



VTR FINANCE B.V.

**Condensed Consolidated Financial Statements
March 31, 2018**

**VTR FINANCE B.V.
Boeing Avenue 53
1119 PE Schiphol-Rijk
The Netherlands**

VTR FINANCE B.V.
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VTR FINANCE B.V.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2018	December 31, 2017
	CLP in billions	
ASSETS		
Current assets:		
Cash and cash equivalents	41.7	55.0
Trade receivables, net of allowances of CLP 17.5 billion and CLP17.6 billion, respectively	67.0	65.5
Inventory held for sale	7.9	6.1
Prepaid expenses	5.6	8.1
Other current assets	8.1	7.5
Total current assets	130.3	142.2
Property and equipment, net	459.6	443.3
Goodwill	266.7	266.7
Deferred income taxes	49.9	46.7
Other assets, net	36.8	36.7
Total assets	943.3	935.6

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

VTR FINANCE B.V.
CONDENSED CONSOLIDATED BALANCE SHEETS – (Continued)

	March 31, 2018	December 31, 2017
	CLP in billions	
LIABILITIES AND OWNER’S DEFICIT		
Current liabilities:		
Accounts payable.....	84.4	90.4
Deferred revenue	27.2	26.4
Current portion of debt and capital lease obligations.....	61.5	60.1
Accrued interest.....	14.0	29.1
Accrued programming.....	17.8	18.4
Accrued income taxes.....	36.7	36.8
Other accrued and current liabilities.....	53.9	51.2
Total current liabilities	295.5	312.4
Long-term debt and capital lease obligations	832.9	848.3
Long-term tax liability	149.3	146.0
Derivative instruments.....	68.4	20.9
Other long-term liabilities.....	7.9	8.8
Total liabilities.....	1,354.0	1,336.4
Commitments and contingencies		
Owner’s deficit:		
Accumulated net distributions	(357.0)	(361.2)
Accumulated deficit.....	(68.7)	(54.5)
Accumulated other comprehensive earnings, net of taxes.....	15.0	14.9
Total owner’s deficit	(410.7)	(400.8)
Total liabilities and owner’s deficit.....	943.3	935.6

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

VTR FINANCE B.V.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31,	
	2018	2017
	CLP in billions	
Revenue	158.9	150.2
Operating costs and expenses (exclusive of depreciation, shown separately below):		
Programming and other direct costs of services.....	42.4	40.4
Other operating.....	26.0	24.4
Selling, general and administrative (SG&A).....	27.7	26.4
Related-party fees and allocations.....	1.8	2.7
Depreciation	17.9	17.9
Impairment, restructuring and other operating items, net.....	1.5	1.1
	<u>117.3</u>	<u>112.9</u>
Operating income	<u>41.6</u>	<u>37.3</u>
Non-operating income (expense):		
Interest expense	(16.7)	(17.8)
Interest income	0.3	0.4
Realized and unrealized losses on derivative instruments, net	(51.3)	(16.5)
Foreign currency transaction gains, net.....	17.3	12.6
	<u>(50.4)</u>	<u>(21.3)</u>
Earnings (loss) before income taxes.....	(8.8)	16.0
Income tax expense.....	(5.4)	(32.6)
Net loss	<u>(14.2)</u>	<u>(16.6)</u>

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VTR FINANCE B.V.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three months ended March 31,	
	2018	2017
	CLP in billions	
Net loss	(14.2)	(16.6)
Other comprehensive earnings, net of taxes:		
Unrealized gains (losses) on cash flow hedges	(0.8)	0.8
Reclassification adjustments included in net loss	0.9	(0.8)
Other comprehensive earnings.....	0.1	—
Comprehensive loss	(14.1)	(16.6)

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

VTR FINANCE B.V.
CONDENSED CONSOLIDATED STATEMENT OF OWNER'S DEFICIT

	Accumulated net distributions	Accumulated deficit	Accumulated other comprehensive earnings, net of taxes	Total owner's deficit
	CLP in billions			
Balance at January 1, 2018	(361.2)	(54.5)	14.9	(400.8)
Net loss	—	(14.2)	—	(14.2)
Other comprehensive earnings	—	—	0.1	0.1
Contribution of services	3.8	—	—	3.8
Share-based compensation	0.4	—	—	0.4
Balance at March 31, 2018	<u>(357.0)</u>	<u>(68.7)</u>	<u>15.0</u>	<u>(410.7)</u>

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

VTR FINANCE B.V.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	2018	2017
	CLP in billions	
Cash flows from operating activities:		
Net loss	(14.2)	(16.6)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation expense.....	0.4	0.9
Related-party fees and allocations.....	1.8	2.7
Depreciation.....	17.9	17.9
Impairment, restructuring and other operating items, net.....	1.5	1.1
Amortization of deferred financing costs	0.5	0.4
Realized and unrealized losses on derivative instruments, net.....	51.3	16.5
Foreign currency transaction gains, net.....	(17.3)	(12.6)
Deferred income tax expense (benefit).....	(3.2)	2.1
Changes in operating assets and liabilities	(23.3)	(3.8)
Net cash provided by operating activities	<u>15.4</u>	<u>8.6</u>
Cash flows from investing activities:		
Capital expenditures	(16.5)	(12.4)
Other investing activities, net	0.2	0.1
Net cash used by investing activities.....	<u>(16.3)</u>	<u>(12.3)</u>
Cash flows from financing activities:		
Borrowings of third-party debt	18.6	6.8
Repayments of third-party debt and capital lease obligations.....	(30.7)	(12.4)
Distributions to parent	—	(8.0)
Net cash used by financing activities	<u>(12.1)</u>	<u>(13.6)</u>
Effect of exchange rate changes on cash	<u>(0.3)</u>	<u>(1.1)</u>
Net decrease in cash and cash equivalents.....	(13.3)	(18.4)
Cash and cash equivalents:		
Beginning of period	<u>55.0</u>	<u>83.7</u>
End of period	<u>41.7</u>	<u>65.3</u>
Cash paid for interest	<u>31.0</u>	<u>32.7</u>
Net cash paid for taxes	<u>6.0</u>	<u>5.6</u>

(1) **Basis of Presentation**

Organization

VTR Finance B.V. (**VTR Finance**) is a provider of video, broadband internet, fixed-line telephony and mobile services to residential and business customers in Chile. VTR Finance is a wholly-owned subsidiary of Liberty Latin America Ltd. (**Liberty Latin America**). 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.

Basis of Presentation

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 2017 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, 2018.

Certain prior period amounts have been reclassified to conform to the current period presentation.

These unaudited condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through May 25, 2018, the date of issuance.

Split-Off of Liberty Latin America from Liberty Global

Prior to the Split-Off, as further described below, we were a wholly-owned subsidiary of Liberty Global plc (**Liberty Global**). On December 29, 2017, Liberty Global completed the split-off (the **Split-Off**) of its former wholly-owned subsidiary Liberty Latin America, which primarily included (i) Cable & Wireless Communications Limited and its subsidiaries, (ii) VTR Finance and its subsidiaries and (iii) LiLAC Communications Inc. and its subsidiaries. As a result of the Split-Off, Liberty Latin America became an independent, publicly traded company, and its assets and liabilities as of the time of the Split-Off consisted of the businesses, assets and liabilities that were formerly attributed to Liberty Global’s “LiLAC Group.”

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(2) Accounting Change and Recent Accounting Pronouncements

Accounting Change

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. We early adopted ASU 2014-09, as amended by ASU No. 2015-14, as of January 1, 2018 using the cumulative effect transition method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. In Chile, consumer laws preclude the enforcement of fixed-term contracts for telecommunication services, i.e. consumers of telecommunication services may cancel the contracts with their providers at anytime without penalty. Accordingly, the primary impact of ASU 2014-09 was the deferral of certain upfront fees charged to our customers. When we enter into contracts to provide services to our customers, we often charge installation or other upfront fees. Under ASU 2014-09, these fees are deferred and recognized as revenue over a period of time the upfront fees convey a material right.

The impact of adopting ASU 2014-09 did not have a material impact to our condensed consolidated financial statements.

Our revenue by major category is set forth below.

	Three months ended	
	March 31,	
	2018	2017
	CLP in billions	
Residential revenue:		
Residential fixed revenue:		
Subscription revenue (a):		
Video	60.0	57.2
Broadband internet	58.2	54.0
Fixed-line telephony.....	20.8	22.5
Total subscription revenue	139.0	133.7
Non-subscription revenue (b)	4.5	4.9
Total residential fixed revenue	143.5	138.6
Residential mobile revenue:		
Subscription revenue (a)	9.8	8.3
Non-subscription revenue (c)	2.0	1.5
Total residential mobile revenue	11.8	9.8
Total residential revenue	155.3	148.4
Business-to-business (B2B) revenue:		
Subscription revenue (d)	3.4	1.8
Non-subscription revenue	0.2	—
Total B2B revenue	3.6	1.8
Total.....	158.9	150.2

- (a) Residential fixed and mobile subscription revenue includes amounts received from subscribers for ongoing services.
- (b) Residential fixed non-subscription revenue includes, among other items, installation, interconnect and advertising revenue.
- (c) Residential mobile non-subscription revenue includes, among other items, revenue from sales of mobile handsets and other devices and interconnect revenue.

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- (d) B2B subscription revenue represents revenue from services to certain small or home office (SOHO) subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet or fixed-line telephony services that are the same or similar to the mass marketed products offered to our residential subscribers.

Recent Accounting Pronouncement

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 and additional guidance provided by ASU 2018-01, *Leases (Topic 842)—Land Easement Practical Expedient for Transition to Topic 842*, 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, the main impact of the adoption of this standard will be the recognition of lease assets and lease liabilities in our consolidated balance sheets for those leases classified as operating leases under previous U.S. GAAP. ASU 2016-02 will not have significant impacts on our consolidated statements of operations or cash flows.

(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 interest rate exposure and foreign currency exposure with respect to the Chilean peso and the United States (U.S.) dollar (\$). With the exception of certain 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 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, 2018			December 31, 2017		
	Current (a)	Long-term (a)	Total	Current (a)	Long-term	Total
	CLP in billions					
Assets:						
Cross-currency derivative contracts (b) ...	0.7	—	0.7	1.3	—	1.3
Foreign currency forward contracts	—	0.2	0.2	—	—	—
Total	0.7	0.2	0.9	1.3	—	1.3
Liabilities:						
Cross-currency derivative contracts (b) ...	2.9	68.4	71.3	2.3	20.9	23.2
Foreign currency forward contracts	8.1	—	8.1	7.9	—	7.9
Total	11.0	68.4	79.4	10.2	20.9	31.1

- (a) Our current derivative assets, long-term derivative assets and current derivative liabilities, are included in other current assets, other assets, net, 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 assessment 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 a net gain (loss) of CLP (6 billion) and CLP 5 billion during the three months ended March 31, 2018 and 2017, 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.

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

	Three months ended	
	March 31,	
	2018	2017
	CLP in billions	
Cross-currency derivative contracts.....	(49.7)	(15.3)
Foreign currency forward contracts	(1.6)	(1.2)
Total.....	<u>(51.3)</u>	<u>(16.5)</u>

At March 31, 2018, our accumulated other comprehensive earnings, net of taxes, includes CLP 2 billion of deferred net losses on derivative instruments to which we apply hedge accounting. We expect most of these deferred losses to be reclassified to operating expense in our condensed consolidated statement of operations within the next 12 months.

The following table sets forth the classification of the net cash inflows (outflows) of our derivative instruments:

	Three months ended	
	March 31,	
	2018	2017
	CLP in billions	
Operating activities.....	(2.4)	0.2
Investing activities.....	(1.0)	(0.8)
Total	<u>(3.4)</u>	<u>(0.6)</u>

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 has not been posted by either party under our derivative instruments. At March 31, 2018, we had no expected counterparty credit risk resulting from our net derivative positions.

We have entered into derivative instruments under agreements with each counterparty that contain master netting arrangements that are applicable in the event of early termination by either party to such derivative instrument.

Details of our Derivative Instruments

Cross-currency Swaps

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 Chilean peso (unmatched debt). Our policy is generally to provide for an economic hedge against foreign currency exchange rate movements, whenever possible and when cost effective to do so, by using derivative instruments to synthetically convert unmatched debt into Chilean pesos. The following table sets forth the total notional amounts and the related weighted average remaining contractual lives of our cross-currency swap contracts at March 31, 2018:

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	4.2

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Impact of Derivative Instruments on Borrowing Costs

The weighted average impact of derivative instruments on our borrowing costs at March 31, 2018 was a decrease of 52 basis points.

Foreign Currency Forwards

As of March 31, 2018, the total Chilean peso equivalent of the notional amount of our foreign currency forward contracts was CLP 137 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, 2018 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities, as 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, 2018, no such transfers were made.

In order to manage our foreign currency exchange risk, we have entered into various derivative instruments, as further described in note 3. 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 derivative 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. 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.

(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, 2018	December 31, 2017
	CLP in billions	
Distribution systems	567.5	556.9
Customer premises equipment	544.2	524.1
Support equipment, buildings and land	251.6	248.2
	<u>1,363.3</u>	<u>1,329.2</u>
Accumulated depreciation	(903.7)	(885.9)
Total	<u>459.6</u>	<u>443.3</u>

During the three months ended March 31, 2018 and 2017, we recorded non-cash increases to our property and equipment related to vendor financing arrangements of CLP 13 billion and CLP 9 billion, respectively, which exclude related value-added taxes (VAT) of CLP 1 billion in each period that were also financed by our vendors under these arrangements.

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(6) Debt and Capital Lease Obligations

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

	March 31, 2018						
	Weighted average interest rate (a)	Unused borrowing capacity		Estimated fair value (b)		Principal amount	
		Borrowing currency	CLP equivalent	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
CLP in billions							
Parent – VTR Finance							
Senior Secured Notes	6.88%	\$ —	—	877.0	910.5	845.5	861.6
Subsidiaries:							
VTR Credit Facility	—	(c)	140.6	—	—	—	—
Vendor financing (d)	4.53%	—	—	61.3	59.9	61.3	59.9
Total debt before deferred financing costs	6.72%		140.6	938.3	970.4	906.8	921.5

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

	March 31, 2018	December 31, 2017
	CLP in billions	
Total debt before deferred financing costs	906.8	921.5
Deferred financing costs	(12.8)	(13.6)
Total carrying amount of debt	894.0	907.9
Capital lease obligations	0.4	0.5
Total debt and capital lease obligations	894.4	908.4
Less: Current maturities of debt and capital lease obligations	(61.5)	(60.1)
Long-term debt and capital lease obligations	832.9	848.3

- (a) Represents the weighted average interest rate in effect at March 31, 2018 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent the stated rates and do not include the impact of 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, the weighted average interest rate on our indebtedness was 6.42% at March 31, 2018. 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 concerning fair value hierarchies, see note 4.
- (c) Unused borrowing capacity represents the maximum availability at March 31, 2018 without regard to covenant compliance calculations or other conditions precedent to borrowing. At March 31, 2018, the unused borrowing capacity relates to our senior secured revolving credit facility, which comprises a \$160 million (CLP 97 billion) facility (the **VTR Dollar Credit Facility**) and a CLP 44 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, 2018. At March 31, 2018, the full amount of unused borrowing capacity was available to be borrowed under the VTR Credit Facility, both before and after consideration of the completion of the March 31, 2018 compliance reporting requirements, which include leverage-based payment tests and

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leverage covenants. Subsequent to March 31, 2018, the VTR Credit Facility was cancelled and replaced with the 2018 Revolving Credit Facilities, as further discussed below.

- (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. Our operating expenses for the three months ended March 31, 2018 and 2017 include CLP 19 billion and CLP 7 billion, respectively, that were financed by an intermediary and are reflected as a hypothetical cash outflow within net cash provided by operating activities and a hypothetical cash inflow within net cash used by financing activities in our condensed consolidated statements of cash flows. Repayments of vendor financing obligations are included in repayments of debt and capital lease obligations in our condensed consolidated statements of cash flows.

2018 Financing Transactions

In May 2018, we secured financing with respect to (i) a CLP 141 billion principal amount 5-year floating rate term loan bearing interest at the Índice de Cámara Promedio (ICP) plus 3.8% (**Term Loan B-1**) and (ii) a CLP 33 billion principal amount 5-year fixed rate term loan bearing interest at a rate of 7.0% (**Term Loan B-2** and, together with Term Loan B-1, the **CLP Term Loans**), which we expect to close in June. In addition, during May 2018, we entered into new revolving credit facilities (the **2018 Revolving Credit Facilities**), which comprise (i) a CLP 15 billion 5-year revolving credit facility with an interest rate of Tasa Activa Bancaria (TAB) plus 3.35%, (ii) a \$185 million 6-year revolving credit facility with an interest rate of LIBOR plus 2.75%, and (iii) a \$1 million 5-year revolving credit facility with an interest rate of LIBOR plus 2.75%. Upon closing of the 2018 Revolving Credit Facilities, the existing VTR Credit Facility was cancelled.

Maturities of Debt

As of March 31, 2018, (i) our vendor financing arrangements have maturities of CLP 47 billion and CLP 14 billion during the remainder of 2018 and 2019, respectively, and (ii) the VTR Finance Senior Secured Notes mature in January 2024.

(7) Income Taxes

We evaluate and update our estimated annual effective income tax rate on a quarterly basis based on current and forecasted operating results and tax laws. For interim tax reporting, we estimate an annual effective tax rate which is applied to year-to-date ordinary income or loss. The tax effect of significant unusual or infrequently occurring items are excluded from the estimated annual effective tax rate calculation and recognized in the interim period in which they occur.

Our interim estimate of our annual effective tax rate and our interim tax provision are subject to volatility due to factors such as jurisdictions in which our deferred taxes and/or tax attributes are subject to a full valuation allowance, relative changes in unrecognized tax benefits and changes in tax laws. Based upon the mix and timing of our actual annual earnings or loss compared to annual projections, as well as changes in the factors noted above, our effective tax rate may vary quarterly and may make quarterly comparisons not meaningful.

Income tax expense was approximately CLP 5 billion and CLP 33 billion for the three months ended March 31, 2018 and 2017, respectively. This represents an effective income tax rate of (61.4)% and 203.8% for the three months ended March 31, 2018 and 2017, respectively, including items treated discretely. For the three months ended March 31, 2018, the income tax expense attributable to our loss before income taxes differs from the amount computed using the statutory tax rate, primarily due to the detrimental effects of international rate differences, non-deductible expenses, changes in valuation allowances and increases in unrecognized tax benefits, partially offset by the beneficial effects of price level restatements. For the three months ended March 31, 2017, the income tax expense attributable to our earnings before income taxes differs from the amounts computed using the statutory tax rate, primarily due to non-deductible expenses and changes in valuation allowances, partially offset by the beneficial effects of price level restatements.

Effective January 1, 2018, VTR Finance, along with its ultimate Dutch parent, Lila Chile Holding B.V., 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.

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The Dutch Fiscal Unity combines an individual Dutch tax paying entity, or 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.

(8) Related-party Transactions

Our related-party transactions are as follows:

	Three months ended March 31,	
	2018	2017
	CLP in billions	
Allocated share-based compensation expense	0.4	0.2
Related-party fees and allocations:		
Operating and SG&A related (exclusive of depreciation and share-based compensation)	1.5	0.4
Depreciation	—	0.1
Share-based compensation	0.2	1.1
Management fee	0.1	1.1
Total fees and allocations	<u>1.8</u>	<u>2.7</u>
Included in net loss	<u>2.2</u>	<u>2.9</u>

General. We consider other subsidiaries of Liberty Latin America, Liberty Global, and subsidiaries of Liberty Global to each be a related party, (collectively, the "**Related Parties**"). Prior to the Split-Off, certain Liberty Global subsidiaries charged fees and allocated costs and expenses to our company based on actual costs incurred. Subsequent to the Split-Off, these items are now charged or allocated to our company from subsidiaries of Liberty Latin America. Although we believe the related-party fees 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.

Allocated share-based compensation expense. Amounts represent share-based compensation expense allocated from the Related Parties to our company with respect to share-based incentive awards held by certain of our employees, which are reflected as an increase to owner's deficit.

Related-party fees and allocations. These amounts represent fees charged to our company by the Related Parties. These amounts include charges for management, finance, legal, technology and other corporate and administrative services provided to our company. As we do not reimburse the Related Parties for these services, we reflected the aggregate amount of these allocated costs as 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 the Related Parties' 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 the operations of the Related Parties, 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 amount included in this category represents 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 the operations of the Related Parties, without a mark-up.
- *Share-based compensation.* These amounts represent share-based compensation associated with employees of the Related Parties who are not employees of our company. The amounts allocated represent our estimated share of the actual costs incurred by the operations of the Related Parties, without a mark-up.

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- *Management fee.* The amounts included in this category represent our estimated allocable share of the mark-up, if any, applicable to each category of the related-party fees and allocations charged to our company.

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

	March 31, 2018	December 31, 2017
	CLP in billions	
Other current assets (a)	1.1	1.1
Other accrued and current liabilities (b)	2.9	4.0

- (a) Represents a non-interest bearing receivable from another Liberty Latin America subsidiary.
- (b) Represents non-interest bearing payables to (i) Liberty Global subsidiaries and (ii) another Liberty Latin America subsidiary.

(9) 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, other equipment and non-cancellable operating leases and purchases of customer premises. The following table sets forth the Chilean peso equivalents of such commitments as of March 31, 2018:

	Payments due during:							
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter	
	CLP in billions							
Programming commitments.....	41.8	27.5	10.6	9.4	1.3	0.9	0.5	92.0
Network and connectivity commitments	18.2	20.2	—	—	—	—	—	38.4
Operating leases.....	6.0	5.5	4.2	3.6	2.9	2.3	2.3	26.8
Purchase commitments	6.9	6.9	0.7	0.7	0.7	0.4	—	16.3
Total (a).....	72.9	60.1	15.5	13.7	4.9	3.6	2.8	173.5

- (a) The commitments included in this table do not reflect any liabilities that are included in our March 31, 2018 condensed consolidated balance sheet.

Programming commitments consist of obligations associated with certain 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, 2018 and 2017, third-party programming and copyright costs incurred by our broadband communications operations aggregated CLP 29 billion and CLP 28 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

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above table with respect to these commitments represent fixed minimum amounts payable under these agreements and, therefore, may be significantly 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 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, 2018 and 2017, 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 business 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 business 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 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.

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 2017 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, 2018 and 2017.
- *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 the Chilean peso are calculated as of March 31, 2018.

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 in 2018; subscriber growth and retention rates; competitive, regulatory and economic factors; 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 risks and uncertainties discussed in our 2017 Annual Report, as well as 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 video, 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;
- customer acceptance of our existing service offerings, including our video, 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 video, 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 that we 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 providers under our MVNO arrangement) to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our 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 network extension and upgrade programs;
- 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 Latin America that provides video, broadband internet, fixed-line telephony and mobile services to residential and business customers in Chile. On December 29, 2017, Liberty Global completed the Split-Off of its former wholly-owned subsidiary Liberty Latin America. For additional information regarding the Split-Off, see note 1 to our condensed consolidated financial statements.

Operations

At March 31, 2018, we (i) owned and operated networks that passed 3,432,500 homes and served 2,901,000 revenue generating units (RGUs), comprising 1,207,400 broadband internet subscribers, 1,076,300 video subscribers and 617,300 fixed-line telephony subscribers and (ii) served 223,700 mobile subscribers.

Material Changes in Results of Operations

General

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 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 would result in increased pressure on our operating margins.

Revenue

We derive our revenue primarily from (i) residential broadband communications services, including video, broadband internet and fixed-line telephony services, (ii) residential mobile services and (iii) B2B communications services. While not specifically discussed in the below explanations of the changes in our revenue, we are experiencing significant competition from other telecommunications operators, direct-to-home satellite operators and 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 RGU (ARPU).

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 during the period and (ii) changes in ARPU. Changes in ARPU can be attributable to (i) changes in prices, (ii) changes in bundling or promotional discounts, (iii) changes in the tier of services selected, (iv) variances in subscriber usage patterns and (v) the overall mix of fixed 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. As further described in note 2, we adopted ASU 2014-09 effective January 1, 2018 using the cumulative effect transition method. The adoption of ASU 2014-09 did not have a material impact on our revenue by category.

	Three months ended March 31,		Increase (decrease)	
	2018	2017	CLP	%
	CLP in billions			
Residential revenue:				
Residential fixed revenue:				
Subscription revenue:				
Video	60.0	57.2	2.8	4.9
Broadband internet	58.2	54.0	4.2	7.8
Fixed-line telephony.....	20.8	22.5	(1.7)	(7.6)
Total subscription revenue	139.0	133.7	5.3	4.0
Non-subscription revenue	4.5	4.9	(0.4)	(8.2)
Total residential fixed revenue	143.5	138.6	4.9	3.5
Residential mobile revenue:				
Subscription revenue	9.8	8.3	1.5	18.1
Non-subscription revenue	2.0	1.5	0.5	33.3
Total residential mobile revenue	11.8	9.8	2.0	20.4
Total residential revenue	155.3	148.4	6.9	4.6
B2B revenue:				
Subscription revenue	3.4	1.8	1.6	88.9
Non-subscription revenue	0.2	—	0.2	N.M
Total B2B revenue	3.6	1.8	1.8	100.0
Total	158.9	150.2	8.7	5.8

N.M. — Not Meaningful.

The details of the changes in our revenue during the three months ended March 31, 2018, as compared to the corresponding period in 2017, are set forth below:

	Subscription revenue	Non- subscription revenue	Total
	CLP in billions		
Increase in residential fixed subscription revenue due to change in:			
Average number of RGUs (a).....	2.7	—	2.7
ARPU (b).....	2.6	—	2.6
Decrease in residential fixed non-subscription revenue	—	(0.4)	(0.4)
Total increase (decrease) in residential fixed revenue	5.3	(0.4)	4.9
Increase in residential mobile revenue (c)	1.5	0.5	2.0
Increase in B2B revenue (d)	1.6	0.2	1.8
Total	8.4	0.3	8.7

(a) The increase is attributable to the net effect of (i) higher broadband internet and video RGUs and (ii) lower fixed-line telephony RGUs.

(b) The increase is primarily due to higher ARPU from video services and an improvement in RGU mix.

- (c) The increase in mobile subscription revenue is primarily due to a higher average number of mobile subscribers.
- (d) The increase in B2B subscription revenue is primarily attributable to higher average numbers of broadband internet, video and fixed-line telephony SOHO RGUs. A portion of this increase is attributable to the conversion of certain residential subscribers to SOHO subscribers.

Programming and other direct costs of services

General. Programming and other direct costs of services include programming and copyright costs, mobile access and interconnect costs, costs of mobile handsets and other devices 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 billion or 5.0% during the three months ended March 31, 2018, as compared to the corresponding period in 2017. This increase includes the following factors:

- An increase in programming and copyright costs of CLP 1 billion or 3.5%, primarily due to the net effect of (i) an increase in certain premium and basic content costs due to rate increases, (ii) a decrease in the foreign currency impact of programming contracts denominated in U.S. dollars and (iii) higher costs associated with video-on-demand; and
- An increase in mobile access and interconnect costs of CLP 1 billion or 8.2%, primarily due to (i) higher MVNO charges and (ii) a net increase in interconnect costs from higher call volumes and lower interconnect rates.

Other operating expenses

General. 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 2 billion or 6.6% during the three months ended March 31, 2018, as compared to the corresponding period in 2017. Our other operating expenses include share-based compensation expense, which remained relatively flat during the three months ended March 31, 2018, as compared to the corresponding period in 2017. Excluding the effects of share-based compensation expense, our other operating expenses increased CLP 2 billion or 7.5%. This change is primarily the result of an increase in network-related expenses of CLP 2 billion or 21.1% due to higher maintenance costs. For additional information, see the discussion under *Share-based compensation expense (included in other operating and SG&A expenses)* below.

SG&A expenses

General. 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 billion or 4.9% during the three months ended March 31, 2018, as compared to the corresponding period in 2017. Our SG&A expenses include share-based compensation expense, which remained relatively flat during the three months ended March 31, 2018, as compared to the corresponding period in 2017. Excluding the effects of share-based compensation expense, our SG&A expenses increased CLP 2 billion or 6.2% during the three months ended March 31, 2018, as compared to the corresponding period in 2017. This change is primarily the result of an increase in sales, marketing and advertising expenses of CLP 2 billion or 19.3%, due to higher (i) sales commissions to third-party dealers and (ii) costs associated with advertising campaigns.

Share-based compensation expense (included in other operating and SG&A expenses)

Our share-based compensation expense remained relatively flat during the three months ended March 31, 2018, as compared to the corresponding period in 2017.

Depreciation expense

Our depreciation expense remained flat during the three months ended March 31, 2018, as compared to the corresponding period in 2017.

Related-party fees and allocations

We recorded related-party fees and allocations of CLP 2 billion and CLP 3 billion during the three months ended March 31, 2018 and 2017, respectively. During the 2018 period, these fees and allocations were charged to our company by Liberty Latin America or subsidiaries of Liberty Latin America. During the 2017 period, these fees and allocations were charged from Liberty Global or subsidiaries of Liberty Global. In both periods, these amounts 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.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of CLP 2 billion and CLP 1 billion during the three months ended March 31, 2018 and 2017, respectively.

The amount for the 2018 period includes restructuring charges of CLP 2 billion, primarily related to (i) contract termination and (ii) employee severance and termination.

The amount for the 2017 period is primarily related to contract termination costs and impairment charges.

Interest expense

Our interest expense decreased CLP 1 billion during the three months ended March 31, 2018, as compared to the corresponding period in 2017. This change is primarily attributable to foreign currency translation effects.

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

It is possible that the interest rates on (i) any new borrowings could be higher than the current interest rates on our existing indebtedness and (ii) our variable-rate indebtedness could increase in future periods. 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,	
	2018	2017
	CLP in billions	
Cross-currency derivative contracts (a).....	(49.7)	(15.3)
Foreign currency forward contracts	(1.6)	(1.2)
Total	<u>(51.3)</u>	<u>(16.5)</u>

- (a) The loss during the 2018 period is primarily attributable to (i) a loss resulting from increases in the value of the Chilean peso relative to the U.S. dollar and (ii) a net loss resulting from changes in interest rates. The loss during 2017 is primarily attributable to (i) a loss resulting from increases in the value of the Chilean peso relative to the U.S. dollar and (ii) losses due to changes in interest rates. In addition, the losses during 2018 and 2017 include a net gain (loss) of CLP (6 billion) and CLP 5 billion, respectively, 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 17 billion and CLP 13 billion during the three months ended March 31, 2018 and 2017, 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

Income tax expense was approximately CLP 5 billion and CLP 33 billion for the three months ended March 31, 2018 and 2017, respectively. This represents an effective income tax rate of (61.4)% and 203.8% for the three months ended March 31, 2018 and 2017, respectively, including items treated discretely. For the three months ended March 31, 2018, the income tax expense attributable to our loss before income taxes differs from the amount computed using the statutory tax rate, primarily due to the detrimental effects of international rate differences, non-deductible expenses, changes in valuation allowances and increases in unrecognized tax benefits, partially offset by the beneficial effects of price level restatements. For the three months ended March 31, 2017, the income tax expense attributable to our earnings before income taxes differs from the amounts computed using the statutory tax rate, primarily due to non-deductible expenses and changes in valuation allowances, partially offset by the beneficial effects of price level restatements.

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

Net loss

During the three months ended March 31, 2018 and 2017, we reported net losses of CLP 14 billion and CLP 17 billion, respectively, including (i) operating income of CLP 42 billion and CLP 37 billion, respectively, (ii) net non-operating expense of CLP 50 billion and CLP 21 billion, respectively, and (iii) income tax expense of CLP 5 billion and CLP 33 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 (i) share-based compensation expense, (ii) depreciation (iii) impairment, restructuring and other operating items, (iv) interest expense, (v) other non-operating expenses and (vi) income tax expenses.

Subject to the limitations included in our various debt instruments, we expect that Liberty Latin America will continue to 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, 2018, we had cash and cash equivalents of CLP 42 billion, all of which 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 our subsidiaries, subject to certain restrictions, as noted below. From time to time, subsidiaries of Liberty Latin America 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 Latin America or other Liberty Latin America 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 subsidiaries generally is used to fund property and equipment additions, debt service requirements of VTR Finance, payments required by our derivative instruments and income tax payments. 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 or (iv) acquisitions and other investment opportunities.

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

Capitalization

At March 31, 2018, the outstanding principal amount of our debt, together with our capital lease obligations, aggregated CLP 907 billion, including CLP 62 billion that is classified as current in our condensed consolidated balance sheet and CLP 846 billion that is due in January 2024. For additional information concerning our debt and capital lease obligations, including our debt maturities, see note 6 to our condensed consolidated financial statements.

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 incurrence based 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. In such circumstances, our ability to obtain additional debt could be limited. No assurance can be given that we would have sufficient sources of liquidity, or that any external funding would be available on favorable terms, or at all, to fund any such required repayment. At March 31, 2018, we were in compliance with our debt covenants. 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, 2018, we believe that we have sufficient resources to repay or refinance the current portion of our debt and capital lease obligations and 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 difficult to predict how political and economic conditions, sovereign debt concerns or any adverse regulatory developments will impact the credit and equity markets we access and our future financial position. Our ability to access debt financing on favorable terms, or at all, could be adversely impacted by (i) the financial failure of any of our counterparties, which 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. 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, 2018 and 2017 are summarized as follows:

	Three months ended March 31,		Change
	2018	2017	
	CLP in billions		
Net cash provided by operating activities	15.4	8.6	6.8
Net cash used by investing activities	(16.3)	(12.3)	(4.0)
Net cash used by financing activities	(12.1)	(13.6)	1.5
Effect of exchange rate changes on cash.....	(0.3)	(1.1)	0.8
Net decrease in cash and cash equivalents	<u>(13.3)</u>	<u>(18.4)</u>	<u>5.1</u>

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

Investing Activities. The increase in net cash used by our investing activities is primarily attributable to higher capital expenditures. Capital expenditures increased CLP 4 billion during the three months ended March 31, 2018, as compared to the corresponding period in 2017.

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 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,	
	2018	2017
	CLP in billions	
Property and equipment additions	34.3	36.4
Assets acquired under capital-related vendor financing arrangements	(12.5)	(9.2)
Changes in current liabilities related to capital expenditures	(5.3)	(14.8)
Capital expenditures	<u>16.5</u>	<u>12.4</u>

Our capital expenditures increased during the three months ended March 31, 2018, as compared to the corresponding period in 2017, largely due to the net effect of (i) timing differences associated with the purchase of property and equipment and (ii) an increase in assets acquired under capital-related vendor financing arrangements. During the three months ended March 31, 2018, a significant portion of our purchases of property and equipment was denominated in U.S. dollars. During three months ended March 31, 2018 and 2017, our consolidated property and equipment additions represented 21.6% and 24.2% of our revenue, respectively.

Financing Activities. The decrease in net cash used by our financing activities is primarily attributable to the net effect of (i) a decrease resulting from a CLP 8 billion distribution made to our former parent during the first quarter of 2017 and (ii) an increase of CLP 7 billion related to higher net repayments of third-party debt.

Contractual Commitments

The following table sets forth the Chilean peso equivalents of our commitments as of March 31, 2018:

	Payments due during:							Total
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter	
	CLP in billions							
Debt (excluding interest)	47.4	13.9	—	—	—	—	845.5	906.8
Capital leases (excluding interest)	0.1	0.2	0.1	—	—	—	—	0.4
Programming commitments.....	41.8	27.5	10.6	9.4	1.3	0.9	0.5	92.0
Network and connectivity commitments	18.2	20.2	—	—	—	—	—	38.4
Operating leases.....	6.0	5.5	4.2	3.6	2.9	2.3	2.3	26.8
Purchase commitments	6.9	6.9	0.7	0.7	0.7	0.4	—	16.3
Total (a).....	<u>120.4</u>	<u>74.2</u>	<u>15.6</u>	<u>13.7</u>	<u>4.9</u>	<u>3.6</u>	<u>848.3</u>	<u>1,080.7</u>
Projected cash interest payments on debt and capital lease obligations (b)	<u>30.4</u>	<u>59.5</u>	<u>58.5</u>	<u>58.2</u>	<u>58.2</u>	<u>58.2</u>	<u>29.1</u>	<u>352.1</u>

- (a) The commitments included in this table do not reflect any liabilities that are included in our March 31, 2018 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, 2018. 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 derivative contracts.

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 9 to our condensed consolidated financial statements.

In addition to the commitments set forth in the table above, we have commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with these derivative instruments, see *Projected Cash Flows Associated with Derivative Instruments* below. 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, 2018 and 2017, see note 3 to our condensed consolidated financial statements.

Projected Cash Flows Associated with Derivative Instruments

The following table provides information regarding the projected cash flows associated with our derivative instruments. The Chilean peso equivalents presented below are based on interest rates and exchange rates that were in effect as of March 31, 2018. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 3 to our condensed consolidated financial statements.

	Payments due during:							Total
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter	
	CLP in billions							
Projected derivative cash payments, net:								
Interest-related (a).....	1.2	2.4	2.4	2.4	4.6	6.8	3.4	23.2
Principal-related (b).....	—	—	—	—	88.7	—	17.2	105.9
Other (c).....	8.1	—	—	—	—	—	—	8.1
Total.....	<u>9.3</u>	<u>2.4</u>	<u>2.4</u>	<u>2.4</u>	<u>93.3</u>	<u>6.8</u>	<u>20.6</u>	<u>137.2</u>

- (a) Includes the interest-related cash flows of our cross-currency swap contracts.
- (b) Includes the principal-related cash flows of our cross-currency swap contracts.
- (c) Includes amounts related to our foreign currency forward contracts.