 5. Provision for doubtful accounts

The \$18.7 million, or 52%, and \$57.4 million, or 53%, decreases in provision for doubtful accounts on a reported basis, and 46% and 48% decreases on a constant currency basis, in the three and nine months ended September 30, 2013 compared to the same periods in 2012 are principally a result of the changes made to Nextel Brazil's collection and retention policy and other processes during the fourth quarter of 2012 in connection with the deactivation of unprofitable customers. These changes resulted in an increase in Nextel Brazil's provision for doubtful accounts in the fourth quarter of 2012 and improved customer credit quality in 2013.

In an effort to mitigate the impact on our customers of bill processing delays experienced earlier in the year, we offered extended payment terms to certain of our customers that continued into the third quarter of 2013. For customers that received these payment extensions and adhered to the extended terms, we temporarily modified certain policies regarding the provision for doubtful accounts in Brazil in order to conform with these extended payment terms. We expect Nextel Brazil's provision for doubtful accounts as a percentage of operating revenues in the remainder of 2013 to be the same as, or decrease from, the level experienced in the third quarter of 2013.

## c. Nextel Mexico

|                                                                       | September<br>30, 2013 | % of<br>Nextel<br>Mexico's<br>Operating<br>Revenues | September<br>30, 2012 | % of<br>Nextel<br>Mexico's<br>Operating<br>Revenues | Change from<br>Previous Year |         | Constant<br>Currency<br>Change<br>from<br>Previous<br>Year |
|-----------------------------------------------------------------------|-----------------------|-----------------------------------------------------|-----------------------|-----------------------------------------------------|------------------------------|---------|------------------------------------------------------------|
|                                                                       |                       |                                                     |                       |                                                     | Dollars                      | Percent | Percent                                                    |
| (dollars in thousands)                                                |                       |                                                     |                       |                                                     |                              |         |                                                            |
| Three Months Ended                                                    |                       |                                                     |                       |                                                     |                              |         |                                                            |
| Operating revenues                                                    |                       |                                                     |                       |                                                     |                              |         |                                                            |
| Service and other revenues                                            | \$432,674             | 98                                                  | % \$503,890           | 96                                                  | % \$(71,216 )                | (14 )%  | (16)%                                                      |
| Handset and accessory<br>revenues                                     | 9,349                 | 2                                                   | % 19,330              | 4                                                   | % (9,981 )                   | (52 )%  | (53)%                                                      |
|                                                                       | 442,023               | 100                                                 | % 523,220             | 100                                                 | % (81,197 )                  | (16 )%  | (17)%                                                      |
| Cost of revenues                                                      |                       |                                                     |                       |                                                     |                              |         |                                                            |
| Cost of service (exclusive<br>of<br>depreciation and<br>amortization) | 122,112               | 28                                                  | % 83,347              | 16                                                  | % 38,765                     | 47      | % 45%                                                      |
| Cost of handset and<br>accessory sales                                | 122,134               | 28                                                  | % 128,540             | 25                                                  | % (6,406 )                   | (5 )%   | (8)%                                                       |
|                                                                       | 244,246               | 56                                                  | % 211,887             | 41                                                  | % 32,359                     | 15      | % 13%                                                      |
| Selling and marketing<br>expenses                                     | 68,455                | 15                                                  | % 79,160              | 15                                                  | % (10,705 )                  | (14 )%  | (15)%                                                      |
| General and administrative<br>expenses                                | 91,186                | 21                                                  | % 80,603              | 15                                                  | % 10,583                     | 13      | % 11%                                                      |
| Provision for doubtful<br>accounts                                    | 6,006                 | 1                                                   | % 3,770               | 1                                                   | % 2,236                      | 59      | % 56%                                                      |
| Segment earnings                                                      | \$32,130              | 7                                                   | % \$147,800           | 28                                                  | % \$(115,670)                | (78 )%  | (79)%                                                      |
| Nine Months Ended                                                     |                       |                                                     |                       |                                                     |                              |         |                                                            |
| Operating revenues                                                    |                       |                                                     |                       |                                                     |                              |         |                                                            |
| Service and other revenues                                            | \$1,426,331           | 98                                                  | % \$1,528,044         | 96                                                  | % \$(101,713)                | (7 )%   | (11)%                                                      |
| Handset and accessory<br>revenues                                     | 32,403                | 2                                                   | % 60,741              | 4                                                   | % (28,338 )                  | (47 )%  | (49)%                                                      |
|                                                                       | 1,458,734             | 100                                                 | % 1,588,785           | 100                                                 | % (130,051 )                 | (8 )%   | (12)%                                                      |
| Cost of revenues                                                      |                       |                                                     |                       |                                                     |                              |         |                                                            |
| Cost of service (exclusive<br>of<br>depreciation and<br>amortization) | 369,800               | 25                                                  | % 290,130             | 18                                                  | % 79,670                     | 27      | % 24%                                                      |
| Cost of handset and<br>accessory sales                                | 413,202               | 28                                                  | % 389,495             | 25                                                  | % 23,707                     | 6       | % 1%                                                       |
|                                                                       | 783,002               | 53                                                  | % 679,625             | 43                                                  | % 103,377                    | 15      | % 11%                                                      |
| Selling and marketing<br>expenses                                     | 220,890               | 15                                                  | % 221,251             | 14                                                  | % (361 )                     | —       | (4)%                                                       |
| General and administrative<br>expenses                                | 267,242               | 19                                                  | % 231,172             | 14                                                  | % 36,070                     | 16      | % 11%                                                      |
|                                                                       | 14,847                | 1                                                   | % 11,600              | 1                                                   | % 3,247                      | 28      | % 23%                                                      |

Provision for doubtful  
accounts

|                  |           |    |   |           |    |   |             |        |       |
|------------------|-----------|----|---|-----------|----|---|-------------|--------|-------|
| Segment earnings | \$172,753 | 12 | % | \$445,137 | 28 | % | \$(272,384) | (61 )% | (63)% |
|------------------|-----------|----|---|-----------|----|---|-------------|--------|-------|

Nextel Mexico represented 40% of our consolidated operating revenues for the nine months ended September 30, 2013 compared to 36% in the same period in 2012, and comprised 38% of our consolidated subscriber base as of September 30, 2013 compared to 39% as of September 30, 2012.

In the third quarter of 2013, Nextel Mexico's WCDMA network reached geographic coverage parity with its iDEN network. As a result, we currently offer services supported by our WCDMA-based network in about 120 cities in Mexico, including Mexico City, Guadalajara, Monterrey, Leon, Cancun, Cozumel and in cities located near the Mexico/U.S. border. Nextel Mexico's WCDMA-based network uses the HSPA+ version of the WCDMA technology that supports significantly faster data delivery speeds than are available on earlier versions of the technology. Development and deployment of this new network in Mexico resulted in capital expenditures of \$225.7 million for the nine months ended September 30, 2013, which represented 38% of our consolidated capital expenditures. Continued deployment of the WCDMA-based network and other planned network enhancements will require us to make additional investments in capital expenditures.

In anticipation of Sprint's decision to shut down its iDEN network in the U.S., Nextel Mexico took a number of steps designed to address the impact on its subscribers, including:

- educating subscribers on the impact of the network changes;
- accelerating the deployment of our WCDMA network in the Mexico/U.S. border region;

- providing our customers with additional network coverage through a roaming agreement with a U.S. carrier;
- offering service plans designed to encourage our subscribers' migration to new WCDMA handsets; and
- offering our Prip service.

As expected, the deactivation of Sprint's iDEN network on June 30, 2013 resulted in changes to the connections previously available between our subscribers and their contacts in the U.S., as well as their ability to roam in the U.S. These changes had an adverse impact on our customers' experience in using our services, which resulted in an increase in the number of calls to customer care and a higher level of subscriber deactivations and customer turnover, leading to a significant disruption of Nextel Mexico's business plans. Specifically, Nextel Mexico experienced higher iDEN customer turnover and was not able to effectively offset the loss of iDEN subscribers with new WCDMA subscribers, in part because the coverage and capacity of its WCDMA network was not sufficient to support the significant subscriber loading and migrations of subscribers resulting from the deactivation of Sprint's iDEN network. These changes created a negative perception of our services in Mexico, which has made it more difficult for us to attract and retain subscribers there.

Nextel Mexico is continuing to take actions designed to address these issues, including actively improving the capacity and coverage of its WCDMA-based network, working to improve service along the Mexico/U.S. border by enhancing roaming capabilities in the U.S., and continuing to work with Sprint to implement improvements to the solutions that allow our WCDMA subscribers to use push-to-talk services to communicate with Sprint's customers who use push-to-talk service in the U.S. We also expect to launch new awareness campaigns in Mexico in the fourth quarter of 2013 to inform subscribers of the improvements to our WCDMA network. While we believe that all of these actions will help to stabilize Nextel Mexico's business and set the stage for growth in 2014, differences in the nature and quality of the services that we are able to provide using our WCDMA network compared to services historically available on our iDEN network, particularly in the area near the Mexico/U.S. border, may have a continued negative impact on our existing subscribers' willingness to remain on our iDEN network or to make the transition to service on our WCDMA-based network, which could result in further increases in deactivations and customer turnover.

The average value of the Mexican peso appreciated relative to the U.S. dollar by 2% and 4% during the three and nine months ended September 30, 2013 compared to the average values that prevailed during the same periods in 2012. As a result, the components of Nextel Mexico's results of operations for the three and nine months ended September 30, 2013, after translation into U.S. dollars, reflect slightly higher revenues and expenses in U.S. dollars than would have occurred if the Mexican peso had not appreciated relative to the U.S. dollar.

As a result of the increase in operating expenses in connection with the deployment of our WCDMA-based network, including cost of service, general and administrative expenses and other factors described below, Nextel Mexico's segment earnings margin declined from 28% for both the three and nine months ended September 30, 2012 to 7% and 12% in the same periods of 2013. Nextel Mexico's segment earnings decreased \$115.7 million, or 78%, and \$272.4 million, or 61%, on a reported basis, and 79% and 63% on a constant currency basis, in the three and nine months ended September 30, 2013 compared to the same periods in 2012, as a result of the following:

#### 1. Operating revenues

The \$71.2 million, or 14%, and \$101.7 million, or 7%, decreases in service and other revenues on a reported basis, and 16% and 11% decreases on a constant currency basis, in the three and nine months ended September 30, 2013 compared to the same periods in 2012 are primarily due to declines in average revenue per subscriber on a local currency basis resulting from the implementation of lower rate service plans in response to the competitive environment in Mexico. We expect that Nextel Mexico will continue to experience lower levels of average revenue per subscriber in local currency for the remainder of 2013 compared to 2012. Service and other revenues also decreased as the result of a 5% reduction in Nextel Mexico's subscriber base from September 30, 2012 to September 30, 2013.

#### 2. Cost of revenues

The \$38.8 million, or 47%, and \$79.7 million, or 27%, increases in cost of service on a reported basis, and 45% and 24% increases on a constant currency basis, in the three and nine months ended September 30, 2013 compared to the same periods in 2012 are primarily the result of \$50.7 million, or 354%, and \$94.9 million, or 106%, increases in direct switch and transmitter and receiver site costs resulting from a significant increase in transmitter and receiver sites in service from September 30, 2012 to September 30, 2013 related to the deployment of Nextel Mexico's WCDMA-based network. These amounts are partially offset by \$9.5 million, or 23%, and \$18.5 million, or 15%, decreases in interconnect expenses related to a decline in interconnect minutes of use and a reduction in mobile termination rates.

## 3. General and administrative expenses

The \$10.6 million, or 13%, and \$36.1 million, or 16%, increases in general and administrative expenses on a reported basis, and 11% increases on a constant currency basis, in both the three and nine months ended September 30, 2013 compared to the same periods in 2012 are primarily the result of higher information technology and customer care expenses.

## d. Nextel Argentina

|                                                                       | September<br>30, 2013 | % of<br>Nextel<br>Argentina's<br>Operating<br>Revenues | September<br>30, 2012 | % of<br>Nextel<br>Argentina's<br>Operating<br>Revenues | Actual Change from<br>Previous Year |         | Change from<br>Previous<br>Year |       |
|-----------------------------------------------------------------------|-----------------------|--------------------------------------------------------|-----------------------|--------------------------------------------------------|-------------------------------------|---------|---------------------------------|-------|
|                                                                       |                       |                                                        |                       |                                                        | Dollars                             | Percent | Percent                         |       |
| (dollars in thousands)                                                |                       |                                                        |                       |                                                        |                                     |         |                                 |       |
| Three Months Ended                                                    |                       |                                                        |                       |                                                        |                                     |         |                                 |       |
| Operating revenues                                                    |                       |                                                        |                       |                                                        |                                     |         |                                 |       |
| Service and other revenues                                            | \$ 141,687            | 90                                                     | % \$ 166,697          | 93                                                     | % \$(25,010 )                       | (15 )%  |                                 | 3%    |
| Handset and accessory<br>revenues                                     | 16,483                | 10                                                     | % 11,808              | 7                                                      | % 4,675                             | 40      | %                               | 69%   |
|                                                                       | 158,170               | 100                                                    | % 178,505             | 100                                                    | % (20,335 )                         | (11 )%  |                                 | 7%    |
| Cost of revenues                                                      |                       |                                                        |                       |                                                        |                                     |         |                                 |       |
| Cost of service (exclusive<br>of<br>depreciation and<br>amortization) | 40,518                | 26                                                     | % 46,497              | 26                                                     | % (5,979 )                          | (13 )%  |                                 | (1)%  |
| Cost of handset and<br>accessory<br>sales                             | 24,695                | 16                                                     | % 18,951              | 11                                                     | % 5,744                             | 30      | %                               | 33%   |
|                                                                       | 65,213                | 42                                                     | % 65,448              | 37                                                     | % (235 )                            | —       |                                 | 10%   |
| Selling and marketing<br>expenses                                     | 15,537                | 10                                                     | % 16,374              | 9                                                      | % (837 )                            | (5 )%   |                                 | 15%   |
| General and administrative<br>expenses                                | 38,839                | 24                                                     | % 43,718              | 24                                                     | % (4,879 )                          | (11 )%  |                                 | 5%    |
| Provision for doubtful<br>accounts                                    | 2,074                 | 1                                                      | % 2,920               | 2                                                      | % (846 )                            | (29 )%  |                                 | (14)% |
| Segment earnings                                                      | \$ 36,507             | 23                                                     | % \$ 50,045           | 28                                                     | % \$(13,538 )                       | (27 )%  |                                 | 5%    |
| Nine Months Ended                                                     |                       |                                                        |                       |                                                        |                                     |         |                                 |       |
| Operating revenues                                                    |                       |                                                        |                       |                                                        |                                     |         |                                 |       |
| Service and other revenues                                            | \$ 443,833            | 91                                                     | % \$ 476,550          | 93                                                     | % \$(32,717 )                       | (7 )%   |                                 | 10%   |
| Handset and accessory<br>revenues                                     | 45,322                | 9                                                      | % 35,603              | 7                                                      | % 9,719                             | 27      | %                               | 50%   |
|                                                                       | 489,155               | 100                                                    | % 512,153             | 100                                                    | % (22,998 )                         | (4 )%   |                                 | 13%   |
| Cost of revenues                                                      |                       |                                                        |                       |                                                        |                                     |         |                                 |       |
| Cost of service (exclusive<br>of                                      | 121,954               | 25                                                     | % 144,475             | 28                                                     | % (22,521 )                         | (16 )%  |                                 | (6)%  |

|                                           |            |    |   |            |    |   |            |       |       |
|-------------------------------------------|------------|----|---|------------|----|---|------------|-------|-------|
| depreciation and<br>amortization)         |            |    |   |            |    |   |            |       |       |
| Cost of handset and<br>accessory<br>sales | 67,742     | 14 | % | 59,317     | 12 | % | 8,425      | 14    | % 16% |
|                                           | 189,696    | 39 | % | 203,792    | 40 | % | (14,096 )  | (7 )  | % 1%  |
| Selling and marketing<br>expenses         | 45,111     | 9  | % | 50,982     | 10 | % | (5,871 )   | (12 ) | % 4%  |
| General and administrative<br>expenses    | 115,846    | 23 | % | 116,079    | 22 | % | (233 )     | —     | 15%   |
| Provision for doubtful<br>accounts        | 7,812      | 2  | % | 9,258      | 2  | % | (1,446 )   | (16 ) | % —   |
| Segment earnings                          | \$ 130,690 | 27 | % | \$ 132,042 | 26 | % | \$(1,352 ) | (1 )  | % 39% |

Nextel Argentina represented 13% of our consolidated operating revenues for the nine months ended September 30, 2013 compared to 12% for the same period in 2012. In addition, Nextel Argentina's subscriber base increased 16% from September 30, 2012 to September 30, 2013 and comprised 20% of our consolidated subscriber base as of September 30, 2013, a significant portion of which represents subscribers who are utilizing prepaid service plans, compared to 17% as of September 30, 2012. Nextel Argentina generated a segment earnings margin of 27% for the nine months ended September 30, 2013, which is higher than the 26% segment earnings margin generated during the nine months ended September 30, 2012 due primarily to lower cost of service.

Over the last several years, the inflation rate in Argentina has risen significantly, and we expect that it may continue to rise in future years. The higher inflation rate has affected costs that are incurred in Argentine pesos. If the higher inflation rates in Argentina continue, Nextel Argentina's results of operations may be adversely affected.

The average value of the Argentine peso for the three and nine months ended September 30, 2013 depreciated relative to the U.S. dollar by 21% and 18% compared to the average values that prevailed during the same periods in 2012. As a result, the components of Nextel Argentina's results of operations for the three and nine months ended September 30, 2013, after translation into U.S. dollars, reflect lower revenues and expenses in U.S. dollars than would have occurred if the Argentine peso had not depreciated relative to the U.S. dollar. If further devaluation of the Argentine peso occurs, Nextel Argentina's results of operations would be adversely affected.

Nextel Argentina's segment earnings decreased \$13.5 million, or 27%, and \$1.4 million, or 1%, on a reported basis in the three and nine months ended September 30, 2013 compared to the same periods in 2012, primarily as the result of decreases in operating revenues driven by declines in average revenue per subscriber resulting from a larger proportion of less profitable prepaid subscribers at the end of the third quarter of 2013 compared to the end of the third quarter of 2012. These decreases were partially offset by \$6.0 million, or 13%, and \$22.5 million, or 16%, in cost of service expenses in the three and nine months ended September 30, 2013 compared to the same periods in 2012 primarily due to lower interconnect expenses caused by a decline in interconnect minutes of use and decreases in service and repair costs. On a constant currency basis, Nextel Argentina's segment earnings increased 5% and 39% in the three and nine months ended September 30, 2013 compared to the same periods in 2012.

## e. Chile and Corporate

|                                                              | September<br>30, 2013 | % of<br>Chile and<br>Corporate<br>Operating<br>Revenues | September<br>30, 2012 | % of<br>Chile and<br>Corporate<br>Operating<br>Revenues | Change from<br>Previous Year |       |         |  |
|--------------------------------------------------------------|-----------------------|---------------------------------------------------------|-----------------------|---------------------------------------------------------|------------------------------|-------|---------|--|
|                                                              |                       |                                                         |                       |                                                         | Dollars                      |       | Percent |  |
| (dollars in thousands)                                       |                       |                                                         |                       |                                                         |                              |       |         |  |
| Three Months Ended                                           |                       |                                                         |                       |                                                         |                              |       |         |  |
| Operating revenues                                           |                       |                                                         |                       |                                                         |                              |       |         |  |
| Service and other revenues                                   | \$ 15,257             | 93                                                      | % \$ 11,805           | 76                                                      | % \$ 3,452                   | 29    | %       |  |
| Handset and accessory revenues                               | 1,152                 | 7                                                       | % 3,627               | 24                                                      | % (2,475 )                   | (68 ) | %       |  |
|                                                              | 16,409                | 100                                                     | % 15,432              | 100                                                     | % 977                        | 6     | %       |  |
| Cost of revenues                                             |                       |                                                         |                       |                                                         |                              |       |         |  |
| Cost of service (exclusive of depreciation and amortization) | 19,886                | 121                                                     | % 18,283              | 119                                                     | % 1,603                      | 9     | %       |  |
| Cost of handset and accessory sales                          | 7,573                 | 46                                                      | % 13,305              | 86                                                      | % (5,732 )                   | (43 ) | %       |  |
|                                                              | 27,459                | 167                                                     | % 31,588              | 205                                                     | % (4,129 )                   | (13 ) | %       |  |
| Selling and marketing expenses                               | 12,808                | 78                                                      | % 28,105              | 182                                                     | % (15,297 )                  | (54 ) | %       |  |
| General and administrative expenses                          | 50,095                | NM                                                      | 78,573                | NM                                                      | (28,478 )                    | (36 ) | %       |  |
| Provision for doubtful accounts                              | 762                   | 5                                                       | % 758                 | 5                                                       | % 4                          | 1     | %       |  |
| Segment losses                                               | \$(74,715 )           | NM                                                      | \$(123,592 )          | NM                                                      | \$48,877                     | (40 ) | %       |  |
| Nine Months Ended                                            |                       |                                                         |                       |                                                         |                              |       |         |  |
| Operating revenues                                           |                       |                                                         |                       |                                                         |                              |       |         |  |
| Service and other revenues                                   | \$ 42,716             | 74                                                      | % \$ 29,734           | 82                                                      | % \$ 12,982                  | 44    | %       |  |
| Handset and accessory revenues                               | 15,141                | 26                                                      | % 6,481               | 18                                                      | % 8,660                      | 134   | %       |  |
|                                                              | 57,857                | 100                                                     | % 36,215              | 100                                                     | % 21,642                     | 60    | %       |  |
| Cost of revenues                                             |                       |                                                         |                       |                                                         |                              |       |         |  |
| Cost of service (exclusive of depreciation and amortization) | 60,801                | 105                                                     | % 44,378              | 123                                                     | % 16,423                     | 37    | %       |  |
| Cost of handset and accessory sales                          | 34,580                | 60                                                      | % 23,695              | 65                                                      | % 10,885                     | 46    | %       |  |
|                                                              | 95,381                | 165                                                     | % 68,073              | 188                                                     | % 27,308                     | 40    | %       |  |
| Selling and marketing expenses                               | 39,707                | 69                                                      | % 74,086              | 205                                                     | % (34,379 )                  | (46 ) | %       |  |
| General and administrative expenses                          | 168,059               | 290                                                     | % 247,626             | NM                                                      | (79,567 )                    | (32 ) | %       |  |
| Provision for doubtful accounts                              | 3,421                 | 6                                                       | % 1,371               | 4                                                       | % 2,050                      | 150   | %       |  |
| Segment losses                                               | \$(248,711 )          | NM                                                      | \$(354,941 )          | NM                                                      | \$106,230                    | (30 ) | %       |  |

## NM-Not Meaningful

Although we determined that Nextel Chile was a reportable segment based on the segment reporting thresholds, this "Chile and Corporate" discussion includes our Chilean operations and our corporate operations in the U.S. For the three and nine months ended September 30, 2013 and 2012, Chile and corporate operating revenues and cost of revenues primarily represent the results of operations reported by Nextel Chile. During 2012, we began offering services on a WCDMA-based network in Chile, which is enabling us to offer new and differentiated services to a larger base of potential subscribers.

Segment losses decreased in the three and nine months ending September 30, 2013 compared to the same periods in 2012 primarily due to \$28.5 million, or 36%, and \$79.6 million, or 32%, decreases in general and administrative expenses. These decreases in general and administrative expenses were largely the result of \$11.5 million, or 34%,

and \$29.8 million, or 28%, decreases in consulting and other outside service costs at the corporate level and \$7.0 million, or 50%, and \$28.6 million, or 56%, decreases in information technology costs at the corporate level.

## Liquidity and Capital Resources

We derive our liquidity and capital resources primarily from a combination of cash flows from our operations and cash we raise in connection with external financings. As of September 30, 2013, we had working capital, which is defined as total current assets less total current liabilities, of \$2,006.3 million, a \$431.3 million increase compared to working capital of \$1,575.0 million as of December 31, 2012, primarily due to higher cash balances resulting from the net cash proceeds we received in connection with the issuance of \$900.0 million in aggregate principal amount of 11.375% senior notes in February and April 2013 and the \$405.5 million in cash we received as a result of the sale of Nextel Peru, which includes \$50.0 million that was deposited in escrow on our behalf to satisfy potential indemnification claims.

As of September 30, 2013, our working capital includes \$1,578.6 million in cash and cash equivalents, of which \$233.3 million was held in currencies other than U.S. dollars, with 62% of that amount held in Argentine pesos and 31% of that amount held in Mexican pesos. As of September 30, 2013, our working capital also included \$318.7 million in short-term investments. A substantial portion of our cash, cash equivalents and short-term U.S. dollar investments are held in money market funds, bank deposits and U.S. treasury securities, and our cash, cash equivalents and short-term investments held in local currencies are typically maintained in a combination of money market funds, highly liquid overnight securities and fixed income investments. The values of our cash, cash equivalents and short-term investments that are held in the local currencies of the countries in which we do business will fluctuate in U.S. dollars based on changes in the exchange rates of these local currencies relative to the U.S. dollar.

As of September 30, 2013, our sources of funding included our cash, cash equivalent and short-term investment balances, which includes the cash we received as a result of the sale of Nextel Peru to Entel in August 2013, up to \$325.0 million available under our equipment financing facilities in Brazil and Mexico, other anticipated future cash flows from our operations and the cash we expect to receive upon the closing of the sale of our transmitter and receiver sites in Brazil and Mexico. We plan to continue to evaluate funding opportunities, strategic transactions with respect to our operations in Argentina and Chile, and, if appropriate, access the credit and capital markets in order to support our business plans, reduce our capital costs, optimize our capital structure and maintain or enhance our liquidity position.

## Cash Flows

|                                                              | Nine Months Ended September |             |              |
|--------------------------------------------------------------|-----------------------------|-------------|--------------|
|                                                              | 30,                         | 2012        | Change       |
|                                                              | 2013                        |             |              |
|                                                              | (in thousands)              |             |              |
| Cash and cash equivalents, beginning of period               | \$1,371,173                 | \$2,310,659 | \$(939,486 ) |
| Net cash (used in) provided by operating activities          | (102,717 )                  | 302,991     | (405,708 )   |
| Net cash used in investing activities                        | (487,366 )                  | (666,855 )  | 179,489      |
| Net cash provided by (used in) financing activities          | 823,731                     | (396,074 )  | 1,219,805    |
| Effect of exchange rate changes on cash and cash equivalents | (38,501 )                   | 5,038       | (43,539 )    |
| Change in cash and cash equivalents held for sale            | 12,318                      | (19,345 )   | 31,663       |
| Cash and cash equivalents, end of period                     | \$1,578,638                 | \$1,536,414 | \$42,224     |

The following is a discussion of the primary sources and uses of cash in our operating, investing and financing activities.

We used \$102.7 million of cash in our operating activities during the first nine months of 2013, a \$405.7 million, or 134%, decrease from the net cash provided by operating activities in the same period in 2012, due primarily to increased operating losses and higher interest expense related to the 11.375% and 7.875% senior notes we issued in 2013.

We used \$487.4 million of cash in our investing activities during the first nine months of 2013, a \$179.5 million, or 27%, decrease from the same period in 2012, primarily due to proceeds from the sale of Nextel Peru of \$405.5

million, which includes \$50.0 million of cash held in escrow on our behalf in connection with this sale, a \$232.4 million decrease in cash capital expenditures due to lower investments in our iDEN and WCDMA networks and a \$237.2 increase in proceeds from the sales of short-term investments, partially offset by a \$377.6 million increase in purchases of investments.

Our financing activities provided us with \$823.7 million of cash during the first nine months of 2013, primarily due to \$900.0 million in gross proceeds we received from the issuance of our 11.375% senior notes in February 2013 and April 2013 and \$700.0 million in gross proceeds we received from the issuance of our 7.875% senior notes in May 2013, partially offset by \$621.8 million used to repay our bank loans in Mexico and Chile and one of our bank loans in Brazil and \$37.4 million to repay our import financing loans in Brazil. We used \$396.1 million of cash in our financing activities during the first nine months of 2012 primarily

due to the principal repayment of \$175.7 million under our syndicated loan facilities in Brazil and Peru and the repayment of \$212.8 million face amount of our 3.125% convertible notes in the U.S.

#### Future Capital Needs and Resources

Our business strategy contemplates the deployment and expansion of new WCDMA-based networks and the ongoing expansion of the capacity of our iDEN networks. Consistent with this strategy, in the third quarter of 2013, our WCDMA-based network reached geographic coverage parity with our iDEN network in Mexico. As a result, we currently offer services supported by our WCDMA-based network in about 120 cities in Mexico, including Mexico City, Guadalajara and Monterrey and in cities located near the Mexico/U.S. border. In Brazil, we are currently offering services supported by our WCDMA-based network in over 150 cities, including cities in and around Sao Paulo, and we expect to begin offering services in Rio de Janeiro in the fourth quarter of 2013. We plan to expand the coverage and quality of our new networks in Brazil and Mexico throughout the remainder of 2013 and continuing into 2014. We also offer service on our WCDMA-based network in Chile. We expect our consolidated capital expenditures for the remainder of 2013 to be significant, but at lower levels than in 2012. The amount and timing of those additional capital expenditures is dependent on, among other things, our business plans and the nature and extent of any regulatory requirements that may be imposed regarding the timing and scope of the deployment of these new networks.

**Capital Resources.** Our ongoing capital resources depend on a variety of factors, including our existing cash, cash equivalents and short-term investment balances, our equipment financing agreements in Brazil and Mexico, cash flows generated by our operating companies and external financial sources.

Our ability to generate sufficient net cash from our operating activities is dependent upon, among other things:

- the amount of revenue we are able to generate and collect from our subscribers;
- the amount of operating expenses required to provide our services;
- the cost of acquiring and retaining customers, including the subsidies we incur to provide handsets to both our new and existing subscribers;
- our ability to continue to increase the size of our subscriber base; and
- changes in foreign currency exchange rates.

**Capital Needs and Contractual Obligations.** We currently anticipate that our future capital needs will principally consist of funds required for:

- operating expenses and capital expenditures relating to the deployment of our WCDMA-based networks;
- operating expenses and capital expenditures relating to our existing iDEN networks;
- payments in connection with spectrum purchases, including ongoing spectrum license fees and the repayment of financing incurred in connection with spectrum purchases;
- debt service requirements and obligations relating to our tower financing and capital lease obligations;
- cash taxes; and
- other general corporate expenditures.

In making assessments regarding our capital needs and the capital resources available to meet those needs, we do not consider events that have not occurred, other than the expected proceeds we will receive upon the closing of the sale of our transmitter and receiver sites in Brazil and Mexico, and we do not assume the availability of external sources of funding that may be available for these future events, including potential equity investments, equipment financing or other available financing.

Other than the issuance of the 7.875% notes in May 2013, the issuance of the 11.375% notes in February 2013 and April 2013 and the repayment of our Mexican peso-denominated bank loan in Mexico, one of our Brazilian real-denominated bank loans in Brazil, our bank loan in Chile and all of our import financing loans in Brazil, during the three and nine months ended September 30, 2013, there were no material changes to our contractual obligations as described in our annual report on Form 10-K for the year ended December 31, 2012.

**Capital Expenditures.** Our capital expenditures, including capitalized interest, were \$601.6 million for the first nine months of 2013 and \$936.9 million for the same period in 2012. In each of these periods, a substantial portion of our capital expenditures went to the deployment of our WCDMA-based networks in Brazil and Mexico.

We expect to finance our capital spending for our existing and future network needs using the most effective combination of cash from operations, cash on hand, cash from the sale or maturity of our short-term investments, borrowings under equipment financing facilities in Brazil and Mexico, the sale of certain towers and other transmitter and receiver sites in Brazil and Mexico

and proceeds from external funding sources that are or may become available. We may also consider entering into strategic relationships or transactions with third parties that will provide additional funding to support our business plans. Our capital spending is expected to be driven by several factors, including:

- the amount we spend to deploy our WCDMA-based networks;
- the extent to which we expand the coverage of our networks in new or existing market areas;
- the number of additional transmitter and receiver sites we build in order to increase system coverage and capacity and to maintain system quality and meet the demands of our growing subscriber base, as well as the costs associated with the installation of network infrastructure and switching equipment; and
- the costs we incur in connection with non-network related information technology projects.

Our future capital expenditures may also be affected by future technology improvements and technology choices.

**Future Outlook.** As of September 30, 2013, our current sources of funding include \$1,578.6 million in cash and cash equivalents, which includes the cash we received as a result of the sale of Nextel Peru to Entel in August 2013 but does not include the \$50.0 million of cash held in escrow on our behalf in connection with this sale, \$318.7 million in short-term investments and \$325.0 million in additional availability under our existing equipment financing facilities. In addition, we have agreed to sell transmitter and receiver sites in Brazil and Mexico for total estimated proceeds based on current foreign currency exchange rates of \$823.5 million in cash, subject to certain adjustments, including adjustments based on the actual number of towers sold. We plan to use our available funding, together with cash provided by our operations, to finance our current business plan.

Recently, our results of operations, including our operating cash flows, have been negatively affected by continued competitive pressures, the depreciation of local currencies and increased costs to support our larger WCDMA-based networks. Assuming the receipt of the proceeds relating to our sale of towers in Brazil and Mexico, we believe our current sources of funding will be adequate to allow us to execute our business plan for the next couple of years. If we are unable to significantly improve our operating cash flows, we will need to seek additional sources of financing to fund our operations and execute our business strategy as contemplated by our business plan. The timing and amount of our future funding needs will also be affected by the need to repay or refinance our existing indebtedness.

To meet our future funding needs and maintain or enhance our liquidity position, we will continue to evaluate and pursue various financing alternatives, including strategic transactions with respect to our operations in Argentina and Chile and proceeds from potential debt and equity offerings. We expect to continue to obtain additional funding using one or more of these alternatives. Consistent with this strategy, we have implemented and will continue to implement changes in our business to support our planned growth and to better align our organization and costs with our operational and financial goals.

The indentures governing our 7.875% notes and our 11.375% notes restrict our ability to make upstream payments to any U.S. subsidiary that ranks senior to NII International Telecom, S.C.A., other than payments for interest on existing NII Capital Corp. notes and operating and capital expenditures of NII Holdings, Inc. In addition, some of the agreements relating to our existing financing arrangements include terms that impose restrictions relating to, among other things, our ability to incur additional debt financing, and require us to maintain specified financial ratios that could affect the financing alternatives available to us at any given time. These restrictions limit our ability to incur additional indebtedness in the future depending upon our operating results and the levels of financing that we have outstanding. If these restrictions do not allow us to borrow funds needed to support our business plan or if we are otherwise unable to borrow funds, we would need to consider changes to our business plan or other strategic alternatives in order to raise additional funding or reduce our funding needs, including by limiting our capital expenditures. In those circumstances, we would also consider seeking modifications to our financing agreements that would allow us to incur additional indebtedness. Any indebtedness that we may incur in the coming years may be significant.

In making the assessment of our funding needs under our current business plans and the adequacy of our current sources of funding, we have considered:

- cash and cash equivalents on hand and short-term investments available to fund our operations;
- expected cash flows from our operations;
- the cash we expect to receive upon the closing of the sale of our transmitter and receiver sites in Brazil and Mexico;

the cost and timing of spectrum payments, including ongoing fees for spectrum use;  
the anticipated level of capital expenditures required to meet both minimum build-out requirements and our business plans for our planned deployment of WCDMA-based and LTE networks;  
our scheduled debt service and other contractual obligations; and

income taxes.

In addition to the factors described above, the anticipated cash needs of our business, as well as the conclusions presented herein regarding our liquidity needs, could change significantly:

- if our plans change;

- if we decide to expand into new markets or expand our geographic coverage or network capacity in our existing markets beyond our current plans, as a result of the construction of additional portions of our networks or the acquisition of competitors or others;

- if currency values in our markets depreciate relative to the U.S. dollar in a manner that is more significant than we currently expect and assume as part of our plans;

- if economic conditions in any of our markets change;

- if competitive practices in the mobile wireless telecommunications industry in our markets change materially from those currently prevailing or from those now anticipated; or

- if other presently unexpected circumstances arise that have a material effect on the cash flow or profitability of our business.

Any of these events or circumstances could result in significant funding needs beyond those contemplated by our current plans as described above, and could require us to raise even more capital than currently anticipated to meet those needs. Our ability to seek additional capital is subject to a variety of additional factors that we cannot presently predict with certainty, including:

- the commercial success of our operations;

- the volatility and demand of the capital markets; and

- the future market prices of our securities.

From time to time in recent years, volatile market conditions in debt and equity markets in the U.S. and global markets have had an adverse impact on the amount and terms of financing available to corporate borrowers. Volatility in the capital markets could result in declines in the availability of funding, which could make it more difficult or more costly for us to raise additional capital in order to meet our future funding needs, and the related additional costs and terms of any financing we raise could impose restrictions that limit our flexibility in responding to business conditions and our ability to obtain additional financing. If new indebtedness is added to our current levels of indebtedness, the related risks that we now face could intensify. See "Item 1A. Risk Factors" included in our annual report on Form 10-K.

#### Effect of New Accounting Standards

There were no new accounting standards issued during the three or nine months ended September 30, 2013 that materially impacted our condensed consolidated financial statements or could materially impact our financial statements or related disclosures in a future period.

#### Forward-Looking Statements

This quarterly report on Form 10-Q includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements regarding expectations, including forecasts regarding operating results, performance assumptions and estimates relating to capital requirements, as well as other statements that are not historical facts, are forward-looking statements. When used in this quarterly report on Form 10-Q, these forward-looking statements are generally identified by the words or phrases "would be," "will allow," "expects to," "will continue," "is anticipated," "estimate," "project" or similar expressions.

While we provide forward-looking statements to assist in the understanding of our anticipated future financial performance, we caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date that we make them. Forward-looking statements are based on current expectations and assumptions that are subject to significant risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Except as otherwise required by law, we undertake no obligation to publicly release any updates to forward-looking statements to reflect events after the date of this report, including unforeseen events.



We have included risk factors and uncertainties that might cause differences between anticipated and actual future results in Part I, Item 1A. "Risk Factors" of our annual report on Form 10-K. We have attempted to identify, in context, some of the factors that we currently believe may cause actual future experience and results to differ from our current expectations regarding the relevant matter or subject area. The operations and results of our wireless communications business also may be subject to the effects of other risks and uncertainties, including, but not limited to:

- our ability to attract and retain customers;
- our ability to meet the operating goals established by our business plan and generate cash flow;
- general economic conditions in the U.S. or in Latin America and in the market segments that we are targeting for our services, including the impact of the current uncertainties in global economic conditions;
- the political and social conditions in the countries in which we operate, including political instability, which may affect the economies of our markets and the regulatory schemes in these countries;
- the impact of foreign currency exchange rate volatility in our markets when compared to the U.S. dollar and related currency depreciation in countries in which our operating companies conduct business;
- our ability to access sufficient debt or equity capital to meet any future operating and financial needs;
- reasonable access to and the successful performance of the technology being deployed in our service areas, and improvements thereon, including technology deployed in connection with the introduction of digital two-way mobile data or internet connectivity services in our markets;
- the availability of adequate quantities of system infrastructure and subscriber equipment and components at reasonable pricing to meet our service deployment and marketing plans and customer demand;
- Motorola's ability and willingness to provide handsets and related equipment and software applications or to develop new technologies or features for us for use on our iDEN network, including the timely development and availability of new handsets with expanded applications and features;
- the risk of deploying next generation networks, including the potential need for additional funding to support that deployment, delays in deployment, cost over-runs, the risk that new services supported by the new networks will not attract enough subscribers to support the related costs of deploying or operating the new networks, the need to significantly increase our employee base and the potential distraction of management;
- our ability to successfully scale our billing, collection, customer care and similar back-office operations to keep pace with customer growth, increased system usage rates and growth or to successfully deploy new systems that support those functions;
- our ability to resolve our material weaknesses in internal control over financial reporting in Brazil;
- the success of efforts to improve and satisfactorily address any issues relating to our network performance;
- future legislation or regulatory actions relating to our SMR services, other wireless communications services or telecommunications generally and the costs and/or potential customer impacts of compliance with regulatory mandates;
- the ability to achieve and maintain market penetration and average subscriber revenue levels sufficient to provide financial viability to our network business;
- the quality and price of similar or comparable wireless communications services offered or to be offered by our competitors, including providers of cellular services and personal communications services;
- market acceptance of our new service offerings;
- equipment failure, natural disasters, terrorist acts or other breaches of network or information technology security; and
- other risks and uncertainties described in our annual report on Form 10-K, including in Part I, Item 1A. "Risk Factors," and, from time to time, in our reports filed with the SEC.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

In May 2013, we issued a new series of U.S. dollar-denominated fixed rate senior notes with \$700.0 million aggregate principal amount due at maturity that bear interest at a rate of 7.875% per year, which is payable semi-annually on February 15 and August 15, beginning on August 15, 2013. The notes will mature on August 15, 2019 when the entire principal amount will be due. We utilized substantially all of the net proceeds from this offering to repay in full our

Mexican peso-denominated bank loan in Mexico, one of our Brazilian real-denominated bank loans in Brazil and all of our import financing loans in Brazil. In

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addition, in February 2013 and April 2013, we issued a series of U.S. dollar-denominated fixed rate senior notes with \$750.0 million and \$150.0 million in aggregate principal amount, respectively, due at maturity that bear interest at a rate of 11.375% per year, which is payable semi-annually on February 15 and August 15, beginning on August 15, 2013. The notes will mature on August 15, 2019 when the entire principal amount will be due. Other than the issuance of these notes, the repayment of our bank loans in Mexico and Brazil and the repayment of all of our import financing loans in Brazil, during the three or nine months ended September 30, 2013, there were no material changes to our market risk policies or our market risk sensitive instruments and positions as described in our annual report on Form 10-K for the year ended December 31, 2012.

#### Item 4. Controls and Procedures

##### Disclosure Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to the Company's management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

As of September 30, 2013, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was carried out under the supervision and with the participation of our management teams in the United States and in our operating companies, including our chief executive officer and chief financial officer. Based on and as of the date of such evaluation, our chief executive officer and chief financial officer concluded that the design and operation of our disclosure controls and procedures were not effective due to material weaknesses in our internal controls over financial reporting in our Brazil operating segment. The material weaknesses we identified, which are more fully described in "Item 9A. Controls and Procedures" of our annual report on Form 10-K for the year ended December 31, 2012, relate to the inadequate design and operation of controls to provide reasonable assurance that the accounting for non-income based taxes and related disclosures relating to our Brazil segment were prepared in accordance with generally accepted accounting principles in the United States of America, as well as to our inability to maintain a sufficient complement of resources in our Brazil segment's accounting department with the appropriate level of experience and training, commensurate with our structure and financial reporting requirements. We continue to make progress toward the remediation of these material weaknesses.

##### Changes in Internal Control over Financial Reporting.

There have been no changes in our internal control over financial reporting during the three months ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

We are subject to claims and legal actions that may arise in the ordinary course of business. We do not believe that any of these pending claims or legal actions will have a material effect on our business, financial condition, results of operations or cash flows.

For information on our various loss contingencies, see Note 6 to our condensed consolidated financial statements above.

### Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our annual report on Form 10-K dated February 28, 2013.

### Item 2. Issuer Purchases of Equity Securities

(b) We did not repurchase any shares of our common stock during the three months ended September 30, 2013.

Item 6. Exhibits.

| Exhibit Number | Exhibit Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12.1*          | Ratio of Earnings to Fixed Charges.                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 31.1*          | Statement of Chief Executive Officer Pursuant to Rule 13a-14(a).                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 31.2*          | Statement of Chief Financial Officer Pursuant to Rule 13a-14(a).                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 32.1*          | Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 32.2*          | Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 101*           | The following materials from the NII Holdings, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Income, (iii) Condensed Consolidated Statement of Changes in Stockholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements. |

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\* Submitted electronically herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/ ESTEBAN NARANJO

Esteban Naranjo  
Vice President, Corporate Controller  
(on behalf of the registrant and as chief accounting officer)

Date: October 31, 2013

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## EXHIBIT INDEX

| Exhibit Number | Exhibit Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12.1*          | Ratio of Earnings to Fixed Charges.                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 31.1*          | Statement of Chief Executive Officer Pursuant to Rule 13a-14(a).                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 31.2*          | Statement of Chief Financial Officer Pursuant to Rule 13a-14(a).                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 32.1*          | Statement of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 32.2*          | Statement of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.                                                                                                                                                                                                                                                                                                                                                                                                                                       |
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\* Submitted electronically herewith.