VTR FINANCE B.V.

Condensed Consolidated Financial Statements
March 31, 2017

VTR Finance B.V.
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The Netherlands

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CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	March 31, 2017	December 31, 2016
	CLP in billions	
ASSETS		
Current assets:		
Cash and cash equivalents	65.3	83.7
Trade receivables, net	60.1	58.5
Income tax receivable (note 7)	16.5	16.5
Other current assets (notes 3 and 8)	21.3	22.3
Total current assets	163.2	181.0
Property and equipment, net (note 5)	401.8	383.9
Goodwill	266.7	266.7
Derivative instruments (note 3)	60.9	77.1
Deferred income taxes	46.2	48.2
Income tax receivable (note 7)	40.4	40.4
Other assets, net	17.7	17.6
Total assets	996.9	1,014.9

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

VTR FINANCE B.V.

CONDENSED CONSOLIDATED BALANCE SHEETS – (Continued)

(unaudited)

	March 31, 2017	December 31, 2016
	CLP in billions	
LIABILITIES AND OWNER'S DEFICIT		
Current liabilities:		
Accounts payable	54.8	49.2
Deferred revenue and advance payments from subscribers and others	25.1	25.0
Current portion of debt and capital lease obligations (note 6)	37.0	32.9
Accrued capital expenditures	19.4	5.8
Accrued programming	18.8	21.7
Accrued interest	14.9	30.7
Accrued income taxes	5.5	4.1
Other accrued and current liabilities (notes 3, 8 and 9)	59.4	72.0
Total current liabilities	234.9	241.4
Long-term debt and capital lease obligations (note 6)	908.8	922.0
Other long-term liabilities (notes 7 and 9)	126.8	103.5
Total liabilities	1,270.5	1,266.9
Commitments and contingencies (notes 3, 6, 7 and 10)		
Owner's deficit:		
Accumulated net distributions	(306.4)	(301.4)
Accumulated earnings	16.7	33.3
Accumulated other comprehensive earnings, net of taxes	16.1	16.1
Total owner's deficit	(273.6)	(252.0)
Total liabilities and owner's deficit	996.9	1,014.9

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

VTR FINANCE B.V.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three months ended March 31,	
	2017	**2016**
	CLP in billions	
Revenue (note 11)	150.2	140.2
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):		
Programming and other direct costs of services (note 8)	40.4	38.3
Other operating (note 8)	24.4	23.7
Selling, general and administrative (**SG&A**) (note 8)	26.4	25.1
Related-party fees and allocations (note 8)	2.7	3.1
Depreciation	17.9	22.0
Impairment, restructuring and other operating items, net (note 9)	1.1	0.4
	112.9	112.6
Operating income	37.3	27.6
Non-operating income (expense):		
Interest expense	(17.8)	(20.1)
Interest income	0.4	0.6
Realized and unrealized losses on derivative instruments, net (note 3)	(16.5)	(69.6)
Foreign currency transaction gains, net	12.6	59.9
Other expense	—	(0.3)
	(21.3)	(29.5)
Earnings (loss) before income taxes	16.0	(1.9)
Income tax expense (note 7)	(32.6)	(0.3)
Net loss	(16.6)	(2.2)

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

VTR FINANCE B.V.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

	Three months ended March 31,	
	2017	**2016**
	CLP in billions	
Net loss	(16.6)	(2.2)
Other comprehensive earnings (loss), net of taxes:		
Unrealized gains (losses) on cash flow hedges	0.8	(2.0)
Reclassification adjustments included in net loss	(0.8)	(0.2)
Other comprehensive loss	—	(2.2)
Comprehensive loss	(16.6)	(4.4)

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

VTR FINANCE B.V.

CONDENSED CONSOLIDATED STATEMENT OF OWNER'S DEFICIT

(unaudited)

	Accumulated net distributions	Accumulated earnings	Accumulated other comprehensive earnings, net of taxes	Total owner's deficit
	CLP in billions			
Balance at January 1, 2017	(301.4)	33.3	16.1	(252.0)
Net loss	—	(16.6)	—	(16.6)
Distributions to parent, net	(8.0)	—	—	(8.0)
Deemed contribution of services (note 8)	2.7	—	—	2.7
Share-based compensation (note 8)	0.2	—	—	0.2
Other	0.1	—	—	0.1
Balance at March 31, 2017	(306.4)	16.7	16.1	(273.6)

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

VTR FINANCE B.V.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three months ended March 31,	
	2017	**2016**
	CLP in billions	
Cash flows from operating activities:		
Net loss	(16.6)	(2.2)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation expense	0.9	0.4
Related-party fees and allocations	2.7	3.1
Depreciation	17.9	22.0
Impairment, restructuring and other operating items, net	1.1	0.4
Realized and unrealized losses on derivative instruments, net	16.5	69.6
Foreign currency transaction gains, net	(12.6)	(59.9)
Deferred income tax expense	2.1	14.7
Changes in operating assets and liabilities	(3.4)	(27.1)
Net cash provided by operating activities	8.6	21.0
Cash flows from investing activities:		
Capital expenditures	(12.4)	(20.6)
Advances to related party, net	—	(4.6)
Other investing activities, net	0.1	0.9
Net cash used by investing activities	(12.3)	(24.3)
Cash flows from financing activities:		
Repayments of third-party debt and capital lease obligations	(12.4)	—
Borrowings of third-party debt	6.8	—
Distributions to parent, net	(8.0)	—
Net cash used by financing activities	(13.6)	—
Effect of exchange rate changes on cash	(1.1)	0.7
Net decrease in cash and cash equivalents	(18.4)	(2.6)
Cash and cash equivalents:		
Beginning of period	83.7	89.8
End of period	65.3	87.2
Cash paid for interest	32.7	37.0
Net cash paid for taxes	5.6	3.0

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

(1) Basis of Presentation

VTR Finance B.V. (**VTR Finance**) is a provider of video, broadband internet, fixed-line telephony and mobile services in Chile. VTR Finance is a wholly-owned subsidiary of Liberty Global plc (**Liberty Global**). In these notes, the terms "we," "our," "our company" and "us" may refer, as the context requires, to VTR Finance or collectively to VTR Finance and its subsidiaries.

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (**U.S. GAAP**) for interim financial information. Accordingly, these financial statements do not include all of the information required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2016 annual report.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition-related assets and liabilities, allowances for uncollectible accounts, programming and copyright costs, deferred income taxes and related valuation allowances, loss contingencies, fair value measurements, impairment assessments, capitalization of internal costs associated with construction and installation activities, useful lives of long-lived assets and share-based compensation. Actual results could differ from those estimates.

Our functional currency is the Chilean peso (**CLP**). Unless otherwise indicated, convenience translations into the Chilean peso are calculated as of March 31, 2017.

Certain prior period amounts have been reclassified to conform to the current period presentation, including the reclassification of certain costs between programming and other direct costs of services, other operating and SG&A expenses.

These unaudited condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through May 19, 2017, the date of issuance.

(2) Recent Accounting Pronouncements

Recent Accounting Pronouncements

ASU 2014-09

In May 2014, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2014-09, *Revenue from Contracts with Customers* (**ASU 2014-09**), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09, as amended by ASU No. 2015-14, will replace existing revenue recognition guidance when it becomes effective for annual reporting periods beginning after December 15, 2018. This new standard permits the use of either the retrospective or cumulative effect transition method. We will adopt ASU 2014-09 effective January 1, 2018 using the cumulative effect transition method. While we are continuing to evaluate the effect that ASU 2014-09 will have on our consolidated financial statements, we have identified a number of our current revenue recognition policies that will be impacted by ASU 2014-09, including the accounting for (i) time-limited discounts and free service periods provided to our customers and (ii) certain up-front fees charged to our customers. These impacts are discussed below:

- When we enter into contracts to provide services to our customers, we often provide time-limited discounts or free service periods. Under current accounting rules, we recognize revenue net of discounts during the promotional periods and do not recognize any revenue during free service periods. Under ASU 2014-09, revenue recognition will be accelerated for these contracts as the impact of the discount or free service period will be recognized uniformly over the total contractual period.

- When we enter into contracts to provide services to our customers, we often charge installation or other up-front fees. Under current accounting rules, installation fees related to services provided over our cable networks are recognized as revenue during the period in which the installation occurs to the extent these fees are equal to or less than direct selling costs. Under ASU 2014-09, these fees will generally be deferred and recognized as revenue over the contractual period, or longer if the up-front fee results in a material renewal right.

As the above revenue recognition changes have offsetting impacts and both result in a relatively minor shift in the timing of revenue recognition, we currently do not expect ASU 2014-09 to have a material impact on our reported revenue.

ASU 2014-09 will also impact our accounting for certain upfront costs directly associated with obtaining and fulfilling customer contracts. Under our current policy, these costs are expensed as incurred unless the costs are in the scope of another accounting topic that allows for capitalization. Under ASU 2014-09, the upfront costs that are currently expensed as incurred will be recognized as assets and amortized to other operating expenses over a period that is consistent with the transfer to the customers of the goods or services to which the assets relate, which we have generally interpreted to be the expected life of the customer relationship. The impact of the accounting change for these costs will be dependent on numerous factors, including the number of new subscriber contracts added in any given period, but we expect the adoption of this accounting change will initially result in the deferral of a significant amount of operating and selling costs.

The ultimate impact of adopting ASU 2014-09 for both revenue recognition and costs to obtain and fulfill contracts will depend on the promotions and offers in place during the period leading up to and after the adoption of ASU 2014-09.

ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (**ASU 2016-02**), which, for most leases, will result in lessees recognizing lease assets and lease liabilities on the balance sheet with additional disclosures about leasing arrangements. ASU 2016-02 requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach also includes a number of optional practical expedients an entity may elect to apply. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We will adopt ASU 2016-02 on January 1, 2019. Although we are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements, we expect the adoption of this standard will increase the number of leases to be accounted for as capital leases in our consolidated balance sheet.

ASU 2017-04

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment* (**ASU 2017-04**), which eliminates the requirement to estimate the implied fair value of a reporting unit's goodwill as determined following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, a company should recognize any goodwill impairment by comparing the fair value of a reporting unit to its carrying amount. ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. We expect the adoption of ASU 2017-04 to reduce the complexity surrounding the evaluation of our goodwill for impairment.

(3) Derivative Instruments

In general, we seek to enter into derivative instruments to protect against foreign currency movements, particularly in cases where market conditions or other factors may cause us to enter into borrowing or other contractual arrangements, such as certain programming contracts, that are not denominated in Chilean pesos. In this regard, we have entered into various derivative instruments to manage foreign currency exposure and interest rate exposure with respect to the Chilean peso and the United States (**U.S.**) dollar (**$**). With the exception of our foreign currency forward contracts, we do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of most of our derivative instruments are recorded in realized and unrealized gains or losses on derivative instruments, net, in our condensed consolidated statements of operations.

The following table provides details of the fair values of our derivative instrument assets and liabilities:

	March 31, 2017			December 31, 2016		
	Current (a)	Long-term	Total	Current (a)	Long-term	Total
	CLP in billions					
Assets:						
Cross-currency derivative contracts (b)	4.1	60.9	65.0	4.6	77.1	81.7
Foreign currency forward contracts	0.4	—	0.4	0.2	—	0.2
Total	4.5	60.9	65.4	4.8	77.1	81.9
Liabilities:						
Cross-currency derivative contracts (b)	0.4	—	0.4	0.1	—	0.1
Foreign currency forward contracts	2.7	—	2.7	2.8	—	2.8
Total	3.1	—	3.1	2.9	—	2.9

(a) Our current derivative assets and liabilities are included in other current assets and other accrued and current liabilities, respectively, in our condensed consolidated balance sheets.

(b) We consider credit risk relating to our and our counterparties' nonperformance in the fair value assessments of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our cross-currency derivative contracts resulted in net gains of CLP 5.4 billion and CLP 2.0 billion during the three months ended March 31, 2017 and 2016, respectively. These amounts are included in realized and unrealized losses on derivative instruments, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 4.

The details of our realized and unrealized losses on derivative instruments, net, are as follows:

	Three months ended March 31,	
	2017	2016
	CLP in billions	
Cross-currency derivative contracts	(15.3)	(64.8)
Foreign currency forward contracts	(1.2)	(4.8)
Total	(16.5)	(69.6)

At March 31, 2017, our accumulated other comprehensive loss, net of taxes, includes deferred net gains on derivative instruments of CLP 0.8 billion, most of which we expect will be reclassified to operating expense in our condensed consolidated statement of operations within the next 12 months.

The net cash received or paid related to our derivative instruments is classified as an operating, investing or financing activity in our condensed consolidated statements of cash flows based on the objective of the derivative instrument and the classification of the applicable underlying cash flows. For foreign currency forward contracts that are used to hedge capital expenditures, the net cash received or paid is classified as an adjustment to capital expenditures in our condensed consolidated statements of cash flows. For derivative contracts that are terminated prior to maturity, the cash paid or received upon termination that relates to future periods is classified as a financing activity. The classification of these net cash inflows (outflows) is as follows:

	Three months ended March 31,	
	2017	2016
	CLP in billions	
Operating activities	0.2	5.4
Investing activities	(0.8)	—
Total	(0.6)	5.4

Counterparty Credit Risk

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions. Collateral is generally not posted by either party under our derivative instruments. At March 31, 2017, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of CLP 64.5 billion.

Details of our Derivative Instruments

Cross-currency Derivative Contracts

As noted above, we are exposed to foreign currency exchange rate risk in situations where our debt is denominated in a currency other than the functional currency of the borrowing entity. Although we generally seek to match the denomination of our and our subsidiary's borrowings with the functional currency of the borrowing entity, market conditions or other factors may cause us to enter into borrowing arrangements that are not denominated in the borrowing entity's functional currency (unmatched debt). Our policy is generally to provide for an economic hedge against foreign currency exchange rate movements by using derivative instruments to synthetically convert unmatched debt into the applicable underlying currency. At March 31, 2017, substantially all of our debt was either directly or synthetically matched to the functional currency of the borrowing entity. The following table sets forth the total notional amounts and the related weighted average remaining contractual life of our cross-currency swap contracts, which are held by our wholly-owned subsidiary, VTR.com SpA (**VTR**), the successor by merger of VTR GlobalCom SpA (**VTR GlobalCom**) and VTR Chile Holdings SpA (the **2016 Merger**), at March 31, 2017:

Notional amount due from counterparty	Notional amount due to counterparty	Weighted average remaining life
in millions		in years
$ 1,400.0	CLP 951,390.0	4.8

Impact of Derivative Instruments on Borrowing Costs

The impact of the derivative instruments that mitigate our foreign currency and interest rate risk, as described above, was a decrease of 52 basis points to our borrowing costs as of March 31, 2017.

Foreign Currency Forwards

As of March 31, 2017, the total Chilean peso equivalents of the notional amount of foreign currency forward contracts was CLP 103.7 billion.

(4) Fair Value Measurements

We use the fair value method to account for our derivative instruments. The reported fair values of these instruments as of March 31, 2017 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities. We expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities into or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the three months ended March 31, 2017, no such transfers were made.

All of our Level 2 inputs (interest rate futures, swap rates and certain of the inputs for our weighted average cost of capital calculations) and certain of our Level 3 inputs (credit spreads) are obtained from pricing services. These inputs, or interpolations or extrapolations thereof, are used in our internal models to calculate, among other items, yield curves, forward interest and currency rates and weighted average cost of capital rates. In the normal course of business, we receive market value assessments from the counterparties to our derivative contracts. Although we compare these assessments to our internal valuations and investigate unexpected differences, we do not otherwise rely on counterparty quotes to determine the fair values of our derivative instruments. The midpoints of applicable bid and ask ranges generally are used as inputs for our internal valuations.

As further described in note 3, we have entered into various derivative instruments to manage our foreign currency exchange risk. The recurring fair value measurements of these derivative instruments are determined using discounted cash flow models. Most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these instruments. This observable data mostly includes interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Effective January 1, 2017, we incorporated a Monte Carlo based approach into our calculation of the value assigned to the risk that we or our counterparties will default on our respective derivative obligations. Previously, we used a static calculation derived from our most current mark-to-market valuation to calculate the impact of counterparty credit risk. The adoption of a Monte Carlo based approach did not have a material impact on the overall fair value of our derivative instruments. Our and our counterparties' credit spreads represent our most significant Level 3 inputs, and these inputs are used to derive the credit risk valuation adjustments with respect to these instruments. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these instruments, we have determined that these valuations fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our cross-currency swaps are quantified and further explained in note 3.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of our company, property and equipment, other intangible assets and the implied value of goodwill. The valuation of our company (our only reporting unit) is based at least in part on discounted cash flow analyses. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of our company to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. We did not perform any significant nonrecurring fair value measurements during the three months ended March 31, 2017.

(5) Long-lived Assets

Property and Equipment, Net

The details of our property and equipment and the related accumulated depreciation are set forth below:

	March 31, 2017	December 31, 2016
	CLP in billions	
Distribution systems	519.2	509.9
Customer premises equipment	521.3	499.2
Support equipment, buildings and land	237.4	233.2
	1,277.9	1,242.3
Accumulated depreciation	(876.1)	(858.4)
Total property and equipment, net	401.8	383.9

During the three months ended March 31, 2017 and 2016, we recorded non-cash increases to our property and equipment related to vendor financing arrangements of CLP 9.2 billion and nil, respectively, which exclude related value-added taxes (**VAT**) of CLP 0.5 billion and nil, respectively, that were also financed by our vendors under these arrangements.

(6) Debt and Capital Lease Obligations

The Chilean peso equivalents of the components of our debt are as follows:

	March 31, 2017			Estimated fair value (b)		Principal amount	
	Weighted average interest rate (a)	Unused borrowing capacity					
		Borrowing currency	CLP equivalent	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
				CLP in billions			
Parent – VTR Finance Senior Secured Notes	6.875%	—	—	966.7	981.1	924.5	938.3
Subsidiaries – VTR Credit Facility	—	(c)	149.7	—	—	—	—
Vendor financing (d)	5.030%	—	—	36.8	32.7	36.8	32.7
Total debt before deferred financing costs	6.804%		149.7	1,003.5	1,013.8	961.3	971.0

The following table provides a reconciliation of total debt before deferred financing costs to total debt and capital lease obligations:

	March 31, 2017	December 31, 2016
	CLP in billions	
Total debt before deferred financing costs	961.3	971.0
Deferred financing costs	(15.9)	(16.5)
Total carrying amount of debt	945.4	954.5
Capital lease obligations	0.4	0.4
Total debt and capital lease obligations	945.8	954.9
Current maturities of debt and capital lease obligations	(37.0)	(32.9)
Long-term debt and capital lease obligations	908.8	922.0

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(a) Represents the weighted average interest rate in effect at March 31, 2017 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rate presented represents the stated rate and does not include the impact of our derivative instruments, deferred financing costs or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments and commitment fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate variable- and fixed-rate indebtedness was 6.49% at March 31, 2017. For information regarding our derivative instruments, see note 3.

(b) The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy). For additional information regarding fair value hierarchies, see note 4.

(c) Unused borrowing capacity represents the maximum availability at March 31, 2017 without regard to covenant compliance calculations or other conditions precedent to borrowing. At March 31, 2017, the unused borrowing capacity relates to our senior secured revolving credit facility, which comprises a $160.0 million (CLP 105.7 billion) facility (the **VTR Dollar Credit Facility**) and a CLP 44.0 billion facility (the "VTR Peso Credit Facility" and, together with the VTR Dollar Credit Facility, the **VTR Credit Facility**), each of which were undrawn at March 31, 2017. Based on the applicable leverage and other financial covenants, the full amount of unused borrowing capacity was available to be borrowed under the VTR Credit Facility at March 31, 2017. When the March 31, 2017 compliance reporting requirements have been completed and assuming no changes from March 31, 2017 borrowing levels, we anticipate the full amount of unused borrowing capacity of the VTR Credit Facility will continue to be available to be borrowed.

(d) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our property and equipment additions and, to a lesser extent, certain of our operating expenses. These obligations are generally due within one year and include VAT that were paid on our behalf by the vendor. Repayments of vendor financing obligations are included in repayments and repurchases of debt and capital lease obligations in our condensed consolidated statements of cash flows.

Maturities of Debt

As of March 31, 2017, our vendor financing arrangements have maturities due in 2017 and 2018 and the VTR Finance Senior Secured Notes mature in January 2024.

(7) Income Taxes

VTR Finance, along with its ultimate Dutch parent and certain other Dutch subsidiaries of Liberty Global, is part of a Dutch tax fiscal unity (the **Dutch Fiscal Unity**). The income taxes of VTR Finance's subsidiaries, none of which are part of the Dutch Fiscal Unity, are presented in our condensed consolidated financial statements on a separate return basis for each tax-paying entity or group based on the local tax law.

The Dutch Fiscal Unity combines individual tax paying Dutch entities and their ultimate Dutch parent company as one taxpayer for Dutch tax purposes. Tax amounts allocated to VTR Finance are generally included in our condensed consolidated financial statements on a separate return basis. In this regard, any benefits that arise from tax losses generated by VTR Finance have not been recognized in our condensed consolidated financial statements as we do not expect these benefits to be realized on a separate return basis. As a result of a tax sharing policy adopted by Liberty Global, we record non-interest bearing inter-group payables and receivables in connection with the allocation of tax attributes to the extent that tax assets are utilized or taxable income is included in the return for the applicable tax year. These inter-group payables and receivables are expected to be cash settled annually within 90 days following the filing of the relevant tax return. Changes to previously filed tax returns will be reflected in the inter-group payables and receivables, and any prior settlement of payables and receivables will be adjusted to reflect amended tax filings.

Income tax expense attributable to our earnings (loss) before income taxes differs from the amounts computed using the statutory tax rate in the Netherlands of 25.0%, as a result of the following factors:

	Three months ended March 31,	
	2017	**2016**
	CLP in billions	
Computed “expected” tax benefit (expense)	(4.0)	0.5
Non-deductible or taxable foreign currency exchange results	(18.0)	—
Non-deductible or non-taxable interest and other expenses	(7.4)	(1.1)
Change in valuation allowances	(2.1)	(0.8)
Impact of price level adjustments for tax purposes	0.6	1.1
International rate difference (a)	(0.1)	0.1
Other, net	(1.6)	(0.1)
Total income tax expense	(32.6)	(0.3)

(a) Amounts reflect the impact of a higher statutory tax rate in Chile, as compared to the Netherlands.

As of March 31, 2017, all of our unrecognized tax benefits would have a favorable impact on our effective income tax rate if ultimately recognized, after considering amounts that we would expect to be offset by valuation allowances.

We are currently undergoing income tax audits in Chile. Except as noted below, any adjustments that might arise from the foregoing examinations are not expected to have a material impact on our consolidated financial position or results of operations.

Adjustments received from the Chilean tax authorities for the tax years 2011 and 2012 are in dispute. We have appealed these adjustments to the Chilean tax court. In connection with the December 2014 merger of VTR Wireless SpA, a then subsidiary of Liberty Global, with a subsidiary of our predecessor, VTR GlobalCom, we recognized a CLP 34.0 billion income tax receivable in connection with the expected utilization of certain net operating loss carryforwards. We are engaged in an ongoing examination by tax authorities in Chile in connection with this receivable and were notified during the third quarter of 2016 that approximately 48% of our claim has been agreed by the tax authorities, which amount was received by us in April 2017. We intend to pursue the payment of the remaining portion of this receivable through all available methods. While we believe that the ultimate resolution of these proposed adjustments will not have a material impact on our consolidated financial position, results of operations or cash flows, no assurance can be given that this will be the case given the amounts involved and the complex nature of the related issues. In connection with the 2016 Merger, we recorded a CLP 22.9 billion income tax receivable related to the expected utilization of certain net operating loss carryforwards. Although we believe the receivable is fully recoverable, no assurance can be given that we will recover the full amount of this receivable.

Other than the potential impacts of these ongoing examinations and the expected expiration of certain statutes of limitation, we do not expect any material changes to our unrecognized tax benefits during the next 12 months. No assurance can be given as to the nature or impact of any changes in our unrecognized tax positions during the next 12 months.

The changes in our unrecognized tax benefits during the three months ended March 31, 2017 are summarized below (CLP in billions):

Balance at January 1, 2017	81.3
Additions for tax positions of prior years	21.9
Balance at March 31, 2017	103.2

(8) Related-party Transactions

Our related-party transactions are as follows:

	Three months ended March 31,	
	2017	2016
	CLP in billions	
Programming and other direct costs of services	—	0.1
Fees and allocations:		
Operating and SG&A (exclusive of depreciation and share-based compensation)	0.4	0.4
Depreciation	0.1	0.1
Share-based compensation	1.1	1.2
Management fee	1.1	1.4
Total fees and allocations	2.7	3.1
Included in operating income	2.7	3.2

General. Certain Liberty Global subsidiaries charge fees and allocate costs and expenses to our company. Depending on the nature of these related-party transactions, the amount of the charges or allocations may be based on (i) our estimated share of the underlying costs, (ii) our estimated share of the underlying costs plus a mark-up or (iii) commercially-negotiated rates. Although we believe that the related-party charges and allocations described below are reasonable, no assurance can be given that the related-party costs and expenses reflected in our condensed consolidated statements of operations are reflective of the costs that we would incur on a standalone basis.

Programming and other direct costs of services. The 2016 amount consists of cash settled charges for programming services provided to our company by an affiliate.

Fees and allocations. These amounts represent fees charged to our company that originate with Liberty Global and certain other Liberty Global subsidiaries and include charges for management, finance, legal, technology and other corporate and administrative services provided to our company. As we do not reimburse Liberty Global or its subsidiaries for these services, we reflect the aggregate amount of these allocated costs as deemed contributions in our condensed consolidated statement of owner's deficit. The categories of our fees and allocations are as follows:

- *Operating and SG&A (exclusive of depreciation and share-based compensation).* The amounts included in this category represent our estimated share of certain centralized technology, management, marketing, finance and other operating and SG&A expenses of Liberty Global's operations, whose activities benefit multiple operations, including operations within and outside of our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's operations, without a mark-up. Amounts in this category are generally deducted to arrive at our "EBITDA" metric specified by our debt agreements (**Covenant EBITDA**).

- *Depreciation.* The amounts included in this category represent our estimated share of depreciation of assets not owned by our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's operations, without a mark-up.

- *Share-based compensation.* These amounts represent share-based compensation associated with Liberty Global employees who are not employees of our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's operations, without a mark-up.

- *Management fee.* The amounts included in this category represent our estimated allocable share of (i) operating and SG&A expenses related to stewardship services provided by certain Liberty Global subsidiaries and (ii) the mark-up, if any, applicable to each category of the related-party fees and allocations charged to our company.

Allocated share-based compensation expense. We recognized share-based compensation expense of CLP 0.9 billion and CLP 0.4 billion during the three months ended March 31, 2017 and 2016, respectively, which includes CLP 0.7 billion and CLP 0.4 billion, respectively, relating to performance share unit awards granted pursuant to a liability-based plan of VTR. The 2017 period also includes CLP 0.2 billion of share-based compensation that Liberty Global allocated to our company with respect to share-based incentive awards held by certain of our employees, which is reflected as an increase to accumulated net distributions in our condensed consolidated statement of owner's deficit. Share-based compensation expense is included in other operating and SG&A expenses in our condensed consolidated statements of operations.

The following table provides details of our related-party balances:

	March 31, 2017	December 31, 2016
	CLP in billions	
Other current assets (a)	0.5	0.2
Other accrued and current liabilities (b)	4.3	3.5

(a) Represents a non-interest bearing receivable from another Liberty Global subsidiary.

(b) Represents non-interest bearing payables to an affiliate and certain other Liberty Global subsidiaries.

(9) Restructuring Liabilities

A summary of changes in our restructuring liabilities during the three months ended March 31, 2017 is set forth in the table below:

	Employee severance and termination	Contract termination	Total
		CLP in billions	
Restructuring liability as of January 1, 2017	0.3	17.5	17.8
Restructuring charges	0.1	0.9	1.0
Cash paid	(0.1)	(0.6)	(0.7)
Restructuring liability as of March 31, 2017	0.3	17.8	18.1
Current portion	0.3	6.2	6.5
Noncurrent portion	—	11.6	11.6
Total	0.3	17.8	18.1

(10) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to programming contracts, network and connectivity commitments, non-cancellable operating leases and purchases of customer premises and other equipment. The following table sets forth the Chilean peso equivalents of such commitments as of March 31, 2017:

	Payments due during:							
	Remainder of 2017	2018	2019	2020	2021	2022	Thereafter	Total
	CLP in billions							
Programming commitments	28.5	31.2	7.3	2.5	0.9	0.4	—	70.8
Network and connectivity commitments	16.2	23.3	20.0	—	—	—	—	59.5
Operating leases	7.1	8.3	5.5	4.1	3.4	2.8	4.5	35.7
Purchase commitments	5.8	8.4	6.9	0.7	0.7	0.7	0.5	23.7
Total (a)	57.6	71.2	39.7	7.3	5.0	3.9	5.0	189.7

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(a) The commitments included in this table do not reflect any liabilities that are included in our March 31, 2017 condensed consolidated balance sheet.

Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us as we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services or (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems. In addition, programming commitments do not include increases in future periods associated with contractual inflation or other price adjustments that are not fixed. Accordingly, the amounts reflected in the above table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Historically, payments to programming vendors have represented a significant portion of our operating costs, and we expect that this will continue to be the case in future periods. In this regard, during the three months ended March 31, 2017 and 2016, third-party programming and copyright costs incurred by our broadband communications operations aggregated CLP 26.5 billion and CLP 25.8 billion, respectively.

Network and connectivity commitments include (i) our domestic network service agreements with certain other telecommunications companies and (ii) our mobile virtual network operator (**MVNO**) agreement. The amounts reflected in the above table with respect to these commitments represent fixed minimum amounts payable under these agreements and, therefore, may be less than the actual amounts we ultimately pay in these periods.

Purchase commitments include unconditional and legally binding obligations related to (i) the purchase of handset equipment and (ii) certain service-related commitments, including advertising and software maintenance services.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the three months ended March 31, 2017 and 2016, see note 3.

Guarantees and Other Credit Enhancements

In the ordinary course of business, we may provide (i) indemnifications to our lenders, our vendors and certain other parties and (ii) performance and/or financial guarantees to local municipalities, our customers and vendors. Historically, these arrangements have not resulted in our company making any material payments and we do not believe that they will result in material payments in the future.

Legal and Regulatory Proceedings and Other Contingencies

Video distribution, broadband internet, fixed-line telephony and mobile businesses are regulated in Chile. Adverse regulatory developments could subject our businesses to a number of risks. Regulation, including conditions imposed on us by competition or other authorities as a requirement to close acquisitions or dispositions, could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and property and equipment additions. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

In addition to the foregoing items, we have contingent liabilities related to matters arising in the ordinary course of business including (i) legal proceedings, (ii) issues involving VAT and wage, property, withholding and other tax issues and (iii) disputes over interconnection, programming and copyright fees. While we generally expect that the amounts required to satisfy these contingencies will not materially differ from any estimated amounts we have accrued, no assurance can be given that the resolution of one or more of these contingencies will not result in a material impact on our results of operations, cash flows or financial position in any given period. Due, in general, to the complexity of the issues involved and, in certain cases, the lack of a clear basis for predicting outcomes, we cannot provide a meaningful range of potential losses or cash outflows that might result from any unfavorable outcomes.

(11) Segment Reporting

We have one reportable segment that provides video, broadband internet, fixed-line telephony and mobile services to residential and business customers in Chile.

Our revenue by major category is set forth below:

	Three months ended March 31,	
	2017	**2016**
	CLP in billions	
Subscription revenue (a):		
Video	57.6	60.0
Broadband internet	54.8	46.5
Fixed-line telephony	23.0	19.5
Cable subscription revenue	135.4	126.0
Mobile (b)	8.3	6.2
Total subscription revenue	143.7	132.2
Non-subscription revenue (b) (c)	6.5	8.0
Total	150.2	140.2

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.

(b) Mobile subscription revenue excludes mobile interconnect revenue of CLP 0.5 billion and CLP 0.7 billion during the three months ended March 31, 2017 and 2016, respectively. Mobile interconnect revenue and revenue from mobile handset sales are included in non-subscription revenue.

(c) Non-subscription revenue includes, among other items, installation, interconnect, advertising and mobile handset sales revenue.

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

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2016 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-looking Statements.* This section provides a description of certain factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three months ended March 31, 2017 and 2016.
- *Material Changes in Financial Condition.* This section provides an analysis of our parent and subsidiary liquidity, condensed consolidated statements of cash flows and contractual commitments.

The capitalized terms used below have been defined in the notes to our condensed consolidated financial statements. In the following text, the terms "we," "our," "our company" and "us" may refer, as the context requires, to VTR Finance or collectively to VTR Finance and its subsidiaries.

Unless otherwise indicated, convenience translations into Chilean pesos are calculated as of March 31, 2017.

Forward-looking Statements

Certain statements in this quarterly report constitute forward-looking statements. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* may contain forward-looking statements, including statements regarding our business, product, foreign currency and finance strategies, our property and equipment additions, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the maturity of our markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in our revenue, costs or growth rates, our liquidity, credit risks, foreign currency risks, target leverage levels, our future projected contractual commitments and cash flows and other information and statements that are not historical fact. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in Chile;
- the competitive environment in the cable television, broadband and telecommunications industries in Chile, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our cable television, broadband internet, fixed-line telephony, mobile and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our cable television, broadband internet, fixed-line telephony and mobile service offerings and our average revenue per household;

- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in Chile and adverse outcomes from regulatory proceedings;
- government intervention that requires opening our broadband distribution networks to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from and implement our business plan with respect to the businesses we have acquired or may acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in Chile and the Netherlands;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;
- the ability of suppliers and vendors (including our third-party wireless network provider under our MVNO arrangement) to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our digital video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements, including the costs and benefits associated with our planned new build and upgrade activities;
- the availability of capital for the acquisition and/or development of telecommunications networks and services;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- the leakage of sensitive customer data;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

The broadband distribution and mobile service industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this quarterly report are subject to a significant degree of risk. These forward-looking statements and the above-described risks, uncertainties and other factors speak only as of the date of this quarterly report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on any forward-looking statement.

Overview

General

We are a subsidiary of Liberty Global that provides video, broadband internet, fixed-line telephony and mobile services to residential and business customers in Chile.

Operations

At March 31, 2017, we owned and operated networks that passed 3,271,500 homes and served 2,820,900 revenue generating units (**RGUs**), consisting of 1,052,900 video subscribers, 1,117,800 broadband internet subscribers and 650,200 fixed-line telephony subscribers. In addition, at March 31, 2017, we served 178,700 mobile subscribers.

The following table provides details of our organic RGU and mobile subscriber changes for the periods indicated. Organic RGU and mobile subscriber changes exclude the effect of acquisitions (RGUs and mobile subscribers added on the acquisition date) and other non-organic adjustments, but include post-acquisition date RGU and mobile subscriber additions or losses, as applicable.

	Three months ended March 31,	
	2017	**2016**
Organic RGU additions (losses):		
Video:		
Basic	(3,800)	(3,600)
Enhanced	9,400	8,000
Total video	5,600	4,400
Broadband internet	26,600	23,300
Fixed-line telephony	(6,800)	(11,500)
Total organic RGU additions	25,400	16,200
Organic mobile subscriber additions (losses):		
Postpaid	12,800	1,000
Prepaid	(300)	(1,000)
Total organic mobile subscriber additions	12,500	—

Competition and Other External Factors

We are experiencing significant competition from incumbent telecommunications operators, direct-to-home satellite operators and/or other providers. This significant competition may have an adverse impact on our ability to increase or maintain our revenue, RGUs and/or average monthly subscription revenue per average cable RGU or mobile subscriber, as applicable (**ARPU**). For additional information regarding the revenue impact of changes in the RGUs and ARPU of our consolidated reportable segment, see *Material Changes in Results of Operations* below.

In addition, high levels of sovereign debt in the U.S. and certain European countries, combined with weak growth and high unemployment, could potentially lead to fiscal reforms (including austerity measures), tax increases, sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility and disruptions in the credit and equity markets, as well as other outcomes that might adversely impact our company.

Material Changes in Results of Operations

General

Our revenue is derived from a jurisdiction that administers VAT or similar revenue-based taxes. Any increases in these taxes could have an adverse impact on our ability to maintain or increase our revenue to the extent that we are unable to pass such tax increases on to our customers. In the case of revenue-based taxes for which we are the ultimate taxpayer, we will also experience increases in our operating costs and expenses and corresponding declines in our Segment OCF and Segment OCF margins to the extent of any such tax increases. As we use the term, "**Segment OCF**" is defined as operating income before depreciation and amortization, share-based compensation, related-party fees and allocations, provisions and provision releases related to significant litigation and impairment, restructuring and other operating items. Other operating items include (i) gains and losses on the disposition of long-lived assets, (ii) third-party costs directly associated with successful and unsuccessful acquisitions and dispositions, including legal, advisory and due diligence fees, as applicable, and (iii) other acquisition-related items, such as gains and losses on the settlement of contingent consideration.

We pay interconnection fees to other telephony providers when calls or text messages from our subscribers terminate on another network, and we receive similar fees from such providers when calls or text messages from their customers terminate on our network or networks that we access through our MVNO or other arrangements. The amounts we charge and incur with respect to fixed-line telephony and mobile interconnection fees are subject to regulatory oversight. To the extent that regulatory authorities introduce fixed-line or mobile termination rate changes, we would experience prospective changes and, in cases as described in note 10 to our condensed consolidated financial statements, we could experience retroactive changes in our interconnect revenue and/or costs. The ultimate impact of any such changes in termination rates on our Segment OCF would be dependent on the call or text messaging patterns that are subject to the changed termination rates.

We are subject to inflationary pressures with respect to certain costs and foreign currency exchange risk with respect to costs and expenses that are denominated in U.S. dollars (**non-functional currency expenses**). Any cost increases that we are not able to pass on to our subscribers through rate increases would result in increased pressure on our operating margins.

Revenue

Revenue includes amounts earned from (i) subscribers to our broadband communication and other fixed-line services (collectively referred to herein as "**cable subscription revenue**") and our mobile services and (ii) installation fees, interconnect fees, advertising revenue and mobile handset sales. Consistent with the presentation of our revenue categories in note 11 to our condensed consolidated financial statements, we use the term "subscription revenue" in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees. In the following tables, mobile subscription revenue excludes the related interconnect revenue.

Variances in the subscription revenue that we receive from our customers are a function of (i) changes in the number of RGUs or mobile subscribers outstanding during the period and (ii) changes in ARPU. Changes in ARPU can be attributable to (a) changes in prices, (b) changes in bundling or promotional discounts, (c) changes in the tier of services selected, (d) variances in subscriber usage patterns and (e) the overall mix of cable and mobile products during the period. In the following discussion, we discuss ARPU changes in terms of the net impact of the above factors on the ARPU that is derived from our video, broadband internet, fixed-line telephony and mobile products.

Our revenue by major category is set forth below:

	Three months ended March 31,		Increase (decrease)	
	2017	2016	CLP	%
	CLP in billions			
Subscription revenue (a):				
Video	57.6	60.0	(2.4)	(4.0)
Broadband internet	54.8	46.5	8.3	17.8
Fixed-line telephony	23.0	19.5	3.5	17.9
Cable subscription revenue	135.4	126.0	9.4	7.5
Mobile (b)	8.3	6.2	2.1	33.9
Total subscription revenue	143.7	132.2	11.5	8.7
Non-subscription revenue (b) (c)	6.5	8.0	(1.5)	(18.8)
Total	150.2	140.2	10.0	7.1

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable and mobile products or the composition of bundles can contribute to changes in our product revenue categories from period to period.

(b) Mobile subscription revenue excludes mobile interconnect revenue of CLP 0.5 billion and CLP 0.7 billion during the three months ended March 31, 2017 and 2016, respectively. Mobile interconnect revenue and revenue from mobile handset sales are included in non-subscription revenue.

(c) Non-subscription revenue includes, among other items, installation, interconnect, advertising and mobile handset sales revenue.

Our revenue increased CLP 10.0 billion or 7.1% during the three months ended March 31, 2017, as compared to the corresponding period in 2016, as set forth below (CLP in billions):

Increase in cable subscription revenue due to change in:	
Average number of RGUs (a)	3.9
ARPU (b)	5.5
Total increase in cable subscription revenue	9.4
Increase in mobile subscription revenue (c)	2.1
Total increase in subscription revenue	11.5
Decrease in non-subscription revenue (d)	(1.5)
Total	10.0

(a) The increase in cable subscription revenue related to a change in the average number of RGUs is attributable to increases in the average number of broadband internet and enhanced video RGUs that were only partially offset by declines in the average number of fixed-line telephony and basic video RGUs.

(b) The increase in cable subscription revenue related to a change in ARPU is attributable to (i) higher ARPU from video, broadband internet and fixed-line telephony services and (ii) an improvement in RGU mix. In addition, the increase in cable subscription revenue includes the CLP 1.3 billion positive impact of an adjustment recorded during the first quarter of 2016 to reflect the retroactive application of a tariff on ancillary services provided directly to customers for the period from July 2013 through February 2014.

(c) The increase in mobile subscription revenue is primarily due to an increase in the average number of mobile subscribers.

(d) The decrease in non-subscription revenue is predominantly due to a decrease in advertising revenue.

Programming and other direct costs of services

Programming and other direct costs of services include programming and copyright costs, mobile access and interconnect costs, mobile handset and other equipment cost of goods sold and other direct costs related to our operations. Programming and copyright costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of (i) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, (ii) rate increases and (iii) growth in the number of our enhanced video subscribers.

Our programming and other direct costs of services increased CLP 2.1 billion or 5.5% during the three months ended March 31, 2017, as compared to the corresponding period in 2016. This increase includes the following factors:

- An increase in mobile handset costs of CLP 1.0 billion due to higher mobile handset sales;
- An increase in programming and copyright costs of CLP 0.7 billion or 2.7%, primarily associated with the net effect of (i) growth in the number of enhanced video subscribers, (ii) decreased costs for certain premium content, (iii) an increase arising from foreign currency exchange rate fluctuations, after giving effect to the application of hedge accounting for certain derivative instruments that are used to mitigate a portion of our foreign currency exchange rate risk with respect to our U.S. dollar-denominated programming contracts, and (iv) declines in the number of basic video subscribers. A significant portion of our programming contracts are denominated in U.S. dollars; and
- An increase in mobile access and interconnect costs of CLP 0.5 billion or 4.8%, primarily due to the net effect of (i) higher MVNO charges and (ii) a net decline resulting from lower interconnect rates and higher call volumes.

Other operating expenses

Other operating expenses include network operations, customer operations, customer care, share-based compensation and other costs related to our operations.

Our other operating expenses increased CLP 0.7 billion or 3.0% during the three months ended March 31, 2017, as compared to the corresponding period in 2016. Our other operating expenses include share-based compensation expense, which increased CLP 0.1 billion during the three months ended March 31, 2017, as compared to the corresponding period in 2016. Excluding the effects of share-based compensation expense, our other operating expenses increased CLP 0.6 billion or 2.5%. This increase includes the following factors:

- A decrease in personnel costs of CLP 1.0 billion or 15.3%, primarily due to (i) lower staffing levels and (ii) lower incentive compensation costs;
- An increase in outsourced labor and professional fees of CLP 0.9 billion or 43.9%, primarily due to higher third-party call center costs; and
- An increase in bad debt of CLP 0.5 billion or 9.5%.

SG&A expenses

SG&A expenses include human resources, information technology, general services, management, finance, legal, external sales and marketing costs, share-based compensation and other general expenses.

Our SG&A expenses increased CLP 1.3 billion or 5.2%, during the three months ended March 31, 2017, as compared to the corresponding period in 2016. Our SG&A expenses include share-based compensation expense, which increased CLP 0.4 billion during the three months ended March 31, 2017, as compared to the corresponding period in 2016. Excluding the effects of share-based compensation expense, our SG&A expenses increased CLP 0.9 billion or 3.6%. This increase includes the following factors:

- An increase in personnel costs of CLP 0.6 billion or 9.6%, primarily due to annual wage increases and higher severance costs;
- An increase in information-technology related expenses of CLP 0.5 billion or 47.7%, primarily due to higher software and other information technology-related maintenance costs; and
- A decrease in external sales and marketing costs of CLP 0.4 billion or 4.2%, primarily due to (i) lower costs associated with advertising campaigns and (ii) lower third-party sales commissions.

Related-party fees and allocations

We recorded related-party fees and allocations of CLP 2.7 billion and CLP 3.1 billion during the three months ended March 31, 2017 and 2016, respectively. These amounts represent fees charged to our company that originate with Liberty Global and certain other Liberty Global subsidiaries and include charges for management, finance, legal, technology and other corporate and administrative services provided to our subsidiaries.

For additional information regarding our related-party fees and allocations, see note 8 to our condensed consolidated financial statements.

Depreciation expense

Our depreciation expense decreased CLP 4.1 billion during the three months ended March 31, 2017, as compared to the corresponding period in 2016. This decrease is primarily due to the net effect of (i) decreases associated with certain assets becoming fully depreciated and (ii) increases associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of CLP 1.1 billion and CLP 0.4 billion during the three months ended March 31, 2017 and 2016, respectively.

The amount for the 2017 period includes (i) restructuring charges of CLP 1.0 billion, primarily related to contract termination costs, (ii) impairment charges of CLP 0.5 billion and (iii) gains from the disposition of assets of CLP 0.4 billion.

The amount for the 2016 period includes (i) gains from the disposition of assets of CLP 0.8 billion, (ii) restructuring charges of CLP 0.8 billion related to contract termination costs and (iii) impairment charges of CLP 0.4 billion.

For additional information regarding our restructuring charges, see note 9 to our condensed consolidated financial statements.

Interest expense

Our interest expense decreased CLP 2.3 billion during the three months ended March 31, 2017, as compared to the corresponding period in 2016. This change is primarily attributable to foreign currency translation effects.

For additional information regarding our outstanding indebtedness, see note 6 to our condensed consolidated financial statements.

It is possible that the interest rates on any new borrowings could be higher than the current interest rates on our existing indebtedness. As further discussed in note 3 to our condensed consolidated financial statements, we use derivative instruments to manage our interest rate risks.

Realized and unrealized losses on derivative instruments, net

Our realized and unrealized gains or losses on derivative instruments include (i) unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the derivative contracts are fully or partially settled and (ii) realized gains or losses upon the full or partial settlement of the derivative contracts. The details of our realized and unrealized losses on derivative instruments, net, are as follows:

	Three months ended March 31,	
	2017	**2016**
	CLP in billions	
Cross-currency derivative contracts (a)	(15.3)	(64.8)
Foreign currency forward contracts	(1.2)	(4.8)
Total	(16.5)	(69.6)

(a) The loss during the 2017 period is primarily attributable to losses associated with (i) an increase in the value of the Chilean peso relative to the U.S. dollar and (ii) increases in market interest rates in the U.S. dollar market. In addition, the loss during the 2017 period includes a net gain of CLP 5.4 billion, resulting from changes in our credit risk valuation adjustments. The loss during the 2016 period is primarily attributable to the net effect of (a) losses associated with an increase in the value of the Chilean peso relative to the U.S. dollar, (b) gains associated with decreases in market interest rates in the U.S. dollar market and (c) losses associated with decreases in market interest rates in the Chilean peso market. In addition, the loss during the 2016 period includes a net gain of CLP 2.0 billion, resulting from changes in our credit risk valuation adjustments.

For additional information concerning our derivative instruments, see notes 3 and 4 to our condensed consolidated financial statements.

Foreign currency transaction gains, net

We recognized foreign currency transaction gains, net, of CLP 12.6 billion and CLP 59.9 billion during the three months ended March 31, 2017 and 2016, respectively.

Our foreign currency transaction gains primarily result from the remeasurement of the VTR Finance Senior Secured Notes, which are denominated in U.S. dollars. Unrealized foreign currency transaction gains or losses are computed based on period-end exchange rates and are non-cash in nature until such time as the amounts are settled.

Income tax expense

We recognized income tax expense of CLP 32.6 billion and CLP 0.3 billion during the three months ended March 31, 2017 and 2016, respectively.

The income tax expense during the three months ended March 31, 2017 differs from the expected income tax expense of CLP 4.0 billion (based on the Dutch statutory income tax rate of 25.0%), primarily due to the negative impacts of (i) nondeductible or nontaxable foreign currency exchange results and (ii) certain permanent differences between the financial and tax accounting treatment of interest and other items.

The income tax expense during the three months ended March 31, 2016 differs from the expected income tax benefit of CLP 0.5 billion (based on the Dutch statutory income tax rate of 25.0%), primarily due to the negative impacts of (i) certain permanent differences between the financial and tax accounting treatment of interest and other items and (ii) an increase in valuation allowances. The negative impacts of these items were partially offset by the positive impact of certain permanent differences between the financial and tax accounting treatment of price level adjustments.

For additional information concerning our income taxes, see note 7 to our condensed consolidated financial statements.

Net loss

During the three months ended March 31, 2017 and 2016, we reported net losses of CLP 16.6 billion and CLP 2.2 billion, respectively, including (i) operating income of CLP 37.3 billion and CLP 27.6 billion, respectively, (ii) net non-operating expense of CLP 21.3 billion and CLP 29.5 billion, respectively, and (iii) income tax expense of CLP 32.6 billion and CLP 0.3 billion, respectively.

Gains or losses associated with (i) changes in the fair values of derivative instruments and (ii) movements in foreign currency exchange rates are subject to a high degree of volatility and, as such, any gains from these sources do not represent a reliable source of income. In the absence of significant gains in the future from these sources or from other non-operating items, our ability to achieve earnings is largely dependent on our ability to increase our Segment OCF to a level that more than offsets the aggregate amount of our (a) share-based compensation expense, (b) depreciation and amortization, (c) impairment, restructuring and other operating items, (d) interest expense, (e) other non-operating expenses and (f) income tax expenses.

Subject to the limitations included in our various debt instruments, we expect that Liberty Global will cause our company to maintain our debt at current levels relative to our Covenant EBITDA for the foreseeable future. As a result, we expect that we will continue to report significant levels of interest expense for the foreseeable future.

Material Changes in Financial Condition

Sources and Uses of Cash

Cash and cash equivalents

At March 31, 2017, we had cash and cash equivalents of CLP 65.3 billion, of which CLP 64.9 billion was held by our subsidiaries.

Liquidity of VTR Finance

Our sources of liquidity at the parent level include proceeds in the form of distributions or loans from VTR or other subsidiaries, subject to certain restrictions, as noted below. From time to time, subsidiaries of Liberty Global may also agree to provide funding to VTR Finance in the form of subordinated loans or equity contributions. VTR Finance's ability to access the liquidity of its subsidiaries may be limited by tax considerations and other factors.

The ongoing cash needs of VTR Finance include interest payments on outstanding debt. From time to time, VTR Finance may also require cash in connection with (i) the repayment of outstanding debt, (ii) distributions or loans to our owners, (iii) corporate general and administrative expenses, (iv) the satisfaction of contingent liabilities or (v) acquisitions and other investment opportunities. No assurance can be given that funding from Liberty Global or other Liberty Global subsidiaries, our subsidiaries or external sources would be available on favorable terms, or at all.

Liquidity of Subsidiaries

In addition to cash and cash equivalents, the primary sources of liquidity of our subsidiaries are cash provided by operations and borrowing availability under the VTR Credit Facility, as further described in note 6 to our condensed consolidated financial statements. The liquidity of VTR and our other subsidiaries generally is used to fund property and equipment additions, debt service requirements of VTR Finance and payments required by VTR's derivative instruments. From time to time, our subsidiaries may also require cash in connection with (i) distributions or loans to VTR Finance, (ii) the satisfaction of contingencies, (iii) the repayment of any outstanding debt, (iv) acquisitions and other investment opportunities or (v) income tax payments.

For additional information regarding our consolidated cash flows, see the discussion under *Condensed Consolidated Statements of Cash Flows* below.

Capitalization

At March 31, 2017, the outstanding principal amount of our debt, together with our capital lease obligations, aggregated CLP 961.7 billion, including CLP 37.0 billion that is classified as current in our condensed consolidated balance sheet and CLP 924.5 billion that is due in January 2024.

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in the credit agreement of the VTR Credit Facility and the indenture for the VTR Finance Senior Secured Notes is dependent primarily on our ability to maintain or increase our Covenant EBITDA and to achieve adequate returns on our property and equipment additions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in the agreements underlying the VTR Credit Facility and the VTR Finance Senior Secured Notes. In this regard, if our Covenant EBITDA were to decline, we could be required to partially repay or limit our borrowings under the VTR Credit Facility or any then existing debt in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any funding would be available on favorable terms, or at all, to fund any such required repayment. At March 31, 2017, we were in compliance with our debt covenants. In addition, we do not anticipate any instances of non-compliance with respect to our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

Notwithstanding our negative working capital position at March 31, 2017, we believe that we have sufficient resources to fund our foreseeable liquidity requirements during the next 12 months. However, we may seek to refinance the VTR Finance Senior Secured Notes prior to their maturity in 2024, and no assurance can be given that we will be able to complete this refinancing. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns or any adverse regulatory developments could impact the credit and equity markets we access and, accordingly, our future liquidity and financial position. However, (i) the financial failure of any of our counterparties could (a) reduce amounts available under our committed credit facility and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

Condensed Consolidated Statements of Cash Flows

Summary. Our condensed consolidated statements of cash flows for the three months ended March 31, 2017 and 2016 are summarized as follows:

	Three months ended March 31,		
	2017	**2016**	**Change**
	CLP in billions		
Net cash provided by operating activities	8.6	21.0	(12.4)
Net cash used by investing activities	(12.3)	(24.3)	12.0
Net cash used by financing activities	(13.6)	—	(13.6)
Effect of exchange rate changes on cash	(1.1)	0.7	(1.8)
Net decrease in cash and cash equivalents	(18.4)	(2.6)	(15.8)

Operating Activities. The decrease in net cash provided by our operating activities is primarily attributable to the net effect of (i) a decrease in the cash provided by our Segment OCF and related working capital items, (ii) a decrease in cash provided due to higher cash payments related to derivative instruments, (iii) an increase in cash provided due to lower cash payments for interest and (iv) a decrease in cash provided due to higher payments of taxes.

Investing Activities. The decrease in net cash used by our investing activities is primarily attributable to a decrease in cash used of (i) CLP 8.2 billion related to lower capital expenditures and (ii) CLP 4.6 billion related to lower net advances pursuant to a loan (the "Lila Chile Note") from VTR Finance to Lila Chile Holding B.V., another subsidiary of Liberty Global, which was settled during the fourth quarter of 2016.

The capital expenditures that we report in our condensed consolidated statements of cash flows do not include amounts that are financed under capital-related vendor financing or capital lease arrangements. Instead, these amounts are reflected as non-cash additions to our property and equipment when the underlying assets are delivered and as repayments of debt when the principal is repaid. In this discussion, we refer to (i) our capital expenditures as reported in our condensed consolidated statements of cash flows, which exclude amounts financed under capital-related vendor financing or capital lease arrangements, and (ii) our total property and equipment additions, which include our capital expenditures on an accrual basis and amounts financed under capital-related vendor financing or capital lease arrangements.

A reconciliation of our property and equipment additions to our capital expenditures as reported in our condensed consolidated statements of cash flows is set forth below:

	Three months ended March 31,	
	2017	**2016**
	CLP in billions	
Property and equipment additions	36.4	36.7
Assets acquired under capital-related vendor financing arrangements	(9.2)	—
Changes in current liabilities related to capital expenditures	(14.8)	(16.1)
Capital expenditures	12.4	20.6

The decrease in our property and equipment additions during the three months ended March 31, 2017, as compared to the corresponding period in 2016, is due to the net effect of (i) an increase in expenditures for the purchase and installation of customer premises equipment, (ii) a decrease related to support capital, including information technology upgrades and general support systems, and (iii) a decrease in expenditures for new build and upgrade projects. During the three months ended March 31, 2017, approximately 61% of our purchases of property and equipment were denominated in U.S. dollars.

Financing Activities. The increase in net cash used by our financing activities is attributable to an increase in cash used of (i) CLP 8.0 billion related to higher net amounts distributed to our parent and (ii) CLP 5.6 billion due to higher net repayments of third-party debt and capital lease obligations.

Contractual Commitments

The following table sets forth the Chilean peso equivalents of our commitments as of March 31, 2017:

	Payments due during:							
	Remainder of 2017	2018	2019	2020	2021	2022	Thereafter	Total
	CLP in billions							
Debt (excluding interest)	27.1	9.7	—	—	—	—	924.5	961.3
Capital leases (excluding interest)	0.2	0.2	—	—	—	—	—	0.4
Programming commitments	28.5	31.2	7.3	2.5	0.9	0.4	—	70.8
Network and connectivity commitments	16.2	23.3	20.0	—	—	—	—	59.5
Operating leases	7.1	8.3	5.5	4.1	3.4	2.8	4.5	35.7
Purchase commitments	5.8	8.4	6.9	0.7	0.7	0.7	0.5	23.7
Total (a)	84.9	81.1	39.7	7.3	5.0	3.9	929.5	1,151.4
Projected cash interest payments on debt and capital lease obligations (b)	32.7	65.7	64.9	63.8	63.6	63.6	95.3	449.6

(a) The commitments included in this table do not reflect any liabilities that are included in our March 31, 2017 condensed consolidated balance sheet other than debt and capital lease obligations.

(b) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of March 31, 2017. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our deferred financing costs.

For information concerning our debt and capital lease obligations, see note 6 to our condensed consolidated financial statements. For information concerning our commitments, see note 10 to our condensed consolidated financial statements.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the three months ended March 31, 2017 and 2016, see note 3 to our condensed consolidated financial statements.