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 2018, our property and equipment additions in 2018, subscriber growth and retention rates, competitive, regulatory and economic factors, the timing and impacts of proposed transactions, the maturity of our markets, the anticipated impacts of new legislation (or changes to existing rules and regulations), anticipated changes in our revenue, costs or growth rates, our liquidity, credit risks, foreign currency risks, target leverage levels, our future projected contractual commitments and cash flows and other information and statements that are not historical fact. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In evaluating these statements, you should consider the following list of some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in Chile;
- the competitive environment in the cable television, broadband and telecommunications industries in Chile, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues and related fiscal reforms;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of our existing service offerings, including our cable television, broadband internet, fixed-line telephony, mobile and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;
- our ability to maintain or increase the number of subscriptions to our cable television, broadband internet, fixed-line telephony and mobile service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in Chile and adverse outcomes from regulatory proceedings;
- government intervention that requires opening our broadband distribution networks to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan with respect to, the businesses we have acquired or may acquire;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in Chile and the Netherlands;
- changes in laws and government regulations that may impact the availability and cost of capital and the derivative instruments that hedge certain of our financial risks;

- the ability of suppliers and vendors (including our third-party wireless network providers 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 such 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. Unless otherwise indicated, operational and statistical data, including subscriber statistics, are as of December 31, 2017. 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, 2017, and information on Chilean telecommunications provided by the Chilean Undersecretary of Telecommunications (**SubTel**) as of September 30, 2017.*

Introduction

We are a subsidiary of Liberty Latin America Ltd. (**Liberty Latin America**) 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 an MVNO pursuant to an arrangement with a third-party mobile telecommunications provider. We are the largest multi-channel television provider in Chile in terms of number of video cable subscribers, the largest provider of broadband internet services in our footprint and 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.

VTR Finance, an indirect wholly-owned subsidiary of Liberty Latin America, 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 February 2016, Liberty Global plc (**Liberty Global**) completed a 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**).

On December 29, 2017, Liberty Global completed its split-off (the **Split-Off**) of its former wholly-owned subsidiary Liberty Latin America, which primarily included (i) Cable & Wireless Communications Limited and its subsidiaries, (ii) VTR Finance and its subsidiaries and (iii) LiLAC Communications Inc. and its subsidiaries. As a result of the Split-Off, Liberty Latin America is an independent, publicly traded company, and its assets and liabilities consist of the businesses, assets and liabilities that were formerly known as Liberty Global's "LiLAC Group." Prior to the Split-Off,we were a wholly-owned subsidiary of Liberty Global.

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

	December 31, 2017	December 31, 2016
Footprint		
Homes Passed	3,394,700	3,126,600
Two-way Homes Passed	2,912,800	2,710,500
Subscribers (RGUs)		
Basic Video	67,500	79,500
Enhanced Video	999,900	967,800
Total Video	1,067,400	1,047,300
Internet	1,181,600	1,091,200
Telephony	628,400	657,000
Total RGUs	2,877,400	2,795,500
Penetration		
Enhanced Video Subscribers as % of Total Video Subscribers	93.7%	92.4%
Internet as % of Two-way Homes Passed	40.6%	40.3%
Telephony as % of Two-way Homes Passed	21.6%	24.2%
Fixed-line Customer relationships		
Customer Relationships	1,406,900	1,328,900
RGUs per Customer Relationship	2.05	2.10
Customer bundling		
Single-play	32.9%	31.3%
Double-play	29.7%	27.0%
Triple-play	37.4%	41.7%
Mobile subscribers		
Postpaid	208,000	158,200
Prepaid	6,900	8,000
Total mobile subscribers	214,900	166,200

Operating Data Glossary

- Homes Passed – Homes, residential multiple dwelling units or commercial units that can be connected to our networks without materially extending the distribution plant. Certain of our homes passed counts are based on census data that can change based on either revisions to the data or from new census results.

- Two-way Homes Passed – Homes passed by those sections of our networks that are technologically capable of providing two-way services, including video, internet and telephony services.

- Revenue Generating Unit (**RGU**) – RGU is separately a basic video subscriber, enhanced video subscriber, internet subscriber or telephony subscriber. A home, residential multiple dwelling unit, or commercial unit may contain one or more RGUs. For example, if a residential customer in Chile subscribed to our enhanced video service, fixed-line telephony service and broadband internet service, the customer would constitute three RGUs. Total RGUs is the sum of basic video, enhanced video, internet and 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 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 or free service to employees) generally are not counted as RGUs. We do not include subscriptions to mobile services in our externally reported RGU counts. In this regard, our RGU counts exclude our separately reported postpaid and prepaid mobile subscribers.

- Basic Video Subscriber –A home, residential multiple dwelling unit 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 equivalent billing unit ("**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.

- Enhanced Video Subscriber – A home, residential multiple dwelling unit or commercial unit that receives our video service over our broadband network or through a partner network via a digital video signal while subscribing to any recurring monthly service that requires the use of encryption-enabling technology. 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 premises 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.

- Internet (Broadband) Subscriber – A home, residential multiple dwelling unit or commercial unit that receives internet services over our networks, or that we service through a partner network. Our internet subscribers do not include customers that receive services from dial-up connections.

- Telephony Subscriber – A home, residential multiple dwelling unit or commercial unit that receives voice services over our networks, or that we service through a partner network. Telephony subscribers exclude mobile telephony subscribers.

- Internet and Telephony as % of Two-way Homes Passed – Broadband and telephony penetration is calculated by dividing the number of broadband RGUs and telephony RGUs, respectively, by total two-way homes passed.

- Fixed-line Customer Relationships – The number of customers who receive at least one of our video, internet or 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. For further information regarding our EBU calculation, see Additional General Notes below. Fixed-line 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.

- Mobile Subscribers – Our mobile subscriber count represents the number of active subscriber identification module ("SIM") cards in service rather than services provided. For example, if a mobile subscriber has both a data and voice plan on a smartphone this would equate to one mobile subscriber. Alternatively, a subscriber who has a voice and data plan for a mobile handset and a data plan for a laptop (via a dongle) would becounted as two mobile subscribers. Customers who do not pay a recurring monthly fee are excluded from our mobile telephony subscriber counts after periods of inactivity ranging from 30 to 60 days, based on industry standards within the respective country. In a number of countries, our mobile subscribers receive mobile services pursuant to prepaid contracts.

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 services 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 55% of Chilean homes, with approximately 3.4 million homes passed. Approximately 85% of our network has been upgraded to two-way capability. We provide our services to 2.9 million service subscribers (RGUs) represented by 1.4 million customers as of December 31, 2017. 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 (**SDU**), 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 45 communities outside of Santiago. 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 8,000 titles of on-demand content, including multi-screen features. 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 11 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 11 HD channels, and a DVR. In addition to our digital cable packages, our standard definition (**SD**) set-top boxes allow the reception of 11 SD free-to-air channels while our HD set-top boxes allow the reception of 11 SD and 4 HD free-to-air channels.

Broadband Internet

We offer multiple tiers of broadband internet services within Santiago and 45 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 30 Mbps or more at mass market price points and ultra-high-speed internet with speeds of up to 300 Mbps. Our key mass-market package includes a download speed of up to 150 Mbps. As of December 31, 2017, 100% of our network was capable of providing up to 160 Mbps speeds and 85% of our homes passed are served by a network with a bandwidth of at least 750 MHz.

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.

Telephony

We are the second largest fixed-line telephony operator in Chile, and the second largest provider within our footprint. We estimate that our services are available to 85% of the homes in our footprint, and as of December 31, 2017, our share of the telephony market in Chile was 19%. We offer multi-feature 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 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.

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, 2017, we served 214,900 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 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 approximately 8,500 kilometers of fiber and 20,000 kilometers of coaxial cable. Our nearly 30 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 primarily with Direct-to-Home (**DTH**) service providers, including the incumbent Chilean telecommunications operator Telefónica, S.A (**Telefónica**) under the brand name Movistar (**Movistar**), Claro Chile S.A., a subsidiary of América Móvil, S.A.B. de C.V. (**Claro**), Empresa Nacional de Telecomunicaciones S.A. (**Entel**), GTD Manquehue (**GTD**) and DirecTV, among others. Movistar offers double-play and triple-play packages using DTH for video and digital subscriber line (**DSL**) for internet and fixed-line telephony and offers mobile services. On a smaller scale, Movistar also offers internet protocol television services over FTTx (fiber-to-the-home/-cabinet/-building/-node is referred to as 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. It also offers mobile services. To a lesser extent, we also compete with video services offered by or over networks of fixed-line telecommunication providers using DSL technology. To compete effectively, we focus on enhancing our subscribers viewing options in and out of the home. We offer VoD, catch-up television, DVR functionality and a variety of premium channels. These services and our variety of bundled options, including internet and telephony, enhance our competitive position.

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 fixed-line broadband internet services using DSL or FTTx, hybrid fiber coaxial cable networks, 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. 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.

We face competition primarily from non-cable-based ISP, such as Movistar and Entel, and from other cable-based providers, such as Claro and GTD. Competition is particularly intense with each of these companies offering competitively priced services, including bundled offers with high-speed internet services. Mobile broadband competition is significant as well. Movistar, Claro and Entel have launched LTE networks for high-speed mobile data. To compete effectively, we are expanding our two-way coverage and offering attractive bundling with fixed-line telephony and digital video service and high-speed internet with download speeds of up to 300 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. Price is a key factor as are bundles with quality services. We distinguish our services by delivering reliable market leading internet access speeds with attractive bundled offers.

Movistar, Claro, and Entel are the primary companies that offer mobile telephony in Chile. In mid-2015, WOM S.A. (**WOM**) entered the mobile services market through its acquisition of the Nextel Chile network. WOM is exerting significant competitive pressure in the mobile market with its very aggressive price offers. Such pricing is driving down the sales of WOM's competitors and increasing churn in the mobile market. As an MVNO, VTR offers its mobile services on a standalone basis. To attract and retain customers, we are focusing on our triple-play customer base, offering them postpaid mobile accounts at an attractive price.

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 the 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, (i) prohibiting VTR and its control group from participating, directly or indirectly through

a related person, in Chilean satellite or microwave television businesses, (ii) prohibiting VTR from obtaining exclusive broadcast rights, except for specific events, and (iii) 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 these permits do not involve radio electric 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 Chilean Television Act (**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 our lineup after a 60-day notice period to our 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 our 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 passed in November 2017 requires all ISPs to apply for a public service concession for data transmission within three months of the passage of such law. Because we operate via networks that were previously approved by SubTel, we will use a fast-track procedure with respect to this concession.

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, 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 law passed in November 2017 requires all fixed and mobile ISPs to meet levels of quality of service to be defined in a future SubTel regulation. The law also requires ISPs to guarantee a minimum broadband throughput based on the offered speed and to provide their subscribers a certified measurement tool allowing subscribers to verify this minimum service level, and imposes on ISPs fines or penalties if the service level is not fulfilled.

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. On January 15, 2014, SubTel initiated a proceeding against VTR based on it having allegedly "altered an essential element of its concession, particularly the type of service." In this proceeding, SubTel asserted that VTR was not in compliance with the terms of it's wireless license. SubTel alleged that the terms of the wireless license require VTR 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 final ruling regarding this case was issued on February 12, 2018, imposing a fine to VTR of approximately $175,000 (CLP 107.7 million), which has been paid.

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.

Other Chilean Regulation

Price Increase. The Consumer Rights Protection Law has been interpreted to 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. In 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 are 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-play 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. Since 2013, SubTel has been drafting a proposed regulation regarding 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.

Consumer's Rights Protection Law Amendment. In 2017, the Chilean Congress passed a bill assigning significant new powers to Sernac including a material increase in its ability to levy fines and compensations. However, it remains uncertain how or whether Sernac and SubTel will redefine their respective powers.

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, 2017, we had an aggregate of approximately 1,900 full-time employees, of whom approximately 38% belong to one of seven unions. We negotiate new agreements with each union on a staggered basis approximately every three to four years. We believe that our relations with our employees and unions are good.

MANAGEMENT AND GOVERNANCE

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	24
Marcelo Von Chrismar	VP, Finance and Administration (CFO)	15
Cristián Ariztía	VP, Commercial & Clients	19
Iván Rozas	VP, People	24
Pedro Assael	VP, Products and Marketing	8
Jose Navarro	VP, Systems & Processes (IT)	2
Miguel Oyonarte	VP, Legal and Corporate Affairs	1

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

Guillermo Ponce

Mr. Ponce, 47, 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, 48, 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.

Cristián Ariztía

Mr. Ariztía, 51, 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, 58, 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, 51, 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).

José Navarro

Mr. Navarro, 50, 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.

Miguel Oyonarte

Mr. Oyonarte, 48, has served as our VP of Legal and Corporate Affairs since 2017. Previously, he served from 2015 to 2017 as Director of Legal, Corporate Affairs and Human Resources in Claro Chile. Between 2001 and 2013 he held the position of VP of Legal and Regulatory, Corporate Affairs at Nextel Chile. Mr. Oyonarte holds a degree in law from the Universidad de Chile and a LLM Degree from Notre Dame University, US.

Independent Auditors' Report

The Board of Directors
Liberty Latin America Ltd.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of VTR Finance B.V. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive earnings (loss), owners' deficit, and cash flows for the three-year period ended December 31, 2017, 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. and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the three-year period ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

José M. Galindo P.

KPMG Ltda.

Santiago, Chile, March 20, 2018

VTR FINANCE B.V.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2017	2016
	CLP in billions	
ASSETS		
Current assets:		
Cash and cash equivalents	55.0	83.7
Trade receivables, net	65.5	58.5
Income tax receivable	1.8	16.5
Prepaid expenses	8.1	8.0
Other current assets	11.8	14.3
Total current assets	142.2	181.0
Property and equipment, net	443.3	383.9
Goodwill	266.7	266.7
Derivative instruments	—	77.1
Deferred income taxes	46.7	48.2
Other assets, net	36.7	58.0
Total assets	935.6	1,014.9

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

VTR FINANCE B.V.

CONSOLIDATED BALANCE SHEETS – (Continued)

	December 31,	
	2017	2016
	CLP in billions	
LIABILITIES AND OWNER'S DEFICIT		
Current liabilities:		
Accounts payable	90.4	49.2
Deferred revenue and advance payments	26.4	25.0
Current portion of debt and capital lease obligations	60.1	32.9
Accrued interest	29.1	30.7
Accrued programming	18.4	21.7
Accrued income taxes	36.8	4.1
Other accrued and current liabilities	51.2	77.8
Total current liabilities	312.4	241.4
Long-term debt and capital lease obligations	848.3	922.0
Other long-term liabilities	175.7	103.5
Total liabilities	1,336.4	1,266.9
Commitments and contingencies		
Owner's deficit:		
Accumulated net distributions	(361.2)	(301.4)
Accumulated earnings (deficit)	(54.5)	33.3
Accumulated other comprehensive earnings, net of taxes	14.9	16.1
Total owner's deficit	(400.8)	(252.0)
Total liabilities and owner's deficit	935.6	1,014.9

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

VTR FINANCE B.V.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2017	2016	2015
		CLP in billions	
Revenue	617.6	580.6	547.5
Operating costs and expenses (exclusive of depreciation, shown separately below):			
Programming and other direct costs of services	167.2	160.5	149.0
Other operating	101.8	95.0	92.6
Selling, general and administrative (SG&A)	102.0	99.1	91.9
Related-party fees and allocations	10.0	10.1	8.6
Depreciation	73.9	82.1	92.6
Impairment, restructuring and other operating items, net	13.2	10.0	3.3
	468.1	456.8	438.0
Operating income	149.5	123.8	109.5
Non-operating income (expense):			
Interest expense	(68.8)	(69.2)	(70.1)
Realized and unrealized gains (losses) on derivative instruments, net	(108.0)	(133.4)	162.1
Foreign currency transaction gains (losses), net	73.1	58.2	(147.5)
Other income (expense), net	2.3	4.0	(0.1)
	(101.4)	(140.4)	(55.6)
Earnings (loss) before income taxes	48.1	(16.6)	53.9
Income tax expense	(135.9)	(99.8)	(29.8)
Net earnings (loss)	(87.8)	(116.4)	24.1

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,		
	2017	2016	2015
		CLP in billions	
Net earnings (loss)	(87.8)	(116.4)	24.1
Other comprehensive earnings (loss), net of taxes:			
Unrealized gains (losses) on cash flow hedges	(4.1)	(2.9)	1.1
Reclassification adjustments included in net earnings (loss)	2.9	1.1	—
Other comprehensive earnings (loss)	(1.2)	(1.8)	1.1
Comprehensive earnings (loss)	(89.0)	(118.2)	25.2

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

VTR FINANCE B.V.

CONSOLIDATED STATEMENTS OF OWNER'S DEFICIT

	Accumulated net distributions	Accumulated earnings (deficit)	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	—	—	1.1	1.1
Contribution of services	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	—	—	(1.8)	(1.8)
Distributions to parent	(33.8)	—	—	(33.8)
Contribution of services	10.1	—	—	10.1
Share-based compensation	0.3	—	—	0.3
Balance at December 31, 2016	(301.4)	33.3	16.1	(252.0)
Net loss	—	(87.8)	—	(87.8)
Other comprehensive loss	—	—	(1.2)	(1.2)
Distributions to parent	(70.8)	—	—	(70.8)
Contribution of services	10.0	—	—	10.0
Stock based compensation	1.0	—	—	1.0
Balance at December 31, 2017	(361.2)	(54.5)	14.9	(400.8)

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,		
	2017	2016	2015
		CLP in billions	
Cash flows from operating activities:			
Net earnings (loss)	(87.8)	(116.4)	24.1
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Share-based compensation expense	1.6	3.0	0.4
Related-party fees and allocations	10.0	10.1	8.6
Depreciation	73.9	82.1	92.6
Impairment, restructuring and other operating items, net	13.2	10.0	3.3
Amortization of deferred financing costs	1.9	1.7	1.5
Realized and unrealized losses (gains) on derivative instruments, net	108.0	133.4	(162.1)
Foreign currency transaction losses (gains), net	(73.1)	(58.2)	147.5
Deferred income tax expense (benefit)	1.5	11.2	(8.9)
Changes in operating assets and liabilities:			
Receivables and other operating assets	36.8	(30.6)	22.8
Payables and accruals	61.2	62.9	5.3
Net cash provided by operating activities	147.2	109.2	135.1
Cash flows from investing activities:			
Capital expenditures	(91.9)	(84.9)	(101.8)
Other investing activities, net	1.1	1.3	6.2
Net cash used by investing activities	(90.8)	(83.6)	(95.6)

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,		
	2017	2016	2015
		CLP in billions	
Cash flows from financing activities:			
Distributions to parent	(70.8)	(33.8)	—
Borrowings of third-party debt	27.8	2.0	—
Repayments of third-party debt and capital lease obligations	(39.0)	(0.3)	(0.2)
Other financing activities, net	0.9	0.6	(1.1)
Net cash used by financing activities	(81.1)	(31.5)	(1.3)
Effect of exchange rate changes on cash	(4.0)	(0.2)	(0.1)
Net increase (decrease) in cash and cash equivalents	(28.7)	(6.1)	38.1
Cash and cash equivalents:			
Beginning of year	83.7	89.8	51.7
End of year	55.0	83.7	89.8
Cash paid for interest	67.0	69.3	64.7
Net cash paid for taxes	12.2	46.4	13.7

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

(1) Basis of Presentation

Organization

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

Split-Off of Liberty Latin America from Liberty Global

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (**U.S. GAAP**). Our functional currency is the Chilean peso (**CLP**). Unless otherwise indicated, convenience translations into CLP are calculated as of December 31, 2017.

These consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through March 20, 2018, the date of issuance.

(2) Accounting Change and Recent Accounting Pronouncements

Accounting Change

In January 2017, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**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. We early-adopted ASU 2017-04 effective January 1, 2017. The adoption of ASU 2017-04 reduces the complexity surrounding the measurement of goodwill impairments.

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. ASU 2014-09 allows for early adoption and, as a result, we adopted this new standard on January 1, 2018 using the cumulative effect transition method. In Chile, consumer laws preclude the enforcement of fixed-term contracts for telecommunication services, i.e. consumers of telecommunication services may cancel the contracts with their providers at anytime without penalty. Accordingly, the primary impact of ASU 2014-09 will be the deferral of certain upfront fees charged to our customers.

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

The cumulative effect recorded upon the adoption of ASU 2014-09 on January 1, 2018 did not have a material impact on our financial position. Additionally, we do not expect the ongoing impact following the adoption of ASU 2014-09 to have a material impact to our consolidated statement of operations or balance sheets. In addition, we were not required to make material changes to our internal control environment as a result of 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 and additional guidance provided by ASU 2018-01, *Leases (Topic 842)—Land Easement Practical Expedient for Transition to Topic 842*, includes a number of optional practical expedients an entity may elect to apply. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We will adopt ASU 2016-02 on January 1, 2019. Although we are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements, the main impact of the adoption of this standard will be the recognition of lease assets and lease liabilities in our consolidated balance sheets for those leases classified as operating leases under previous U.S. GAAP. ASU 2016-02 will not have significant impacts on our consolidated statements of operations or cash flows.

(3) Summary of Significant Accounting Policies

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition-related assets and liabilities, allowances for uncollectible accounts, programming and copyright 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 and useful lives of long-lived assets. Actual results could differ from those estimates.

Reclassifications

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

Principles of Consolidation

The accompanying consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. Intercompany accounts 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 as there are no restrictions on our ability, contractual or otherwise, to redeem our investments.

Trade Receivables

Our trade receivables are reported net of an allowance for doubtful accounts. Such allowance aggregated CLP 17.6 billion and CLP 16.9 billion at December 31, 2017 and 2016, 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.

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 regarding 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 statements 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 and is included in depreciation and amortization in our consolidated statements of operations. 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 expensed as incurred.

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, our trade name and spectrum licenses are not amortized, but instead are tested for impairment at least annually.

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) the impact of natural disasters, (ii) an expectation of a sale or disposal of a long-lived asset or asset group, (iii) adverse changes in market or competitive conditions, (iv) an adverse change in legal factors or business climate in the market in which we operate and (v) 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 (i) sale prices for similar assets, (ii) discounted estimated future cash flows using an appropriate discount rate and/or (iii) 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 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. Goodwill impairment is recorded as the excess of the reporting unit’s carrying value over its fair value and is charged to operations. 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. For additional information regarding the fair values of our property and equipment and intangible assets, see note 5.

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. We recognize the financial statement effects of a tax position at the most reliable estimate, based on the technical merits, that the position will be sustained upon examination. Interest and penalties related to income tax liabilities are included in income tax expense in our consolidated statements of operations.

Prior to the Split-Off, VTR Finance was part of a Dutch tax fiscal unity (the **Dutch Fiscal Unity**), along with its then ultimate Dutch parent and certain other Dutch subsidiaries of Liberty Global. Upon the consummation of the Split-Off, VTR Finance and it’s subsidiaries are no longer part of the Dutch Fiscal Unity, as was defined under the previous ownership structure. For additional information regarding our income taxes, including the tax allocations from the Dutch Fiscal Unity, see note 8.

Foreign Currency Transactions

The reporting currency of VTR Finance is the Chilean peso. 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.

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.

Revenue Recognition

Service Revenue – Fixed Networks. We recognize revenue from video, broadband internet and fixed-line telephony services over our fixed networks to customers in the period the related services are provided. Installation revenue (including reconnect fees) related to services provided over our fixed networks 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 expected life of the subscriber relationship.

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. Payments received from pre-pay customers are recorded as deferred revenue prior to the commencement of services and are recognized as revenue 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.

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 certain foreign currency forward contracts, we do not apply hedge accounting to our derivative instruments. Accordingly, changes in the fair values of most of our derivative instruments are recorded in realized and unrealized gains or losses on derivative instruments, 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, 2017			December 31, 2016		
	Current (a)	Long-term (a)	Total	Current (a)	Long-term	Total
	CLP in billions					
Assets:						
Cross-currency derivative contracts (b)	1.3	—	1.3	4.6	77.1	81.7
Foreign currency forward contracts	—	—	—	0.2	—	0.2
Total	1.3	—	1.3	4.8	77.1	81.9
Liabilities:						
Cross-currency derivative contracts (b)	2.3	20.9	23.2	0.1	—	0.1
Foreign currency forward contracts	7.9	—	7.9	2.8	—	2.8
Total	10.2	20.9	31.1	2.9	—	2.9

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

(b) We consider credit risk relating to our and our counterparties' nonperformance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our cross-currency derivative contracts resulted in net gains (losses) of CLP 15.0 billion, CLP 6.7 billion and (CLP 0.6 billion) during 2017, 2016 and 2015, 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,		
	2017	2016	2015
	CLP in billions		
Cross-currency derivative contracts	(100.2)	(127.2)	155.2
Foreign currency forward contracts	(7.8)	(6.2)	6.9
Total	(108.0)	(133.4)	162.1

At December 31, 2017, our accumulated other comprehensive earnings, net of taxes, includes deferred net losses on derivative instruments of CLP 1.8 billion, most of which we expect will be reclassified to operating expense in our consolidated statement of operations within the next 12 months.

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

	Year ended December 31,		
	2017	2016	2015
		CLP in billions	
Operating activities	(1.5)	4.3	(18.0)
Investing activities	(2.4)	(2.2)	1.5
Total	(3.9)	2.1	(16.5)

Counterparty Credit Risk

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions. Collateral has not been posted by either party under our derivative instruments. At December 31, 2017, we had no expected counterparty credit risk resulting from our net derivative positions.

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

Details of our Derivative Instruments

Cross-currency Swaps

As noted above, we are exposed to foreign currency exchange rate risk in situations where our debt is denominated in a currency other than Chilean pesos (unmatched debt). Our policy is generally to provide for an economic hedge against foreign currency exchange rate movements, whenever possible and when cost effective to do so, by using derivative instruments to synthetically convert unmatched debt into Chilean pesos. The following table sets forth the total notional amounts and the related weighted average remaining contractual lives of our cross-currency swap contracts at December 31, 2017:

Notional amount due from counterparty	Notional amount due to counterparty	Weighted average remaining life
in millions		in years
$ 1,400.0	CLP 951,390.0	4.5

Impact of Derivative Instruments on Borrowing Costs

The impact of the derivative instruments on our borrowing costs at December 31, 2017 was a decrease of 52 basis points.

Foreign Currency Forwards

As of December 31, 2017, the total Chilean peso equivalents of the notional amount of foreign currency forward contracts was CLP 112.9 billion.

(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, 2017 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities, as we expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the

asset or liability. We record transfers of assets or liabilities into or out of Levels 1, 2, or 3 at the beginning of the quarter during which the transfer occurred. During 2017, no such transfers were made.

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

In order to manage our foreign currency exchange risk, we have entered into various derivative instruments, as further described in note 4. The recurring fair value measurements of these derivative instruments are determined using discounted cash flow models. Most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these derivative instruments. This observable data mostly includes interest rate futures and swap rates, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. We incorporate a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Effective January 1, 2017, we incorporated a Monte Carlo based approach into our calculation of the value assigned to the risk that we or our counterparties will default on our respective derivative obligations. Previously, we used a static calculation derived from our most current mark-to-market valuation to calculate the impact of counterparty credit risk. The adoption of a Monte Carlo based approach did not have a material impact on the overall fair value of our derivative instruments. Our and our counterparties' credit spreads represent our most significant Level 3 inputs, and these inputs are used to derive the credit risk valuation adjustments with respect to these instruments. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these instruments, we have determined that these valuations fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our cross-currency swaps are quantified and further explained in note 4.

We may perform nonrecurring fair value measurements primarily in connection with impairment assessments. During 2017 and 2016 there were no material facts or circumstances that required us to perform significant nonrecurring fair value measurements.

(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, 2017	December 31,	
		2017	2016
		CLP in billions	
Distribution systems	4 to 25 years	556.9	509.9
Customer premises equipment	3 to 5 years	524.1	499.2
Support equipment, buildings and land	2 to 25 years	248.2	233.2
		1,329.2	1,242.3
Accumulated depreciation		(885.9)	(858.4)
Total		443.3	383.9

Depreciation expense related to our property and equipment was CLP 73.9 billion, CLP 82.1 billion and CLP 92.6 billion during 2017, 2016 and 2015, respectively.

We recorded non-cash increases to our property and equipment related to vendor financing arrangements of CLP 35.8 billion, CLP 30.5 billion and nil during 2017, 2016 and 2015, respectively, which exclude related VAT of CLP 2.4 billion, CLP 0.2 billion, and nil, respectively, that were also financed by our vendors under these arrangements.

Goodwill

There were no changes in the carrying amount of our goodwill during 2017 and 2016 .

Other Intangible Assets Not Subject to Amortization

Our other intangible assets not subject to amortization relate to our trade name and spectrum licenses. 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 at both December 31, 2017 and 2016.

(7) Debt and Capital Lease Obligations

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

	December 31, 2017						
	Weighted average interest rate (a)	Unused borrowing capacity		Estimated fair value (b)		Principal amount	
		Borrowing currency	CLP equivalent	December 31,		December 31,	
				2017	2016	2017	2016
				CLP in billions			
Parent – VTR Finance Senior Secured Notes	6.88%	$ —	—	910.5	981.1	861.6	938.3
Subsidiaries:							
VTR Credit Facility	—	(c)	142.5	—	—	—	—
Vendor financing (d)	4.62%	—	—	59.9	32.7	59.9	32.7
Total debt before deferred financing costs	6.73%		142.5	970.4	1,013.8	921.5	971.0

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

	December 31,	
	2017	2016
	CLP in billions	
Total debt before deferred financing costs	921.5	971.0
Deferred financing costs	(13.6)	(16.5)
Total carrying amount of debt	907.9	954.5
Capital lease obligations	0.5	0.4
Total debt and capital lease obligations	908.4	954.9
Less: Current maturities of debt and capital lease obligations	(60.1)	(32.9)
Long-term debt and capital lease obligations	848.3	922.0

(a) Represents the weighted average interest rate in effect at December 31, 2017 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent the stated rates and do not include the impact of derivative instruments, deferred financing costs or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments and commitment fees, but excluding the impact of financing costs, the weighted average interest rate on our indebtedness was 6.43% at December 31, 2017. 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, 2017 without regard to covenant compliance calculations or other conditions precedent to borrowing. At December 31, 2017, the unused borrowing capacity relates to our senior secured revolving credit facility, which comprises a $160.0 million (CLP 98.5 billion) facility (the **VTR Dollar Credit Facility**) and a CLP 44.0 billion facility (the **VTR Peso Credit Facility** and, together with the VTR Dollar Credit Facility, the **VTR Credit Facility**), each of which were undrawn at December 31, 2017. 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 London Interbank Offered Rate 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%. Any future borrowings under the VTR Dollar Credit Facility and the VTR Peso Credit Facility will mature in January 2020 and January 2019, respectively. At December 31, 2017, the full amount of unused borrowing capacity was available to be borrowed under the VTR Credit Facility, both before and after consideration of the completion of the December 31, 2017 compliance reporting requirements, which include leverage-based payment tests and leverage covenants.

(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 was paid on our behalf by the vendor. Our operating expenses for the years ended December 31, 2017 and 2016 include CLP 23.4 billion and CLP 1.7 billion, respectively, that were financed by an intermediary and are reflected as a hypothetical cash outflow within net cash provided by operating activities and a hypothetical cash inflow within net cash provided by financing activities in our consolidated statements of cash flows. Repayments of vendor financing obligations are included in repayments of debt and capital lease obligations in our consolidated statements of cash flows.

General Information

Credit Facility. We have entered into a credit facility 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 the shares in such guarantors and certain intercompany 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 and cross-acceleration 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 are (i) 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) 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 certain customary incurrence-based covenants. In addition, 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;
- Our notes contain certain restrictions that, 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;
- 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

In January 2014, VTR Finance issued $1.4 billion (CLP 861.6 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, 2017, our vendor financing arrangements mature in 2018 and the VTR Finance Senior Secured Notes mature in January 2024.

(8) Income Taxes

For the period prior to the Split-Off, VTR Finance was part of the Dutch Fiscal Unity. Upon the consummation of the Split-Off, VTR Finance and its subsidiaries are no longer part of the Dutch Fiscal Unity, as was defined under the previous ownership structure. Following the Split-Off, the income taxes of VTR Finance and its subsidiaries are presented in a consolidated financial statement on a separate return basis for each tax-paying entity or group based on the local tax law.

Prior to the Split-Off, the Dutch Fiscal Unity combined individual tax paying Dutch entities and their ultimate Dutch parent company as one taxpayer for Dutch tax purposes. Tax amounts allocated to VTR Finance were generally included in our consolidated financial statements on a separate return basis. In this regard, any benefits that arose from tax losses generated by VTR Finance were not recognized in our consolidated financial statements as we did 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 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 were only recorded to the extent that tax assets were utilized or taxable income was included in the return for the applicable tax year. These related-party payables and receivables were generally cash settled annually within 90 days following the filing of the relevant tax return. Changes to previously filed tax returns were reflected in the related-party payables and receivables, and any prior settlement of payables and receivables were adjusted to reflect amended tax filings.

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

	Year ended December 31,		
	2017	2016	2015
		CLP in billions	
Chile	84.3	32.1	122.9
Other	(36.2)	(48.7)	(69.0)
Total	48.1	(16.6)	53.9

Income tax benefit (expense) consists of the following:

	Current	Deferred	Total
		CLP in billions	
Year ended December 31, 2017:			
Chile	(133.3)	(1.5)	(134.8)
The Netherlands	(1.1)	—	(1.1)
Total	(134.4)	(1.5)	(135.9)
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)

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,		
	2017	2016	2015
	CLP in billions		
Computed "expected" tax benefit (expense)	(12.0)	4.2	(13.5)
Non-deductible expenses	(124.8)	(93.1)	(5.8)
Change in valuation allowances	(1.7)	(11.4)	(16.1)
Impact of 2016 Merger on tax attributes	—	(3.6)	—
Impact of price level adjustments for tax purposes	0.4	2.9	0.2
Enacted tax law and rate changes (a)	0.7	0.6	1.1
International rate difference (b)	(0.4)	0.3	3.1
Other, net	1.9	0.3	1.2
Total income tax expense	(135.9)	(99.8)	(29.8)

(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) For the year ended December 31, 2017, the amount reflects the impact of a higher statutory rate of 25.5% in Chile, as compared to a rate of 25.0% in the Netherlands. For the years ended December 31, 2016 and 2015, the amounts reflect the impact of lower statutory tax rates in Chile of 24.0% and 22.5%, respectively, as compared to a rate of 25.0% in the Netherlands.

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,	
	2017	2016
	CLP in billions	
Deferred tax assets:		
Property and equipment, net	23.4	20.8
Debt	19.6	20.8
Net operating losses	4.1	18.3
Bad debt and other provisions	8.9	9.4
Derivatives	15.9	8.5
Other future deductible amounts	11.3	13.0
Deferred tax assets	83.2	90.8
Valuation allowance	(36.3)	(41.3)
Deferred tax assets, net of valuation allowance	46.9	49.5
Deferred tax liabilities – other future taxable amounts	(0.2)	(1.3)
Net deferred tax asset	46.7	48.2

Our deferred income tax valuation allowance decreased CLP 5.0 billion during 2017. This decrease reflects the net effect of (i) the net tax expense related to our operations of CLP 1.5 billion and (ii) other individually insignificant items.

The significant components of our tax loss carryforwards and related tax assets at December 31, 2017 are as follows:

Country	Tax loss carryforward	Related tax asset	Expiration date
	CLP in billions		
Chile	15.1	4.1	Indefinite
The Netherlands	—	—	N/A
Total	15.1	4.1	

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 2013 are no longer subject to examination by tax authorities, unless an assessment is currently under appeal. We are currently undergoing income tax audits in Chile and adjustments received from the Chilean tax authorities for the tax years 2011 through 2014 are in dispute. We have appealed the adjustments related to the 2011 through 2014 tax years to the Chilean tax courts. 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.

The changes in our unrecognized tax benefits are summarized below:

	Year ended December 31, 2017	Year ended December 31, 2016
	CLP in billions	
Balance at January 1	81.3	2.6
Additions for tax positions of prior years	32.8	72.8
Additions based on tax positions related to the current year	15.4	5.9
Decreases for tax positions of prior years	(0.1)	—
Balance at December 31	129.4	81.3

As of December 31, 2017, all of our unrecognized tax benefits would have a favorable impact on our effective income tax rate if ultimately recognized, after considering amounts that we would expect to be offset by valuation allowances. 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, 2017. 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, 2017 and 2016, our unrecognized tax benefits and related accrued interest aggregated CLP 145.9 billion and CLP 90.8 billion, respectively.

During 2017, 2016 and 2015, our income tax expense includes net interest expense of CLP 7.1 billion, CLP 9.3 billion and CLP 0.2 billion, respectively, representing the net accrual of interest during the respective period. Our other long-term liabilities include accrued interest of CLP 16.5 billion and CLP 9.5 billion at December 31, 2017 and 2016, respectively.

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%. In 2017, there are 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) Related-party Transactions

Our related-party transactions are as follows:

	Year ended December 31,		
	2017	2016	2015
		CLP in billions	
Programming and other direct costs of services	—	0.5	0.9
Allocated share-based compensation expense	1.0	0.3	—
Related-party fees and allocations:			
Operating and SG&A related (exclusive of depreciation and share-based compensation)	2.2	1.6	0.2
Depreciation	0.3	0.5	0.1
Share-based compensation	2.2	3.5	3.8
Management fee	5.3	4.5	4.5
Total fees and allocations	10.0	10.1	8.6
Included in operating income	11.0	10.9	9.5
Interest income	—	(0.3)	(0.4)
Included in net earnings (loss)	11.0	10.6	9.1

General. Prior to the Split-Off, certain Liberty Global subsidiaries charged fees and allocated costs and expenses to our company based on actual costs incurred. Although we believe the related-party fees and allocations described below are reasonable, no assurance can be given that the related-party costs and expenses reflected in our 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 cash settled programming and related services provided to our company by certain affiliates of VTR Finance.

Allocated share-based compensation expense. Amounts represent share-based compensation expense allocated from Liberty Global to our company with respect to share-based incentive awards held by certain of our employees, which are reflected as an increase to owners' deficit. Subsequent to the Split-Off, share-based compensation will be allocated to us by Liberty Latin America.

Related-party fees and allocations. These amounts represent fees charged to our company, prior to the Split-Off, that originated with Liberty Global and certain other Liberty Global subsidiaries, some of which are now subsidiaries of Liberty Latin America. These amounts include charges for management, finance, legal, technology and other corporate and administrative services provided to our company. As we did not reimburse Liberty Global or its subsidiaries for these services, we reflected the aggregate amount of these allocated costs as contributions in our consolidated statements of owner's deficit. Beginning in 2018, these charges will be allocated from Liberty Latin America. 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 income. These amounts relate to a loan from VTR Finance to Lila Chile Holding B.V, another subsidiary of Liberty Latin America, which was settled during the fourth quarter of 2016.

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

	December 31,	
	2017	2016
	CLP in billions	
Other current assets (a)	1.1	0.2
Other accrued and current liabilities (b)	4.0	3.5

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

(b) Represents non-interest bearing payables to Liberty Global subsidiaries.

(10) Restructuring Liabilities

A summary of changes in our restructuring liabilities during 2017 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, 2017	0.3	17.5	17.8
Restructuring charges	6.5	3.7	10.2
Cash paid	(5.6)	(6.0)	(11.6)
Other	0.8	(0.1)	0.7
Restructuring liability as of December 31, 2017	2.0	15.1	17.1
Current portion	2.0	6.3	8.3
Noncurrent portion	—	8.8	8.8
Total	2.0	15.1	17.1

The restructuring charges for employee severance and termination are related to certain reorganization activities that were initiated and substantially completed as of December 31, 2017.

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	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

The restructuring charges for employee severance and termination are related to certain reorganization activities that were initiated and 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

(11) 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, 2017:

	Payments due during:						
	2018	2019	2020	2021	2022	Thereafter	Total
	CLP in billions						
Programming commitments	51.7	20.3	3.3	1.8	2.7	—	79.8
Network and connectivity commitments	24.4	19.7	—	—	—	—	44.1
Operating leases	8.2	5.5	4.2	3.5	2.8	4.6	28.8
Purchase commitments	8.4	6.9	0.7	0.7	0.7	0.4	17.8
Total (a)	92.7	52.4	8.2	6.0	6.2	5.0	170.5

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

Programming commitments consist of obligations associated with certain programming contracts that are enforceable and legally binding on us as we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services or (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems. In addition, programming commitments do not include increases in future periods associated with contractual inflation or other price adjustments that are not fixed. Accordingly, the amounts reflected in the above table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Historically, payments to programming vendors have represented a significant portion of our operating costs, and we expect that this will continue to be the case in future periods. In this regard, during 2017, 2016 and 2015, third-party programming and copyright costs incurred by our broadband communications operations aggregated CLP 111.9 billion, CLP 108.8 billion and CLP 98.7 billion, respectively.

Network and connectivity commitments include (i) our domestic network service agreements with certain other telecommunications companies and (ii) our 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 significantly less than the actual amounts we ultimately pay in these periods.

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

In addition to the commitments set forth in the table above, we have commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during 2017, 2016 and 2015, see note 4.

Rental expense under operating lease arrangements amounted to CLP 8.0 billion, CLP 9.6 billion and CLP 9.4 billion in 2017, 2016 and 2015, 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 business to a number of risks. Regulation, including conditions imposed on us by competition or other authorities as a requirement to close acquisitions or dispositions, could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and property and equipment additions. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our business to various penalties.

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

(12) 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. Effective April 1, 2017, we changed the categories that we present in this table in order to align with our internal reporting. These changes were retroactively reflected in the prior-year periods.

	Year ended December 31.		
	2017	2016	2015
		CLP in billions	
Residential revenue:			
Residential cable revenue (a):			
Subscription revenue (b):			
Video	234.7	219.7	207.8
Broadband internet	223.2	208.7	186.3
Fixed-line telephony	87.4	91.1	97.6
Total subscription revenue	545.3	519.5	491.7
Non-subscription revenue	18.6	24.7	27.4
Total residential cable revenue	563.9	544.2	519.1
Residential mobile revenue (c):			
Subscription revenue (b)	36.3	27.8	23.3
Non-subscription revenue	7.2	6.5	5.1
Total residential mobile revenue	43.5	34.3	28.4
Total residential revenue	607.4	578.5	547.5
B2B revenue (d):			
Subscription revenue	9.8	1.8	—
Non-subscription revenue	0.4	0.3	—
Total B2B revenue	10.2	2.1	—
Total	617.6	580.6	547.5

(a) Residential cable subscription revenue includes amounts received from subscribers for ongoing services. Residential cable non-subscription revenue includes, among other items, installation, advertising and interconnect revenue.

(b) Subscription revenue from subscribers who purchase bundled services at a discounted rate is 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.

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

(d) B2B subscription revenue represents revenue from services to certain small or home office (**SOHO**) subscribers. SOHO subscribers pay a premium price to receive expanded service levels along with video, broadband internet, fixed-line telephony or mobile services that are the same or similar to the mass marketed products offered to our residential subscribers. B2B non-subscription revenue primarily includes business installation 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, 2017, 2016 and 2015.
- *Liquidity and Capital Resources.* This section provides an analysis of our liquidity, consolidated statements of cash flows and contractual commitments.
- *Critical Accounting Policies, Judgments and Estimates.* This section discusses those material accounting policies that involve 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) is presented, as of December 31, 2017.

Overview

General

We are a subsidiary of Liberty Latin America that provides video, broadband internet, fixed-line telephony and mobile services to residential and business customers in Chile. On December 29, 2017, Liberty Global completed the Split-Off of its former wholly-owned subsidiary Liberty Latin America. For additional information regarding the Split-Off, see note 1 to our consolidated financial statements.

Operations

At December 31, 2017, we (i) owned and operated networks that passed 3,394,700 homes and served 2,877,400 RGUs, comprising 1,181,600 broadband internet subscribers, 1,067,400 video subscribers and 628,400 fixed-line telephony subscribers and (ii) served 214,900 mobile subscribers.

Competition and other external factors

We are experiencing significant competition from other telecommunications operators, direct-to-home satellite operators and other providers. This significant competition may have an adverse impact on our ability to increase or maintain our revenue, RGUs and/or average monthly subscription revenue per average RGU (**ARPU**). 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., combined with weak growth and high unemployment, could potentially lead to fiscal reforms (including austerity measures), tax increases, sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility and disruptions in the credit and equity markets, as well as other outcomes that might adversely impact our company.

Results of Operations

General

Our revenue is derived from a jurisdiction that administers VAT or similar revenue-based taxes. Any increases in these taxes could have an adverse impact on our ability to maintain or increase our revenue to the extent that we are unable to pass such tax increases on to our customers. In the case of revenue-based taxes for which we are the ultimate taxpayer, we will also experience increases in our operating costs and expenses and corresponding declines in our Segment OCF margins (Segment OCF divided by revenue) 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 we could experience retroactive changes in our interconnect revenue and/or costs. The ultimate impact of any such changes in termination rates on our Segment OCF would be dependent on the call or text messaging patterns that are subject to the changed termination rates.

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

2017 compared to 2016

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 during the period and (ii) changes in ARPU. Changes in ARPU can be attributable to (i) changes in prices, (ii) changes in bundling or promotional discounts, (iii) changes in the tier of services selected, (iv) variances in subscriber usage patterns and (v) the overall mix of 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.

Effective April 1, 2017, we retroactively changed the presentation of our revenue by major category. For additional information, see note 12 to our consolidated financial statements.

Our revenue by major category is set forth below:

	Year ended December 31,		Increase (decrease)	
	2017	2016	CLP	%
	CLP in billions			
Residential revenue:				
Residential cable revenue:				
Subscription revenue:				
Video	234.7	219.7	15.0	6.8
Broadband internet	223.2	208.7	14.5	6.9
Fixed-line telephony	87.4	91.1	(3.7)	(4.1)
Total subscription revenue	545.3	519.5	25.8	5.0
Non-subscription revenue	18.6	24.7	(6.1)	(24.7)
Total residential cable revenue	563.9	544.2	19.7	3.6
Residential mobile revenue:				
Subscription revenue	36.3	27.8	8.5	30.6
Non-subscription revenue (a)	7.2	6.5	0.7	10.8
Total residential mobile revenue	43.5	34.3	9.2	26.8
Total residential revenue	607.4	578.5	28.9	5.0
B2B revenue:				
Subscription revenue	9.8	1.8	8.0	N.M
Non-subscription revenue	0.4	0.3	0.1	33.3
Total B2B revenue	10.2	2.1	8.1	N.M.
Total	617.6	580.6	37.0	6.4

N.M. — Not Meaningful.

(a) Includes residential mobile interconnect revenue of CLP 3 billion during each of 2017 and 2016.

The details of the changes in our revenue during 2017, as compared to 2016, are set forth below:

	Subscription revenue	Non-subscription revenue	Total
		CLP in billions	
Increase in residential cable subscription revenue due to change in:			
Average number of RGUs (a)	9.3	—	9.3
ARPU (b)	16.5	—	16.5
Decrease in residential cable non-subscription revenue (c)	—	(6.1)	(6.1)
Total increase (decrease) in residential cable revenue	25.8	(6.1)	19.7
Increase in residential mobile revenue (d)	8.5	0.7	9.2
Increase in B2B revenue (e)	8.0	0.1	8.1
Total	42.3	(5.3)	37.0

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

(b) The increase is primarily due to the net effect of (i) higher ARPU from video services, (ii) an improvement in RGU mix, (iii) an increase of CLP 3 billion resulting from the impact of unfavorable adjustments recorded during 2016 to reflect the retroactive application of a tariff on ancillary services provided directly to customers for the period from July 2013 through February 2014 and (iv) lower ARPU from fixed-line telephony services.

(c) The decrease is primarily due to the net effect of (i) lower advertising revenue, (ii) lower interconnect revenue attributable to decreases in fixed-line telephony termination volumes and rates, and (iii) higher installation revenue.

(d) The increase in mobile subscription revenue is primarily due to a higher average number of mobile subscribers.

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

Programming and other direct costs of services — 2017 compared to 2016

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

Our programming and other direct costs of services increased CLP 7 billion or 4.2% during 2017, as compared to 2016. This increase includes the following factors:

- An increase in programming and copyright costs of CLP 3 billion or 3.1%, primarily associated with (i) an increase in certain premium and basic content costs and (ii) higher costs associated with VoD;
- An increase in mobile access and interconnect costs of CLP 2 billion or 4.9%, primarily due to the net effect of (i) higher MVNO charges and (ii) a net decline in interconnect costs from lower interconnect rates and higher call volumes; and
- An increase in mobile handset costs of CLP 2 billion or 14.7%, primarily resulting from higher mobile handset sales.

Other operating expenses — 2017 compared to 2016

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

Our other operating expenses increased CLP 7 billion or 7.2% during 2017, as compared to 2016. Our other operating expenses include share-based compensation expense, which remained relatively flat during 2017, as compared to 2016. For additional information, see the discussion under *Share-based compensation expense (included in other operating and SG&A expenses)* below. The increase includes the following factors:

- An increase in network-related expenses of CLP 4 billion or 11.1%, primarily due to higher maintenance costs in connection with preventative maintenance programs that were implemented in 2017;
- An increase in bad debt and collection expenses of CLP 2 billion million or 17.9%;
- An increase in outsourced labor and professional fees of CLP 2 billion or 21.0%, primarily due to the outsourcing of call center services in July 2016, including the impact of higher call volumes in 2017; and
- A decrease in personnel costs of CLP 1 billion or 5.8%, primarily due to lower staffing levels and related costs in connection with the outsourcing of call center services in July 2016.

SG&A expenses — 2017 compared to 2016

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

Our SG&A expenses increased CLP 3 billion or 2.9% during 2017, as compared to 2016. Our SG&A expenses include share-based compensation expense, which decreased CLP 1.0 billion during 2017, as compared to 2016. For additional information, see the discussion under *Share-based compensation expense (included in other operating and SG&A expenses)* below. Excluding the effects of share-based compensation expense, our SG&A expenses increased CLP 4 billion or 4.0% during 2017, as compared to 2016. This increase includes the following factors:

- An increase in marketing and advertising expenses of CLP 2 billion or 5.0%, primarily due to higher costs associated with advertising campaigns;
- An increase in information technology-related expenses of CLP 1 billion or 23.3%, primarily due to higher software and other information technology-related maintenance costs; and
- An increase in personnel costs of CLP 1 billion or 3.7%, primarily due to (i) higher staffing levels, (ii) annual wage increases and (iii) higher severance costs.

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

We recognized share-based compensation expense of CLP 2 billion and CLP 3 billion during 2017 and 2016, respectively. The expense recognized includes (i) prior to the Split-Off, amounts allocated to our company by Liberty Global, and (ii) amounts related to performance share unit awards granted pursuant to our liability-based plan.

Depreciation expense

Our depreciation expense decreased CLP 8 billion during 2017, as compared to 2016. 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 (a) the purchase and installation of customer premises equipment, (b) investments in new customer products and infrastructure and (c) expenditures related to new build and upgrade projects.

Related-party fees and allocations

We recorded related-party fees and allocations of CLP 10 billion during both 2017 and 2016. These amounts represent fees charged to our company that originate with Liberty Global and certain other Liberty Global subsidiaries, some of which are now subsidiaries of Liberty Latin America, 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 9 to our consolidated financial statements.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of CLP 13 billion and CLP 10 billion during 2017 and 2016, respectively, primarily related to restructuring charges that we recorded in connection with employee severance and contract termination costs.

For additional information regarding our restructuring charges, see note 10 to our consolidated financial statements.

Interest expense – third-party

Our third-party interest expense remained relatively flat during 2017, as compared to 2016.

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

It is possible that the interest rates on (i) any new borrowings could be higher than the current interest rates on our existing indebtedness and (ii) our variable-rate indebtedness could increase in future periods. As further discussed in note 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

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

	Year ended December 31,	
	2017	2016
	CLP in billions	
Cross-currency derivative contracts (a)	(100.2)	(127.2)
Foreign currency forward contracts	(7.8)	(6.2)
Total	(108.0)	(133.4)

(a) The losses during 2017 and 2016 are primarily attributable to a loss resulting from changes in FX and a loss resulting from changes in interest rates. The loss during 2017 includes a net loss of CLP 15 billion resulting from changes in our credit risk valuation adjustments. In addition, the loss during 2016 includes a net gain of CLP 7 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, net, of CLP 73 billion and CLP 58 billion during 2017 and 2016, respectively, primarily resulting from the remeasurement of the VTR Finance Senior Secured Notes, which are denominated in U.S. dollars.

Other income (expense), net

We recognized other income, net, of CLP 2 billion and CLP 4 billion during 2017 and 2016, respectively, primarily related to interest income and, for 2016, the net effect of our share of the net losses of our equity method affiliates and a gain on disposal of certain assets.

Income tax expense

We recognized income tax expense of CLP 136 billion and CLP 100 billion during 2017 and 2016, respectively.

The income tax expense during 2017 differs from the expected income tax expense of CLP 12 billion (based on the Dutch statutory income tax rate of 25.0%), primarily due to the negative impacts of non-deductible expenses relating to certain permanent differences between the financial and tax accounting treatment of interest and other items.

The income tax expense during 2016 differs from the expected income tax benefit of CLP 4 billion (based on the Dutch statutory income tax rate of 25.0%), primarily due to the negative impacts of (i) non-deductible expenses relating to 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

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

Net loss

During 2017 and 2016, we reported net losses of CLP 88 billion and CLP 116 billion, respectively, including (i) operating income of CLP 150 billion and CLP 124 billion, respectively, (ii) net non-operating expense of CLP 101 billion and CLP 140 billion, respectively, and (iii) income tax expense of CLP 136 billion and CLP 100 billion, respectively.

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

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

2016 compared to 2015

Revenue

Our revenue by major category is set forth below:

	Year ended December 31,		Increase (decrease)	
	2016	2015	CLP	%
		CLP in billions		
Residential revenue:				
Residential cable revenue:				
Subscription revenue:				
Video	219.7	207.8	11.9	5.7
Broadband internet	208.7	186.3	22.4	12.0
Fixed-line telephony	91.1	97.6	(6.5)	(6.7)
Total subscription revenue	519.5	491.7	27.8	5.7
Non-subscription revenue	24.7	27.4	(2.7)	(9.9)
Total residential cable revenue	544.2	519.1	25.1	4.8
Residential mobile revenue:				
Subscription revenue	27.8	23.3	4.5	19.3
Non-subscription revenue (a)	6.5	5.1	1.4	27.5
Total residential mobile revenue	34.3	28.4	5.9	20.8
Total residential revenue	578.5	547.5	31.0	5.7
B2B revenue:				
Subscription revenue	1.8	—	1.8	N.M
Non-subscription revenue	0.3	—	0.3	N.M
Total B2B revenue	2.1	—	2.1	N.M
Total	580.6	547.5	33.1	6.0

N.M. — Not Meaningful

(a) Includes residential mobile interconnect revenue of CLP 3 billion and CLP 2 billion during 2016 and 2015, respectively.

The details of the changes in our revenue during 2016, as compared to 2015, are set forth below:

	Subscription revenue	Non-subscription revenue	Total
	CLP in billions		
Increase in residential cable subscription revenue due to change in:			
Average number of RGUs (a)	11.8	—	11.8
ARPU (b)	16.0	—	16.0
Decrease in residential cable non-subscription revenue (c)	—	(2.7)	(2.7)
Total increase (decrease) in residential cable revenue	27.8	(2.7)	25.1
Increase in residential mobile revenue (d)	4.5	1.4	5.9
Increase in B2B revenue	1.8	0.3	2.1
Total	34.1	(1.0)	33.1

(a) The increase is attributable to growth in broadband internet and video RGUs that were only partially offset by lower fixed-line telephony RGUs.

(b) The increase is attributable to (i) a net increase due to (a) higher ARPU from broadband internet and video services and (b) lower ARPU from fixed-line telephony services and (ii) an improvement in RGU mix. In addition, this increase 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 (i) a decrease of CLP 3 billion due to the impact of unfavorable adjustments recorded during the first and second quarters of 2016 and (ii) an increase of CLP 1 billion due to the impact of an unfavorable adjustment recorded during the first quarter of 2015.

(c) The decrease is primarily due to the net effect of (i) lower advertising revenue and (ii) an increase of CLP 2 billion in interconnect revenue due to the impacts of unfavorable adjustments recorded during the first and third quarters of 2015 to reflect the retroactive application of a tariff reduction to June 2012.

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

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

Our programming and other direct costs of services increased CLP 12 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 billion or 10.0%, primarily due to growth in the number of enhanced video subscribers; and

- A net increase resulting from individually insignificant changes in other direct costs of services expense categories.

Other operating expenses - 2016 compared to 2015

Our other operating expenses increased CLP 2 billion or 2.6% during 2016, as compared to 2015. Our other operating expenses include share-based compensation expense, which increased CLP 1 billion during 2016, as compared to 2015. For additional information, see the discussion under *Share-based compensation expense (included in other operating and SG&A expenses)* below. Excluding the effects of share-based compensation expense, our operating expenses increased CLP 2 billion or 1.7% during 2016, as compared to 2015. This increase includes the following factors:

- An increase in network-related expenses of CLP 2 billion or 6.1%, primarily due to higher energy costs; and

- A decrease in outsourced labor and professional fees of CLP 1 billion or 11.7%, primarily due to lower consulting costs.

SG&A expenses - 2016 compared to 2015

Our SG&A expenses increased CLP 7 billion or 7.8% during 2016, as compared to 2015. Our SG&A expenses include share-based compensation expense, which increased CLP 2 billion during 2016, as compared to 2015. For additional information, see the discussion under *Share-based compensation expense (included in other operating and SG&A expenses)* below. Excluding the effects of share-based compensation expense, our SG&A expenses increased CLP 5 billion or 5.9% during 2016, as compared to 2015. This increase includes the following factors:

- An increase in outsourced labor and professional fees of CLP 4 billion or 68.7%, primarily due to the outsourcing of call center services in July 2016;
- An increase in information technology-related expenses of CLP 3 billion or 98.2%, primarily due to increases in information technology-related maintenance costs;
- A decrease in facilities expenses of CLP 2 billion or 13.5%, primarily due to lower facilities maintenance and utility costs;
- An increase in personnel costs of CLP 2 billion or 5.7%, as increases in staffing levels and higher incentive compensation costs were only partially offset by lower severance costs; and
- A net decrease resulting from other 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 billion and nil during 2016 and 2015, respectively, primarily related to performance share unit awards granted under our liability-based plan.

Depreciation expense

Our depreciation expense decreased CLP 11 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 billion and CLP 9 billion during 2016 and 2015, respectively.

For additional information regarding our related-party fees and allocations, see note 9 to our consolidated financial statements.

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of CLP 10 billion during 2016, as compared to CLP 3 billion during 2015. The 2016 restructuring charges for employee severance and termination related to certain reorganization activities. 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 10 to our consolidated financial statements.

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.

Realized and unrealized gains (losses) on derivative instruments, net

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 a loss resulting from changes in FX and a loss resulting from changes in interest rates. In addition, the loss during 2016 includes a net gain of CLP 7 billion resulting from changes in our credit risk valuation adjustments. The gain during 2015 is primarily attributable to a gain resulting from changes in FX and a gain resulting from changes in interest rates. In addition, the gain during 2015 includes a net loss of CLP 1 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 gains (losses), net

We recognized foreign currency transaction gains (losses), net, of CLP 58 billion and (CLP 148 billion) during 2016 and 2015, respectively, primarily resulting from the remeasurement of the VTR Finance Senior Secured Notes, which are denominated in U.S. dollars.

Other income (expense), net

We recognized other income (expense), net, of CLP 4 billion and nil during 2016 and 2015, respectively. The 2016 amount includes (i) interest income, (ii) our share of the net losses of our equity method affiliates and (iii) a gain on disposal of certain assets. In addition, the 2016 amount includes a gain on disposal of certain assets.

Income tax expense

We recognized income tax expense of CLP 100 billion and CLP 30 billion during 2016 and 2015, respectively.

The income tax expense during 2016 differs from the expected income tax benefit of CLP 4 billion (based on the Dutch statutory income tax rate of 25.0%), primarily due to the negative impacts of (i) non-deductible expenses relating to 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 14 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) non-deductible expenses relating to 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 billion) and CLP 24 billion, respectively, including (i) operating income of CLP 124 billion and CLP 110 billion, respectively, (ii) net non-operating expense of CLP 140 billion and CLP 56 billion, respectively, and (iii) income tax expense of CLP 100 billion and CLP 30 billion, respectively.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash and cash equivalents

At December 31, 2017, we had cash and cash equivalents of CLP 55 billion, of which CLP 25 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 Latin America may also agree to provide funding to VTR Finance in the form of subordinated loans or equity contributions. VTR Finance's ability to access the liquidity of its subsidiaries may be limited by tax considerations and other factors.

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

Liquidity of Subsidiaries

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

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

Capitalization

At December 31, 2017, the outstanding principal amount of our debt, together with our capital lease obligations, aggregated CLP 922 billion, including CLP 60 billion that is classified as current in our consolidated balance sheet and CLP 862 billion that is due in January 2024. For additional information concerning our debt and capital lease obligations, including our debt maturities, see note 7 to our consolidated financial statements.

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

Notwithstanding our negative working capital position at December 31, 2017, we believe that we have sufficient resources to repay or refinance the current portion of our debt and capital lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. However, we may seek to refinance the VTR Finance Senior Secured Notes prior to their maturity in 2024, and no assurance can be given that we will be able to complete this refinancing. In this regard, it is difficult to predict how political and economic conditions, sovereign debt concerns or any adverse regulatory developments will impact the credit and equity markets we access and our future financial position. Our ability to access debt financing on favorable terms, or at all, could be adversely impacted by (i) the financial failure of any of our counterparties, which could (a) reduce amounts available under

our committed credit facility and (b) adversely impact our ability to access cash deposited with any failed financial institution, and (ii) tightening of the credit markets. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

Consolidated Statements of Cash Flows

Consolidated Statements of Cash Flows — 2017 compared to 2016

Summary. Our 2017 and 2016 consolidated statements of cash flows are summarized as follows:

	Year ended December 31,		
	2017	2016	Change
	CLP in billions		
Net cash provided by operating activities	147.2	109.2	38.0
Net cash used by investing activities	(90.8)	(83.6)	(7.2)
Net cash used by financing activities	(81.1)	(31.5)	(49.6)
Effect of exchange rate changes on cash	(4.0)	(0.2)	(3.8)
Net decrease in cash and cash equivalents	(28.7)	(6.1)	(22.6)

Operating Activities. The increase in net cash provided by our operating activities is primarily attributable to an increase due to lower cash payments for taxes.

Investing Activities. The increase in net cash used by our investing activities is primarily attributable to higher capital expenditures. Capital expenditures increased from CLP 85 billion during 2016 to CLP 92 billion during 2017.

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

	Year ended December 31,	
	2017	2016
	CLP in billions	
Property and equipment additions	137.9	131.8
Assets acquired under capital-related vendor financing arrangements	(35.8)	(30.5)
Assets acquired under capital leases	(0.2)	(0.5)
Changes in current liabilities related to capital expenditures	(10.0)	(15.9)
Capital expenditures	91.9	84.9

The increase in our property and equipment additions during 2017, as compared to 2016, is primarily due to increases in (i) the purchase and installation of customer premises equipment, (ii) investments in new customer products and infrastructure and (iii) expenditures related to new build and upgrade projects. During 2017, a significant portion of our purchases of property and equipment was denominated in U.S. dollars. During 2017 and 2016, our consolidated property and equipment additions represented 22.3% and 22.7% of our revenue, respectively.

We expect the percentage of revenue represented by our aggregate 2018 property and equipment additions to range from 20% to 22%. The actual amount of our 2018 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 and (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 distributions to our parent entity of CLP 37 billion and (ii) an increase of CLP 13 billion related to higher net repayments of third-party debt.

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 net decrease from our Segment OCF and related working capital items, (ii) an increase due to lower cash payments related to derivative instruments, (iii) a decrease due to higher cash payments for taxes and (iv) decrease due to higher cash payments for interest.

Investing Activities. The decrease in net cash used by our investing activities is primarily attributable a decrease of CLP 17 billion related to lower capital expenditures.

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

Financing Activities. The increase in net cash used by our financing activities was higher during 2017, as compared to 2016, primarily due to an increase of CLP 34 billion related to distributions to our parent entity.

Contractual Commitments

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

	Payments due during:						
	2018	2019	2020	2021	2022	Thereafter	Total
	CLP in billions						
Debt (excluding interest)	59.9	—	—	—	—	861.6	921.5
Capital leases (excluding interest)	0.2	0.2	0.1	—	—	—	0.5
Programming commitments	51.7	20.3	3.3	1.8	2.7	—	79.8
Network and connectivity commitments	24.4	19.7	—	—	—	—	44.1
Operating leases	8.2	5.5	4.2	3.5	2.8	4.6	28.8
Purchase commitments	8.4	6.9	0.7	0.7	0.7	0.4	17.8
Total (a)	152.8	52.6	8.3	6.0	6.2	866.6	1,092.5
Projected cash interest payments on debt and capital lease obligations (b)	61.0	60.5	59.5	59.2	59.2	88.8	388.2

(a) The commitments included in this table do not reflect any liabilities that are included in our December 31, 2017 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, 2017. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our derivative contracts.

For information concerning our debt and capital lease obligations, see note 7 to our consolidated financial statements. For information concerning our commitments, see note 11 to our consolidated financial statements.

In addition to the commitments set forth in the table above, we have commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with these derivative instruments, see *Projected Cash Flows Associated with Derivative Instruments* below. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during 2017, 2016 and 2015, 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, 2017. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 4 to our consolidated financial statements.

	Payments due during:						
	2018	2019	2020	2021	2022	Thereafter	Total
	CLP in billions						
Projected derivative cash payments, net:							
Interest-related (a)	2.0	2.0	2.0	2.0	6.3	15.9	30.2
Principal-related (b)	—	—	—	—	123.6	22.4	146.0
Other (c)	13.7	—	—	—	—	—	13.7
Total	15.7	2.0	2.0	2.0	129.9	38.3	189.9

(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; 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

The aggregate carrying value of our property and equipment and intangible assets (including goodwill) that was held for use comprised 77.5% of our total assets at December 31, 2017.

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) the impact of natural disasters such as hurricanes, (ii) an expectation of a sale or disposal of a long-lived asset or asset group, (iii) adverse changes in market or competitive conditions, (iv) an adverse change in legal factors or business climate in the markets in which we operate and (v) 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 (i) sale prices for similar assets, (ii) discounted estimated future cash flows using an appropriate discount rate and/or (iii) 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 their carrying amounts 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 a 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"). Goodwill impairment is recorded as the excess of a reporting unit's carrying value over its fair value and is charged to operations. 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.

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, a market-based approach or a combination of an income-based and 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 of, among other items, subscriber growth and retention rates, rates charged per product, expected gross margins 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. With respect to a market-based approach, the fair value of a reporting unit is estimated based upon a market multiple typically applied to the reporting unit's Segment OCF. We determine the market multiple for each reporting unit taking the following into consideration: (i) public company trading multiples for entities with similar business characteristics as the respective reporting unit, a "trading multiple;" and (ii) multiples derived from the value of recent transactions for businesses with similar operations and in geographically similar locations, a "transaction multiple". Changes in the underlying assumptions used in both the income-based and market-value valuation methods can result in materially different determinations of fair value.

Costs Associated with Construction and Installation Activities

We capitalize costs associated with the construction of (i) new cable and mobile transmission and distribution facilities, (ii) the installation of new cable services and (iii) the development of software supporting our operations. 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 sheets, 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.

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 is 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, 2017, the aggregate valuation allowance provided against deferred tax assets was CLP 36.3 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, 2017 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. 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 tax positions we may take could be 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, 2017, the amount of unrecognized tax benefits for financial reporting purposes, but taken or expected to be taken in our tax returns, was CLP 129.4 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.