VTR FINANCE B.V.

Annual Report
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VTR FINANCE B.V.

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FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report constitute forward-looking statements. To the extent that statements in this Annual 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 *Business* and *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 2017, our property and equipment additions in 2017, 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 opens 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 mobile virtual network operator (**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 the 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 Annual 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 Annual 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.

BUSINESS

*In this section, unless the context otherwise requires, the terms "we," "our," "our company" and "us" may refer, as the context requires, to VTR Finance B.V. (**VTR Finance**) or collectively to VTR Finance and its subsidiaries, including VTR.com SpA. Unless otherwise indicated, operational and statistical data, including subscriber statistics, are as of December 31, 2016. Certain competitive and market information contained in this section has been derived from several sources, including information from third-party sources such as DataXis as of September 30, 2016, and information on Chilean telecommunications provided by the Chilean Undersecretary of Telecommunications (**SubTel**) as of September 30, 2016.*

Introduction

We are a subsidiary of Liberty Global plc (**Liberty Global**) that provides our customers the "triple-play" of video, broadband internet and fixed-line telephony services. In addition, we offer mobile voice and data services as a full MVNO pursuant to an arrangement with a third-party mobile telecommunications provider. We are the largest cable operator in Chile in terms of number of video cable subscribers, the largest provider of broadband internet services in our footprint and the second largest nationally in terms of number of subscribers. We are also the second largest fixed-line telephony provider in Chile in terms of lines in service. We generally provide our telecommunications services in the largest cities and more affluent regions of Chile, including Santiago, Chile's capital and largest city, and the large regional cities of Iquique, Antofagasta, Concepción, Viña del Mar, Valparaiso and Rancagua.

Liberty Global is the world's largest international TV and broadband company, with operations in more than 30 countries across Europe, Latin America and the Caribbean. We invest in the infrastructure that empowers our customers to make the most of the digital revolution. Our scale and commitment to innovation enable us to develop market-leading products delivered through next-generation networks that connect our 25 million customers who subscribe to over 50 million television, broadband internet and telephony services. We also serve over 10 million mobile subscribers and offer WiFi service across 5 million access points.

The following table presents our operating statistics as of the dates indicated:

	December 31,	
	2016	2015
Footprint		
Homes Passed [(1)]	3,216,600	3,061,500
Two-way Homes Passed [(2)]	2,710,500	2,545,100
Subscribers (RGUs) [(3)]		
Enhanced Video [(4)]	967,800	932,200
Basic Video [(5)]	79,500	93,800
Total Video	1,047,300	1,026,000
Internet [(6)]	1,091,200	1,003,100
Fixed-line Telephony [(7)]	657,000	689,900
Total RGUs	2,795,500	2,719,000
Penetration		
Enhanced Video Subscribers as % of Total Video Subscribers [(8)]	92.4%	90.9%
Internet as % of Two-way Homes Passed [(9)]	40.3%	39.4%
Fixed-line Telephony as % of Two-way Homes Passed [(9)]	24.2%	27.1%
Customer relationships		
Customer Relationships [(10)]	1,328,900	1,263,400
RGUs per Customer Relationship	2.10	2.15
Customer bundling		
Single-play	31.3%	30.5%
Double-play	27.0%	23.7%
Triple-play	41.7%	45.8%
Mobile subscribers[(11)]		
Postpaid	158,200	121,100
Prepaid	8,000	10,900
Total mobile subscribers	166,200	132,000

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(1) Homes Passed are homes or commercial units that can be connected to our network without materially extending the distribution plant. Our Homes Passed counts are based on internal reports.

(2) Two-way Homes Passed are Homes Passed by those sections of our network that are technologically capable of providing two-way services, including video, internet and fixed-line telephony services.

(3) Revenue Generating Unit (**RGU**) is separately a Basic Video Subscriber, Enhanced Video Subscriber, Internet Subscriber or Telephony Subscriber (as defined and described below). A home or commercial unit may contain one or more RGUs. For example, if a residential customer subscribed to our enhanced video service, broadband internet service, and fixed-line telephony service, the customer would constitute three RGUs. Total RGUs is the sum of Basic Video, Enhanced Video, Internet and Fixed-line Telephony Subscribers. RGUs generally are counted on a unique premises basis such that a given premises does not count as more than one RGU for any given service. On the other hand, if an individual receives one of our services in two premises (e.g., a primary home and a vacation home), that individual will count as two RGUs for that service. Each bundled cable, internet or fixed-line telephony service is counted as a separate RGU regardless of the nature of any bundling discount or promotion. Non-paying subscribers are counted as subscribers during their free promotional service period. Some of these subscribers may choose to disconnect after their free service period. Services offered without charge on a long-term basis (e.g., VIP subscribers, free service to employees) generally are not counted as RGUs. Certain of our residential and commercial RGUs are counted on an equivalent billing unit (**EBU**) basis including commercial establishments, such as hotels and hospitals. Our EBUs are generally calculated by dividing the bulk price charged to accounts in an area by the most prevalent price charged to non-bulk residential customers in that market for the comparable tier of service. As such, we may experience variances in our EBU counts solely as a result of changes in rates. We do not include subscriptions to mobile services in our externally reported RGU counts. In this regard, our December 31, 2016 RGU counts exclude our separately-reported postpaid and prepaid mobile subscribers.

(4) Enhanced Video Subscriber is a home or commercial unit that receives our video service over our broadband network. Enhanced Video Subscribers that are not counted on an EBU basis are counted on a unique premises basis. For example, a subscriber with one or more set-top boxes that receives our video service in one premise is generally counted as just one subscriber. An Enhanced Video Subscriber is not counted as a Basic Video Subscriber. As we migrate customers from basic to enhanced video services, we report a decrease in our Basic Video Subscribers equal to the increase in our Enhanced Video Subscribers. During the first quarter of 2015, we modified certain video subscriber definitions to better align these definitions with the underlying services received by our subscribers and have replaced our "Digital Cable" and "Analog Cable" subscriber definitions with "Enhanced Video" and "Basic Video," respectively.

(5) Basic Video Subscriber is a home or commercial unit that receives our video service over our broadband network either via an analog video signal or via a digital video signal without subscribing to any recurring monthly service that requires the use of encryption-enabling technology. Encryption-enabling technology includes smart cards, or other integrated or virtual technologies that we use to provide our enhanced service offerings. With the exception of RGUs that we count on an EBU basis, we count RGUs on a unique premises basis. In other words, a subscriber with multiple outlets in one premises is counted as one RGU and a subscriber with two homes and a subscription to our video service at each home is counted as two RGUs.

(6) Internet Subscriber is a home or commercial unit that receives internet services over our network. Our Internet Subscribers do not include customers that receive services from dial-up connections.

(7) Fixed-line Telephony Subscriber is a home or commercial unit that receives voice services over our network. Fixed-line Telephony Subscribers exclude mobile telephony subscribers.

(8) Enhanced video penetration is calculated by dividing the number of enhanced video RGUs by the total number of basic and enhanced video RGUs.

(9) Internet and fixed-line telephony penetration is calculated by dividing the number of internet RGUs and fixed-line telephony RGUs, respectively, by the total two-way homes passed.

(10) Customer Relationships are the number of customers who receive at least one of our video, internet or fixed-line telephony services that we count as RGUs, without regard to which or to how many services they subscribe. To the extent that RGU counts include EBU adjustments, we reflect corresponding adjustments to our Customer Relationship counts. Customer Relationships generally are counted on a unique premises basis. Accordingly, if an individual receives our services in two

premises (e.g., a primary home and a vacation home), that individual generally will count as two Customer Relationships. We exclude mobile-only customers from Customer Relationships.

(11) Our mobile subscriber count represents the number of active subscriber identification module cards in service.

History

VTR Finance, an indirect wholly-owned subsidiary of Liberty Global, was formed on December 1, 2011, as a limited liability company (*besloten vennootschap*) organized under the laws of the Netherlands and is a holding company that owns, directly or indirectly, 100% of VTR, as defined below. Our video, broadband internet, fixed-line telephony and mobile businesses are operated by VTR and its subsidiaries.

In March 2014, a subsidiary of VTR Finance acquired each of the 20% ownership interests in VTR GlobalCom and VTR Wireless SpA (**VTR Wireless**) that VTR Finance and its affiliates did not already own from Inversiones Corp Comm 2 SpA, formerly known as Corp Comm S.A.

In December 2014, Liberty Global completed a reorganization of certain of its subsidiaries whereby VTR Wireless merged with VTR GlobalCom's programming subsidiary, VTR Banda Ancha (Chile) SpA, with VTR Wireless as the surviving entity. Immediately following the merger, VTR Wireless changed its name to VTR Comunicaciones SpA (**VTR Comunicaciones**).

In February 2016, Liberty Global completed a further reorganization whereby VTR GlobalCom SpA (**VTR GlobalCom**) merged into its parent company VTR Chile Holdings SpA (**VTR Chile Holdings**) with VTR Chile Holdings as the surviving entity. Immediately following the merger, VTR Chile Holdings changed its name to VTR.Com SpA (**VTR**).

Our Products and Services

We provide a broad range of telecommunications and other services in our footprint, including video, broadband internet, fixed-line local and long distance telephony service and mobile telephony and data services. Available broadband service offerings depend on network bandwidth capacity and whether the network serving an area has been upgraded for two-way communications. Our network covers approximately 54% of Chilean homes, with approximately 3.2 million homes passed of which approximately 2.7 million homes passed have been upgraded with two-way capability (which accounts for approximately 84% of our network). The upgraded portion of our network provides us with full bi-directional capability that enables us to provide customers access to our triple-play services consisting of digital video, broadband internet and fixed-line telephony.

We generate revenue principally from relationships with our customers who pay subscription fees for the services we provide. Subscription fees for basic video services are typically paid directly by customers who live in single family homes or single dwelling units, or "**SDU**"s, subscribing to the service (which include bars, restaurants and other establishments). Some of our SDU customers are counted on an EBU basis including certain commercial establishments, such as hotels and hospitals, which subscribe only to our video services at flat rate pricing. SDU customers also pay us directly for the subscription fees associated with our enhanced video services, as well as the broadband internet, fixed-line telephony and mobile services they purchase from us. In addition to monthly subscription fees, subscribers generally pay an activation fee upon connecting or re-connecting to our network. This activation fee is sometimes waived, for example, when a subscriber is reconnecting to our network or as part of periodic marketing promotions.

Video

We offer a full range of digital video services, including basic and premium packages, in the capital city of Santiago (the largest city in Chile) and in 42 communities outside of Santiago. All of our digital video services are encrypted and require a set-top box provided by VTR. In addition, digital cable customers may subscribe to one or more premium video channels, including high definition (**HD**) channels for an additional monthly charge. The premium channels include movies, sports, international and adult channels. Video-on-demand, or "**VoD**", services, including catch-up television, are available on a subscription or a transaction basis, depending on location. VoD services include over 5,000 titles of on-demand content, including multi-screen features. We recently launched "**Horizon TV**", which is a family of media products that allows customers to view and share content across the television, computer, tablet and smart phone, through an advanced, cloud-based platform. For customers who take Horizon TV, we offer over 20 apps for various online service (such as YouTube, social platforms and games). Our analog service is offered only in areas where our digital service is not available.

Currently we offer three tiers of digital cable services. Our basic digital package includes 82 digital channels with a d-BOX, an electronic programming guide and VoD service, and for an additional fee, the option to purchase premium channels. Our second tier digital service includes 152 digital channels with a d-BOX, including 70 HD channels, an electronic programming guide and

VoD services, and for an additional fee, the option to purchase premium channels, including 19 HD channels, and a digital video recorder (**DVR**). Our top tier digital service includes 161 digital channels with a d-BOX, including 70 HD channels, an electronic programming guide and VoD service, and for an additional fee, premium channels, including 19 HD channels, and a DVR. In addition to our digital cable packages, our standard definition (**SD**) set-top boxes allow the reception of 7 SD free-to-air channels while our HD set-top boxes allow the reception of 7 SD and 4 HD free-to-air channels.

Broadband Internet

We offer multiple tiers of broadband internet services within Santiago and 42 communities outside Santiago. Our internet strategy is speed leadership. We seek to outperform on speed including increasing the maximum speed of our connections and offering varying tiers of service and prices through a variety of bundled product offerings and a range of value added services. Throughout our two-way network we have launched speeds of 20 Mbps or more at mass market price points and ultra-high-speed internet with speeds of up to 160 Mbps. Our key mass-market package includes a download speed of up to 120 Mbps. As of December 31, 2016, over 100% of our network was capable of providing up to 160 Mbps speeds and 84% of our homes passed are served by a network with a bandwidth of at least 860 MHz, with 88% of our homes passed served with a bandwidth of 750 MHz or greater.

Subscribers to any of our internet/telephony packages are provided a cable modem as part of the subscription fee. We also offer additional services included with our broadband internet bundled packages, including an internet security package consisting of anti-virus, anti-spyware, firewall, spam protection, a child-proof lock and the ability to block access to selected websites through parental controls.

Fixed-Line Telephony

We are the second largest residential fixed-line telephony operator in Chile, and the leading provider within our footprint. We estimate that our fixed-line services are available to 84% of the homes in our footprint, and as of December 31, 2016, our share of the residential and commercial fixed-line telephony market in Chile was 19%. We offer multi-feature fixed-line telephony service within the two-way portion of our network. We offer this telephony service via circuit-switched telephony or voice-over-internet-protocol (**VoIP**), depending on location. We offer our fixed-line telephony services on a stand-alone basis and bundled with our video and/or broadband internet services as part of our double-play and triple-play offerings. 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 MVNO or other arrangements.

We offer one fixed-line telephony calling plan, our "Unlimited Plan", which is a landline phone plan with unlimited local calls to landlines throughout Chile, plus up to 600 minutes for calls to mobile phones.

Mobile Telephony and Data

We offer mobile services, both data and voice, as an MVNO pursuant to an agreement with a third-party nationwide mobile network operator. We own the core network, including switching, backbone and interconnections and lease the third party's radio access network. This arrangement permits us to tailor our own packages and rates and to offer our Chilean customers all mobile services using our core network without having to build and operate a cellular radio tower network and without being limited to offering customers packages and rates designated by the wireless network provider.

Subscribers to our mobile services in Chile pay varying monthly fees depending on how much data and the amount of voice minutes that are included in their subscription. Our mobile services typically include telephony, short message service (**SMS**) and internet. In July 2015, we launched high-speed mobile data services via long-term evolution wireless technology, the next generation of ultra high-speed mobile data, also called "4G" (referred to herein as **LTE**) for all of our postpaid mobile customers. Mobile voice services in Chile are offered on a "calling-party pays" basis. Under this structure, telephone companies pay other telephone companies an interconnection charge for calls originated from their networks to third-party networks. With respect to fixed-to-mobile calls, fixed-line telephone companies may pass this charge on to their subscribers. Therefore, the carrier of a subscriber calling a subscriber on another network pays, in the case of a fixed-line company, a rate that includes a local fee that is part of the basic fixed-line telephony service plus an interconnection fee (as indicated above under *Fixed-Line Telephony*) from the fixed network to the mobile network. Fixed network subscribers can choose to block the ability to make calls to mobile telephones from their fixed-line phones. The carrier of a mobile subscriber receiving a collect call is also required to pay mobile usage charges. Our revenue from mobile services mainly consists of monthly subscription and usage fees for calls and SMS and interconnection revenue. At December 31, 2016, we served 166,200 mobile subscribers, of which approximately 95% were on postpaid plans.

Our Technology

Our video, broadband internet and fixed-line telephony services are transmitted over a hybrid fiber coaxial cable network. In addition, the capacity available on our network increases as our basic video subscribers switch to an enhanced video service and we reduce the number of our analog channels. This is because multiple digital channels can be compressed into the same space as one analog channel in the broadcast spectrum. The available space can then be used for other purposes such as VoD services and higher broadband speeds.

We continue to explore new technologies that will enhance our customers' experience, such as:

- recapturing bandwidth and optimizing our networks by increasing the number of nodes in our network, increasing the bandwidth of our hybrid fiber coaxial cable network to 1 GHz and using digital compression technologies;
- using wireless technologies to extend our services outside the home;
- caching websites from outside of Chile to provide faster internet speeds;
- upgrading our current DOCSIS 3.0 technology, which is an international standard that defines the requirements for data transmission over a cable system, to DOCSIS 3.1 technology;
- introducing next generation set-top boxes with computer-like interfaces and multi-device (television, computer, tablet and smartphone) capability; and
- expanding our network to accommodate business-to-business services.

Our principal property and equipment consists of outside plant and switching equipment, as well as operating units that are located throughout our footprint within Chile. Our network comprises two main components: our access network and our hubs. The access network, which connects customers' homes with the hubs, is built with hybrid technology using fiber optic and coaxial cable and includes a total of 7,000 kilometers of fiber and 18,500 kilometers of coaxial cable. Our 27 hubs across our footprint house data switches, digital television processing equipment, telephone switches, data centers, cable modem termination systems, optical transmitters and receivers that provide or facilitate the transmission of telephony, data and video services over our network.

Competition

The Chilean market for video, broadband internet and fixed-line telephony and mobile services is highly competitive and rapidly evolving. Consequently, our business has faced and is expected to continue to face significant competition across all of our product and service offerings.

Video

We compete directly with a wide range of providers of communication and entertainment services to consumers. Our principal competition is the provision of video services from direct-to-home (**DTH**) satellite providers, where we compete with established satellite platforms, as well as other pay television operators. Over-the-top (**OTT**) viewing is also a competitive factor. However, depending on the location, we may also be competing against: (i) traditional "free-to-air" broadcast television services; (ii) other fixed-line telecommunications carriers and broadband providers, including the incumbent telephony operator, offering (a) DTH satellite services, (b) internet protocol television (**IPTV**) over broadband internet connections using asymmetric digital subscriber lines (**ADSL**) and (c) IPTV over fiber optic lines where the fiber is to the home, cabinet, or building or to the node networks (fiber-to-the-home/-cabinet/-building/-node is referred to herein as **FTTx**); (iii) other cable operators in the same municipalities that we serve; (iv) OTT video content aggregators utilizing our or our competitors' high-speed internet connections; (v) satellite master antenna television systems, commonly known as SMATVs, which generally serve condominiums, apartment and office complexes and residential developments; and (vi) movie theaters, video stores, video websites and home video products. Our businesses also compete to varying degrees with other sources of information and entertainment, such as online entertainment, newspapers, magazines, books, live entertainment/concerts and sporting events.

We are the largest cable television provider in Chile based on number of subscribers. As of September 30, 2016, our video cable services were available to approximately 54% of the Chilean television households and served approximately 20% of the total television market in Chile. We compete primarily with DTH service providers in Chile, including the incumbent Chilean telecommunications operator Compañia de Telecomunicaciones de Chile SA using the brand name Movistar (**Movistar**), Claro Chile S.A., a subsidiary of América Móvil, S.A.B. de C.V. (**Claro**), and DIRECTV Latin America Holdings, Inc. (**DirecTV**). Movistar offers double-play and triple-play packages, using DTH for video and ADSL for internet and fixed-line telephony, and also offers mobile services. On a smaller scale, Movistar also offers IPTV services over FTTx networks in Chile. Claro offers

triple-play packages using DTH and, in most major cities in Chile, through a hybrid fiber coaxial cable network. Entel PCS Telecommunications S.A. (**Entel**) and Claro also offer mobile services. Of the Chilean households, 10%, 7% and 8% subscribed to the video services of Movistar, Claro and DirecTV, respectively, as of September 30, 2016. To effectively compete in Chile, we offer VoD, catch-up television, DVR functionality, premium HD channels, pay-per-view, HD receivers and a variety of premium channels as value added services that can be purchased by our video cable customers. These services and the variety of bundle options, including internet and fixed-line telephony, enhance our competitive position. In addition, in order to provide our customers greater viewing options, we recently launched Horizon TV, through which we offer over 20 apps for various online service (such as YouTube, social platforms and games).

Broadband Internet

With respect to broadband internet services and online content in Chile, we face competition in a rapidly evolving marketplace from incumbent and non-incumbent telecommunications companies, mobile operators and cable based internet service providers (**ISPs**), many of which have substantial resources. The internet services offered by these competitors include both fixed-line broadband internet services using digital subscriber line (**DSL**) or FTTx and wireless broadband internet services in a range of product offerings with varying speeds and pricing, as well as interactive computer based services, data and other non-video services offered to homes and businesses. With technological developments, competition from wireless services using various advanced technologies has become significant as well. Recently, like us, competitors in certain of our markets have started offering LTE services. In addition, other wireless technologies, such as WiFi, are becoming more prevalent.

As of September 30, 2016, broadband connections (ADSL, cable modem, FTTx, WiMax and Wireless Local Loop) represented 93.4% of all fixed-line internet connections in Chile. We estimate that broadband access in Chile through fixed lines grew to 2.9 million by September 30, 2016, a 16% increase over two years. As of September 30, 2016, ADSL broadband connections represented 33.2% of Chile's total broadband use. According to SubTel, as of September 30, 2016, 3G mobile broadband connections services reached approximately 7.5 million subscribers, an approximate 14% decrease over the number of subscribers from September 30, 2015, largely due to the increase in the number of LTE subscribers. LTE mobile broadband connections services reached approximately 5.0 million subscribers, a 233% increase over the number of subscribers as of September 30, 2015.

We face competition primarily from non-cable-based ISPs, such as Movistar, and from other cable-based providers, such as Claro. We are experiencing increased pricing and download speed pressure from Movistar and Claro and more effective competition from these companies with the bundling of their internet service with other services. Movistar offers ultra high-speed internet services with download speeds of up to 200 Mbps over portions of its network. Mobile broadband competition is significant as well. Both Movistar and Claro have launched an LTE network for high-speed mobile data. Movistar is also one of the leading mobile broadband providers with its competitively priced mobile internet products and LTE services. Movistar serves 36% and we serve 37%, respectively, of the total fixed broadband internet market in Chile. To compete effectively, we are expanding our two-way coverage and offering attractive bundling with fixed-line telephony and digital video service. In response to the availability of mobile data in Chile, we currently offer our high-speed internet with download speeds of up to 160 Mbps.

Fixed-Line Telephony and Mobile Services

We face competition from the incumbent telecommunications operator, Movistar, and other telecommunications operators. Movistar has substantial experience in providing telephony services, resources to devote to the provision of telephony services and long-standing customer relationships. Competition in both the residential and business telephony markets is increasing as a result of market trends and regulatory changes affecting general price competition, number portability and the growth of VoIP services. We offer circuit-switched and VoIP telephony services over our cable network. Our share of the residential and commercial fixed-line telephony market in Chile as of September 30, 2016 was 19%. The Chilean fixed-line telephony market as measured by lines in service decreased by 1.8% between September 30, 2015 and September 30, 2016, and our fixed-line telephony lines in service decreased by 5.3% over the same period.

In Chile, approximately 97% of telecommunications consumers use a mobile service. The increasing popularity of mobile services in Chile prompted us in 2012 to add wireless plans to our offerings. Claro, Movistar and Entel are the primary companies that offer mobile telephony in Chile. Competition in the Chilean mobile services market is intense. As an MVNO, we offer our mobile telephony services on a standalone basis. To attract and retain customers, we focus on our fixed-line telephony customer base, offering them postpaid accounts at an attractive price. In mid-2015, WOM S.A. entered the mobile services market through its acquisition of the Nextel Chile network. WOM S.A. is exerting significant competitive pressure in the mobile market with its very aggressive and attractive price offer. Such pricing is driving down sales and increasing churn in the mobile market. Our mobile services represent less than 1% of the mobile telephony market in Chile, of which approximately 95% are postpaid accounts. Of these customers 95% subscribe to at least one of our fixed-line services.

Regulatory Matters

We are subject to regulation and enforcement by various governmental entities in Chile, including the Chilean Antitrust Authority, the Ministry of Transportation and Telecommunications (the **Ministry**) through SubTel, the National Television Council (**CNTV**) and Chile's National Consumer Service (**Sernac**).

In addition to the specific regulations described below, we are subject to certain regulatory conditions, which were imposed by the Chilean Antitrust Authority in connection with our combination with Metrópolis Intercom SA in April 2005. These conditions are indefinite and include, among others, (1) prohibiting VTR and its control group from participating, directly or indirectly through a related person, in Chilean satellite or microwave television businesses, (2) prohibiting VTR from obtaining exclusive broadcast rights, except for specific events, and (3) requiring VTR to offer its broadband capacity for resale of internet services on a wholesale basis.

Video

The provision of pay television services requires a permit issued by the Ministry. Cable pay television permits are granted for an indefinite term and are non-exclusive. As such permits do not involve radioelectric spectrum, they are granted without ongoing duties or royalties. We have permits to provide cable pay television services in the major cities, including Santiago, and in most of the medium-sized markets in Chile.

Cable television service providers in Chile are free to define the channels and content included in their services and are not required to carry any specific programming, except as described below. However, CNTV may impose sanctions on providers who are found to have run programming containing excessive violence, pornography or other objectionable content. Pay television operators are directly responsible for violation of such prohibitions. Additionally, the Television Act requires pay television operators to offer a certain quota of cultural content and to distribute public interest campaigns.

The "**Television Act**" establishes a retransmission consent regime between broadcast television concessionaires and pay television operators. This regime provides that once a broadcast operator achieves digital coverage of 85% of the population within its concession areas, the broadcast operator may require that pay television operators enter into an agreement for the retransmission of its digital signal. In addition, the Television Act requires that the technical or commercial conditions imposed by broadcast operators not discriminate among pay television operators. Also, the Television Act establishes a must-carry regime requiring pay television operators to distribute up to four local broadcast television channels in each operating area. The channels that must be carried by any particular pay television operator are to be selected by CNTV. The full implementation of the retransmission and must carry regimes are still pending.

Our ability to change our channel lineup is restricted by an agreement reached with Sernac in July 2012 and the general regulation established by SubTel in February 2014 (by the Telecommunication Services General Rulemaking). This framework allows us to change one or more channels from its lineup after a 60-day notice period to its subscribers. In such cases, we shall offer a channel of similar content and quality or a proportional compensation. Despite this, after certain channel adjustments were applied in July 2016, the excluded programmers as well as social media have questioned our ability to unilaterally modify its channel grid, arguing that content and quality of new channels should be identical to the excluded channels. A final position on this issue is pending.

Internet

A law on internet neutrality prohibits "arbitrary blockings" of legal content, applications or services and the provision of differentiated service conditions according to the origin or ownership of the content or service provided through the internet. Additionally, the law authorizes ISPs to take measures to ensure the privacy of their users and provide virus protection and safety processes over their network, as long as these measures do not infringe antitrust laws. Additional measures have been implemented, including obligations related to consumer information, traffic management policies, and internet quality of service requirements and notices required by law concerning the effective maximum and minimum traffic speeds offered under internet access plans.

In order to protect the constitutional rights of privacy and safety of communications, ISPs are prohibited from undertaking surveillance measures over data content on their networks. Also, special summary proceedings have been created in order to safeguard intellectual property rights against violations committed through networks or digital systems. These proceedings include measures designed to withdraw, disqualify or block infringing content in the ISP's network or systems. The law also provides for the right of intellectual property owners to judicially request from ISPs the delivery of necessary information to identify the provider of infringing content.

A bill is being discussed in the Congress, which would, if enacted, impose on fixed and mobile ISPs an obligation to guarantee a minimum broadband throughput based on the offered speed. The proposed bill would also require ISPs to provide its subscribers a certified measurement tool allowing them to verify this minimum service level and subject the ISPs to fines of penalties if the service level is not fulfilled. We expect this bill will be passed during the second quarter of 2017.

Fixed-Line Telephony and Mobile Services

The provision of fixed-line telephony and mobile services requires a public telecommunications service concession. With respect to mobile services, in 2009, SubTel awarded us a license for 30 MHz of spectrum in the 1700/2100 MHz frequency band for the provision of wireless telephony services. The license has a 30-year renewable term. In 2012, VTR GlobalCom transferred this license to its affiliate VTR Wireless, which is now a subsidiary of VTR known as VTR Comunicaciones. On January 15, 2014, SubTel initiated a proceeding against VTR Wireless based on having allegedly "altered an essential element of its concession, particularly the type of service". In this proceeding, SubTel asserted that VTR Wireless is not in compliance with the terms of such wireless license. SubTel alleged that the terms of the wireless license require VTR Wireless to comply with certain minimum network coverage and traffic levels. We disagreed with SubTel's assertions regarding the terms of the wireless license and contested such assertions vigorously. The maximum possible sanctions include "the termination of the concession". The final ruling regarding this case is still pending.

We have concessions to provide fixed-line telephony in most major and medium-sized markets in Chile. Telephony concessions are non-exclusive and have renewable 30-year terms. The original term of our fixed-line telephony concessions expires in November 2025. Long distance telephony services are considered intermediate telecommunications services and, as such, are also regulated by the Ministry. We have concessions to provide this service, which is non-exclusive, for a 30-year renewable term expiring in September 2025.

There are no universal service obligations in Chile. However, local service concessionaires are obligated to provide telephony service to all customers that are within their service area or are willing to pay for an extension to receive service. All local service providers, including us, must give long distance telephony service providers equal access to their network connections at regulated prices and must interconnect with all other public service concessionaires whose systems are technically compatible.

As a general rule, fixed-line telephony service providers are free to establish the rates directly charged to their customers, unless the Chilean Antitrust Authority concludes that due to a lack of sufficient competition in the market, rates should be fixed by SubTel. However, SubTel sets the maximum rates that may be charged by each operator for interconnect charges, access charges between operators for calls originating on one network that are completed through connections with one or more networks of other providers and charges for network unbundling services. Rate regulation on interconnection charges is applicable to all fixed-line and mobile telephony companies, including our company. The determination of the maximum rates that may be charged by operators for their fixed-line or mobile services are made on a case-by-case basis by SubTel and are effective for five years. The next tariff setting is in process, which will define some of our tariffs from June 2017 to June 2022.

Other Chilean Regulation

Price Increase. The Consumer Rights Protection Law contains provisions that require that any raise in rates exceeding inflation must be previously accepted and agreed to by subscribers. Although we disagree with this interpretation, in July 2012, we reached an agreement with Sernac that permits us to make adjustments to our published prices twice per year to adjust for inflation, except those services that are subject to rate regulation. We are generally prohibited from increasing the rates over the inflation adjustment. We may, however, cancel a subscriber's contract after 12 months and propose a new contract with new rate provisions. Once a year we may propose to our existing subscribers additional changes to their rates, which must be accepted by the subscriber for the rates to go into effect.

Bundling. On December 18, 2012, the Chilean Antitrust Authority issued its regulation governing the on-net/off-net pricing practice in the mobile industry and the offering of bundled telecommunication services. Pursuant to the terms of this regulation, as revised by the Chilean Supreme Court, mobile services may be sold jointly with fixed-line services. However, promotional discounts were not permitted for these double-play offers. As for traditional bundling over the same platform (e.g., bundled fixed-line services such as our double- and triple-play packages, or bundled mobile services), this regulation provides that such services may be bundled, subject to certain price limitations. These limitations require that the total price for a bundle must be greater than the standalone price for the most expensive service included in the bundle. Also, when three or more services are bundled, the price for the bundle must be greater than the sum of the standalone prices for each service in the bundle, excluding the lowest priced service.

Telecommunication Services Proposal. In February 2014, SubTel published a General Telecommunication Services Ruling that regulates the offer of telecommunication services, including voice, internet access, and pay television, either alone or in bundles, from a consumer protection point of view. The regulation introduced service billing, significant changes in contracts with customers, requirements regarding compensation in case of service failure, and rules regarding treatment of customers' personal information.

Minimum Standards on Quality of Service and Operation. From August 5 to September 4, 2013, SubTel submitted for public comment a draft of the Technical Fundamental Plan on Maintenance and Public Service Telecommunications Network Managing. This draft seeks to impose minimum standards on quality of service and operation of telecommunications networks, in general, and in some particular services: voice services; text and multimedia messages services; data transmission services; minimum coverage for mobile services; and digital terrestrial television minimum coverage. We are uncertain when SubTel will publish the final version of the plan.

Legal Proceedings

We are a party to various legal proceedings that arise in the normal course of our business. While the results of such normal course legal proceedings cannot be predicted with certainty, management believes that, based on our current knowledge, the ultimate resolution of these matters would not likely have a material adverse effect on our business, financial condition or results of operations. However, in view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines or penalties related to any such pending matter may be.

Our Intellectual Property

We own approximately 600 trademarks and other intellectual property rights in Chile. In addition, our services often use the intellectual property of others, such as licensed software, and we often license copyrights, patents and trademarks from others. We vigorously protect our rights in and to our owned and licensed trademarks and other intellectual property rights. Furthermore, we currently pay royalty fees to certain Chilean copyright collectives, including "*Sociedad Chilena de Derecho de Autor*" and "*Chileactores*," which manage the copyrights of record companies, musicians and local actors that appear in our programming.

Properties

We own or lease the facilities necessary for the operation of our business, including office space, transponder space, broadband facilities, other technical support and engineering space, customer service space, network center space and other property (including cable television and telecommunication distribution equipment, telecommunication switches and customer services equipment) necessary for our operations. We fund lease payments for stores in which our mobile products are sold and serviced and contract with third parties who operate these facilities. The physical components of our broadband network require maintenance and periodic upgrades to support the new services and products they introduce. Subject to these maintenance and upgrade activities, we believe that our facilities meet our present needs and that our properties are generally well maintained and suitable for their intended use. We believe that we generally have sufficient space to satisfy the demand for our products in the foreseeable future, but we maintain flexibility to move certain operations to alternative premises.

Employees

As of December 31, 2016, we had an aggregate of approximately 2,200 full-time employees, of whom approximately 41% belong to one of seven unions. We negotiate new agreements with each union on a staggered basis approximately every three to four years. Also, through our contractors, we indirectly employ approximately 8,200 technicians and other workers, and also hire temporary employees for various projects. We believe that our relations with our employees and unions are good.

MANAGEMENT AND GOVERNANCE

Managing Director of VTR Finance

The managing director of VTR Finance is Liberty Global Europe Management, which is an indirect, wholly- owned subsidiary of Liberty Global. The address for the managing director is Boeing Avenue 53, 1119 PE Schiphol-Rijk, the Netherlands. The managing director is authorized to conduct the day-to-day business of VTR Finance.

Executive Management of VTR

The executive management team of VTR currently comprises the following individuals:

Name	Current Position	Years of Service
Guillermo Ponce	Chief Executive Officer	23
Marcelo Von Chrismar	VP, Finance and Administration (CFO)	14
Maria Paz Epelman	VP, Public Affairs & Corporate Social Responsibility	16
Cristián Ariztía	VP, Commercial & Clients	18
Iván Rozas	VP, People	23
Pedro Assael	VP, Products and Marketing	7
Ramón Cañas	VP, Technology & Infrastructure	3
Jose Navarro	VP, Systems & Processes (IT)	1

Below is a brief biographical outline of each of the members of our executive management team.

Guillermo Ponce

Mr. Ponce, 46, has served as our Chief Executive Officer since 2011. Previously, he served as Vice President of Sales and Operations, as well as Customer Care Manager and other positions within our company since 1993. Previously, he was an advisor for the Chilean think tank, Latin American Economic Research Corporation (CIEPLAN). He holds an Engineering degree from the Universidad de Chile and a Master in Business Administration (**MBA**) degree from the University of California, Los Angeles.

Marcelo Von Chrismar

Mr. Von Chrismar, 47, has served as our Vice President of Finance and Administration (CFO) since 2006. Previously, he served as our Manager of Administration and Finance. Mr. Von Chrismar holds a degree in Economics from the Universidad de Chile and an MBA degree from IESE Business School, Universidad de Navarra (Spain). Prior to joining us, he was the CFO of Canal 13, one of the main open TV broadcasters in Chile.

Maria Paz Epelman

Mrs. Epelman, 49, has served as our Vice President of Public Affairs and Corporate Social Responsibility since 2007. Previously, she served as our Corporate Communications Manager. Prior to joining us in 2000, she was an advisor in communications to Apple Inc. and CIEPLAN, among others. Mrs. Epelman holds a degree in Journalism from the Universidad de Chile.

Cristián Ariztía

Mr. Ariztía, 50, has served as our Vice President of Commercial and Clients since 2012. Previously, he served as our Zone Manager, Metropolitan Area, as well as other positions in the areas of business and sales. Mr. Ariztía holds a bachelor's degree in Business from the Universidad Diego Portales.

Iván Rozas

Mr. Rozas, 57, has served as our Vice President of People since 2007. Previously, he served as our Zone Manager, Northern Chile, as well as other positions since 1993. Mr. Rozas holds a bachelor's degree in Business from the Universidad Católica del Norte and a master's degree in Marketing and Business Management from Spain's Escuela Internacional de Dirección Empresarial.

Pedro Assael

Mr. Assael, 50, has served as our Vice President of Products and Marketing since 2012. Previously, Mr. Assael held a number of executive positions at Telefonica and Banco de Chile. Also, between 2000 and 2005, he held the position of Internet manager at VTR GlobalCom. Mr. Assael holds a degree in Engineering from the Universidad Católica de Chile and an MBA degree from the Massachusetts Institute of Technology (MIT).

Ramón Cañas

Mr. Cañas, 53, has served as our Vice President of Technology and Infrastructure since 2014. Previously, he was CEO of Metro de Santiago, Chile's capital subway system, CEO of Aguas Chañar, a water concession operator and, between 1998 and 2006, he worked with us occupying several managing positions in the area of infrastructure and commercial. Mr. Cañas holds a degree in Engineering from the Universidad de Santiago and an MBA degree from Spain's Universidad de Lérida.

José Navarro

Mr. Navarro, 49, was appointed Vice President of Systems and Processes (IT) effective February 1, 2016. Previously, he served as our Development and Strategical Projects Manager beginning in 2011. Between 1996 and 2004 he held the position of Vice President of Products at Americatel Corp. Mr. Navarro holds a degree in Engineering from the Universidad de Chile.

Independent Auditors' Report

The Board of Directors
Liberty Global plc:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of VTR Finance B.V., which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive earnings (loss), owners' equity (deficit), and cash flows for the three-year period ended December 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of VTR Finance B.V. as of December 31, 2016 and 2015, and the results of its operations and cash flows for the three-year period ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

José M.Galindo P.

KPMG Ltda.

Santiago, Chile, March 23, 2017

VTR FINANCE B.V.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2016	2015
	CLP in billions	
ASSETS		
Current assets:		
Cash and cash equivalents	83.7	89.8
Trade receivables, net	58.5	51.4
Income tax receivable (note 8)	16.5	—
Derivative instruments (note 4)	4.8	11.3
Other current assets (note 10)	17.5	22.8
Total current assets	181.0	175.3
Property and equipment, net (note 6)	383.9	336.5
Goodwill (note 6)	266.7	267.1
Derivative instruments (note 4)	77.1	206.7
Deferred income taxes (note 8)	48.2	56.4
Other assets, net (notes 6, 8 and 10)	58.0	52.1
Total assets	1,014.9	1,094.1

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

VTR FINANCE B.V.

CONSOLIDATED BALANCE SHEETS – (Continued)

	December 31,	
	2016	2015
	CLP in billions	
LIABILITIES AND OWNER'S DEFICIT		
Current liabilities:		
Accounts payable	49.2	28.2
Deferred revenue and advance payments from subscribers and others	25.0	23.1
Current portion of debt and capital lease obligations (note 7)	32.9	0.2
Accrued interest	30.7	31.9
Accrued programming	21.7	20.0
Accrued income taxes	4.1	26.0
Other accrued and current liabilities (notes 4, 10 and 11)	77.8	78.2
Total current liabilities	241.4	207.6
Long-term debt and capital lease obligations (note 7)	922.0	977.5
Other long-term liabilities (notes 8 and 11)	103.5	19.4
Total liabilities	1,266.9	1,204.5
Commitments and contingencies (notes 4, 7, 8 and 13)		
Owner's deficit (note 9):		
Accumulated net distributions	(301.4)	(278.0)
Accumulated earnings	33.3	149.7
Accumulated other comprehensive earnings, net of taxes	16.1	17.9
Total owner's deficit	(252.0)	(110.4)
Total liabilities and owner's deficit	1,014.9	1,094.1

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

VTR FINANCE B.V.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2016	**2015**	**2014**
		CLP in billions	
Revenue	580.6	547.5	512.4
Operating costs and expenses (exclusive of depreciation and amortization, shown separately below):			
Programming and other direct costs of services (notes 10 and 13)	160.5	149.0	133.3
Other operating (note 12)	88.5	83.5	83.2
Selling, general and administrative (**SG&A**) (note 12)	105.6	101.0	100.2
Related-party fees and allocations (note 10)	10.1	8.6	4.7
Depreciation (note 6)	82.1	92.6	87.2
Impairment, restructuring and other operating items, net (note 11)	10.0	3.3	7.8
	456.8	438.0	416.4
Operating income	123.8	109.5	96.0
Non-operating income (expense):			
Interest expense:			
Third-party	(69.2)	(70.1)	(55.8)
Related-party (note 10)	—	—	(0.3)
Interest income	2.4	1.9	1.9
Realized and unrealized gains (losses) on derivative instruments, net (note 4)	(133.4)	162.1	30.7
Foreign currency transaction gains (losses), net	58.2	(147.5)	(56.8)
Other income (expense), net	1.6	(2.0)	(1.7)
	(140.4)	(55.6)	(82.0)
Earnings (loss) before income taxes	(16.6)	53.9	14.0
Income tax expense (note 8)	(99.8)	(29.8)	(5.3)
Net earnings (loss)	(116.4)	24.1	8.7
Net loss attributable to noncontrolling interests	—	—	2.5
Net earnings (loss) attributable to parent	(116.4)	24.1	11.2

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

VTR FINANCE B.V.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

	Year ended December 31,		
	2016	2015	2014
		CLP in billions	
Net earnings (loss)	(116.4)	24.1	8.7
Other comprehensive earnings (loss):			
Unrealized gains (losses) on cash flow hedges, net of taxes	(2.9)	1.1	—
Reclassification adjustments included in net earnings (loss)	1.1	—	—
Foreign currency translation adjustments	—	—	(4.5)
Other comprehensive earnings (loss)	(1.8)	1.1	(4.5)
Comprehensive earnings (loss)	(118.2)	25.2	4.2
Comprehensive loss attributable to noncontrolling interests	—	—	2.5
Comprehensive earnings (loss) attributable to parent	(118.2)	25.2	6.7

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

VTR FINANCE B.V.

CONSOLIDATED STATEMENTS OF OWNER'S EQUITY (DEFICIT)

	Parent's equity					
	Accumulated net contributions (distributions)	Accumulated earnings	Accumulated other comprehensive earnings, net of taxes	Total parent's equity	Noncontrolling interests	Total owner's equity (deficit)
			CLP in billions			
Balance at January 1, 2014	423.3	114.4	21.3	559.0	65.0	624.0
Net earnings	—	11.2	—	11.2	(2.5)	8.7
Other comprehensive loss, net of taxes	—	—	(4.5)	(4.5)	—	(4.5)
Deemed distribution in connection with issuance of VTR Finance Senior Secured Notes (notes 7 and 9)	(757.2)	—	—	(757.2)	—	(757.2)
Acquisition of noncontrolling ownership interests in VTR GlobalCom and VTR Wireless (note 9)	(178.1)	—	—	(178.1)	(62.5)	(240.6)
Contributions from parent (note 9)	235.6	—	—	235.6	—	235.6
Distributions to parent (note 9)	(79.4)	—	—	(79.4)	—	(79.4)
Settlement of UPC Chile Mobile Shareholder Loan and related interest (note 9)	64.6	—	—	64.6	—	64.6
Deemed contribution of services (note 10)	4.6	—	—	4.6	—	4.6
Balance at December 31, 2014	(286.6)	125.6	16.8	(144.2)	—	(144.2)

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

VTR FINANCE B.V.

CONSOLIDATED STATEMENTS OF OWNER'S EQUITY (DEFICIT) – (Continued)

	Accumulated net distributions	Accumulated earnings	Accumulated other comprehensive earnings, net of taxes	Total owner's deficit
	CLP in billions			
Balance at January 1, 2015	(286.6)	125.6	16.8	(144.2)
Net earnings	—	24.1	—	24.1
Other comprehensive earnings, net of taxes	—	—	1.1	1.1
Deemed contribution of services (note 10)	8.6	—	—	8.6
Balance at December 31, 2015	(278.0)	149.7	17.9	(110.4)
Net loss	—	(116.4)	—	(116.4)
Other comprehensive loss, net of taxes	—	—	(1.8)	(1.8)
Distributions to parent (note 9)	(33.8)	—	—	(33.8)
Deemed contribution of services (note 10)	10.1	—	—	10.1
Share-based compensation (note 12)	0.3	—	—	0.3
Balance at December 31, 2016	(301.4)	33.3	16.1	(252.0)

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

VTR FINANCE B.V.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2016	2015	2014
	CLP in billions		
Cash flows from operating activities:			
Net earnings (loss)	(116.4)	24.1	8.7
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Share-based compensation expense	3.0	0.4	4.9
Related-party fees and allocations	10.1	8.6	4.7
Depreciation	82.1	92.6	87.2
Impairment, restructuring and other operating items, net	10.0	3.3	7.8
Realized and unrealized losses (gains) on derivative instruments, net	133.4	(162.1)	(30.7)
Foreign currency transaction losses (gains), net	(58.2)	147.5	56.8
Loss on debt extinguishment	—	—	1.1
Deferred income tax expense (benefit)	11.2	(8.9)	17.2
Changes in operating assets and liabilities:			
Receivables and other operating assets	(28.9)	24.3	(25.6)
Payables and accruals	62.9	5.3	(11.6)
Net cash provided by operating activities	109.2	135.1	120.5
Cash flows from investing activities:			
Capital expenditures	(84.9)	(101.8)	(92.2)
Receipts from (advances to) related parties, net	0.1	5.8	(4.9)
Other investing activities, net	1.2	0.4	—
Net cash used by investing activities	(83.6)	(95.6)	(97.1)

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

VTR FINANCE B.V.

CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)

	Year ended December 31,		
	2016	2015	2014
		CLP in billions	
Cash flows from financing activities:			
Contributions from (distributions to) parent, net	(33.8)	—	156.2
Borrowings of third-party debt	2.0	—	13.5
Repayments of third-party debt and capital lease obligations	(0.3)	(0.2)	(60.4)
Payment of financing costs	—	(1.1)	(16.4)
Repayments received from related parties, net	—	—	339.9
Purchase of Liberty Global ordinary shares in connection with the acquisition of noncontrolling ownership interests in VTR GlobalCom and VTR Wireless	—	—	(240.6)
Repurchase of related-party debt	—	—	(233.9)
Net cash paid related to derivative instruments	—	—	(20.3)
Other financing activities, net	0.6	—	2.4
Net cash used by financing activities	(31.5)	(1.3)	(59.6)
Effect of exchange rate changes on cash	(0.2)	(0.1)	1.0
Net increase (decrease) in cash and cash equivalents	(6.1)	38.1	(35.2)
Cash and cash equivalents:			
Beginning of year	89.8	51.7	86.9
End of year	83.7	89.8	51.7
Cash paid for interest	69.3	64.7	31.2
Net cash paid for taxes	46.4	13.7	20.5

The accompanying notes are an integral part of these 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 functional currency is the Chilean peso (**CLP**). Unless otherwise indicated, convenience translations into CLP are calculated as of December 31, 2016.

These consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through March 23, 2017, the date of issuance.

(2) Accounting Changes and Recent Accounting Pronouncements

Accounting Changes

In April 2015, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (**ASU 2015-03**), which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a reduction of debt, similar to the presentation of debt discounts. ASU 2015-03 was effective for annual reporting periods beginning after December 15, 2015. We adopted ASU 2015-03 on January 1, 2016 and, accordingly, deferred financing costs are presented as a reduction of debt in our December 31, 2016 and 2015 consolidated balance sheets. Prior to the adoption of ASU 2015-03, we presented deferred financing costs in other assets, net.

Recent Accounting Pronouncements

ASU 2014-09

In May 2014, the FASB issued 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 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 in the period during 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 customer life. 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. 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) Summary of Significant Accounting Policies

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (**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 expenses, 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation, including the reclassification of deferred financing costs from other assets to long-term debt and capital lease obligations and the reclassification of certain costs between programming and other direct costs of services, other operating and SG&A expenses. For additional information regarding the change in the classification of deferred financing costs, see "*Accounting Changes*" in note 2.

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and the accounts of all voting interest entities where we exercise a controlling financial interest through the ownership of a direct or indirect controlling voting interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash equivalents consist of money market funds and other investments that are readily convertible into cash and have maturities of three months or less at the time of acquisition. We record money market funds at the net asset value reported by the investment

manager as there are no restrictions on our ability, contractual or otherwise, to redeem our investments at the stated net asset value reported by the investment manager.

Our significant non-cash financing activities are disclosed in our consolidated statements of owner's equity (deficit) and in notes 4 and 7.

Trade Receivables

Our trade receivables are reported net of an allowance for doubtful accounts. Such allowance aggregated CLP 16.9 billion and CLP 15.9 billion at December 31, 2016 and 2015, respectively. The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible accounts receivable. We use a number of factors in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk. The allowance is maintained until either payment is received or the likelihood of collection is considered to be remote.

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers. We also manage this risk by disconnecting services to customers whose accounts are delinquent.

Financial Instruments

Due to the short maturities of cash and cash equivalents, trade and other receivables, other current assets, accounts payable, accrued liabilities and other accrued and current liabilities, their respective carrying values approximate their respective fair values. For information concerning the fair values of our derivative instruments, see note 4. For information regarding how we arrive at certain of our fair value measurements, see note 5.

Derivative Instruments

All derivative instruments, whether designated as hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative instrument is not designated as a hedge, changes in the fair value of the derivative instrument are recognized in earnings. If the derivative instrument is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative instrument are recorded in other comprehensive earnings or loss and subsequently reclassified into our consolidated statements of operations when the hedged forecasted transaction affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. With the exception of a limited number of our foreign currency forward contracts, we do not apply hedge accounting to our derivative instruments.

The net cash received or paid related to our derivative instruments is classified as an operating, investing or financing activity in our 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 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 in our consolidated statement of cash flows.

For information regarding our derivative instruments, see note 4.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. We capitalize costs associated with the construction of new cable transmission and distribution facilities and the installation of new cable services. Capitalized construction and installation costs include materials, labor and other directly attributable costs. Installation activities that are capitalized include (i) the initial connection (or drop) from our cable system to a customer location, (ii) the replacement of a drop and (iii) the installation of equipment for additional services, such as digital cable, telephone or broadband internet service. The costs of other customer-facing activities, such as reconnecting customer locations where a drop already exists, disconnecting customer locations and repairing or maintaining drops, are expensed as incurred. Interest capitalized with respect to construction activities was not material during any of the periods presented.

Capitalized internal-use software is included as a component of property and equipment. We capitalize internal and external costs directly associated with the development of internal-use software. We also capitalize costs associated with the purchase of software licenses. Maintenance and training costs, as well as costs incurred during the preliminary stage of an internal-use software development project, are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful life of the underlying asset. Equipment under capital leases is amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Useful lives used to depreciate our property and equipment are assessed periodically and are adjusted when warranted. The useful lives of cable distribution systems that are undergoing a rebuild are adjusted such that property and equipment to be retired will be fully depreciated by the time the rebuild is completed. For additional information regarding the useful lives of our property and equipment, see note 6.

Additions, replacements and improvements that extend the asset life are capitalized. Repairs and maintenance are charged to operations.

Intangible Assets

Our primary intangible assets relate to goodwill, our trade name and spectrum licenses. Goodwill represents the excess purchase price over the fair value of the identifiable net assets acquired in a business combination. Our trade name was originally recorded at its fair value in connection with a business combination.

Goodwill and other intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. Intangible assets with finite lives are amortized on a straight-line basis over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

We do not amortize our trade name and spectrum licenses as these assets have indefinite lives. For additional information regarding the useful lives of our intangible assets, see note 6.

Impairment of Property and Equipment and Intangible Assets

When circumstances warrant, we review the carrying amounts of our property and equipment and our intangible assets (other than goodwill and other indefinite-lived intangible assets) to determine whether such carrying amounts continue to be recoverable. Such changes in circumstance may include (i) an expectation of a sale or disposal of a long-lived asset or asset group, (ii) adverse changes in market or competitive conditions, (iii) an adverse change in legal factors or business climate in the market in which we operate and (iv) operating or cash flow losses. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities. If the carrying amount of the asset or asset group is greater than the expected undiscounted cash flows to be generated by such asset or asset group, an impairment adjustment is recognized. Such adjustment is measured by the amount that the carrying value of such asset or asset group exceeds its fair value. We generally measure fair value by considering (a) sale prices for similar assets, (b) discounted estimated future cash flows using an appropriate discount rate and/or (c) estimated replacement cost. Assets to be disposed of are recorded at the lower of their carrying amount or fair value less costs to sell.

We evaluate goodwill and other indefinite-lived intangible assets for impairment at least annually on October 1 and whenever facts and circumstances indicate that the carrying amounts of goodwill and other indefinite-lived intangible assets may not be recoverable. For purposes of the annual goodwill impairment evaluation, our operations consist of one reporting unit. A reporting unit is an operating segment or one level below an operating segment (referred to as a "component"). Our operating segment is deemed to be a reporting unit as it comprises a single component. For impairment evaluations with respect to both goodwill and other indefinite-lived intangibles, we first make a qualitative assessment to determine if the goodwill or other indefinite-lived intangible may be impaired. In the case of goodwill, if it is more-likely-than-not that the reporting unit's fair value is less than its carrying value, we then compare the fair value of the reporting unit to its respective carrying amount. If the carrying value of the reporting unit were to exceed its fair value, we would then compare the implied fair value of the reporting unit's goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss. With respect to other indefinite-lived intangible assets, if it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying value, we then estimate its fair value and any excess of the carrying value over the fair value is also charged to operations as an impairment loss.

Income Taxes

Income taxes are accounted for under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for each taxing jurisdiction in which we operate for the year in which those temporary differences are expected to be recovered or settled. We recognize the financial statement effects of a tax position when it is more-likely-than-not, based on technical merits,

that the position will be sustained upon examination. Net deferred tax assets are then reduced by a valuation allowance if we believe it is more-likely-than-not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Deferred tax liabilities related to investments in foreign entities and foreign corporate joint ventures that are essentially permanent in duration are not recognized until it becomes apparent that such amounts will reverse in the foreseeable future. In order to be considered essentially permanent in duration, sufficient evidence must indicate that the foreign entity has invested or will invest its undistributed earnings indefinitely, or that earnings will be remitted in a tax-free liquidation. Interest and penalties related to income tax liabilities are included in income tax expense in our consolidated statements of operations.

VTR Finance is part of a Dutch tax fiscal unity (the **Dutch Fiscal Unity**), along with its ultimate Dutch parent and certain other Dutch subsidiaries of Liberty Global. For additional information regarding our income taxes, including the tax allocations from the Dutch Fiscal Unity, see note 8.

Foreign Currency Translation and Transactions

The reporting currency of our company is the Chilean peso. Assets and liabilities of foreign subsidiaries (including intercompany and related-party balances for which settlement is not anticipated in the foreseeable future) are translated at the spot rate in effect at the applicable reporting date. With the exception of certain material transactions, the amounts reported in our consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings or loss in our consolidated statements of owner's equity (deficit). With the exception of certain material transactions, the cash flows from our operations in foreign countries are translated at the average rate for the applicable period in our consolidated statements of cash flows. The impacts of material transactions generally are recorded at the applicable spot rates in our consolidated statements of operations and cash flows. The effect of exchange rates on cash balances held in United States (**U.S.**) dollars are separately reported in our consolidated statements of cash flows.

Transactions denominated in currencies other than our or our subsidiaries' functional currencies are recorded based on exchange rates at the time such transactions arise. Changes in exchange rates with respect to amounts recorded in our consolidated balance sheets related to these non-functional currency transactions result in transaction gains and losses that are reflected in our consolidated statements of operations as unrealized (based on the applicable period end exchange rates) or realized upon settlement of the transactions.

Revenue Recognition

Service Revenue – Cable Networks. We recognize revenue from the provision of video, broadband internet and fixed-line telephony services over our cable network to customers in the period the related services are provided. Installation revenue (including reconnect fees) related to services provided over our cable network is recognized as revenue in the period during which the installation occurs to the extent these fees are equal to or less than direct selling costs, which costs are expensed as incurred. To the extent installation revenue exceeds direct selling costs, the excess revenue is deferred and amortized over the average expected subscriber life.

Sale of Multiple Products and Services. We sell video, broadband internet and fixed-line telephony services to our customers in bundled packages at a rate lower than if the customer purchased each product on a standalone basis. Revenue from bundled packages generally is allocated proportionally to the individual services based on the relative standalone price for each respective service.

Mobile Revenue – General. Consideration from mobile contracts is allocated to the airtime service element and the handset service element based on the relative standalone prices of each element. The amount of consideration allocated to the handset is limited to the amount that is not contingent upon the delivery of future airtime services. We offer handsets under a subsidized contract model, whereby upfront revenue recognition is limited to the upfront cash collected from the customer as the remaining monthly fees to be received from the customer, including fees that may be associated with the handset, are contingent upon delivering future airtime services.

Mobile Revenue – Airtime Services. We recognize revenue from mobile services in the period the related services are provided. Revenue from pre-pay customers is recorded as deferred revenue prior to the commencement of services and revenue is recognized as the services are rendered or usage rights expire.

Mobile Revenue – Handset Revenue. Arrangement consideration allocated to handsets is recognized as revenue when the goods have been delivered and title has passed.

Promotional Discounts. For subscriber promotions, such as discounted or free services during an introductory period, revenue is recognized only to the extent of the discounted monthly fees charged to the subscriber, if any.

Subscriber Advance Payments and Deposits. Payments received in advance for the services we provide are deferred and recognized as revenue when the associated services are provided.

*Sales, Use and Other Value-Added Taxes (**VAT**).* Revenue is recorded net of applicable sales, use and other VAT.

Share-based Compensation

We recognize all share-based payments for grants issued under our share incentive plan (the **VTR Plan**) at our wholly-owned subsidiary, VTR.com SpA (**VTR**), to our employees, including grants of employee share-based incentive awards, based on their grant-date fair values and our estimates of forfeitures. VTR is the successor by merger of VTR GlobalCom SpA (**VTR**) and VTR Chile Holdings SpA (**VTR Chile Holdings**; together, the **2016 Merger**). We use the liability method to account for share incentive awards issued under the VTR Plan, which computes the compensation charge based on the vested remeasured fair value of the awards at each reporting date through the date that the awards are exercised or expire.

For additional information regarding our share-based compensation, see note 12.

Litigation Costs

Legal fees and related litigation costs are expensed as incurred.

(4) 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 U.S. dollar (**$**). With the exception of a limited number 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 consolidated statements of operations.

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

	December 31, 2016			December 31, 2015		
	Current (a)	Long-term	Total	Current	Long-term	Total
	CLP in billions					
Assets:						
Cross-currency derivative contracts (b)	4.6	77.1	81.7	8.3	206.7	215.0
Foreign currency forward contracts	0.2	—	0.2	3.0	—	3.0
Total	4.8	77.1	81.9	11.3	206.7	218.0
Liabilities:						
Cross-currency derivative contracts (b)	0.1	—	0.1	—	—	—
Foreign currency forward contracts	2.8	—	2.8	—	—	—
Total	2.9	—	2.9	—	—	—

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

(b) We consider credit risk in our fair value assessments. As of December 31, 2016 and 2015, the fair values of our cross-currency derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating CLP 2.7 billion and CLP 9.4 billion, respectively. The adjustments to our derivative assets relate to the credit risk associated

with counterparty nonperformance. The adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market and market quotations for our debt instruments, as applicable. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in net gains (losses) of CLP 6.7 billion, (CLP 0.6 billion) and (CLP 8.9 billion) during 2016, 2015 and 2014, respectively. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our consolidated statements of operations. For further information regarding our fair value measurements, see note 5.

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

	Year ended December 31,		
	2016	2015	2014
		CLP in billions	
Cross-currency and interest rate derivative contracts	(127.2)	155.2	29.2
Foreign currency forward contracts	(6.2)	6.9	1.5
Total	(133.4)	162.1	30.7

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

	Year ended December 31,		
	2016	2015	2014
		CLP in billions	
Operating activities	4.3	(18.0)	(11.3)
Investing activities	(2.2)	1.5	—
Financing activities	—	—	(20.3)
Total	2.1	(16.5)	(31.6)

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 December 31, 2016, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of CLP 81.9 billion.

We have entered into derivative instruments under master 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.

Under our derivative contracts, it is generally only the non-defaulting party that has a contractual option to exercise early termination rights upon the default of the other counterparty and to set off other liabilities against sums due upon such termination. However, in an insolvency of a derivative counterparty, under the laws of certain jurisdictions, the defaulting counterparty or its insolvency representatives may be able to compel the termination of one or more derivative contracts and trigger early termination payment liabilities payable by us, reflecting any mark-to-market value of the contracts for the counterparty. Alternatively, or in addition, the insolvency laws of certain jurisdictions may require the mandatory set off of amounts due under such derivative contracts against present and future liabilities owed to us under other contracts between us and the relevant counterparty. Accordingly, it is possible that we may be subject to obligations to make payments, or may have present or future liabilities owed to us partially or fully discharged by set off as a result of such obligations, in the event of the insolvency of a derivative counterparty, even though it is the counterparty that is in default and not us. To the extent that we are required to make such payments, our ability to do so will depend on our liquidity and capital resources at the time. In an insolvency of a defaulting counterparty, we will be an unsecured creditor in respect of any amount owed to us by the defaulting counterparty, except to the extent of the value of any collateral we have obtained from that counterparty.

In addition, where a counterparty is in financial difficulty, under the laws of certain jurisdictions, the relevant regulators may be able to (i) compel the termination of one or more derivative instruments, determine the settlement amount and/or compel, without any payment, the partial or full discharge of liabilities arising from such early termination that are payable by the relevant counterparty or (ii) transfer the derivative instruments to an alternative counterparty.

Details of our Derivative Instruments

In the following tables, we present the details of the various categories of our derivative instruments. The notional amounts of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. In addition, for derivative instruments that were in effect as of December 31, 2016, we present a single date that represents the applicable final maturity date. For derivative instruments that become effective subsequent to December 31, 2016, we present a range of dates that represents the period covered by the applicable derivative instruments.

Cross-currency Swaps

The terms of our outstanding cross-currency swap contracts at December 31, 2016, which are held by our wholly-owned subsidiary, VTR, are as follows:

Final maturity date	Notional amount due from counterparty	Notional amount due to counterparty	Interest rate due from counterparty	Interest rate due to counterparty
	in millions			
January 2022	$ 1,400.0	CLP 951,390.0	6.88%	6.36%

Foreign Currency Forwards

The following table summarizes our outstanding foreign currency forward contracts at December 31, 2016:

Subsidiary	Currency purchased forward	Currency sold forward	Maturity dates
	in millions		
VTR	$ 149.7	CLP 104,207.4	January 2017 - December 2017

(5) Fair Value Measurements

We use the fair value method to account for our derivative instruments. The reported fair values of these instruments as of December 31, 2016 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 2016, 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 4, 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. 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 4.

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 2016 and 2015.

(6) Long-lived Assets

Property and Equipment, Net

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

	Estimated useful life at December 31, 2016	December 31, 2016	December 31, 2015
		CLP in billions	
Distribution systems	3 to 30 years	509.9	470.2
Customer premises equipment	3 to 5 years	499.2	444.9
Support equipment, buildings and land	3 to 25 years	233.2	208.3
		1,242.3	1,123.4
Accumulated depreciation		(858.4)	(786.9)
Total property and equipment, net		383.9	336.5

Depreciation expense related to our property and equipment was CLP 82.1 billion, CLP 92.6 billion and CLP 87.2 billion during 2016, 2015 and 2014, respectively.

Goodwill

There were no material changes in the carrying amount of our goodwill during 2016 and 2015 and no accumulated goodwill impairments as of December 31, 2016.

Other Indefinite-lived Intangible Assets

Our other indefinite-lived intangible assets consist of intangible assets related to our trade name and spectrum licenses. At each of December 31, 2016 and 2015, the balance of our other indefinite-lived intangible assets, which are included in other assets, net, in our consolidated balance sheets, was CLP 15.5 billion.

Impairments

No material impairments of our goodwill or other indefinite-lived intangible assets were required to be recorded in connection with our October 1, 2016 and 2015 impairment tests. If, among other factors, (i) our enterprise value or Liberty Global's equity values were to decline significantly or (ii) the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill and, to a lesser extent, other long-lived assets. Any such impairment charges could be significant.

(7) Debt and Capital Lease Obligations

The Chilean peso equivalents of the components of our consolidated third-party debt is as follows:

	December 31, 2016						
	Weighted average interest rate (a)	Unused borrowing capacity		Estimated fair value (b)		Principal amount	
		Borrowing currency	CLP equivalent	December 31,		December 31,	
				2016	2015	2016	2015
				CLP in billions			
Parent – VTR Finance Senior Secured Notes	6.875%	$ —	—	981.1	922.0	938.3	992.0
Subsidiaries – VTR Credit Facility	—	(c)	129.2	—	—	—	—
Vendor financing (d)	5.500%	—	—	32.7	—	32.7	—
Total debt before unamortized deferred financing costs	6.829%		129.2	1,013.8	922.0	971.0	992.0

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

	December 31,	
	2016	2015
	CLP in billions	
Total debt before unamortized deferred financing costs	971.0	992.0
Unamortized deferred financing costs	(16.5)	(14.5)
Total carrying amount of debt	954.5	977.5
Capital lease obligations	0.4	0.2
Total debt and capital lease obligations	954.9	977.7
Current maturities of debt and capital lease obligations	(32.9)	(0.2)
Long-term debt and capital lease obligations	922.0	977.5

(a) Represents the weighted average interest rate in effect at December 31, 2016 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 6.5% at December 31, 2016. For information regarding our derivative instruments, see note 4.

(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 5.

(c) Unused borrowing capacity represents the maximum availability at December 31, 2016 without regard to covenant compliance calculations or other conditions precedent to borrowing. At December 31, 2016, the unused borrowing capacity relates to our senior secured revolving credit facility, which comprises a $160.0 million (CLP 107.2 billion) facility (the

VTR Dollar Credit Facility) and a CLP 22.0 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 December 31, 2016. The VTR Dollar Credit Facility and the VTR Peso Credit Facility have fees on unused commitments of 1.1% and 1.34% per year, respectively. The interest rate for the VTR Dollar Credit Facility is LIBOR plus a margin of 2.75%. The interest rate for the VTR Peso Credit Facility is the applicable interbank offered rate for Chilean pesos in the relevant interbank market plus a margin of 3.35%. Borrowings under the VTR Dollar Credit Facility and the VTR Peso Credit Facility mature in January 2020 and January 2019, respectively. Based on applicable leverage and other financial covenants, the full amount of unused borrowing capacity was available to be borrowed under the VTR Credit Facility at December 31, 2016. When the December 31, 2016 compliance reporting requirements have been completed and assuming no changes from December 31, 2016 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 consolidated statements of cash flows.

General Information

Credit Facility. We have entered into a credit facilities agreement with certain financial institutions (the “**credit facility**”). Our credit facility contains certain covenants and restrictions, the more notable of which are as follows:

- Our credit facility contains certain consolidated net leverage ratios, as specified in the credit facility, which are required to be complied with on an incurrence and, in certain circumstances, a maintenance basis;
- Our credit facility contains certain restrictions which, among other things, restrict our ability to (i) incur or guarantee certain financial indebtedness, (ii) make certain disposals and acquisitions, (iii) create certain security interests over our assets, in each case, subject to certain customary and agreed exceptions and (iv) make certain restricted payments to our direct and/or indirect parent companies through dividends, loans or other distributions, subject to compliance with applicable covenants;
- Our credit facility requires certain of our subsidiaries to (i) guarantee the payment of all sums payable under the relevant credit facility and (ii) grant first-ranking security over their shares and certain intercompany loan receivables;
- In addition to certain mandatory prepayment events, the instructing group of lenders under our credit facility may cancel the commitments thereunder and declare the loans thereunder due and payable after the applicable notice period following the occurrence of a change of control (as specified in the credit facility);
- Our credit facility contains certain customary events of default, the occurrence of which, subject to certain exceptions and materiality qualifications, would allow the instructing group of lenders to (i) cancel the total commitments, (ii) accelerate all outstanding loans and terminate their commitments thereunder and/or (iii) declare that all or part of the loans be payable on demand;
- Our credit facility requires that we observe certain affirmative and negative undertakings and covenants, which are subject to certain materiality qualifications and other customary and agreed exceptions; and
- In addition to customary default provisions, our credit facility includes cross-default provisions with respect to our other indebtedness, subject to agreed minimum thresholds and other customary and agreed exceptions.

Senior Secured Notes. VTR Finance has issued senior secured notes. Our senior secured notes (i) are senior obligations of VTR Finance that rank equally with all of the existing and future senior debt of VTR Finance and are senior to all existing and future subordinated debt of VTR Finance and (ii) are secured by a pledge over the shares of VTR Finance and VTR Finance’s subsidiary, United Chile LLC. In addition, the indentures governing our senior secured notes contain certain covenants, the more notable of which are as follows:

- Our notes contain (i) certain customary incurrence-based covenants and (ii) certain restrictions that, among other things, restrict our ability to (a) incur or guarantee certain financial indebtedness, (b) make certain disposals and acquisitions, (c) create certain security interests over our assets, in each case, subject to certain customary and agreed exceptions and (d) make certain restricted payments to our direct and/or indirect parent companies through dividends, loans or other distributions, subject to compliance with applicable covenants;

- Our notes provide that any failure to pay principal prior to expiration of any applicable grace period, or any acceleration with respect to other indebtedness of VTR Finance and/or certain of its subsidiaries, over agreed minimum thresholds (as specified under the applicable indenture), is an event of default under the respective notes;

- If VTR Finance or certain of its subsidiaries (as specified in the applicable indenture) sell certain assets, VTR Finance must offer to repurchase the notes at par, or if a change of control (as specified in the applicable indenture) occurs, VTR Finance must offer to repurchase all of the notes at a redemption price of 101%; and

- Our notes contain certain early redemption provisions including the ability to, during each 12-month period commencing on the issue date for such notes until the applicable call date, redeem up to 10% of the principal amount of the notes to be redeemed at a redemption price equal to 103% of the principal amount of the notes to be redeemed plus accrued and unpaid interest.

VTR Finance Senior Secured Notes

On January 24, 2014, VTR Finance issued $1.4 billion (CLP 938.3 billion) principal amount of 6.875% VTR Finance Senior Secured Notes due January 15, 2024 pursuant to an indenture dated January 24, 2014 (the **VTR Indenture**). At any time prior to January 15, 2019, VTR Finance may redeem some or all of the VTR Finance Senior Secured Notes by paying a "make-whole" premium, which is the present value of all remaining scheduled interest payments to January 15, 2019 using the discount rate (as specified in the VTR Indenture) as of the applicable redemption date plus 50 basis points.

VTR Finance may redeem all or part of the VTR Finance Senior Secured Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts (as specified in the VTR Indenture), if any, to the applicable redemption date, as set forth below:

	Redemption price
12-month period commencing January 15:	
2019	103.438%
2020	102.292%
2021	101.146%
2022 and thereafter	100.000%

Maturities of Debt

As of December 31, 2016, our vendor financing arrangements mature in 2017 and the VTR Finance Senior Secured Notes mature in January 2024.

(8) Income Taxes

VTR Finance is part of 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 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 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 consolidated financial statements as we do not expect these benefits to be realized on a separate return basis. Prior to July 1, 2015, tax allocations from the Dutch Fiscal Unity were not subject to tax sharing agreements and no cash payments were made between the companies related to the Dutch tax attributes. Accordingly, any tax allocations were reflected as an adjustment of accumulated net contributions (distributions) in our consolidated statements of owner's equity (deficit). Effective July 1, 2015, and as a result of Liberty Global's adoption of a tax sharing policy, we record non-interest bearing related-party payables and receivables in connection with any allocation of our Dutch tax attributes. In the case of allocated tax assets, related-party payables and receivables will only be recorded to the extent that tax assets are utilized or taxable income is included in the return for the applicable tax year.

The components of our earnings (loss) before income taxes are as follows:

	Year ended December 31,		
	2016	2015	2014
		CLP in billions	
Chile	32.1	122.9	31.0
Other	(48.7)	(69.0)	(17.0)
Total	(16.6)	53.9	14.0

Income tax expense consists of the following:

	Current	Deferred	Total
		CLP in billions	
Year ended December 31, 2016:			
Chile	(88.6)	(8.2)	(96.8)
The Netherlands	—	(3.0)	(3.0)
Total	(88.6)	(11.2)	(99.8)
Year ended December 31, 2015:			
Chile	(38.7)	8.9	(29.8)
Year ended December 31, 2014:			
Chile	11.9	(17.2)	(5.3)

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

	Year ended December 31,		
	2016	2015	2014
	CLP in billions		
Computed "expected" tax benefit (expense)	4.2	(13.5)	(3.5)
Non-deductible or non-taxable interest and other expenses	(93.1)	(5.8)	(1.2)
Change in valuation allowances	(11.4)	(16.1)	(15.3)
Impact of 2016 Merger on tax attributes	(3.6)	—	—
Impact of price level adjustments for tax purposes	2.9	0.2	0.8
Enacted tax law and rate changes (a)	0.6	1.1	12.7
International rate difference (b)	0.3	3.1	1.2
Other, net	0.3	1.2	—
Total income tax expense	(99.8)	(29.8)	(5.3)

(a) Amounts represent the impact on our net deferred tax assets of a tax law change enacted in Chile in 2014, as further described below.

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

At December 31, 2016 and 2015, we had long-term deferred tax assets of CLP 48.2 billion and CLP 56.4 billion, respectively.

The tax effects of temporary differences that give rise to significant portions of our deferred tax assets and deferred tax liabilities are presented below:

	December 31,	
	2016	2015
	CLP in billions	
Deferred tax assets:		
Property and equipment, net	20.8	22.9
Debt	20.8	15.7
Net operating losses	18.3	30.7
Bad debt and other provisions	9.4	14.5
Derivatives	8.5	—
Other future deductible amounts	13.0	6.3
Deferred tax assets	90.8	90.1
Valuation allowance	(41.3)	(32.5)
Deferred tax assets, net of valuation allowance	49.5	57.6
Deferred tax liabilities – other future taxable amounts	(1.3)	(1.2)
Net deferred tax asset	48.2	56.4

Our deferred income tax valuation allowance increased CLP 8.8 billion during 2016. This increase reflects the net effect of (i) the net tax expense related to our operations of CLP 11.4 billion and (ii) other individually insignificant items.

The significant components of our tax loss carryforwards and related tax assets at December 31, 2016 are as follows:

Country	Tax loss carryforward	Related tax asset	Expiration date
	CLP in billions		
Chile	31.9	8.3	Indefinite
The Netherlands	39.9	10.0	2021 – 2025
Total	71.8	18.3	

We file income tax returns in various jurisdictions. In the normal course of business, our income tax filings are subject to review by various taxing authorities. In connection with such reviews, disputes could arise with the taxing authorities over the interpretation or application of certain income tax rules related to our business in that tax jurisdiction. Such disputes may result in future tax and interest and penalty assessments by these taxing authorities. The ultimate resolution of tax contingencies will take place upon the earlier of (i) the settlement date with the applicable taxing authorities in either cash or agreement of income tax positions or (ii) the date when the taxing authorities are statutorily prohibited from adjusting the company's tax computations.

In general, tax returns that include, or are filed by, our company or our subsidiaries for years prior to 2007 are no longer subject to examination by tax authorities. We are currently undergoing income tax audits in Chile. We have received notifications of adjustment from the Chilean tax authorities with respect to our 2011 and 2012 income tax returns and have appealed these adjustments to the Chilean tax court. Except as noted below, we do not anticipate that any adjustments that might arise from the tax authorities' examinations will have a material impact on our consolidated financial position, results of operations or cash flows.

Chilean tax law limits the ability of a company to offset its taxable income with tax losses of another company. Although we intend to take reasonable tax planning measures to limit our tax exposures, no assurance can be given that we will be able to do so.

In connection with the December 2014 merger of VTR Wireless SpA (**VTR Wireless**), a then subsidiary of Liberty Global, with a subsidiary of our predecessor, VTR, we recognized a CLP 34.0 billion income tax receivable related to 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 48.0% of our claim has been agreed upon by the tax authorities. We intend to pursue the payment of the remaining portion of this receivable through available methods. 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. While we believe that the ultimate resolution of these proposed adjustments and resolution processes 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.

The changes in our unrecognized tax benefits during 2016 are summarized below (CLP in billions):

Balance at January 1, 2016	2.6
Additions for tax positions of prior years	72.8
Additions based on tax positions related to the current year	5.9
Balance at December 31, 2016	81.3

As of December 31, 2016, 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. During the next 12 months, we do not reasonably expect resolution of ongoing examinations by tax authorities to result in significant reductions to our unrecognized tax benefits related to tax positions taken as of December 31, 2016. No assurance can be given as to the nature or impact of any changes in our unrecognized tax positions during the next 12 months. As of December 31, 2015, our unrecognized tax benefits and related accrued interest aggregated CLP 2.6 billion. We had no unrecognized tax benefits as of December 31, 2014.

During 2016, 2015 and 2014, our income tax expense includes net income tax expense of CLP 9.3 billion, CLP 0.2 billion and nil, respectively, representing the net accrual of interest during the respective period. Our other long-term liabilities include accrued interest of CLP 9.5 million at December 31, 2016.

Chilean Tax Law Changes

On September 26, 2014, the Chilean President signed an extensive tax reform bill, including changes to the corporate tax rate, changes to the thin capitalization rules, taxation of certain Chilean investments abroad and changes to the stamp tax rate, among other relevant changes. The bill became law on September 29, 2014. The impacts of the tax law changes that are currently in effect are reflected in our consolidated financial statements. Accordingly, the corporate tax rate for 2015 is 22.5% and for 2016 is 24.0%. Beginning in 2017, there will be two income tax regimes: the "attributed system" and the "partially integrated system." Under the "partially integrated system," which our operations will be required to use based on legislation that was enacted on February 1, 2016, the corporate tax rate will be 25.5% in 2017 and 27.0% in 2018 and future years, and the 35.0% withholding tax will be paid only upon actual distributions to shareholders. However, under this partially integrated system, only 65.0% of the corporate tax paid by a Chilean company can be used as a credit against the withholding tax imposed on non-Chilean resident shareholders, which implies a final tax burden of 44.5%. In the case of shareholders resident in countries that have tax treaties in force with Chile, there will be a full credit for the corporate tax paid, which implies a final tax burden of 35.0% for such shareholders. Currently, there are no tax treaties between Chile and the U.S.

(9) Owner's Equity (Deficit)

Acquisition of Ownership Interests in VTR and VTR Wireless

On March 14, 2014, our wholly-owned subsidiary, VTR Chile Holdings acquired each of the 20.0% noncontrolling ownership interests in VTR and VTR Wireless from Inversiones Corp Comm 2 SpA (the **VTR NCI Acquisition**), formerly known as Corp Comm S.A. (the **NCI Owner**). The consideration for the VTR NCI Acquisition was satisfied by the allotment and issuance of 10,091,178 Liberty Global Class C ordinary shares to the NCI Owner. In consideration for the allotment and issuance by Liberty Global of the Class C ordinary shares to the NCI Owner, VTR Chile Holdings paid Liberty Global $435.1 million (CLP 240.6 billion at the applicable rate) in cash. The VTR NCI Acquisition has been accounted for as an equity transaction. As a result, we recorded the CLP 178.1 billion excess of the fair value of the consideration paid over the carrying value of such interests as a reduction of parent's equity.

Distributions

During 2016, we made cash distributions of CLP 33.8 billion to our parent.

On December 10, 2014, VTR Finance distributed cash of $128.5 million (CLP 79.4 billion at the applicable rate) to our parent. This distribution represented the portion of the proceeds from the December 2013 capital contribution (as further described below) that was not required to be used to finance the VTR NCI Acquisition.

On January 24, 2014, the $1.4 billion (CLP 757.2 billion at the applicable rate) of proceeds from the issuance of the VTR Finance Senior Secured Notes were used to repay debt of UPC Holding B.V. (**UPC Holding**) in connection with the extraction of VTR Finance and certain of its subsidiaries from the UPC Holding credit pool. We have accounted for this non-cash transaction as a deemed distribution in our consolidated statement of owners' equity (deficit).

Contributions

On January 10, 2014, VTR Finance received a cash contribution of $444.9 million (CLP 235.6 billion at the applicable rate) from our parent, which was used to acquire the corresponding loan receivable under a fully drawn term loan to VTR (the **UPC Broadband France Loan**) from UPC Broadband France SAS (**UPC Broadband France**). UPC Broadband France is a wholly-owned subsidiary of Liberty Global Europe Holding B.V. (**Liberty Global Europe**), a subsidiary of Liberty Global. Accordingly, the UPC Broadband France Loan was effectively settled within our company.

On January 10, 2014, a loan (the **UPC Chile Mobile Shareholder Loan**) from Liberty Global Europe to UPC Chile Mobile Holding B.V. (**UPC Chile Mobile Holding**), the then parent company of VTR Wireless, was settled through the issuance of shares by UPC Chile Mobile Holding. The issued and outstanding shares of UPC Chile Mobile Holding were subsequently acquired by VTR Finance. As a result, the then carrying value of the UPC Chile Mobile Shareholder Loan of $121.9 million (CLP 64.6 billion at the applicable rate) was reflected as a decrease to accumulated net distributions.

In December 2013, VTR Finance received capital contributions aggregating €525.0 million (CLP 380.4 billion at the applicable rate) from certain subsidiaries of Liberty Global outside of VTR Finance, of which (i) €436.0 million (CLP 315.9 billion) was immediately advanced to another subsidiary of Liberty Global outside of VTR Finance and (ii) $120.0 million (CLP 63.1 billion

at the applicable rate) was used to repay a term loan bank facility (the **VTR Wireless Bank Facility**). The advance to the other subsidiary of Liberty Global was repaid during 2014. The NCI Owner's 20.0% pro rata share of the amount used to repay the VTR Wireless Bank Facility was settled in connection with the VTR NCI Acquisition.

(10) Related-party Transactions

Our related-party transactions are as follows:

	Year ended December 31,		
	2016	2015	2014
		CLP in billions	
Programming and other direct costs of services	0.5	0.9	0.9
Fees and allocations:			
Operating and SG&A related (exclusive of depreciation and share-based compensation)	1.6	0.2	0.1
Depreciation	0.5	0.1	—
Share-based compensation	3.5	3.8	2.3
Management fee	4.5	4.5	2.3
Total fees and allocations	10.1	8.6	4.7
Included in operating income	10.6	9.5	5.6
Interest expense	—	—	0.3
Interest income	(0.3)	(0.4)	—
Included in net earnings (loss)	10.3	9.1	5.9

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. Through June 30, 2014, our related-party operating expenses and our related-party fees and allocations generally were based on our company's estimated share of the applicable estimated costs (including personnel-related and other costs associated with the services provided) incurred by the applicable Liberty Global subsidiaries. The estimated amounts charged were reviewed and revised on an annual basis, with any differences between the revised and estimated amounts recorded in the period identified, generally the first quarter of the following year. During the third quarter of 2014, Liberty Global and its subsidiaries began basing the fees charged and amounts allocated on actual costs incurred. As a result, during the third quarter of 2014, we recorded a €3.2 million (CLP 2.4 billion at the applicable rate) reduction to the fees and allocations charged to our company by a subsidiary of Liberty Global to reflect the impact of this change in methodology as of January 1, 2014. The impact of this change in methodology on our related-party operating expenses was not material. 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 consolidated statements of operations are reflective of the costs that we would incur on a standalone basis.

Programming and other direct costs of services. Amounts represent programming and related services provided to our company by certain affiliates of VTR Finance. The 2014 amount consists of cash settled charges for programming services provided to our company by an affiliate and an entity that was a Liberty Global subsidiary through January 31, 2014, when the entity was sold to a third party.

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 consolidated statements of owner's equity (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.

Interest expense. This amount primarily represents interest on the UPC Broadband France Loan and the UPC Chile Mobile Shareholder Loan, which were settled or effectively settled on January 10, 2014. For additional information, see note 9.

Interest income. These amounts relate to the Lila Chile Note, as defined and described below.

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

	December 31,	
	2016	2015
	CLP in billions	
Assets:		
Other current assets (a)	0.2	3.4
Other noncurrent assets (b)	—	1.1
Total	0.2	4.5
Liabilities – other accrued and current liabilities (c)	3.5	1.1

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

(b) Represents principal and accrued interest associated with a loan (the **Lila Chile Note**) from VTR Finance to Lila Chile Holding B.V., another subsidiary of Liberty Global. During the fourth quarter of 2016, the outstanding principal and accrued interest on the Lila Chile Note was cash settled. The Lila Chile Note bore interest at 5.9% per annum. At December 31, 2015, both the principal and accrued interest on the Lila Chile Note are included in other assets, net, in our consolidated balance sheet. Accrued and unpaid interest was generally transferred to the loan balance on January 1 of each year. The net decrease in the Lila Chile Note during 2016 includes (i) cash repayments received of $8.3 million (CLP 5.6 billion at the applicable rates), (ii) cash loans of $6.8 million (CLP 4.6 billion at the applicable rates) and (iii) the transfer of $0.4 million (CLP 0.2 billion at the applicable rate) in non-cash accrued interest to the principal balance. The net decrease in the Lila Chile Note during 2015 includes (a) cash repayments received of $10.0 million (CLP 6.7 billion at the applicable rates), (b) cash loans of $1.4 million (CLP 0.9 billion at the applicable rates), (c) a CLP 0.7 billion increase due to the impact of foreign currency translation effects (**FX**) and the transfer of $0.3 million (CLP 0.2 billion at the applicable rate) in non-cash accrued interest to the principal balance.

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

(11) Restructuring Liabilities

A summary of changes in our restructuring liabilities during 2016 is set forth in the table below:

	Employee severance and termination	Contract termination and other	Total
		CLP in billions	
Restructuring liability as of January 1, 2016	1.4	20.4	21.8
Restructuring charges (a)	7.7	3.7	11.4
Cash paid	(7.4)	(8.1)	(15.5)
Other	(1.4)	1.5	0.1
Restructuring liability as of December 31, 2016	0.3	17.5	17.8
Current portion	0.3	4.9	5.2
Noncurrent portion	—	12.6	12.6
Total	0.3	17.5	17.8

(a) The amount for employee severance and termination is related to certain reorganization activities that were substantially completed as of December 31, 2016.

A summary of changes in our restructuring liabilities during 2015 is set forth in the table below:

	Employee severance and termination	Contract termination and other	Total
		CLP in billions	
Restructuring liability as of January 1, 2015	1.4	26.5	27.9
Restructuring charges	0.2	3.9	4.1
Cash paid	(0.2)	(10.0)	(10.2)
Restructuring liability as of December 31, 2015	1.4	20.4	21.8
Current portion	1.4	4.0	5.4
Noncurrent portion	—	16.4	16.4
Total	1.4	20.4	21.8

A summary of changes in our restructuring liabilities during 2014 is set forth in the table below:

	Employee severance and termination	Contract termination and other	Total
		CLP in billions	
Restructuring liability as of January 1, 2014	0.1	37.5	37.6
Restructuring charges (a)	6.0	3.9	9.9
Cash paid	(4.7)	(15.1)	(19.8)
Other	—	0.2	0.2
Restructuring liability as of December 31, 2014	1.4	26.5	27.9
Current portion	1.4	6.4	7.8
Noncurrent portion	—	20.1	20.1
Total	1.4	26.5	27.9

(a) Our restructuring charges during 2014 include CLP 6.0 billion of employee severance and termination costs related to certain reorganization activities.

(12) Share-based Compensation

From time to time, certain of our executive officers and key employees receive grants of performance share unit awards (**PSUs**) under the VTR Plan. Each award represents the right to receive cash, subject to vesting and the achievement of certain performance criteria. As the outstanding PSUs must be settled in cash, we use the liability method to account for these awards.

The following table summarizes share-based compensation expense associated with our PSUs:

	Year ended December 31,		
	2016	2015	2014
		CLP in billions	
Included in:			
Other operating expense	0.9	0.1	1.7
SG&A expense	2.1	0.3	3.2
Total	3.0	0.4	4.9

(13) 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 December 31, 2016:

	Payments due during:						
	2017	2018	2019	2020	2021	Thereafter	Total
	CLP in billions						
Programming commitments	41.5	31.5	7.4	2.5	0.9	0.4	84.2
Network and connectivity commitments	22.0	23.5	14.6	—	—	—	60.1
Operating leases	9.5	8.8	5.9	4.1	3.4	7.4	39.1
Purchase commitments	7.7	8.4	6.9	0.7	0.7	1.0	25.4
Total (a)	80.7	72.2	34.8	7.3	5.0	8.8	208.8

(a) The commitments included in this table do not reflect any liabilities that are included in our December 31, 2016 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 2016, 2015 and 2014, third-party programming and copyright costs incurred by our broadband communications operations aggregated CLP 108.8 billion, CLP 98.7 billion and CLP 86.3 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 the purchase of handset equipment.

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 2016, 2015 and 2014, see note 4.

Rental expense under non-cancellable operating lease arrangements amounted to CLP 9.6 billion, CLP 9.4 billion and CLP 9.2 billion in 2016, 2015 and 2014, respectively. With the exception of certain tower and real estate operating leases, it is expected that in the normal course of business, operating leases that expire generally will be renewed or replaced by similar leases.

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 this regard, beginning in September 2014, various decreases to tariff rates have been proposed and implemented by Chilean regulatory authorities, and a further decrease to one tariff rate is pending. None of these decreases had, or are expected to have, a material impact on our revenue or expenses.

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.

(14) 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:

	Year ended December 31,		
	2016	2015	2014
	CLP in billions		
Subscription revenue (a):			
Video	247.4	230.1	216.6
Broadband internet	194.8	174.6	159.8
Fixed-line telephony	79.3	87.1	90.6
Cable subscription revenue	521.5	491.8	467.0
Mobile (b)	27.8	23.3	14.0
Total subscription revenue	549.3	515.1	481.0
Other revenue (b) (c)	31.3	32.4	31.4
Total	580.6	547.5	512.4

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation 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 2.7 billion, CLP 2.3 billion and CLP 1.6 billion during 2016, 2015 and 2014, respectively. Mobile interconnect revenue and revenue from mobile handset sales are included in other revenue.

(c) Other revenue includes, among other items, advertising, installation, interconnect, 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 consolidated financial statements, is intended to assist in providing an understanding of our results of operations and financial condition and is organized as follows:

- *Overview.* This section provides a general description of our business and recent events.
- *Results of Operations.* This section provides an analysis of our results of operations for the years ended December 31, 2016, 2015 and 2014.
- *Liquidity and Capital Resources.* This section provides an analysis of our corporate and subsidiary liquidity, consolidated cash flows and contractual commitments.
- *Critical Accounting Policies, Judgments and Estimates.* This section discusses those material accounting policies that contain uncertainties and require significant judgment in their application.

The capitalized terms used below have been defined in the notes to our 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, and operational data (including subscriber statistics) are presented, as of December 31, 2016.

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 December 31, 2016, we owned and operated networks that passed 3,216,600 homes and served 2,795,500 revenue generating units (**RGU**s), consisting of 1,047,300 video subscribers, 1,091,200 broadband internet subscribers and 657,000 fixed-line telephony subscribers. In addition, at December 31, 2016, we served 166,200 mobile subscribers.

The following table provides details of our organic RGU and mobile subscriber changes for the years indicated:

	Year ended December 31,		
	2016	2015	2014
Organic RGU additions (losses):			
Video:			
Basic	(14,300)	(17,800)	(23,200)
Enhanced	35,600	30,300	47,300
Total video	21,300	12,500	24,100
Broadband internet	88,100	71,100	46,300
Fixed-line telephony	(32,900)	(3,900)	4,100
Total organic RGU additions	76,500	79,700	74,500
Organic mobile subscriber additions (losses):			
Prepaid	(2,900)	(8,900)	(6,200)
Postpaid	37,100	30,400	45,400
Total organic mobile subscriber additions	34,200	21,500	39,200

Video services. Our basic video service offerings include basic programming. Our enhanced video service offerings include basic and premium programming and incremental product and service offerings such as enhanced pay-per-view programming (including video-on-demand), digital video recorders and HD programming.

Broadband internet services. Our residential subscribers generally access the internet at download speeds up to 160 Mbps, depending on the tier of service selected. We determine pricing for each tier of broadband internet service through analysis of speed, market conditions and other factors.

Fixed-line telephony services. We offer fixed-line telephony services using voice-over-internet-protocol or circuit-switched technology.

Mobile services. We offer mobile voice and data services as a full MVNO pursuant to an arrangement with a third-party mobile telecommunications provider.

For additional information regarding the details of our products and services, see the *Business* section included in this Annual Report.

Strategy and management focus

We strive to achieve organic revenue and customer growth in our operations by developing and marketing bundled entertainment, information and communications services, and extending and upgrading the quality of our networks where appropriate. We also expect our mobile services to continue to contribute to our revenue growth in future periods. As we use the term, organic growth excludes FX and the estimated impact of any acquisitions. While we seek to obtain new customers, we also seek to maximize the average revenue we receive from each household by increasing the penetration of our digital video, broadband internet, fixed-line telephony and mobile services with existing customers through product bundling and upselling.

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 RGU (**ARPU**). For additional information regarding the revenue impact of changes in our RGUs and ARPU, see *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 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.

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 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 such as the one described in note 13 to our 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.

2016 compared to 2015

Revenue

Revenue includes revenue 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) interconnect fees, mobile handset sales, installation fees and advertising revenue. Consistent with the presentation of our revenue categories in note 14 to our 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 price, (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:

	Year ended December 31,		**Increase (decrease)**	
	2016	**2015**	**CLP**	**%**
	CLP in billions			
Subscription revenue (a):				
Video	247.4	230.1	17.3	7.5
Broadband internet	194.8	174.6	20.2	11.6
Fixed-line telephony	79.3	87.1	(7.8)	(9.0)
Cable subscription revenue	521.5	491.8	29.7	6.0
Mobile (b)	27.8	23.3	4.5	19.3
Total subscription revenue	549.3	515.1	34.2	6.6
Non-subscription revenue (b) (c)	31.3	32.4	(1.1)	(3.4)
Total	580.6	547.5	33.1	6.0

(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 2.7 billion and CLP 2.3 billion during 2016 and 2015, respectively. Mobile interconnect revenue and revenue from mobile handset sales are included in non-subscription revenue.

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

Total revenue. Our consolidated revenue increased CLP 33.1 billion or 6.0% during 2016, as compared to 2015, as set forth below (CLP in billions):

Increase in cable subscription revenue due to change in:	
Average number of RGUs (a)	13.7
ARPU (b)	16.0
Total increase in cable subscription revenue	29.7
Increase in mobile subscription revenue (c)	4.5
Total increase in subscription revenue	34.2
Decrease in non-subscription revenue (d)	(1.1)
Total	33.1

(a) The increase in cable subscription revenue related to a change in the average number of RGUs is attributable to increases in the average numbers of broadband internet and enhanced video RGUs that were only partially offset by declines in the average numbers 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) a net increase due to (a) higher ARPU from video and broadband internet services and (b) lower ARPU from fixed-line telephony services and (ii) an improvement in RGU mix. In addition, the increase in cable subscription revenue includes adjustments to reflect the retroactive application of a tariff on ancillary services provided directly to customers for the period from July 2013 through February 2014, including (1) a decrease of CLP 2.7 billion due to the impact of unfavorable adjustments recorded during the first and second quarters of 2016 and (2) an increase of CLP 1.4 billion due to the impact of an unfavorable adjustment recorded during the first quarter of 2015.

(c) The increase in mobile subscription revenue is due to (i) an increase in the average number of subscribers, as an increase in the average number of postpaid subscribers more than offset the decrease in the average number of prepaid subscribers, and (ii) higher ARPU primarily due to a higher proportion of mobile subscribers on postpaid plans, which generate higher ARPU than prepaid plans.

(d) The decrease in non-subscription revenue is primarily due to the net effect of (i) a decrease in advertising revenue and (ii) an increase of CLP 1.7 billion in interconnect revenue due to the impact of unfavorable adjustments recorded during the first and third quarters of 2015 to reflect the retroactive application of a tariff reduction to June 2012.

Programming and other direct costs of services — 2016 compared to 2015

General. 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. In addition, 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.

Our programming and other direct costs of services increased CLP 11.5 billion or 7.7% during 2016, as compared to 2015. This increase includes the following factors:

- An increase in programming and copyright costs of CLP 10.1 billion or 10.2%, primarily associated with (i) growth in the number of enhanced video subscribers and (ii) an increase of CLP 2.5 billion 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. A significant portion of our programming costs are denominated in U.S. dollars;

- An increase in mobile handset costs of CLP 2.4 billion, primarily due to higher mobile handset sales volume; and

- A decrease in mobile access and interconnect costs of CLP 2.1 billion or 6.6%, primarily attributable to the net effect of (i) lower mobile access charges and, to a lesser extent, lower mobile usage and (ii) a CLP 1.1 billion increase related to an adjustment that was recorded in the first quarter of 2015 to reflect a February 2015 tariff decline that was retroactive to May 2014.

Other operating expenses — 2016 compared to 2015

General. Other operating expenses include network operations, customer operations, customer care, share-based compensation and other costs related to our operations. We are subject to inflationary pressures with respect to our labor and certain other costs and foreign currency exchange risk with respect to 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.

Our other operating expenses increased CLP 5.0 billion or 6.0% during 2016, as compared to 2015. Our other operating expenses include share-based compensation expense, which increased CLP 0.8 billion during 2016, as compared to 2015. For additional information, see the discussion under *Share-based compensation expense* below. Excluding the effects of share-based compensation expense, our operating expenses increased CLP 4.2 billion or 5.0% during 2016, as compared to 2015. This increase includes the following factors:

- An increase in outsourced labor and professional fees of CLP 2.9 billion or 15.6%, primarily due to higher call center costs; and

- An increase in network-related expenses of CLP 1.8 billion or 7.9%, primarily due to higher energy costs.

SG&A expenses — 2016 compared to 2015

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. We are subject to inflationary pressures with respect to our labor and other costs and, to a lesser extent, foreign currency exchange risk with respect to non-functional currency expenses.

Our SG&A expenses increased CLP 4.6 billion or 4.6% during 2016, as compared to 2015. Our SG&A expenses include share-based compensation expense, which increased CLP 1.8 billion during 2016, as compared to 2015. For additional information, see the discussion under *Share-based compensation expense* below. Excluding the effects of share-based compensation expense, our SG&A expenses increased CLP 2.8 billion or 2.8% during 2016, as compared to 2015. This increase includes the following factors:

- An increase in personnel costs of CLP 1.7 billion or 5.5%, as increases in staffing levels and higher incentive compensation costs were only partially offset by lower severance costs;

- A decrease in facilities expenses of CLP 1.6 billion or 10.0%, primarily due to lower facilities maintenance and utility costs;

- An increase in external sales and marketing costs of CLP 0.7 billion or 2.2%, primarily resulting from new advertising campaigns initiated during 2016; and

- A net increase resulting from individually insignificant changes in other SG&A expense categories.

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

We recognized share-based compensation expense of CLP 3.0 billion and CLP 0.4 billion during 2016 and 2015, respectively, related to PSUs granted under the VTR Plan.

For additional information regarding our share-based compensation, see note 12 to our consolidated financial statements.

Depreciation expense

Our depreciation expense decreased CLP 10.5 billion during 2016, as compared to 2015. This decrease is primarily due to the net effect of (i) a decrease associated with certain assets becoming fully depreciated and (ii) an increase 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.

Related-party fees and allocations

We recorded related-party fees and allocations of CLP 10.1 billion and CLP 8.6 billion during 2016 and 2015, 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 10 to our consolidated financial statements.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of CLP 10.0 billion during 2016, as compared to CLP 3.3 billion during 2015.

The 2016 amount primarily includes restructuring charges that we recorded in connection with employee severance and contract termination costs.

The 2015 amount primarily includes restructuring charges that we recorded in connection with contract termination costs.

For additional information regarding our restructuring charges, see note 11 to our consolidated financial statements.

If, among other factors, (i) our enterprise value was to decline or Liberty Global's equity values were to decline significantly or (ii) the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill and, to a lesser extent, other long-lived assets. Any such impairment charges could be significant. For additional information, see *Critical Accounting Policies, Judgments and Estimates — Impairment of Property and Equipment and Intangible Assets* below.

Interest expense – third-party

Our third-party interest expense remained relatively flat during 2016, as compared to 2015.

For information regarding our third-party indebtedness, see note 7 to our 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 4 to our consolidated financial statements, we use derivative instruments to manage our interest rate risks.

Realized and unrealized gains (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 gains (losses) on derivative instruments, net, are as follows:

	Year ended December 31,	
	2016	**2015**
	CLP in billions	
Cross-currency derivative contracts (a)	(127.2)	155.2
Foreign currency forward contracts	(6.2)	6.9
Total	(133.4)	162.1

(a) The loss during 2016 is primarily attributable to (i) losses associated with an increase in the value of the Chilean peso relative to the U.S. dollar and (ii) losses associated with decreases in market interest rates in the Chilean peso market. In addition, the loss during 2016 includes a net gain of CLP 6.7 billion resulting from changes in our credit risk valuation adjustments. The gain during 2015 is primarily attributable to (a) gains associated with a decrease in the value of the Chilean peso relative to the U.S. dollar, (b) gains associated with increases in market interest rates in the Chilean peso market and

(c) gains associated with decreases in market interest rates in the U.S. dollar market. In addition, the gain during 2015 includes a net loss of CLP 0.6 billion resulting from changes in our credit risk valuation adjustments.

For additional information concerning our derivative instruments, see notes 4 and 5 to our consolidated financial statements.

Foreign currency transaction gains (losses), net

We recognized foreign currency transaction gains (losses), net, of CLP 58.2 billion and (CLP 147.5 billion) during 2016 and 2015, respectively.

Our foreign currency transaction gains or losses 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.

Other income (expense), net

We recognized other income (expense), net, of CLP 1.6 billion and (CLP 2.0 billion) during 2016 and 2015, respectively. These amounts include our share of the net losses of our equity method affiliates. In addition, the 2016 amount includes a gain on disposal of certain assets.

Income tax expense

We recognized income tax expense of CLP 99.8 billion and CLP 29.8 billion during 2016 and 2015, respectively.

The income tax expense during 2016 differs from the expected income tax benefit of CLP 4.2 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, (ii) a net increase in valuation allowances and (iii) the impact of the 2016 Merger on tax attributes. 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.

The income tax expense during 2015 differs from the expected income tax expense of CLP 13.5 billion (based on the Dutch statutory income tax rate of 25.0%) primarily due to the negative impacts of (i) a net increase in valuation allowances and (ii) certain permanent differences between the financial and tax accounting treatment of interest and other items. The negative impacts of these items were partially offset by the positive impact of a lower statutory tax rate in Chile, as compared to the Netherlands.

For additional information regarding our income taxes, see note 8 to our consolidated financial statements.

Net earnings (loss)

During 2016 and 2015, we reported net earnings (loss) of (CLP 116.4 billion) and CLP 24.1 billion, respectively, including (i) operating income of CLP 123.8 billion and CLP 109.5 billion, respectively, (ii) net non-operating expense of CLP 140.4 billion and CLP 55.6 billion, respectively, and (iii) income tax expense of CLP 99.8 billion and CLP 29.8 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 from continuing operations 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.

2015 compared to 2014

Revenue

Our revenue by major category is set forth below:

	Year ended December 31,		Increase (decrease)	
	2015	2014	CLP	%
	CLP in billions			
Subscription revenue (a):				
Video	230.1	216.6	13.5	6.2
Broadband internet	174.6	159.8	14.8	9.3
Fixed-line telephony	87.1	90.6	(3.5)	(3.9)
Cable subscription revenue	491.8	467.0	24.8	5.3
Mobile (b)	23.3	14.0	9.3	66.4
Total subscription revenue	515.1	481.0	34.1	7.1
Non-subscription revenue (b) (c)	32.4	31.4	1.0	3.2
Total	547.5	512.4	35.1	6.9

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation 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 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 2.3 billion and CLP 1.6 billion during 2015 and 2014, respectively. Mobile interconnect revenue and revenue from mobile handset sales are included in non-subscription revenue.

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

Total revenue. Our consolidated revenue increased CLP 35.1 billion or 6.9% during 2015, as compared to 2014, as set forth below (CLP in billions):

Increase in cable subscription revenue due to change in:	
Average number of RGUs (a)	13.1
ARPU (b)	11.7
Total increase in cable subscription revenue	24.8
Increase in mobile subscription revenue (c)	9.3
Total increase in subscription revenue	34.1
Increase in non-subscription revenue (d)	1.0
Total	35.1

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

(b) The increase in cable subscription revenue related to a change in ARPU is attributable to (i) a net increase due to (a) higher ARPU from video and broadband internet services and (b) lower ARPU from fixed-line telephony services and (ii) an improvement in RGU mix. In addition, the growth in ARPU was partially offset by a decrease in revenue due to the impact of a CLP 1.4 billion adjustment recorded during the first quarter of 2015 to reflect the retroactive application of a proposed 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 due to (i) an increase in the average number of subscribers, as an increase in the average number of postpaid subscribers more than offset the decrease in the average number of prepaid subscribers, and (ii) higher ARPU primarily due to a higher proportion of mobile subscribers on postpaid plans, which generate higher ARPU than prepaid plans.

(d) The increase in non-subscription revenue is due to the net effect of (i) a decrease in interconnect revenue, (ii) an increase in installation revenue, (iii) an increase in advertising revenue and (iv) a net increase resulting from individually insignificant changes in other revenue categories. The decrease in interconnect revenue is primarily due to (a) lower rates and (b) a decrease of CLP 1.7 billion related to the impact of adjustments recorded during the first and third quarters of 2015 to reflect the retroactive application of a tariff reduction to June 2012.

Programming and other direct costs of services - 2015 compared to 2014

Our programming and other direct costs of services increased CLP 15.7 billion or 11.8% during 2015, as compared to 2014.This increase includes the following factors:

- An increase in programming and copyright costs of CLP 12.4 billion or 14.3%, primarily associated with (i) an increase due to growth in the number of enhanced video subscribers and (ii) an increase of CLP 3.2 billion arising from foreign currency exchange rate fluctuations with respect to our U.S. dollar denominated programming contracts. During 2015, a significant portion of our programming costs were denominated in U.S. dollars; and
- An increase in mobile access and interconnect costs of CLP 2.4 billion or 6.3%, primarily attributable to the net effect of (i) an increase related to (a) higher roaming costs due to the impact of increased volumes and (b) higher interconnect costs resulting from the net effect of increased call volumes and lower rates and (ii) a decrease of CLP 2.9 billion in mobile access charges due to a February 2015 tariff decline that was retroactive to May 2014, including a decrease of CLP 1.4 billion related to 2014 access charges.

Other operating expenses - 2015 compared to 2014

Our other operating expenses increased CLP 0.3 billion or 0.4% during 2015, as compared to 2014. Our other operating expenses include share-based compensation expense, which decreased CLP 1.6 billion during 2015, as compared to 2014. For additional information, see the discussion under *Share-based compensation expense* below. Excluding the effects of share-based compensation expense, our operating expenses decreased CLP 1.9 billion or 2.3% during 2015, as compared to 2014. This decrease includes the following factors:

- A decrease in personnel costs of CLP 4.3 billion or 16.8% largely due to (i) lower incentive compensation costs and (ii) decreased costs related to higher proportions of employees devoted to the development of new billing and customer care systems and other capitalizable activities;
- An increase in network-related expenses of CLP 3.3 billion or 16.9%, primarily due to increases in network maintenance costs;
- An increase of CLP 2.4 billion due to the impact of favorable adjustments that were recorded during the fourth quarter of 2014 related to the reassessment of certain accrued liabilities;
- An increase in outsourced labor and professional fees of CLP 1.8 billion or 10.7%, primarily due to higher call center costs; and
- A net decrease resulting from individually insignificant changes in other operating expense categories.

SG&A expenses - 2015 compared to 2014

Our SG&A expenses increased CLP 0.8 billion or 0.8% during 2015, as compared to 2014. Our SG&A expenses include share-based compensation expense, which decreased CLP 2.9 billion during 2015, as compared to 2014. For additional information, see the discussion under *Share-based compensation expense* below. Excluding the effects of share-based compensation expense, our SG&A expenses increased CLP 3.7 billion or 3.8% during 2015, as compared to 2014. This increase includes the following factors:

- An increase in external sales and marketing costs of CLP 2.4 billion or 7.8%, primarily due to higher third-party sales commissions;

- A decrease in personnel costs of CLP 2.2 billion or 6.7%, primarily due to the net effect of (i) lower incentive compensation and severance costs and (ii) annual wage increases;
- An increase in facilities expenses of CLP 1.1 billion or 7.7%, primarily due to higher rental and utility costs;
- An increase of CLP 1.0 billion due to the impact of favorable adjustments that were recorded during the fourth quarter of 2014 related to the reassessment of certain accrued liabilities; and
- A net increase resulting from individually insignificant changes in other SG&A expense categories.

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

We recognized share-based compensation expense of CLP 0.4 billion and CLP 4.9 billion during 2015 and 2014, respectively, related to PSUs granted under the VTR Plan.

For additional information regarding our share-based compensation, see note 12 to our consolidated financial statements.

Depreciation expense

Our depreciation expense increased CLP 5.4 billion during 2015, as compared to 2014. This increase is primarily due to the net effect of (i) an increase 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 and (ii) a decrease associated with certain assets becoming fully depreciated.

Related-party fees and allocations

We recorded related-party fees and allocations of CLP 8.6 billion and CLP 4.7 billion during 2015 and 2014, 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 10 to our consolidated financial statements.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of CLP 3.3 billion during 2015, as compared to CLP 7.8 billion during 2014.

The 2015 amount primarily includes restructuring charges that we recorded in connection with contract termination costs.

The 2014 amount primarily includes (i) employee severance and termination costs related to certain reorganization activities and (ii) contract termination costs.

For additional information regarding our restructuring charges, see note 11 to our consolidated financial statements.

Interest expense – third-party

Our third-party interest expense increased CLP 14.3 billion during 2015, as compared to 2014. This increase is primarily attributable to (i) FX and (ii) a higher average outstanding debt balance, primarily due to the issuance of the VTR Finance Senior Secured Notes in January 2014.

For additional information regarding our third-party indebtedness, see note 7 to our consolidated financial statements.

Realized and unrealized gains on derivative instruments, net

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

	Year ended December 31,	
	2015	2014
	CLP in billions	
Cross-currency derivative contracts (a)	155.2	29.2
Foreign currency forward contracts	6.9	1.5
Total	162.1	30.7

(a) The gain during 2015 is primarily attributable to (i) gains associated with a decrease in the value of the Chilean peso relative to the U.S. dollar, (ii) gains associated with increases in market interest rates in the Chilean peso market and (iii) gains associated with decreases in market interest rates in the U.S. dollar market. In addition, the gain during 2015 includes a net loss of CLP 0.6 billion resulting from changes in our credit risk valuation adjustments. The gain during 2014 is primarily attributable to the net effect of (a) gains associated with a decrease in the value of the Chilean peso relative to the U.S. dollar and (b) losses associated with decreases in market interest rates in the Chilean peso market. In addition, the gain during 2014 includes a net loss of CLP 8.9 billion resulting from changes in our credit risk valuation adjustments.

For additional information regarding our derivative instruments, see notes 4 and 5 to our consolidated financial statements.

Foreign currency transaction losses, net

We recognized foreign currency transaction losses, net, of CLP 147.5 billion and CLP 56.8 billion during 2015 and 2014, respectively.

Our foreign currency transaction gains or losses primarily result from the remeasurement of the VTR Finance Senior Secured Notes, which are denominated in U.S. dollars.

Other expense, net

We recognized other expense, net, of CLP 2.0 billion and CLP 1.7 billion during 2015 and 2014, respectively. These amounts include our share of the net losses of our equity method affiliates. In addition, the 2014 amount includes a CLP 1.1 billion loss on debt modification and extinguishment related to the write-off of deferred financing costs associated with the repayment of VTR Wireless's then existing bank facility.

Income tax expense

We recognized income tax expense of CLP 29.8 billion and CLP 5.3 billion during 2015 and 2014, respectively.

The income tax expense during 2015 differs from the expected income tax expense of CLP 13.5 billion (based on the Dutch statutory income tax rate of 25.0%) primarily due to the negative impacts of (i) a net increase in valuation allowances and (ii) certain permanent differences between the financial and tax accounting treatment of interest and other items. The negative impacts of these items were partially offset by the positive impact of a lower statutory tax rate in Chile, as compared to the Netherlands.

The income tax expense during 2014 differs from the expected income tax expense of CLP 3.5 billion (based on the Dutch statutory income tax rate of 25.0%) primarily due to the negative impact of a net increase in valuation allowances. The negative impact of this item was largely offset by the positive impacts of (i) an increase in net deferred tax assets in Chile due to enacted changes in tax law and (ii) a lower statutory tax rate in Chile, as compared to the Netherlands.

For additional information regarding our income taxes, see note 8 to our consolidated financial statements.

Net earnings

During 2015 and 2014, we reported net earnings of CLP 24.1 billion and CLP 8.7 billion, respectively, including (i) operating income of CLP 109.5 billion and CLP 96.0 billion, respectively, (ii) net non-operating expense of CLP 55.6 billion and CLP 82.0 billion, respectively, and (iii) income tax expense of CLP 29.8 billion and CLP 5.3 billion, respectively.

Net loss attributable to noncontrolling interests

Net loss attributable to noncontrolling interests of CLP 2.5 billion during 2014 relates to the NCI Owner's share of the results of our operations. In March 2014, we completed the VTR NCI Acquisition, as further described in note 9 to our consolidated financial statements

Liquidity and Capital Resources

Sources and Uses of Cash

Cash and cash equivalents

At December 31, 2016, we had cash and cash equivalents of CLP 83.7 billion, of which CLP 74.7 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 7 to our 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 *Consolidated Statements of Cash Flows* below.

Capitalization

At December 31, 2016, the outstanding principal amount of our consolidated debt, together with our capital lease obligations, aggregated CLP 971.4 billion, including CLP 32.9 billion that is classified as current in our consolidated balance sheet and CLP 938.3 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 December 31, 2016, 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 December 31, 2016, 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.

Consolidated Statements of Cash Flows

Consolidated Statements of Cash Flows — 2016 compared to 2015

Summary. Our 2016 and 2015 consolidated statements of cash flows are summarized as follows:

	Year ended December 31,		
	2016	2015	Change
	CLP in billions		
Net cash provided by operating activities	109.2	135.1	(25.9)
Net cash used by investing activities	(83.6)	(95.6)	12.0
Net cash used by financing activities	(31.5)	(1.3)	(30.2)
Effect of exchange rate changes on cash	(0.2)	(0.1)	(0.1)
Net increase (decrease) in cash and cash equivalents	(6.1)	38.1	(44.2)

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

Investing Activities. The decrease in net cash used by our investing activities is primarily attributable to the net effect of (i) a decrease in cash used of CLP 16.9 billion related to lower capital expenditures and (ii) an increase in cash used of CLP 5.7 billion related to lower net receipts from related parties.

The capital expenditures that we report in our 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 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 consolidated property and equipment additions to our consolidated capital expenditures as reported in our consolidated statements of cash flows is set forth below:

	Year ended December 31,	
	2016	2015
	CLP in billions	
Property and equipment additions	131.8	96.4
Assets acquired under capital-related vendor financing arrangements	(30.5)	—
Assets acquired under capital leases	(0.5)	—
Changes in current liabilities related to capital expenditures	(15.9)	5.4
Capital expenditures	84.9	101.8

The increase in our consolidated property and equipment additions during 2016, as compared to 2015, is primarily due to (i) an increase in expenditures for the purchase and installation of customer premises equipment, (ii) an increase in expenditures for support capital, such as information technology upgrades and general support systems, and (iii) an increase in expenditures for new build and upgrade projects. During 2016, a significant portion of our purchases of property and equipment were denominated in U.S. dollars. During 2016 and 2015, our consolidated property and equipment additions represented 22.7% and 17.6% of our revenue, respectively.

We expect the percentage of revenue represented by our aggregate 2017 consolidated property and equipment additions to range from 21% to 23%. The actual amount of our 2017 consolidated property and equipment additions may vary from expected

amounts for a variety of reasons, including (i) changes in (a) the competitive or regulatory environment, (b) business plans, (c) our expected future operating results or (d) foreign currency exchange rates and (ii) the availability of sufficient capital. Accordingly, no assurance can be given that our actual property and equipment additions will not vary materially from our expectations.

Financing Activities. The increase in net cash used by our financing activities is primarily attributable to the net effect of (i) an increase in cash used of CLP 33.8 billion related to higher net amounts distributed to our parent, (ii) a decrease in cash used of CLP 1.9 billion related to higher net borrowings of third-party debt and (iii) a decrease in cash used of CLP 1.1 billion due to lower payments of financing costs.

Consolidated Statements of Cash Flows — 2015 compared to 2014

Summary. Our 2015 and 2014 consolidated statements of cash flows are summarized as follows:

	Year ended December 31,		
	2015	2014	Change
	CLP in billions		
Net cash provided by operating activities	135.1	120.5	14.6
Net cash used by investing activities	(95.6)	(97.1)	1.5
Net cash used by financing activities	(1.3)	(59.6)	58.3
Effect of exchange rate changes on cash	(0.1)	1.0	(1.1)
Net increase (decrease) in cash and cash equivalents	38.1	(35.2)	73.3

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

Investing Activities. The decrease in net cash used by our investing activities is primarily attributable to the net effect of (i) a decrease in cash used of CLP 10.7 billion related to net repayments of advances pursuant to the Lila Chile Note and (ii) an increase in cash used of CLP 9.6 billion related to higher capital expenditures.

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

	Year ended December 31,	
	2015	2014
	CLP in billions	
Property and equipment additions	96.4	111.7
Changes in current liabilities related to capital expenditures	5.4	(19.5)
Capital expenditures	101.8	92.2

The decrease in our consolidated property and equipment additions is primarily due to (i) a decrease in expenditures for support capital, such as information technology upgrades and general support systems, (ii) a decrease in expenditures for the purchase and installation of customer premises equipment and (iii) a decrease in expenditures for new build and upgrade projects to expand services. During 2015, approximately half of our purchases of property and equipment were denominated in U.S. dollars. During 2015 and 2014, our consolidated property and equipment additions represented 17.6% and 21.8% 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) an increase in cash used of CLP 339.9 billion related to lower repayments received from related parties, (ii) a decrease in cash used of CLP 240.6 billion related to the purchase of Liberty Global shares that were used to complete the acquisition of the noncontrolling ownership interests in VTR and VTR Wireless from the NCI Owner in the first quarter of 2014, (iii) a decrease in cash used of CLP 233.9 billion related to lower repurchases of related-party debt, (iv) an increase in cash used of CLP 156.2 billion due to lower net amounts contributed from our parent, (v) a decrease in cash used of CLP 46.7 billion related to lower net repayments of third-party debt and capital lease obligations, (vi) a decrease in cash used of CLP 20.3 billion due to lower cash settlements of derivative instruments and (vii) a decrease in cash used of CLP 15.3 billion due to lower payments of financing costs.

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.

Contractual Commitments

The following table sets forth the Chilean peso equivalents of our commitments as of December 31, 2016:

	Payments due during:						
	2017	2018	2019	2020	2021	Thereafter	Total
	CLP in billions						
Debt (excluding interest)	32.7	—	—	—	—	938.3	971.0
Capital leases (excluding interest)	0.2	0.2	—	—	—	—	0.4
Programming commitments	41.5	31.5	7.4	2.5	0.9	0.4	84.2
Network and connectivity commitments	22.0	23.5	14.6	—	—	—	60.1
Operating leases	9.5	8.8	5.9	4.1	3.4	7.4	39.1
Purchase commitments	7.7	8.4	6.9	0.7	0.7	1.0	25.4
Total (a)	113.6	72.4	34.8	7.3	5.0	947.1	1,180.2
Projected cash interest payments on debt and capital lease obligations (b)	66.0	66.0	65.8	64.8	64.5	161.3	488.4

(a) The commitments included in this table do not reflect any liabilities that are included in our December 31, 2016 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 December 31, 2016. 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 instruments and deferred financing costs.

For information concerning our debt and capital lease obligations, see note 7 to our consolidated financial statements. For information concerning our commitments, see note 13 to our 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 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 2016, 2015 and 2014, see note 4 to our 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 December 31, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash paid or received in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 4 to our consolidated financial statements.

	Payments (receipts) due during:						
	2017	**2018**	**2019**	**2020**	**2021**	**Thereafter**	**Total**
	CLP in billions						
Projected derivative cash payments (receipts), net:							
Interest-related (a)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(2.0)	(22.0)
Principal-related (b)	—	—	—	—	—	13.1	13.1
Other (c)	3.9	—	—	—	—		3.9
Total	(0.1)	(4.0)	(4.0)	(4.0)	(4.0)	11.1	(5.0)

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(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.

Critical Accounting Policies, Judgments and Estimates

In connection with the preparation of our consolidated financial statements, we make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Critical accounting policies are defined as those policies that are reflective of significant judgments, estimates and uncertainties, which would potentially result in materially different results under different assumptions and conditions. We believe the following accounting policies are critical in the preparation of our consolidated financial statements because of the judgment necessary to account for these matters and the significant estimates involved, which are susceptible to change:

- Impairment of property and equipment and intangible assets (including goodwill);
- Costs associated with construction and installation activities;
- Useful lives of long-lived assets;
- Fair value measurements; and
- Income tax accounting.

For additional information concerning our significant accounting policies, see note 3 to our consolidated financial statements.

Impairment of Property and Equipment and Intangible Assets

Carrying Value. The aggregate carrying value of our property and equipment and intangible assets (including goodwill) that was held for use comprised 65.6% of our total assets at December 31, 2016.

When circumstances warrant, we review the carrying amounts of our property and equipment and our intangible assets (other than goodwill and other indefinite-lived intangible assets) to determine whether such carrying amounts continue to be recoverable. Such changes in circumstance may include (i) an expectation of a sale or disposal of a long-lived asset or asset group, (ii) adverse changes in market or competitive conditions, (iii) an adverse change in legal factors or business climate in the markets in which we operate and (iv) operating or cash flow losses. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities, generally at or below the reporting unit level (see below). If the carrying amount of the asset or asset group is greater than the expected undiscounted cash flows to be generated by such asset or asset group, an impairment adjustment is recognized. Such adjustment is measured by the amount that the carrying value of such asset or asset group exceeds its fair value. We generally measure fair value by considering (a) sale prices for similar assets, (b) discounted estimated future cash flows using an appropriate discount rate and/or (c) estimated replacement cost. Assets to be disposed of are recorded at the lower of their carrying amount or fair value less costs to sell.

We evaluate goodwill and other indefinite-lived intangible assets for impairment at least annually on October 1 and whenever facts and circumstances indicate that the carrying amounts of goodwill and other indefinite-lived intangible assets may not be recoverable. For impairment evaluations with respect to both goodwill and other indefinite-lived intangibles, we first make a qualitative assessment to determine if the goodwill or other indefinite-lived intangible may be impaired. In the case of goodwill, if it is more-likely-than-not that the reporting unit's fair value is less than its carrying value, we then compare the fair value of the reporting unit to its respective carrying amount. A reporting unit is an operating segment or one level below an operating segment (referred to as a "component"). If the carrying value of the reporting unit were to exceed its fair value, we would then compare the implied fair value of the reporting unit's goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss. With respect to other indefinite-lived intangible assets, if it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying value, we then estimate its fair value and any excess of the carrying value over the fair value of the indefinite-lived intangible asset is also charged to operations as an impairment loss.

When required, considerable management judgment is necessary to estimate the fair value of reporting units and underlying long-lived and indefinite-lived assets. We typically determine fair value using an income-based approach (discounted cash flows) based on assumptions in our long-range business plans and, in some cases, a combination of an income-based approach and a market-based approach. With respect to our discounted cash flow analysis used in the income-based approach, the timing and amount of future cash flows under these business plans require estimates, among other items, of subscriber growth and retention rates, rates charged per product, expected gross margin and Segment OCF margins and expected property and equipment additions. The development of these cash flows, and the discount rate applied to the cash flows, is subject to inherent uncertainties, and actual results could vary significantly from such estimates. Our determination of the discount rate is based on a weighted average cost of capital approach, which uses a market participant's cost of equity and after-tax cost of debt and reflects the risks inherent in the cash flows. Based on the results of our 2016 qualitative assessment of our reporting unit carrying value, we determined that it was more-likely-than-not that fair value exceeded carrying value for VTR Finance. During the three years ended December 31, 2016, we recorded no material impairments of our property and equipment and intangible assets (including goodwill).

If, among other factors, (i) our enterprise value or Liberty Global's equity values were to decline significantly or (ii) the adverse impacts of economic, competitive, regulatory or other factors were to cause our results of operations or cash flows to be worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill and, to a lesser extent, other long-lived assets. Any such impairment charges could be significant.

Costs Associated with Construction and Installation Activities

We capitalize costs associated with the construction of new cable and mobile transmission and distribution facilities and the installation of new cable services. Installation activities that are capitalized include (i) the initial connection (or drop) from our cable system to a customer location, (ii) the replacement of a drop and (iii) the installation of equipment for additional services, such as digital cable, telephone or broadband internet service. The costs of other customer-facing activities, such as reconnecting customer locations where a drop already exists, disconnecting customer locations and repairing or maintaining drops, are expensed as incurred.

The nature and amount of labor and other costs to be capitalized with respect to construction and installation activities involves significant judgment. In addition to direct external and internal labor and materials, we also capitalize other costs directly attributable to our construction and installation activities, including dispatch costs, quality-control costs, vehicle-related costs and certain warehouse-related costs. The capitalization of these costs is based on time studies, standard costs, call tracking systems and other verifiable means that directly link the costs incurred with the applicable capitalizable activity. We continuously monitor the appropriateness of our capitalization policies and update the policies when necessary to respond to changes in facts and circumstances, such as the development of new products and services, and changes in the manner that installations or construction activities are performed.

Useful Lives of Long-Lived Assets

We depreciate our property and equipment on a straight-line basis over the estimated useful lives of the assets. The determination of the useful lives of property and equipment requires significant management judgment, based on factors such as the estimated physical lives of the assets, technological changes, changes in anticipated use, legal and economic factors, rebuild and equipment swap-out plans, and other factors. We regularly review whether changes to estimated useful lives are required in order to accurately reflect the economic use of our property and equipment and intangible assets with finite lives. Any changes to estimated useful lives are reflected prospectively. Our depreciation expense during 2016, 2015 and 2014 was CLP 82.1 billion, CLP 92.6 billion and CLP 87.2 billion, respectively. A 10% increase in the aggregate amount of our depreciation expense during 2016 would have resulted in a CLP 8.2 billion or 6.6% decrease in our 2016 operating income.

Fair Value Measurements

U.S. GAAP provides guidance with respect to the recurring and nonrecurring fair value measurements and 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.

Recurring Valuations. We perform recurring fair value measurements with respect to our derivative instruments carried at fair value. We use cash flow valuation models to determine the fair values of our interest rate and foreign currency derivative instruments. For a detailed discussion of the inputs we use to determine the fair value of our derivative instruments, see note 5 to our consolidated financial statements. See note 4 to our consolidated financial statements for information concerning our derivative instruments.

Changes in the fair values of our derivative instruments have had, and we believe will continue to have, a significant and volatile impact on our results of operations. During 2016, 2015 and 2014, we recognized net gains (losses) attributable to changes in the fair values of derivative instruments of (CLP 133.4 billion), CLP 162.1 billion and CLP 30.7 billion, respectively.

As further described in note 5 to our consolidated financial statements, actual amounts received or paid upon the settlement of our derivative instruments may differ materially from the recorded fair values at December 31, 2016.

Nonrecurring Valuations. Our nonrecurring valuations are primarily associated with (i) the application of acquisition accounting and (ii) impairment assessments, both of which require that we make fair value determinations as of the applicable valuation date. In making these determinations, we are required to make estimates and assumptions that affect the recorded amounts, including, but not limited to, expected future cash flows, market comparables and discount rates, remaining useful lives of long-lived assets, replacement or reproduction costs of property and equipment and the amounts to be recovered in future periods from acquired net operating losses and other deferred tax assets. To assist us in making these fair value determinations, we may engage third-party valuation specialists. Our estimates in this area impact, among other items, the amount of depreciation and amortization, impairment charges and income tax expense or benefit that we report. Our estimates of fair value are based upon assumptions we believe to be reasonable, but which are inherently uncertain. A significant portion of our long-lived assets were initially recorded through the application of acquisition accounting and all of our long-lived assets are subject to impairment assessments. For additional information, see notes 5 and 6 to our consolidated financial statements.

Income Tax Accounting

We are required to estimate the amount of tax payable or refundable for the current year and the deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for each taxing jurisdiction in which we operate for the year in which those temporary differences are expected to be recovered or settled. This process requires our management to make assessments regarding the timing and probability of the ultimate tax impact of such items.

Net deferred tax assets are reduced by a valuation allowance if we believe it more-likely-than-not such net deferred tax assets will not be realized. Establishing or reducing a tax valuation allowance requires us to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning strategies. At December 31, 2016, the aggregate valuation allowance provided against deferred tax assets was CLP 41.3 billion. The actual amount of deferred income tax benefits realized in future periods will likely differ from the net deferred tax assets reflected in our December 31, 2016 consolidated balance sheet due to, among other factors, possible future changes in income tax law or interpretations thereof in the jurisdictions in which we operate and differences between estimated and actual future taxable income. Any such factors could have a material effect on our current and deferred tax positions as reported in our consolidated financial statements. A high degree of judgment is required to assess the impact of possible future outcomes on our current and deferred tax positions.

Tax laws in jurisdictions in which we have a presence are subject to varied interpretation, and many tax positions we take are subject to significant uncertainty regarding whether the position will be ultimately sustained after review by the relevant tax authority. We recognize the financial statement effects of a tax position when it is more-likely-than-not, based on technical merits, that the position will be sustained upon examination. The determination of whether the tax position meets the more-likely-than-not threshold requires a facts-based judgment using all information available. In a number of cases, we have concluded that the more-likely-than-not threshold is not met and, accordingly, the amount of tax benefit recognized in our consolidated financial statements is different than the amount taken or expected to be taken in our tax returns. As of December 31, 2016, the amount of unrecognized tax benefits for financial reporting purposes, but taken or expected to be taken in our tax returns, was CLP 81.3 billion.

We are required to continually assess our tax positions, and the results of tax examinations or changes in judgment can result in substantial changes to our unrecognized tax benefits.

For additional information concerning our income taxes, see note 8 to our consolidated financial statements.