



## **VTR FINANCE B.V.**

**Annual Report  
December 31, 2019**

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

**VTR FINANCE B.V.**  
**TABLE OF CONTENTS**

	<u>Page Number</u>
Forward-looking Statements	2
Business	4
Management and Governance	15
Independent Auditors' Report	16
Consolidated Balance Sheets as of December 31, 2019 and 2018	17
Consolidated Statements of Operations for the Years Ended December 31, 2019, 2018 and 2017	19
Consolidated Statements of Comprehensive Earnings (Loss) for the Years Ended December 31, 2019, 2018 and 2017	20
Consolidated Statements of Owner's Equity (Deficit) for the Years Ended December 31, 2019, 2018 and 2017	21
Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017	22
Notes to Consolidated Financial Statements	24
Management's Discussion and Analysis of Financial Condition and Results of Operations	48

## 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, service offering, foreign currency and finance strategies; our property and equipment additions; programming and copyright costs; subscriber growth and retention rates; changes in competitive, regulatory and economic factors; anticipated changes in our revenue, costs or growth rates; debt levels; our liquidity, including our expectations regarding the sufficiency of cash flows from our operations; credit and interest rate risks; internal controls over financial reporting; the development of 5G technologies; foreign currency risks; target leverage levels; compliance with debt, financial and other covenants and our ability to obtain additional debt; our future projected contractual commitments and cash flows; social and political unrest; the impact of the novel Coronavirus; 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 video, broadband and telecommunications industries in Chile, including competitor responses to our products and services;
- fluctuations in currency exchange rates, inflation 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 viewing preferences and habits, including on mobile devices that function on various operating systems and specifications, limited bandwidth, and different processing power and screen sizes;
- customer acceptance of our existing service offerings, including our video, broadband internet, fixed-line telephony, mobile and business service offerings, and of new technology, programming alternatives and other products and services that we may offer in the future;
- our ability to manage rapid technological changes;
- the impact of 5G and wireless technologies;
- our ability to maintain or increase the number of subscriptions to our video, broadband internet, fixed-line telephony and mobile service offerings and our average revenue per household;
- our ability to provide satisfactory customer service, including support for new and evolving products and services;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- changes in, or failure or inability to comply with, government regulations in Chile and adverse outcomes from regulatory proceedings;
- government intervention that requires opening our broadband distribution networks to competitors;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions and the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully acquire new businesses and, if acquired, to integrate, realize anticipated efficiencies from, and implement our business plan with respect to, the businesses we have acquired or that we expect to 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 third-party channel providers and broadcasters (including our third-party wireless network provider under our mobile virtual network operator (**MVNO**) arrangement) to timely deliver quality products, equipment, software, services and access;
- the availability of attractive programming for our video services and the costs associated with such programming, including retransmission and copyright fees payable to public and private broadcasters;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our ability to adequately forecast and plan future network requirements, including the costs and benefits associated with our network extension and upgrade programs;
- the availability of capital for the acquisition and/or development of telecommunications networks and services, including property and equipment additions;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- piracy, targeted vandalism, and cybersecurity threats or other security breaches, including the leakage of sensitive customer data, which could harm our business or reputation;
- 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;
- changes in and compliance with applicable data privacy laws, rules, and regulations; and
- events that are outside of our control, such as political conditions and unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics, such as the novel Coronavirus, and other similar events.

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

## BUSINESS

*In this section, unless the context otherwise requires, the terms “we,” “our,” “our company” and “us” may refer, as the context requires, to VTR Finance B.V. (VTR Finance) or collectively to VTR Finance and its subsidiaries. Unless otherwise indicated, operational and statistical data, including subscriber statistics, are as of December 31, 2019. Certain information on Chilean telecommunications was provided by the Chilean Undersecretary of Telecommunications (SubTel) as of September 30, 2018.*

### 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 wireless network provider, with whom we contract to carry the mobile communications traffic of our customers. We are the largest multi-channel television provider in Chile in terms of number of video subscribers, and are 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.com SpA (**VTR**). Our video, broadband internet, fixed-line telephony and mobile businesses are operated by VTR and its subsidiaries.

On December 29, 2017, Liberty Global plc (**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. Following the Split-Off, Liberty Latin America and Liberty Global operate as separate, publicly traded companies, and neither has any share ownership, beneficial or otherwise, in the other.

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

	December 31,	
	2019	2018
<b>Footprint</b>		
Homes Passed	3,699,300	3,517,700
Two-way Homes Passed	3,264,300	3,062,700
<b>Subscribers (RGUs)</b>		
Basic Video	52,200	58,300
Enhanced Video	1,047,500	1,021,100
Total Video	1,099,700	1,079,400
Internet	1,317,100	1,259,200
Telephony	547,700	572,900
Total RGUs	2,964,500	2,911,500
<b>Penetration</b>		
Enhanced Video Subscribers as % of Total Video Subscribers	95.3 %	94.6%
Internet as % of Two-way Homes Passed	40.3 %	41.1%
Telephony as % of Two-way Homes Passed	16.8 %	18.7%
<b>Fixed-line Customer relationships</b>		
Customer Relationships	1,511,700	1,468,500
RGUs per Customer Relationship	1.96	1.98
<b>Customer bundling</b>		
Single-play	34.5 %	34.3%
Double-play	34.9 %	33.1%
Triple-play	30.6 %	32.6%
<b>Mobile subscribers</b>		
Postpaid	290,700	249,500
Prepaid	10,100	6,800
Total mobile subscribers	300,800	256,300

### Operating Data Glossary

- 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 generally 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 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 generally 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.

- **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.
- **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.
- **Internet (Broadband) RGU**– A home, residential multiple dwelling unit or commercial unit that receives internet services over our network.
- **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 be counted 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.
- **Revenue Generating Unit (“RGU”)** – RGU is separately a 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 video service, fixed-line telephony service and broadband internet service, the customer would constitute three RGUs. RGUs are generally 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 video, 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.
- **Telephony RGU** – A home, residential multiple dwelling unit or commercial unit that receives voice services over our network. Telephony subscribers exclude mobile telephony subscribers.
- **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.
- **Video RGU** – A home, residential multiple dwelling unit or commercial unit that receives our video service over our network primarily via a digital video signal while subscribing to any recurring monthly service that requires the use of encryption-enabling technology. Video subscribers that are not counted on an EBU basis are generally 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.

## 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 3.7 million homes passed. Approximately 88% of our network has been upgraded to two-way capability. We provide our services to 3.0 million service subscribers (RGUs) represented by 1.5 million customers as of December 31, 2019. 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 12,000 titles of on-demand content, including multi-screen features. Our analog service is offered only in areas where our digital service is not available. In 2018, we launched the TV Everywhere app (branded "**VTR Play**"), which extends the advanced video viewing experience to connected devices beyond the set-top box, including mobile phones and tablets.

Currently we offer two tiers of digital cable services. Our basic digital package includes approximately 80 digital channels and our extended tier digital service includes approximately 90 digital channels. Both include a d-BOX, approximately 70 HD channels, an electronic programming guide and VoD services, and for an additional fee, the option to purchase premium channels. In addition to our digital cable packages, our standard definition (**SD**) set-top boxes allow the reception of approximately 10 SD free-to-air channels while our HD set-top boxes allow the reception of approximately 10 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 200 Mbps or more at mass market price points and ultra-high-speed internet with speeds of up to 600 Mbps. Our key mass-market package includes a download speed of up to 600 Mbps.

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 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, 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 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, 2019, we served 300,800 mobile subscribers, approximately 97% of which were on postpaid plans.

## **Our Technology**

Our video, broadband internet and fixed-line telephony services are transmitted principally 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;
- fully utilizing the technical capabilities of DOCSIS 3.0 technology, which is an international standard that defines the requirements for data transmission over a cable system;
- 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 10,000 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 and mobile telephony services is highly competitive and rapidly evolving. Technological improvements allow operators to provide a variety of services through their networks. For such reason, service providers are able to offer several options of bundled services for very competitive prices. Also, technological convergence (i.e. different technologies that interoperate efficiently in one system) and the exponential increase of mobile devices (e.g. smartphones) have diminished the capability differences that used to exist between fixed and mobile services. 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 Movistar (**Movistar**), 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 single-play, 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 IPTV services over FTTx networks in Chile. Claro offers triple-play packages using DTH and, in most major cities in Chile, through a hybrid fiber coaxial cable network. To a lesser extent, we also compete with video services offered by or over networks of fixed-line telecommunications providers using DSL technology. To compete effectively, we focus on enhancing our subscribers' viewing options in and out of the home by offering VoD, catch-up television, digital video recorder (**DVR**) functionality, television over the internet (through the web or mobile Apps), Horizon TV and a variety of premium channels. These services and its 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 cable, DSL or FTTx networks and wireless broadband internet services. These competitors have a range of product offerings with varying speeds and pricing, as well as interactive services, data and other non-video services offered to homes and businesses. With the demand for mobile internet services increasing, competition from wireless services using various advanced technologies is a competitive factor. Like us, competitors in certain of our markets offer high-speed mobile data via LTE wireless networks. In addition, the deployment of 5G technologies, which is expected to occur within the next few years, will allow the interaction of countless new devices with the wireless networks. In this intense competitive environment, speed, bundling, and pricing are key drivers for customers.

We face competition primarily from non-cable-based ISPs, 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, WOM S.A. (**WOM**) and Entel have robust 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 600 Mbps.

### *Fixed and Mobile Telephony 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 entered the mobile services market through its acquisition of the Nextel Chile network. WOM continues to exert significant competitive pressure in the mobile market with its very aggressive price offers. Such pricing is driving down sales and increasing churn in the mobile market. As an MVNO, VTR offers its mobile services on a standalone basis. To attract and retain customers, VTR focuses on its triple-play and double-play customer bases, 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 Antitrust Agency (*Fiscalía Nacional Económica* or **FNE**), the Antitrust Court (*Tribunal de Defensa de la Libre Competencia* or **TDLC**), the Ministry of Transportation and Telecommunications (the **Ministry**) through the Sub-secretary of Telecommunications (**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 TDLC in connection with our combination with Metrópolis Intercom SA in April 2005. These conditions are indefinite and include, among others, (i) prohibiting VTR.Com and its control group from participating, directly or indirectly through a related person, in Chilean satellite or microwave television businesses, (ii) prohibiting VTR from using its market power over programmers without justification, (iii) prohibiting VTR from obtaining exclusive broadcast rights, except for specific events, (iv) requiring VTR to offer its broadband capacity for resale of internet services on a wholesale basis, and (v) requiring VTR to maintain a uniform single price policy for all of the national territory. In September 2019, VTR submitted a petition to the TDLC to lift all the above-mentioned conditions. VTR asserts that such conditions should only have been adopted for a transitional period and that they have been in place for an excessively long period during which the market structure and levels of competition have materially changed. Objections were filed by other operators and by the FNE and SubTel. In December 2019, the TDLC joined this procedure with an adversarial procedure initiated by AMC Networks Latin America LLC (AMC) against VTR, by which AMC alleged that VTR had violated condition (ii) noted above by not agreeing to a content distribution agreement with AMC (see below for more information regarding this matter). We are unable to estimate at this time when this matter will be resolved.

The above governmental entities have significant influence over the manner in which we operate our business. In particular, they are empowered in certain instances to intervene in contractual matters between us and our subscribers, to grant authorizations for the provision of telecommunications services, to enforce competition and regulatory obligations, to set conditions to and approve business combinations, and to exercise authority over our ability to set rates, among other things, as described below.

## Telecommunications and Media Law

Telecommunications services are mainly regulated in Chile by the Ministry through SubTel. Its main purpose is to regulate, direct, control, promote, develop and provide guidelines for telecommunications in Chile. Also, SubTel is in charge of granting most of the telecommunications concessions, permits and licenses in Chile. In addition, SubTel is the governing body authorized to provide technical interpretations of the telecommunications laws and regulations.

Our business is subject to comprehensive regulation under Law No. 18,168 (*Ley General de Telecomunicaciones* or the **Telecommunications Law**), which regulates telecommunications networks and services and provides the general legal framework for the installation, operation and supply of telephone services, services related to interconnection, transmission to other operators and long distance, services related to television and professional radio broadcasting, radio-communication and cable television, internet access services, and amateur radio. For the provision of the above services, SubTel grants three types of authorizations: Concessions for public, intermediate and broadcasting services; permits for limited (private) services; and licenses for amateur services. The Ministry has the authority to impose sanctions, including warnings, fines, suspensions and, in certain specific cases, termination of the concession or permit. The Telecommunications Law specifies causes for the termination of an operator's public or intermediate service license, including the failure to comply with certain technical requirements, repeated sanctions imposed due to the interruption of services or interruption of services for more than 3 days without SubTel authorization, failure to pay any fine imposed in a timely manner, modifications to the term or types of services provided in the applicable concession and failure to pay any fees related to certain rights to use radio spectrum and the non-use of the relevant concession within the term of one year from its granting. Such sanctions can be appealed and reviewed by the Santiago Court of Appeals or, in case of termination of the concession or permit, by the Chilean Supreme Court.

In addition, we are subject to the Law No. 18,838 (*Ley que crea el Consejo Nacional de Televisión* or **Television Act**), which oversees television content and the relationships between pay television operators and free-to-air operators. The agency responsible for overseeing and enforcing this legislation is the CNTV which is also in charge of granting free-to-air concessions.

### *Video*

The provision of pay television services requires a permit issued by SubTel. 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 most of the medium- and large-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 programming or advertising of certain categories of products which are prohibited or which can be transmitted only within certain time slots throughout the day. Pay television operators are directly responsible for violation of such prohibitions. Additionally, the Television Act requires pay television operators to offer a certain quota of cultural content and to distribute public interest campaigns.

The Television Act also establishes a retransmission consent regime between broadcast television concession holders 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 issued by the Ministry in February 2014 (by the Telecommunications Services Regulation). 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, TVI, a mid-sized programmer in Chile, sued VTR in July 2016, after VTR's decision to remove TVI's channels from its channel lineup. TVI argued that VTR was violating the condition set out in the 2005 VTR/Metrópolis merger conditions (as summarized above), which prohibits VTR from using its market power to unjustifiably refuse to contract with programmers. The TDLC dismissed the lawsuit, but the Supreme Court, in May 2019, reversed that decision questioning the termination procedure applied by VTR. The Supreme Court required VTR to open a new negotiation period and if no agreement was reached, to return TVI's channels until the original contractual term is fulfilled. As a result, the TVI channels have been reinstated on VTR's channel lineup. Using the precedent from the TVI case, in August 2019, AMC sued VTR claiming a breach of the condition related to contracting with programmers. This process is still pending and was joined with VTR's petition to lift the 2005 merger conditions as described above. Additionally, a consumer association filed a class action against VTR requesting that VTR compensate clients with a permanent discount on the monthly rent for each change of channels or, in the alternative, the nullification of the power enshrined in VTR's subscriber contract that authorizes the company to change its channel lineup. This collective process is still pending.

### ***Broadband 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 timely applied and an approval is pending.

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. Ancillary regulations applicable to this obligation are pending.

### ***Fixed and Mobile Telephony Services***

The provision of fixed and mobile telephony services requires a public telecommunications service concession. 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.

We also hold concessions to provide fixed-wireless local telephony service on the 3.5 GHz band in several regions of the country. These concessions have renewable 30-year terms, expiring in 2036, and are subject to a cap of 100 MHz per operator according to a TDLC's ruling. Since this band is being considered by SubTel for the provision of 5G services, several legal and regulatory issues have challenged our concessions rights during the last two years. On 2018, SubTel partially froze 20MHz of the 50 MHz concessions granted to us in order to evaluate future 5G concession public bids. We are contesting SubTel's legal ability to take such a measure. In addition, in November 2018, Movistar (also affected by Subtel's above measure) asked the TDLC to rule on whether the decision to keep part of the spectrum at 3.5 GHz available for immediate deployment (with potential use for mobile services), was consistent with previous decisions requiring this band to be allocated to fixed services. Finally, on January 2020, SubTel opened for public comments its plan for future 5G public bids, contemplating a voluntary procedure for the 3.5 GHz band reordering, requiring that all participants that currently hold concessions in this band must return such spectrum bands in order to participate in the public bid process and assuring them that they will receive back at least the same bandwidth in the bid. Additionally, it anticipated that the concessions granted through the planned 5G public bids will contemplate the power of SubTel to amend them in qualified cases based on public interest, such as the non-use or inefficient use of the spectrum.

Regarding mobile telephony services, in 2009, SubTel awarded us a 30MHz concession in the 1700/2100 MHz band. The concession has a 30-year renewable term, expiring in 2040. In 2018, the Supreme Court declared a 60 MHz cap for mobile concessions, and recommended SubTel to review a new cap before the TDLC based on the new market conditions.. In line with the above, SubTel filed an application before the TDLC in order to review the spectrum cap regime and the spectrum administration policy for the country under the notion that future telecommunication needs, especially for implementing 5G networks, will require broader bandwidth. In December 2019, TDLC established a new dynamic spectrum cap regime, establishing maximum percentages per operator between 25% and 35% in each of the following macro-bands: (i) low: between 400 MHz and 1 GHz; (ii) mid-low: between 1 and 3 GHz; (iii) mid: between 3 and 6 GHz; (iv) mid-high: between 6 and 20 GHz; and (v) high: over 20 GHz.. Note, however, that currently this resolution is being reviewed by the Supreme Court due to remedies filed by some stakeholders and, therefore, a final decision on this matter is still pending. Also note that we do not currently exceed the cap set forth for the "mid-low" macro-band (where our mobile telephony concession stands within this classification).

Moreover, there are no universal service obligations in Chile. However, local service concession holders 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 concession holders whose systems are technically compatible.

As a general rule, fixed telephony service providers are free to establish the rates directly charged to their customers, unless the TLDC concludes that due to a lack of sufficient competition in the market, rates should be fixed on a case-by-case basis jointly by the Ministry and the Ministry of Economy. However, such authorities set 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 interconnections with one or more networks of other providers. Rate regulation on interconnection charges is applicable to all fixed and mobile telephony companies, including us. The determination of the maximum rates that may be charged by operators for their fixed or mobile telephony services are made on a case-by-case basis and are effective for five years.

## **Other Telecommunications Regulatory Matters**

*Telecommunications Services Regulation.* On February 2014, the Ministry issued the Telecommunications Services Regulation. This regulation provides rights and obligations for the telecommunications services providers and the subscribers and users of the same. The Telecommunications Services Regulation set forth, among other things, express requirements for telecommunications services contracts; rules applicable to service suspension; invoicing requirements; compensation to subscribers in case of failures in the provision of the relevant service; rules regarding the termination of services, etc. Voice, long-distance telephony, internet access, and pay television, are among the regulated services. *Law on Free Choice of Cable, Internet, and Telephony Services.* A law passed in June 2015 established requirements for the protection of the free choice by consumers of telecommunications services. For such purposes, on 2018, the Ministry and SubTel issued a regulation and a

technical rule, respectively. This legal and regulatory framework requires minimal conditions of construction and design in private estates or building projects to allow the free access of telecommunications services providers, along with a special regime for existing buildings and condominiums due to the difficulties involved to modify their internal telecommunications networks.

*Law on No More Unused Cables.* A law passed on August 2019 set forth responsibilities and obligations to telecommunications concessionaires and permit holders over their aerial and underground telecommunications' lines, by being responsible for their installation, identification, modification, maintenance, arrangement, relocation, and removal after they are no longer in use, in accordance with the provisions of a SubTel's plan on networks management and maintenance, whose draft has been opened for public comments during 30 calendar days on March 2 2020.

In addition, we are subject to financial penalties under applicable Chilean law for certain technological failures. Article 27 of the Telecommunications Law requires us to reimburse subscribers three times the amount of their subscription fees during the period of a network outage lasting 48 hours or more. In the event of a network outage lasting less than 48 hours, the Telecommunications Law requires us to reimburse subscribers the amount of their subscription fees if the outage event exceeds 6 consecutive hours or if multiple outage events exceed 12 non-consecutive hours in any given month.

### **Consumer Protection Law**

All of our subsidiaries with operations in Chile are subject to the *Ley de Protección al Consumidor* (**Consumer Protection Law**). Compliance with the Consumer Protection Law is overseen by Sernac.

A consumer association filed a class action against VTR requesting that VTR compensate clients with a permanent discount on the monthly rent for each change of channels or, in the alternative, the nullification of the power enshrined in VTR's subscriber contract that authorizes the company to change its channel lineup. This collective process is still pending. We do not have any other material proceedings arising from the Consumer Protection Law, and we believe we are in compliance with all material aspects of such law.

On September 2018, Law No. 21,081 was published in the Official Gazette in Chile, which includes different amendments to the Consumer Protection Law. This law provides Sernac with abilities to supervise, to interpret and to propose the issuance, modification or elimination of legal or regulatory provisions. Notwithstanding these new abilities of Sernac, it does not have the authority to impose fines directly; it must occur before the courts. Sernac also has more resources and tools to expand its investigative abilities, such as the regulation of voluntary collective procedures.

This new determination system includes several mitigating and aggravating circumstances which, after being evaluated by the judge, must be indicated as a statement in the judicial ruling. Among the mitigating and aggravating circumstances to be considered for the application of fines, there is the possibility for suppliers to develop and implement compliance plans, which must be designed in accordance to the Technical Specification INN/ET1 published by the National Institute of Normalization (INN) and be certified under the provisions of a specific regulation which is still pending. The entry into force of this new law will be completed within 24 months as of its publication and will be gradually applied throughout the different regions in Chile.

The reform also extends the applicable statute of limitations from 6 months to 2 years, beginning when the infraction ceases instead of when it occurs, and, regarding the statute of limitations of civil actions (damages compensation), the Act expressly establishes that the Civil Code's general rules will be applicable (five years for contractual obligations and four years if there was no contract).

Finally, 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.

### **Antitrust Matters**

All of our subsidiaries with operations in Chile are subject to the Chilean antitrust regulation, which is mainly comprised in Decree Law No. 211 (**Chilean Competition Law**). Compliance with the regulation is enforced by the FNE, the TDLC and the Supreme Court in case of appeals. The Chilean Competition Law was recently amended by Law No. 20,945, which introduced

several reforms, expressly including rules relating to the mandatory merger control regime, which is currently fully applicable. According to Chilean law, a transaction shall be subject to mandatory ex-ante merger control if two requirements are met: (1) the transaction is deemed a “concentration operation”, and (2) the sale amounts of the economic agents that participate in the transaction meet certain turnover thresholds defined by the FNE.

On December 18, 2012, the TDLC issued General Instruction No. 2/2012 (the **General Instruction**) governing the on-net/off-net pricing practice in the mobile telephony industry and the offering of bundled telecommunications services. On December 17, 2013, the Supreme Court issued a decision revising the General Instruction. Pursuant to the terms of the General Instruction, as revised by the Supreme Court, mobile services may be sold jointly with fixed-line services. However, promotional discounts were not permitted for these double play offers. As for traditional bundling over the same platform (e.g., bundled fixed-line services such as our double- and triple-play packages, or bundled mobile services), the General Instruction 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 stand-alone 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 stand-alone prices for each service in the bundle, excluding the lowest priced service. Subsequently, the TDLC issued the General Instruction No. 4/2012, which established, as an exception to the General Instruction the single-contract group plans. The TDLC may review these regulations at any time, either by its own initiative or at the request of any actor in case of relevant changes in the market conditions.

## **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, 2019, we had an aggregate of approximately 1,700 full-time employees, of whom approximately 39% belong to one of five 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 as of December 31, 2019 was comprised of the following individuals:

<b>Name</b>	<b>Current Position</b>	<b>Years of Service</b>
Guillermo Ponce	Chief Executive Officer	25
Marcelo Von Chrismar	VP, Finance and Administration (CFO)	16
Iván Rozas	VP, People	25
Pedro Assael	VP, Products and Marketing	9
José Navarro	VP, Systems & Processes (IT)	3
Miguel Oyonarte	VP, Legal and Corporate Affairs	2

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

#### ***Guillermo Ponce***

Mr. Ponce, 48, 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, 49, 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.

#### ***Iván Rozas***

Mr. Rozas, 59, 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, 52, 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 SpA. 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, 51, was appointed Vice President of Systems and Processes (IT) effective February 1, 2016. Previously, he served as our Development and Strategic 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, 49, 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 LL.M Degree from Notre Dame University, US.



## **Independent Auditors' Report**

The Board of Directors  
VTR Finance B.V.:

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, 2019 and 2018, and the related consolidated statements of operations, comprehensive earnings (loss), owners' equity (deficit), and cash flows for each of the years in the three year period ended December 31, 2019, 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 U.S. generally accepted accounting principles; 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, 2019 and 2018, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2019, in accordance with U.S. generally accepted accounting principles.

Alejandro Espinosa G.

KPMG Auditores Consultores SpA

Santiago, Chile, March 17, 2020

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>CLP in billions</b>	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	92.2	77.9
Trade receivables, net of allowances of CLP 9.4 billion and CLP 18.0 billion, respectively	74.4	69.4
Derivative instruments	16.2	14.4
Other current assets	20.3	22.1
Total current assets	203.1	183.8
Property and equipment, net	534.4	503.7
Goodwill	266.7	266.7
Long-term note receivable - related party	455.7	74.9
Long-term derivative assets	92.9	32.1
Other assets, net	80.4	61.4
Total assets	1,633.2	1,122.6

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

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>CLP in billions</b>	
<b>LIABILITIES AND OWNER'S EQUITY (DEFICIT)</b>		
<b>Current liabilities:</b>		
Accounts payable	95.6	83.1
Deferred revenue	26.7	27.1
Current portion of debt and finance lease obligations	70.4	70.1
Accrued interest	32.0	30.0
Accrued programming	23.3	21.5
Other accrued and current liabilities	64.8	57.0
Total current liabilities	312.8	288.8
Long-term debt and finance lease obligations	1,107.5	1,032.6
Long-term tax liabilities	25.8	146.4
Other long-term liabilities	20.1	5.9
Total liabilities	1,466.2	1,473.7
<b>Commitments and contingencies</b>		
<b>Owner's equity (deficit):</b>		
Accumulated net contributions (distributions)	14.8	(357.4)
Accumulated earnings (deficit)	134.6	(12.9)
Accumulated other comprehensive earnings, net of taxes	17.6	19.2
Total owner's equity (deficit)	167.0	(351.1)
Total liabilities and owner's equity (deficit)	1,633.2	1,122.6

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

**VTR FINANCE B.V.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>CLP in billions</b>		
Revenue	660.5	647.8	617.6
Operating costs and expenses (exclusive of depreciation, shown separately below):			
Programming and other direct costs of services	174.0	175.7	167.2
Other operating	97.9	94.9	101.8
Selling, general and administrative (SG&A)	123.9	115.9	102.0
Related-party fees and allocations	8.2	7.8	10.0
Depreciation	110.5	74.9	73.9
Impairment, restructuring and other operating items, net	14.0	5.6	13.2
	<u>528.5</u>	<u>474.8</u>	<u>468.1</u>
Operating income	<u>132.0</u>	<u>173.0</u>	<u>149.5</u>
Non-operating income (expense):			
Interest expense	(80.7)	(75.0)	(68.8)
Realized and unrealized gains (losses) on derivative instruments, net	66.3	75.1	(108.0)
Foreign currency transaction gains (losses), net	(67.3)	(105.2)	73.1
Other income, net	10.2	1.2	2.3
	<u>(71.5)</u>	<u>(103.9)</u>	<u>(101.4)</u>
Earnings before income taxes	60.5	69.1	48.1
Income tax benefit (expense)	87.0	(27.5)	(135.9)
Net earnings (loss)	<u><u>147.5</u></u>	<u><u>41.6</u></u>	<u><u>(87.8)</u></u>

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

**VTR FINANCE B.V.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)**

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>CLP in billions</b>		
Net earnings (loss)	147.5	41.6	(87.8)
Other comprehensive earnings (loss), net of taxes:			
Unrealized gains (losses) on cash flow hedges	2.7	3.1	(4.1)
Reclassification adjustments included in net earnings (loss)	(4.3)	1.2	2.9
Other comprehensive earnings (loss)	(1.6)	4.3	(1.2)
Comprehensive earnings (loss)	145.9	45.9	(89.0)

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

**VTR FINANCE B.V.**  
**CONSOLIDATED STATEMENTS OF OWNER'S EQUITY (DEFICIT)**

	Accumulated net contributions (distributions)	Accumulated earnings (deficit)	Accumulated other comprehensive earnings, net of taxes	Total owner's equity (deficit)
	CLP in billions			
Balance at January 1, 2017	(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
Share-based compensation	1.0	—	—	1.0
Balance at December 31, 2017	(361.2)	(54.5)	14.9	(400.8)
Net earnings	—	41.6	—	41.6
Other comprehensive earnings	—	—	4.3	4.3
Contribution of services	3.8	—	—	3.8
Balance at December 31, 2018	(357.4)	(12.9)	19.2	(351.1)
Net earnings	—	147.5	—	147.5
Other comprehensive loss	—	—	(1.6)	(1.6)
Contribution from parent	372.0	—	—	372.0
Excess of the consideration received over the carrying value of property and equipment transferred to entities under common control	0.2	—	—	0.2
Balance at December 31, 2019	14.8	134.6	17.6	167.0

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

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

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>CLP in billions</b>		
<b>Cash flows from operating activities:</b>			
Net earnings (loss)	147.5	41.6	(87.8)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Non-cash share-based compensation expense	—	—	1.6
Related-party fees and allocations	—	3.8	10.0
Depreciation	110.5	74.9	73.9
Impairment	—	0.2	3.1
Amortization of deferred financing costs	3.1	2.4	1.9
Realized and unrealized losses (gains) on derivative instruments, net	(66.3)	(75.1)	108.0
Foreign currency transaction losses (gains), net	67.3	105.2	(73.1)
Loss on debt extinguishment	—	4.1	—
Deferred income tax expense	9.3	14.4	1.5
Changes in operating assets and liabilities:			
Receivables and other operating assets	(20.9)	6.8	36.8
Payables and accruals	(109.0)	(35.5)	71.3
Net cash provided by operating activities	<u>141.5</u>	<u>142.8</u>	<u>147.2</u>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(104.4)	(116.2)	(91.9)
Advances to related-parties, net	(372.0)	(75.5)	—
Other investing activities, net	0.9	0.8	1.1
Net cash used by investing activities	<u>(475.5)</u>	<u>(190.9)</u>	<u>(90.8)</u>

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

**VTR FINANCE B.V.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)**

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>CLP in billions</b>		
<b>Cash flows from financing activities:</b>			
Borrowings of third-party debt	52.7	234.4	27.8
Repayments of third-party debt and finance lease obligations	(78.2)	(173.8)	(39.0)
Contributions from (distributions to) parent	372.0	—	(70.8)
Net cash received related to derivative instruments	—	8.8	—
Payment of financing costs	(0.2)	(7.5)	—
Other financing activities, net	—	—	0.9
Net cash provided (used) by financing activities	<u>346.3</u>	<u>61.9</u>	<u>(81.1)</u>
Effect of exchange rate changes on cash	<u>2.0</u>	<u>9.1</u>	<u>(4.0)</u>
Net increase (decrease) in cash and cash equivalents	14.3	22.9	(28.7)
<b>Cash and cash equivalents:</b>			
Beginning of year	<u>77.9</u>	<u>55.0</u>	<u>83.7</u>
End of year	<u>92.2</u>	<u>77.9</u>	<u>55.0</u>
Cash paid for interest	<u>75.6</u>	<u>73.8</u>	<u>67.0</u>
Net cash paid for taxes	<u>43.5</u>	<u>35.9</u>	<u>12.2</u>

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



**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019, 2018 and 2017**

**(1) Basis of Presentation**

***Organization***

VTR Finance B.V. (**VTR Finance**) is a provider of fixed and mobile telecommunication services to residential and business-to-business (**B2B**) 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 the split-off (the **Split-Off**) of its former wholly-owned subsidiary Liberty Latin America, which primarily included (i) Cable & Wireless Communications Limited and its subsidiaries, (ii) VTR Finance and its subsidiaries and (iii) LiLAC Communications Inc. and its subsidiaries. As a result of the Split-Off, Liberty Latin America became an independent, publicly traded company.

***Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (**U.S. GAAP**).

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.

Our functional currency is the Chilean peso (**CLP**). Unless otherwise indicated, convenience translations into the Chilean peso are calculated as of December 31, 2019.

These consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through March 17, 2020, the date of issuance.

**(2) Accounting Changes and Recent Accounting Pronouncements**

***Accounting Changes***

*ASU 2014-09*

In May 2014, the Financial Accounting Standards Board (**FASB**) issued Accounting Standards Update (**ASU**) No. 2014-09, *Revenue from Contracts with Customers (ASU 2014-09)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. We adopted ASU 2014-09 effective January 1, 2018 by using the cumulative effect transition method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. In Chile, consumer laws preclude the enforcement of fixed-term contracts for telecommunication services (e.g. consumers of telecommunication services may cancel the contracts with their providers at anytime without penalty). Accordingly, the primary impact of ASU 2014-09 was the deferral of certain upfront fees charged to our customers. When we enter into contracts to provide services to our customers, we often charge installation or other upfront fees. Under ASU 2014-09, these fees are deferred and recognized as revenue over a period of time the upfront fees convey a material right. The impact of adopting ASU 2014-09 did not have a material impact on our consolidated financial statements. For our disaggregated revenue by product, see note 13.

*ASU 2016-02*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (ASU 2016-02)*, as amended by ASU No. 2018-11, *Targeted Improvements*, which, provides an option to use one of two modified retrospective approaches in the adoption of ASU 2016-02.

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2019, 2018 and 2017**

ASU 2016-02, for most leases, results in lessees recognizing right-of-use assets and lease liabilities on the balance sheet and additional disclosures. We adopted ASU 2016-02 effective January 1, 2019 using the effective date transition method. A number of optional practical expedients were applied in transition, as further described below.

The main impact of the adoption of this standard was the recognition of right-of-use assets and lease liabilities in our consolidated balance sheet as of January 1, 2019 for those leases classified as operating leases under ASU 2016-02. We did not recognize right-of-use assets or lease liabilities for leases with a term of 12 months or less, as permitted by the short-term lease practical expedient in the standard. In transition, we applied the practical expedients that permit us not to reassess (i) whether expired or existing contracts are or contain a lease under the new standard, (ii) the lease classification for expired or existing leases, (iii) whether previously-capitalized initial direct costs would qualify for capitalization under the new standard and (iv) whether existing or expired land easements that were not previously accounted for as leases are or contain a lease. We also applied the practical expedient that permits us to account for customer service revenue contracts that include both non-lease and lease components as a single component in all instances where the non-lease component is the predominant component of the arrangement and the other applicable criteria are met. In addition, we did not use hindsight during transition.

The cumulative effect of the changes made to our consolidated balance sheet as of January 1, 2019 is as follows:

	<u>Balance at December 31, 2018</u>	<u>Cumulative catch up adjustments upon adoption</u> CLP in billions	<u>Balance at January 1, 2019</u>
<b>Assets:</b>			
Other assets, net	93.5	21.9	115.4
<b>Liabilities:</b>			
Other accrued and current liabilities	57.0	4.9	61.9
Other long-term liabilities	5.9	17.0	22.9

*ASU 2018-13*

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13)*. ASU 2018-13 modifies certain disclosure requirements on fair value measurements, including (i) clarifying narrative disclosure regarding measurement uncertainty from the use of unobservable inputs, if those inputs reasonably could have been different as of the reporting date, (ii) adding certain quantitative disclosures, including (a) changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and (b) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and (iii) removing certain fair value measurement disclosure requirements, including (a) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (b) the policy for timing of transfers between levels of the fair value hierarchy and (c) the valuation processes for Level 3 fair value measurements. The amendments in ASU 2018-13 are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. As of December 31, 2018, we early adopted the portion of ASU 2018-13 that allows for the removal of certain fair value measurement disclosures from our consolidated financial statements. We do not expect the remaining disclosure requirements of ASU 2018-13 will have a material effect on our consolidated financial statements.

### ***Recent Accounting Pronouncements***

#### *General*

We will adopt accounting changes in accordance with the effective date of adoption of our parent company Liberty Latin America.

#### *ASU 2016-13*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses—Measurement of Credit Losses on Financial Instruments (ASU 2016-13)*, as amended by (i) ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which amended certain effective dates, and (ii) ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which clarifies guidance around how to report expected recoveries. ASU 2016-13 replaces the incurred loss impairment methodology for recognizing credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We will be required to use a forward-looking expected credit loss model for accounts receivables, loans and other financial instruments. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align our credit loss methodology with the new standard. We do not expect the adoption of ASU 2016-13 will have a material impact on our consolidated financial statements.

#### *ASU 2018-15*

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software—Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15)*. ASU 2018-15 provides additional guidance on ASU No. 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software—Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement*, which was issued to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance (i) provides criteria for determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense, (ii) requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement and (iii) clarifies the presentation requirements for reporting such costs in the entity’s financial statements. ASU 2018-15 is effective for annual reporting periods beginning after December 15, 2020, including interim periods within those fiscal years, with early adoption permitted. We will apply ASU 2018-15 prospectively to all implementation costs incurred after the date of adoption and do not expect it will have a material impact on our consolidated financial statements.

#### *ASU 2019-12*

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12)*, which (i) simplifies the accounting for income taxes by removing certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocations and calculating income taxes in interim periods, and (ii) reduces the complexity in certain areas of existing tax guidance, including the recognition of deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. ASU 2019-12 is effective for annual reporting periods after December 15, 2020, including interim periods within those fiscal years, with early adoption permitted. Although we are currently evaluating the effect that ASU 2019-12 will have on our consolidated financial statements, we do not expect it will have a material impact.

### **(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

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

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.

***Cash Flow Statement***

For purposes of determining the classification of cash flows in our consolidated statements of cash flows, payments or receipts on related-party receivables or loans are first applied to principal (included as cash flows from financing activities) and then to capitalized interest (included as cash flows from operating activities). In addition, interest-bearing cash advances to related parties and repayments thereof are classified as investing activities. All other related-party borrowings, advances and repayments are reflected as financing activities.

***Trade Receivables***

Our trade receivables are reported net of an allowance for doubtful accounts. 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 concerning the fair values of our derivative and debt instruments, see notes 4 and 7, respectively. 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 consolidated balance sheets 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 realized and unrealized gains or losses on derivative instruments in our consolidated statements of operations. With the exception of certain 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 cross-currency and interest rate derivative contracts, the net cash paid or received related to current interest is classified as an operating activity in our consolidated statements of cash flows. For cross-currency derivative contracts, the net cash paid or received related to principal is classified as a financing activity in our consolidated statements of cash flows. For foreign currency forward contracts that are used to hedge capital expenditures, the net cash paid or received is

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

classified as an adjustment to capital expenditures in our consolidated statements of cash flows. For foreign currency forward contracts that are used to hedge principal exposure on foreign currencies, the net cash paid or received is classified as a financing activity 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 and mobile transmission and distribution facilities and the installation of new cable services. 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. 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 and 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.

We capitalize internal and external costs directly associated with the development of internal-use software. Capitalized internal-use software is included as a component of property and equipment. We also capitalize costs associated with the purchase of software licenses. Software obtained in a hosting arrangement is expensed as incurred over the life of the service contract, unless we have the right to take possession of the software at any time without significant penalty and it is feasible to run the software on our own hardware or contract with another party unrelated to the vendor to host the software. 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 finance 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 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 and mobile 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, customer relationships and cable television franchise rights. Goodwill represents the excess purchase price over the fair value of the identifiable net assets acquired in a business combination. Customer relationships and cable television franchise rights are initially recorded at their fair value in connection with business combinations.

Goodwill and other intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually.

We do not amortize our cable television franchise rights and certain other intangible assets as these assets have indefinite lives. For additional information regarding the useful lives of our intangible assets, see note 6.

***Impairment of Property and Equipment and Intangible Assets***

When circumstances warrant, we review the carrying amounts of our property and equipment and our intangible assets (other than goodwill and other indefinite-lived intangible assets) to determine whether such carrying amounts continue to be recoverable. Such changes in circumstance may include (i) the impact of natural disasters, (ii) an expectation of a sale or disposal of a long-

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

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 (primarily cable television franchise rights) for impairment at least annually on October 1 and whenever facts and circumstances indicate that the fair value of a reporting unit or an indefinite-lived intangible asset may be less than its carrying value. 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 as an impairment loss. With respect to other indefinite-lived intangible assets, if it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying value, we then estimate its fair value and any excess of the carrying value over the fair value is also charged to operations as an impairment loss. For additional information regarding the fair value measurements of our property and equipment and intangible assets, see note 5.

### ***Operating Leases***

We classify leases with a term of greater than 12 months where substantially all risks and rewards incidental to ownership are retained by the third-party lessors as operating leases. We record a right-of-use asset and an operating lease liability at inception of the lease at the present value of the lease payments plus certain other payments, including variable lease payments and amounts probable of being owed by us under residual value guarantees. Payments made under operating leases, net of any incentives received from the lessors, are recognized to expense on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging operating leases are recognized to expense when incurred. Contingent rental payments are recognized to expense when incurred. Our right-of-use assets are included in other assets, net, in our consolidated balance sheet. Our current and non-current operating lease liabilities are included in other accrued and current liabilities and other long-term liabilities, respectively, in our consolidated balance sheet.

We use a credit-adjusted discount rate to measure our operating lease liabilities. We derive the discount rates starting with a risk free rate, generally the U.S. Treasury Bill rate. To determine credit risk, we create an industry benchmark credit default swap (CDS) curve from an observable high-yield debt index using comparable telecommunication companies as a proxy. We then determine the maximum curve shift against this CDS curve derived from our own tradable debt, and make adjustments to correct for the collateralized interest rate spread by comparing unsecured debt to asset-backed securities (secured debt) trades, which is based on the spread between the BB- and B+ industrial curves. We determine the discount factor from this adjusted curve.

Our operating leases primarily consist of lease commitments for (a) retail stores, offices and facilities, (b) other network assets, (c) vehicles and (d) other equipment. It is expected that in the normal course of business, operating leases that expire generally will be renewed or replaced by similar leases.

### ***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 that 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,

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

or that earnings will be remitted in a tax-free liquidation. Interest and penalties related to income tax liabilities are included in income tax benefit or 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. Post Split-Off, effective January 1, 2018, VTR Finance, along with its ultimate Dutch parent in the new structure, Lila Chile Holding B.V., is part of a Dutch tax fiscal unity. The income taxes of VTR Finance's subsidiaries, none of which are part of the Dutch Fiscal Unity, are presented in our condensed consolidated financial statements on a separate return basis for each tax-paying entity or group based on the local tax law. For additional information regarding our income taxes, see note 9.

***Foreign Currency Transactions***

The reporting currency of VTR Finance is the Chilean peso. Transactions denominated in currencies other than our functional currency 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***

We categorize revenue into two major categories: (i) residential revenue, which includes revenue from fixed and mobile services provided to residential customers and (ii) B2B service revenue. Our revenue recognition policies are as follows.

*General.* Our fixed and mobile residential and B2B contracts are not enforceable or do not contain substantive early termination penalties. Accordingly, revenue relating to these customers is recognized on a basis consistent with customers that are not subject to contracts. We account for customer service revenue contracts that include both non-lease and lease components as a single component in all instances where the non-lease component is the predominant component of the arrangement and the other applicable criteria are met.

*Residential Fixed and B2B 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 residential fixed or B2B services are provided. Installation or other upfront fees related to services provided over our fixed networks are generally deferred and recognized as subscription revenue over the contractual period, or longer if the upfront fee results in a material renewal right.

We may also 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. Arrangement consideration from bundled packages generally is allocated proportionally to the individual service based on the relative standalone price for each respective product or service.

*Mobile Revenue – General.* Consideration from mobile contracts is allocated to airtime services and handset sales based on the relative standalone prices of each performance obligation.

*Mobile Revenue – Airtime Services.* We recognize revenue from mobile services in the period the related services are provided. Payments received from prepay 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 transferred to the customer. Revenue from mobile handset sales is included in residential mobile non-subscription revenue in our revenue by major category.

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

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

***Litigation Costs***

Legal fees and related litigation costs are expensed as incurred.



**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

**(4) Derivative Instruments**

In general, we seek to enter into derivative instruments to protect against (i) increases in the interest rates on our variable-rate debt and (ii) 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, 2019			December 31, 2018		
	Current (a)	Long-term (a)	Total	Current (a)	Long-term (a)	Total
<b>CLP in billions</b>						
<b>Assets:</b>						
Cross-currency derivative contracts (b)	8.9	92.9	101.8	4.6	32.1	36.7
Foreign currency forward contracts	7.3	—	7.3	9.8	—	9.8
Total	16.2	92.9	109.1	14.4	32.1	46.5
<b>Liabilities:</b>						
Interest rate derivative contracts (b)	3.2	5.7	8.9	1.3	0.6	1.9
Foreign currency forward contracts	0.3	—	0.3	—	—	—
Total	3.5	5.7	9.2	1.3	0.6	1.9

- (a) Our current and long-term derivative liabilities are included in other accrued and current liabilities, and other long-term liabilities, respectively, in our consolidated balance sheets.
- (b) We consider credit risk relating to our and our counterparties' nonperformance in the fair value assessment of our derivative instruments. In all cases, the adjustments take into account offsetting liability or asset positions. The changes in the credit risk valuation adjustments associated with our cross-currency and interest rate derivative contracts resulted in net gains (losses) of nil, (CLP 13 billion) and CLP 15 billion during 2019, 2018 and 2017, 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,		
	2019	2018	2017
<b>CLP in billions</b>			
Cross-currency and interest rate derivative contracts	59.4	58.6	(100.2)
Foreign currency forward contracts	6.9	16.5	(7.8)
Total	66.3	75.1	(108.0)

At December 31, 2019, our accumulated other comprehensive earnings, net of taxes, includes CLP 1 billion of deferred net gains on derivative instruments to which we apply hedge accounting. We expect these deferred gains to be reclassified to operating income or loss in our consolidated statement of operations within the next 12 months.

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

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

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>CLP in billions</b>		
Operating activities	8.5	(3.1)	(1.5)
Investing activities	4.6	(1.4)	(2.4)
Financing activities	—	8.8	—
Total	13.1	4.3	(3.9)

***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, 2019, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of CLP 109 billion.

We have entered into derivative instruments under agreements with our counterparties 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 Derivative Contracts***

As noted above, we are exposed to foreign currency exchange rate risk in situations where our debt is denominated in a currency other than the Chilean peso (unmatched debt). Our policy is generally to provide for an economic hedge against foreign currency exchange rate movements, whenever possible and when cost effective to do so, by using derivative instruments to synthetically convert unmatched debt into Chilean pesos. At December 31, 2019, our cross-currency swap contracts had total notional amounts due from and to counterparties of \$1.26 billion and CLP 854 billion, respectively, with a weighted average remaining contractual life of 2.5 years.

***Interest Rate Derivative Contracts***

As noted above, we enter into interest rate swaps to protect against increases in the interest rates on our variable-rate debt. Pursuant to these derivative instruments, we typically pay fixed interest rates and receive variable interest rates on specified notional amounts. At December 31, 2019, the notional amount of our interest rate swap contracts was CLP 141 billion and the related weighted average remaining contractual life was 3.1 years.

***Foreign Currency Forward Contracts***

We enter into foreign currency forward contracts with respect to non-functional currency exposure. At December 31, 2019, our foreign currency forward contracts had total notional amounts due from and to counterparties of \$135 million and CLP 94 billion, respectively, with a weighted average remaining contractual life of 0.4 years.

**(5) Fair Value Measurements**

***General***

We use the fair value method to account for our derivative instruments. The reported fair values of our derivative instruments as of December 31, 2019 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.

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

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.

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.

***Recurring Fair Value Measurements - Derivatives***

In order to manage our interest rate and 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. 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 and interest rate derivative contracts are quantified and further explained in note 4.

***Nonrecurring Fair Value Measurements - Impairment Assessments***

Fair value measurements are also used for purposes of nonrecurring valuations performed in connection with acquisitions and impairment assessments. We did not perform any significant nonrecurring fair value measurements related to these assessments during 2019, 2018 or 2017.

**(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, 2019	December 31,	
		2019	2018
CLP in billions			
Distribution systems	4 to 25 years	620.8	590.1
Customer premises equipment	3 to 5 years	640.2	604.4
Support equipment, buildings and land	2 to 25 years	295.3	267.4
		1,556.3	1,461.9
Accumulated depreciation		(1,021.9)	(958.2)
Total		534.4	503.7

Depreciation expense related to our property and equipment was CLP 111 billion, CLP 75 billion and CLP 74 billion during 2019, 2018 and 2017, respectively.

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

We recorded non-cash increases to our property and equipment related to vendor financing arrangements of CLP 22 billion, CLP 27 billion and 36 billion during 2019, 2018 and 2017, respectively, which exclude related VAT of CLP 4 billion, CLP 2 billion and CLP 2 billion during 2019, 2018 and 2017, respectively, that were also financed by our vendors under these arrangements.

**Goodwill**

There were no changes in the carrying amount of our goodwill during 2019 and 2018.

**Other Intangible Assets Not Subject to Amortization**

Our other intangible assets not subject to amortization relate to our trade name and spectrum licenses. The balances of our other indefinite-lived intangible assets, which are included in other assets, net in our consolidated balance sheets were CLP 16 billion at both December 31, 2019 and 2018.

**(7) Debt and Finance Lease Obligations**

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

	Weighted average interest rate (a)	December 31, 2019		Estimated fair value (b)		Principal amount	
		Unused borrowing capacity		December 31,		December 31,	
		Borrowing currency	CLP equivalent	2019	2018	2019	2018
CLP in billions							
Parent – VTR Finance Senior Notes	6.88%	\$ —	—	970.6	877.9	947.3	874.4
Subsidiaries:							
VTR Credit Facilities	6.15%	(c)	184.1	172.7	170.5	174.0	174.0
Vendor financing (d)	4.18%	—	—	70.4	69.9	70.4	69.9
Total debt before deferred financing costs	6.61%		184.1	1,213.7	1,118.3	1,191.7	1,118.3

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

	December 31,	
	2019	2018
CLP in billions		
Total debt before deferred financing costs	1,191.7	1,118.3
Deferred financing costs	(13.8)	(15.9)
Total carrying amount of debt	1,177.9	1,102.4
Finance lease obligations	—	0.3
Total debt and finance lease obligations	1,177.9	1,102.7
Less: Current maturities of debt and finance lease obligations	(70.4)	(70.1)
Long-term debt and finance lease obligations	1,107.5	1,032.6

(a) Represents the weighted average interest rate in effect at December 31, 2019 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent 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.

(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.

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

- (c) Unused borrowing capacity represents the maximum availability at December 31, 2019 without regard to covenant compliance calculations or other conditions precedent to borrowing. At December 31, 2019, the unused borrowing capacity relates to our senior secured revolving credit facilities, which comprise a CLP 45 billion facility, an increase from CLP 30 billion at December 31, 2018, and a \$185 million (CLP 139 billion) facility (together the **VTR Revolving Credit Facilities**). At December 31, 2019, the full amount of unused borrowing capacity was available to be borrowed under the VTR Revolving Credit Facilities, both before and after completion of the December 31, 2019 compliance reporting requirements.
- (d) Represents amounts owed pursuant to interest-bearing vendor financing arrangements that are used to finance certain of our operating expenses and property and equipment additions. These obligations are generally due within one year and include value-added taxes that were paid on our behalf by the vendor. Our operating expenses include CLP 53 billion, CLP 60 billion and CLP 28 billion for the years ended December 31, 2019, 2018 and 2017, respectively, that were financed by an intermediary and are reflected on the borrowing date as a hypothetical cash outflow within net cash provided by operating activities and a hypothetical cash inflow within net cash provided (used) by financing activities in our consolidated statements of cash flows. Repayments of vendor financing obligations are included in repayments of debt and finance 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. Our credit facility contains certain covenants, the more notable of which are as follows:

- Our credit facility contains certain 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) have first-ranking security granted 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 Notes.* VTR Finance has issued senior notes. Our senior 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 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

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

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; and
- 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 relevant notes at a redemption price of 101%.

***VTR Finance Senior Notes***

In January 2014, VTR Finance issued \$1.4 billion principal amount of senior notes (the **VTR Finance Senior Notes**), due January 15, 2024. In October 2018, VTR Finance redeemed \$140 million (CLP 95 billion at the transaction date) of aggregate principal amount of the VTR Finance Senior Notes for total consideration of \$147 million (CLP 100 billion at the transaction date), including (i) the 103% redemption price and (ii) accrued and unpaid interest on the redeemed notes. In connection with this transaction, VTR Finance recognized a loss on debt modification and extinguishment of CLP 4 billion, which includes the net effect of redemption premiums paid and the write-off of deferred financing cost.

At December 31, 2019, the carrying value of the VTR Finance Senior Notes was \$1,246 million (CLP 937 billion).

VTR Finance may redeem all or part of the VTR Finance Senior 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 related indenture), if any, to the applicable redemption date, as set forth below:

	<u>Redemption Price</u>
12-month period commencing January 15:	
2019	103.438%
2020	102.292%
2021	101.146%
2022 and thereafter	100.000%

***VTR Credit Facilities***

During 2018, we entered into (i) the VTR TLB-1 Facility and the VTR TLB-2 Facility (collectively, the **VTR Term Loan Facilities**) and (ii) new U.S. dollar and CLP revolving credit facilities (collectively, the **VTR Revolving Credit Facilities** and together with the VTR Term Loan Facilities, the **VTR Credit Facilities**). Upon closing of the VTR Credit Facilities, the previously existing credit facility at VTR was cancelled.

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

The details of our borrowings under the VTR Credit Facilities as of December 31, 2019 are summarized in the following table:

VTR Credit Facilities	Maturity	Interest rate	Unused borrowing capacity		Outstanding principal amount		Carrying value (a)	
			Borrowing currency	CLP equivalent	Borrowing currency			
in billions								
VTR TLB-1 Facility	(b)	ICP (c) + 3.80%	CLP	—	—	CLP	140.9	138.3
VTR TLB-2 Facility	May 23, 2023	7.000%	CLP	—	—	CLP	33.1	32.5
VTR RCF – A (d)	May 23, 2023	TAB (e) + 3.35%	CLP	45.0	45.0	CLP	—	—
VTR RCF – B (f)	March 14, 2024	LIBOR + 2.75%	\$	0.185	139.1	\$	—	—
Total					<u>184.1</u>			<u>170.8</u>

- (a) Amounts are net of deferred financing costs.
- (b) Under the terms of the credit agreement, we are obligated to repay 50% of the outstanding aggregate principal amount of the VTR TLB-1 Facility on November 23, 2022, with the remaining principal amount due on May 23, 2023, which represents the ultimate maturity date of the facility.
- (c) Índice de Cámara Promedio rate.
- (d) In March 2019, the commitment under the VTR RCF - A was increased to CLP 45 billion. The VTR RCF - A has a fee on unused commitments of 1.34% per year.
- (e) Tasa Activa Bancaria rate.
- (f) Includes a CLP 752 million credit facility that matures on May 23, 2023. The VTR RCF – B has a fee on unused commitments of 1.10% per year.

***Maturities of Debt***

Maturities of our debt as of December 31, 2019 are presented below. Amounts presented below represent the CLP equivalents (in billions) based on December 31, 2019 exchange rates:

Years ending December 31:	
2020	70.4
2021	—
2022	70.5
2023	103.5
2024	947.3
Thereafter	—
Total debt maturities	<u>1,191.7</u>
Deferred financing costs	(13.8)
Total debt	<u>1,177.9</u>
Current portion	<u>70.4</u>
Noncurrent portion	<u>1,107.5</u>

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

**(8) Leases**

The following table provides details of our operating lease expense:

	Year ended December 31,		
	2019	2018 (a)	2017 (a)
	CLP in billions		
Operating lease expense:			
Operating lease cost	6.3	7.3	7.3
Short-term lease cost	0.8	—	—
<b>Total operating lease expense</b>	<b>7.1</b>	<b>7.3</b>	<b>7.3</b>

- (a) Amounts reflect operating lease expense recorded under ASC 840, *Leases*, prior to adoption of ASU 2016-02 on January 1, 2019. Accordingly, amounts are not comparable.

The following table provides certain other details of our operating leases at December 31, 2019:

For the year ended December 31, 2019 (CLP in billions):	
Operating cash flows from operating leases	6.5
Right-of-use assets obtained in exchange for new operating lease liabilities (a)	0.9
As of December 31, 2019 (CLP in billions):	
Operating lease right-of-use assets	17.3
Operating lease liabilities:	
Current	5.0
Noncurrent	12.3
<b>Total operating lease liabilities</b>	<b>17.3</b>
Weighted-average remaining lease term	4.1 years
Weighted-average discount rate	6.8%

- (a) Represents non-cash transactions associated with operating leases entered into during the year ended December 31, 2019.

***Maturities of Operating Leases***

Maturities of our operating lease liabilities on an undiscounted basis as of December 31, 2019 are presented below along with the current and noncurrent operating lease liabilities on a discounted basis. Such amounts represent CLP equivalents (in billions) based on December 31, 2019 exchange rates.

Years ending December 31:		
	2020	5.9
	2021	4.8
	2022	3.7
	2023	2.8
	2024	2.6
Thereafter		—
Total operating lease liabilities on an undiscounted basis		19.8
Amount representing interest		(2.5)
Present value of operating lease liabilities		17.3
Current portion		5.0
Noncurrent portion		12.3



**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

**(9) Income Taxes**

Prior to the Split-Off, VTR Finance was part of a Dutch tax fiscal unity, along with its then ultimate Dutch parent and certain other Dutch subsidiaries of Liberty Global. Post Split-Off, effective January 1, 2018, VTR Finance, along with its ultimate Dutch parent in the new structure, Lila Chile Holding B.V., is part of a Dutch tax fiscal unity. The income taxes of VTR Finance's subsidiaries, none of which are part of the Dutch Fiscal Unity, are presented in our condensed consolidated financial statements on a separate return basis for each tax-paying entity or group based on the local tax law.

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.

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

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<u>CLP in billions</u>		
The Netherlands	(36.0)	(64.0)	(36.2)
Chile	96.5	133.1	84.3
Total	<u>60.5</u>	<u>69.1</u>	<u>48.1</u>

Income tax benefit (expense) consists of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
	<u>CLP in billions</u>		
<b>Year ended December 31, 2019:</b>			
The Netherlands	(0.5)	—	(0.5)
Chile	96.8	(9.3)	87.5
Total	<u>96.3</u>	<u>(9.3)</u>	<u>87.0</u>
<b>Year ended December 31, 2018:</b>			
The Netherlands	(1.6)	—	(1.6)
Chile	(11.5)	(14.4)	(25.9)
Total	<u>(13.1)</u>	<u>(14.4)</u>	<u>(27.5)</u>
<b>Year ended December 31, 2017:</b>			
The Netherlands	(1.1)	—	(1.1)
Chile	(133.3)	(1.5)	(134.8)
Total	<u>(134.4)</u>	<u>(1.5)</u>	<u>(135.9)</u>

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

Income tax benefit (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:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>CLP in billions</b>		
Computed “expected” tax benefit (expense)	(15.1)	(17.3)	(12.0)
Permanent differences	2.6	3.4	(87.1)
Change in valuation allowances	(0.8)	(16.1)	(1.7)
Impact of price level adjustments for tax purposes	—	—	0.4
Enacted tax law and rate changes (a) (b)	(8.3)	—	0.7
International rate difference (c)	(1.9)	(2.7)	(0.4)
Changes in uncertain tax positions	118.0	4.4	(37.7)
Other, net	(7.5)	0.8	1.9
<b>Total income tax expense</b>	<b>87.0</b>	<b>(27.5)</b>	<b>(135.9)</b>

- (a) Amounts represent the impact on our net deferred tax assets of a tax law change enacted in Chile in 2014. The corporate tax rate applicable to our Chilean operations increased to 25.5% in 2017. In 2018 and future years, the tax rate is 27.0%. As of 2017, the 35.0% withholding tax applicable to payments made by our Chilean operations to nonresident shareholders will be based only on actual distributions to shareholders and only 65.0% of the actual corporate tax paid by our Chilean operations will be available to be used as a credit against this withholding tax. In the case of shareholders residing in countries that have tax treaties in force with Chile, there will be a full credit for the corporate tax paid.
- (b) On December 27, 2019, legislation was enacted that changed the total corporate income tax rate in the Netherlands from 25% to 21.7% for tax years beginning after December 31, 2020. Substantially all of the impact of this rate change on our deferred tax balances was recorded during the fourth quarter of 2019 when the change in law was enacted, however, due to full valuation allowances in the Netherlands, the total effective tax rate impact is nil.
- (c) This amount represents the impact of a higher statutory rate of 27% (25.5% in 2017) in Chile as compared to a rate of 25% 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:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>CLP in billions</b>	
<b>Deferred tax assets:</b>		
Property and equipment, net	12.5	21.9
Unrealized Gains & Losses	24.0	29.5
Accrued Expenses	7.7	10.9
Net operating losses, credits and other carryforwards	38.6	28.4
Other future deductible amounts	2.4	2.5
Deferred tax assets	85.2	93.2
Valuation allowance	(56.0)	(54.4)
Deferred tax assets, net of valuation allowance	29.2	38.8
<b>Deferred tax liabilities:</b>		
Intangible assets	(6.1)	(6.5)
Net deferred tax asset	23.1	32.3

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

Our deferred income tax valuation allowance increased CLP 2 billion during 2019 primarily related to the net effect of (i) the net tax expense related to our operations of CLP 8 billion, offset by (ii) net tax benefit related to enacted tax law changes which reduced the balance of deferred tax assets to which a valuation allowance is required and (iii) other individually insignificant items.

The significant components of our tax loss carryforwards and related tax assets at December 31, 2019 are as follows:

<u>Country</u>	<u>Tax loss carryforward</u>	<u>Related tax asset</u>	<u>Expiration date</u>
	CLP in billions		
Chile	17.0	4.6	Indefinite
The Netherlands	97.0	21.0	2025-2027
<b>Total</b>	<b>114.0</b>	<b>25.6</b>	

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 2014 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 have received assessments from the Chilean tax authorities for the tax year ending December 31, 2014 which are in dispute and have been appealed. 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:

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
	CLP in billions	
Balance at January 1	166.8	129.4
Additions for tax positions of prior years	12.6	38.7
Additions based on tax positions related to the current year	—	18.4
Decrease for settlement with tax authorities	(30.3)	—
Decreases for tax positions of prior years	(113.8)	(19.7)
<b>Balance at December 31</b>	<b>35.3</b>	<b>166.8</b>

As of December 31, 2019, 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, 2019. 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, 2019 and 2018, our unrecognized tax benefits and related accrued interest aggregated CLP 38 billion and CLP 190 billion, respectively.

During 2019, 2018 and 2017, our income tax benefit (expense) includes net interest release (expense) of CLP 20 billion, (CLP 6 billion) and (CLP 7 billion), respectively, representing the net release or accrual of interest during the respective period. Our other long-term liabilities include accrued interest of CLP 3 billion and CLP 23 billion at December 31, 2019 and 2018, respectively.

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

***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. 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.

**(10) Related-party Transactions**

*General.* We consider Liberty Latin America and its subsidiaries to be related parties.

Our related-party transactions are as follows:

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<u>CLP in billions</u>		
Allocated share-based compensation expense	3.4	2.1	1.0
Related-party fees and allocations:			
Operating and SG&A related (exclusive of depreciation and share-based compensation), net	3.8	4.2	2.2
Share-based compensation	4.0	3.0	2.2
Management fee	0.4	0.6	5.3
Total fees and allocations	<u>8.2</u>	<u>7.8</u>	<u>9.7</u>
Included in operating income	11.6	9.9	10.7
Interest income	<u>(8.3)</u>	<u>(3.0)</u>	<u>—</u>
Included in net earnings (loss)	<u><u>3.3</u></u>	<u><u>6.9</u></u>	<u><u>10.7</u></u>

*Allocated share-based compensation expense.* These amounts represent share-based compensation expense that Liberty Latin America allocated to our company with respect to share-based incentive awards held by certain of our employees, which, in the first quarter of 2018 was reflected as a contribution from parent in our consolidated statement of changes of owner's equity (deficit). Beginning in the fourth quarter of 2018, this charge is cash settled and is included in related-party accrued liabilities in our consolidated balance sheets.

*Related-party fees and allocations.* The amounts represent fees charged to our company by Liberty Latin America and are expected to be cash-settled. 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. 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 Latin America'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 the operations of Liberty Latin America, without a mark-up. Amounts in this category generally may be deducted to arrive at our “EBITDA” metric specified by our debt agreements (**Covenant EBITDA**). The amount is net of CLP 2 billion and CLP 1 billion during 2019 and 2018, respectively, in recharges to certain subsidiaries of Liberty Latin America for our estimated share of services we perform that benefit operations outside of our company.

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

- *Share-based compensation.* The amounts represent share-based compensation associated with employees of Liberty Latin America who are not employees of our company. The amounts allocated represent our estimated share of the actual costs incurred by the operations of Liberty Latin America, without a mark-up.
- *Management fee.* The amounts included in this category represent our estimated allocable share of the mark-up, if any, applicable to each category of the related-party fees and allocations charged to our company.

*Interest income.* The amounts relates to the LCRH Short-Term Note Receivable and the LCRH Long-Term Note Receivable, as further described below.

*Contribution of services.* During the first quarter of 2018, a portion of costs that were allocated to us by Liberty Global for services performed during 2017 were not settled until the first quarter of 2018. These costs are equity settled, and as such have been reflected as a contribution in our consolidated statement of owner's deficit.

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>CLP in billions</b>	
<b>Assets:</b>		
Other current assets (a)	2.1	4.2
Long-term note receivable (b)	455.7	74.9
Total assets	457.8	79.1
<b>Liabilities:</b>		
Other accrued and current liabilities (c)	2.0	2.5

- (a) Represents (i) non-interest bearing receivables from Liberty Latin America subsidiaries and (ii) CLP 2 billion of accrued interest income on the LCRH Long-Term Note Receivable (as described below) at December 31, 2018. On January 1, 2019, the accrued interest income on the LCRH Long-Term Note Receivable was capitalized to a long-term note receivable pursuant to the agreement. On June 28, 2019 and December 23, 2019 LCRH paid down interest accrued during 2019 on the LCRH Long-Term Note Receivable.
- (b) During 2019, we entered into a CLP 372 billion note receivable with Liberty Global CIHB Limited (the **CIHB Note Receivable**). The CIHB Note Receivable bears interest at 6.722% and has a maturity date of December 26, 2029. During 2018, we entered into a \$97 million (CLP 66 billion at the transaction date) note receivable with Liberty Costa Rica Holdings LTD (**LCRH**) (the **LCRH Long-Term Note Receivable**). On September 28, 2018, we increased the principal on the LCRH Long-Term Note Receivable by \$5 million (CLP 3 billion at the transaction date). The LCRH Long-Term Note Receivable bears interest at 9.89% and has a maturity date of May 23, 2023. On October 11, 2018, the principal on the LCRH Long-Term Note Receivable was increased to \$108 million (CLP 74 billion at the transaction dates). The advances on the CIHB Note Receivable and the LCRH Long-Term Note Receivable are included in investing activities in our consolidated statements of cash flows.
- (c) Represents non-interest bearing other accrued and current liabilities to subsidiaries of Liberty Latin America.

On December 26, 2019, we received \$500 million (CLP 372 billion at the transaction date) from our parent company, Lila Chile Holding BV. This is reflected as an increase to accumulated net contributions in our consolidated statement of owner's equity (deficit) and as a financing activity in our consolidated statement of cash flows.

During the third quarter of 2018, we entered into a \$150 million (CLP 103 billion at the transaction date) note receivable with LCRH (the **LCRH Short-Term Note Receivable**). The LCRH Short-Term Note Receivable, which was cash settled in October 2018, had a maturity date of November 7, 2018 and bore interest at 6.87%.

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

**(11) Restructuring Liabilities**

A summary of changes in our restructuring liabilities during 2019 is set forth in the table below:

	<b>Employee severance and termination</b>	<b>Contract termination and other</b>	<b>Total</b>
	<b>CLP in billions</b>		
Restructuring liability as of January 1, 2019	1.1	12.0	13.1
Restructuring charges	8.2	4.5	12.7
Cash paid	(5.1)	(6.1)	(11.2)
Restructuring liability as of December 31, 2019	<u>4.2</u>	<u>10.4</u>	<u>14.6</u>
Current portion	4.2	8.2	12.4
Noncurrent portion	—	2.2	2.2
Total	<u>4.2</u>	<u>10.4</u>	<u>14.6</u>

A summary of changes in our restructuring liabilities during 2018 is set forth in the table below:

	<b>Employee severance and termination</b>	<b>Contract termination and other</b>	<b>Total</b>
	<b>CLP in billions</b>		
Restructuring liability as of January 1, 2018	2.0	15.1	17.1
Restructuring charges	1.0	3.8	4.8
Cash paid	(1.9)	(6.9)	(8.8)
Restructuring liability as of December 31, 2018	<u>1.1</u>	<u>12.0</u>	<u>13.1</u>
Current portion	1.1	6.6	7.7
Noncurrent portion	—	5.4	5.4
Total	<u>1.1</u>	<u>12.0</u>	<u>13.1</u>

A summary of changes in our restructuring liabilities during 2017 is set forth in the table below:

	<b>Employee severance and termination</b>	<b>Contract termination and other</b>	<b>Total</b>
	<b>CLP in billions</b>		
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	<u>2.0</u>	<u>15.1</u>	<u>17.1</u>

The restructuring charges during each year are related to certain reorganization activities.

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

**(12) 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, purchases of customer premises and other equipment and services, and other commitments. The following table sets forth the Chilean peso equivalents of such commitments as of December 31, 2019:

	<b>Payments due during:</b>						<b>Total</b>
	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Thereafter</b>	
	<b>CLP in billions</b>						
Programming commitments	58.3	14.0	1.3	0.9	0.5	—	75.0
Network and connectivity commitments	24.0	16.8	—	—	—	—	40.8
Purchase commitments	6.9	7.9	0.7	0.4	—	—	15.9
Other commitments	1.6	0.4	0.2	0.1	0.7	—	3.0
<b>Total (a)</b>	<b>90.8</b>	<b>39.1</b>	<b>2.2</b>	<b>1.4</b>	<b>1.2</b>	<b>—</b>	<b>134.7</b>

(a) The commitments included in this table do not reflect any liabilities that are included in our December 31, 2019 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, our total programming and copyright costs aggregated CLP 120 billion, CLP 118 billion and CLP 112 billion during 2019, 2018 and 2017, respectively.

Network and connectivity commitments include (i) our domestic network service agreements with certain other telecommunications companies, and (ii) our mobile virtual network operator (MVNO) agreement. The amounts reflected in the above table with respect to our MVNO commitment represent fixed minimum amounts payable under this agreement 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) certain service-related commitments, including call center, information technology and maintenance services, and (ii) the purchase of customer premises and other equipment.

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 2019, 2018 and 2017, see note 4.

***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***

*Regulatory Issues.* 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

**VTR FINANCE B.V.**  
**Notes to Consolidated Financial Statements – (Continued)**  
**December 31, 2019, 2018 and 2017**

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.

**(13) Revenue by Product**

Our revenue by major category is set forth below. As further described in note 2, we adopted ASU 2014-09 effective January 1, 2018 using the cumulative effect transition method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of ASU 2014-09 did not have a material impact on our revenue by category.

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>CLP in billions</b>		
Residential revenue:			
Residential fixed revenue:			
Subscription revenue (a):			
Video	242.9	245.9	234.7
Broadband internet	257.5	241.4	223.2
Fixed-line telephony	68.8	78.6	87.4
Total subscription revenue	<u>569.2</u>	<u>565.9</u>	<u>545.3</u>
Non-subscription revenue (b)	17.7	16.7	18.6
Total residential fixed revenue	<u>586.9</u>	<u>582.6</u>	<u>563.9</u>
Residential mobile revenue:			
Service revenue (a)	44.0	40.3	36.3
Interconnect, equipment sales and other (c)	8.4	8.5	7.2
Total residential mobile revenue	<u>52.4</u>	<u>48.8</u>	<u>43.5</u>
Total residential revenue	<u>639.3</u>	<u>631.4</u>	<u>607.4</u>
B2B service revenue (d)	21.2	16.4	10.2
Total	<u><u>660.5</u></u>	<u><u>647.8</u></u>	<u><u>617.6</u></u>

- (a) Residential fixed subscription and residential mobile services revenue include amounts received from subscribers for ongoing fixed and airtime services, respectively.
- (b) Residential fixed non-subscription revenue primarily includes installation, advertising revenue, and interconnect.
- (c) These amounts include revenue from sales of mobile handsets and other devices of CLP 6 billion, CLP 5 billion and CLP 4 billion during 2019, 2018, and 2017, respectively.
- (d) B2B service revenue primarily includes broadband internet, video, and fixed-line telephony services offered to small enterprises (including small or home office).



## 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, 2019 and 2018.
- *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, 2019.

A discussion regarding our financial condition and results of operations for the year ended December 31, 2018 compared with the year ended December 31, 2017 can be found under captions entitled “Results of Operations” and “Liquidity and Capital Resources” in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our VTR Finance B.V. Annual Report for the year ended December 31, 2018 filed on March 15, 2019, which is available free of charge through the Company’s website, [www.lla.com/ir.html](http://www.lla.com/ir.html). The Company’s website and the information contained therein, or incorporated therein, are not intended to be incorporated into this annual report.

### 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, 2019, we (i) owned and operated fixed networks that passed 3,699,300 homes and served 2,964,500 revenue generating units (**RGUs**), comprising 1,317,100 broadband internet subscribers, 1,099,700 video subscribers and 547,700 fixed-line telephony subscribers and (ii) served 300,800 mobile subscribers.

#### *Strategy and Management Focus*

We strive to achieve organic revenue and customer growth in our operations by developing and marketing bundled entertainment and information and communications services, and extending and upgrading the quality of our network where appropriate. As we use the term, organic growth excludes the estimated impact of any acquisitions. While we seek to increase our customer base, we also seek to maximize the average revenue we receive from each household by increasing the penetration of our video, broadband internet, fixed-line telephony and mobile services with existing customers through product bundling and up-selling.

We are engaged in a network extension and upgrade program. We collectively refer to this network extension and upgrade program as the “**Network Extension**.” The Network Extension will be completed in phases with priority given to the most accretive expansion opportunities. During 2019, our network extension and upgrade program passed approximately 200,000 homes across our footprint. Depending on a variety of factors, including the financial and operational results of the programs, the Network Extension may be continued, modified or cancelled at our discretion.

For information regarding our expectation with regard to property and equipment additions as a percent of revenue during 2020 see *Liquidity and Capital Resources—Consolidated Statements of Cash Flows* below.

### ***Competition and other external factors***

We are experiencing significant competition from other telecommunications operators, direct-to-home operators and other providers. This significant competition has adversely impacted our revenue, RGUs and/or average monthly subscription revenue per average RGU (**ARPU**). In Chile, competition increased in 2019, as VTR's fixed-line competitors upgraded their networks at a faster rate than in prior years. For additional information regarding the revenue impact of changes in our RGUs and ARPU, see *Results of Operations* below.

During the fourth quarter of 2019, Chile experienced civil unrest and violence resulting from civilian frustration with the cost of living and income inequalities. Protests lead to infrastructure damage, looting and arson, causing the government to impose a state of emergency in certain cities, which was ultimately lifted at the end of October. While the state of emergency has been lifted, minor conflict continues in certain locations in Chile. As a result, there has been significant currency volatility associated with the Chilean peso, negative impacts to the local stock market, significant impacts to retail sales, and interest rate volatility. Notwithstanding this socioeconomic environment, the operations, network and commercial activities of VTR were not significantly impacted by the recent unrest.

We are exposed to foreign currency exchange rate risk due to the fact that a portion of our operating expenses and capital expenditures are denominated in U.S. dollars. We are exposed to net variability in the U.S. dollar to Chilean peso exchange rate on a significant portion of our expected nonfunctional currency spend. We have entered into foreign currency forward contracts to hedge some of this risk and taking into account the net U.S. dollar income receivable by the VTR Finance and U.S. dollar cash on hand. For additional information regarding our derivative instruments, see note 4 to our consolidated financial statements.

In December 2019, a novel strain of Coronavirus (COVID-19) was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared the outbreak a "pandemic," pointing to the sustained risk of further global spread. The extent of the impact of the novel Coronavirus on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the impact on our customers and our sales cycles, the impact on our employees, and the effect on our vendors, all of which are uncertain and cannot be predicted. For example, the novel Coronavirus here in Chile and the countries where our contractors' or vendors' facilities may be located, could have an effect on our financial condition or operations through impacts on our customers' ability to use our services, on the availability of our workforce, foreign currency fluctuations, or through adverse impacts to our supply chain. As a result of the evolving outbreak, certain of our product shipments may be delayed. If such a disruption were to extend over a prolonged period, it could have an impact on the continuity of our supply chain. Any disruption resulting from similar events on a larger scale or over a prolonged period could cause significant delays in shipments of products until we are able to resume such shipments or shift from the affected contractor or vendor to another third-party vendor, if needed. At this point, the extent to which the novel Coronavirus may impact our financial condition or results of operations is uncertain, but the heightened volatility of global markets expose us to these and related risks and uncertainties.

### ***Internal Controls and Procedures***

As of December 31, 2019, we have identified the following material weaknesses, of which a portion was previously disclosed in our annual report for the year ended December 31, 2018:

- The Company did not have a sufficient number of trained resources with the appropriate skills and knowledge with assigned responsibilities and accountability for the design and operation of general information technology (**IT**) controls.
- The Company did not have an effective risk assessment process that successfully identified and assessed risks of misstatement to ensure general IT controls and the related automation were designed and implemented to respond to those risks. The Company did not adequately communicate the changes necessary in financial reporting and related general IT controls throughout its organization and to affected third parties.
- The Company did not have an effective monitoring process to assess the consistent operation of internal control over financial reporting and to remediate known control deficiencies related to general IT controls.
- The Company did not have an effective information and communication process to identify, capture and process relevant information necessary for financial accounting and reporting.

- The Company did not (i) establish effective general information technology controls (**GITCs**), specifically program change controls and access controls, commensurate with financial and IT personnel job responsibilities that support the consistent operation of the Company's IT operating systems, databases and IT applications, and end user computing over all financial reporting, and (ii) have policies and procedures through which general information technology controls are deployed across the organization. Automated process-level controls and manual controls dependent upon the accuracy and completeness of information derived from information technology systems were also rendered ineffective because they are affected by the lack of GITCs.

As a consequence, the Company did not have effective control activities related to the design, implementation and operation of process-level control activities related to order-to-cash (including revenue, trade receivables, and deferred revenue), procure-to-pay (including operating expenses, prepaid expenses, accounts payable, and accrued liabilities), hire-to-pay (including compensation expense and accrued liabilities), long-lived assets, inventory and other financial reporting processes.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

These control deficiencies did not result in identified material misstatements in our consolidated financial statements as of and for the year ended December 31, 2019.

#### *Management's Remediation Plan*

We have initiated a plan to remediate the aforementioned material weaknesses in internal control over financial reporting as follows:

- Hire, train, and retain individuals with appropriate skills and experience, assign responsibilities and hold individuals accountable for their roles related to GITC and the related automation.
- Design and implement a comprehensive and continuous risk assessment process for GITC to identify and assess risks of material misstatement and ensure that the impacted financial reporting processes and related internal controls are properly designed and in place to respond to those risks in our financial reporting.
- Design and implement additional monitoring controls to assess the consistent operation of GITC, including those performed by our service providers, and to remediate deficiencies.
- Design and implement general control activities over IT and the related automation to support business processes.

#### *Remediation of Material Weaknesses*

Based on the remediation actions we completed and our testing of the control improvements implemented as of December 31, 2019, we believe the following material weakness disclosed as of December 31, 2018 no longer exists:

- We did not perform or evidence certain procedures regarding the completeness and accuracy of the information used in recording the journal entries related to U.S. GAAP adjustments nor did we perform or evidence appropriate procedures to verify that all of the necessary adjustments were recorded.

Throughout the fiscal year 2019, we implemented the following measures which resulted in the remediation of the aforementioned U.S. GAAP material weakness during the year ended December 31, 2019:

- Provided additional training to the individuals with the assigned responsibilities to ensure they understand the enhanced design of the existing control activities and are accountable for their roles related to internal control over financial reporting.
- Enhanced the design of existing control activities and implemented additional process-level control activities related to U.S. GAAP adjustments and ensured they are properly evidenced and operating effectively.

We are actively engaged in remediating our remaining material weaknesses. We are unable to currently estimate how long full remediation will take. If our remedial measures are insufficient to address the material weaknesses, or if one or more additional material weaknesses in our internal controls over financial reporting are discovered, we may be required to take additional remedial measures from our plan as disclosed above.

## Results of Operations

### General

As we use the term, “OCF” is defined as operating income before depreciation, share-based compensation, related-party fees and allocations, provisions and provision releases related to significant litigation and impairment, restructuring and other operating items. Other operating items include (i) gains and losses on the disposition of long-lived assets, (ii) third-party costs directly associated with successful and unsuccessful acquisitions and dispositions, including legal, advisory and due diligence fees, as applicable, and (iii) other acquisition-related items, such as gains and losses on the settlement of contingent consideration.

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

### Revenue

We derive our revenue primarily from (i) residential fixed services, including video, broadband internet and telephony, (ii) residential mobile services and (iii) B2B services.

While not specifically discussed in the below explanations of the changes in revenue, we are experiencing significant competition in all of our markets. This competition has an adverse impact on our ability to increase or maintain our RGUs and/or ARPU.

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

Our revenue by major category is set forth below:

	Year ended December 31,		Increase (decrease)	
	2019	2018	CLP	%
	CLP in billions			
Residential revenue:				
Residential fixed revenue:				
Subscription revenue:				
Video	242.9	245.9	(3.0)	(1.2)
Broadband internet	257.5	241.4	16.1	6.7
Fixed-line telephony	68.8	78.6	(9.8)	(12.5)
Total subscription revenue	569.2	565.9	3.3	0.6
Non-subscription revenue	17.7	16.7	1.0	6.0
Total residential fixed revenue	586.9	582.6	4.3	0.7
Residential mobile revenue:				
Service revenue	44.0	40.3	3.7	9.2
Interconnect, equipment sales and other	8.4	8.5	(0.1)	(1.2)
Total residential mobile revenue	52.4	48.8	3.6	7.4
Total residential revenue	639.3	631.4	7.9	1.3
B2B service revenue	21.2	16.4	4.8	29.3
Total	660.5	647.8	12.7	2.0

The details of the changes in our revenue during 2019, as compared to 2018, are set forth below (CLP in billions):

Increase in residential fixed subscription revenue due to change in:	
Average number of RGUs (a)	1.9
ARPU (b)	1.4
Increase in residential fixed non-subscription revenue	1.0
<b>Total increase in residential fixed revenue</b>	<b>4.3</b>
Increase in residential mobile subscription revenue (c)	3.7
Decrease in residential mobile interconnect, equipment sales and other revenue	(0.1)
Increase in B2B service revenue (d)	4.8
<b>Total</b>	<b>12.7</b>

- (a) The increase is attributable to the net effect of (i) higher broadband internet and video RGUs and (ii) lower fixed-line telephony RGUs.
- (b) The increase is due to the net effect of (i) higher ARPU from broadband internet services, (ii) an improvement in product mix and (iii) lower ARPU from video and fixed-line telephony services. The decrease in ARPU from video services includes CLP 2 billion in discounts given to customers due to content not provided as a result of civil unrest in Chile during the fourth quarter of 2019.
- (c) The increase is due to the net effect of (i) a higher average number of mobile subscribers and (ii) lower ARPU from mobile services.
- (d) The increase is primarily attributable to higher average numbers of broadband internet, video and fixed-line telephony RGUs.

#### ***Programming and other direct costs of services***

*General.* Programming and other direct costs of services include programming and copyright costs, interconnect and access 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, may increase 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 or (iii) growth in the number of our video subscribers.

Our programming and other direct costs of services decreased CLP 2 billion or 1.0% during 2019, as compared to 2018. This decrease includes the following factors:

- A decrease in interconnect and access costs of CLP 6 billion or 15.0%, primarily as a result of the net effect of (i) decreases in interconnect costs and MVNO charges due to lower rates and (ii) the impact of a CLP 2 billion credit received during the fourth quarter of 2018 in connection with the renegotiation of our MVNO contract;
- An increase in programming and copyright costs of CLP 2 billion or 1.6%, primarily due to (i) higher costs associated with video-on-demand (**VoD**) services and catch-up television, (ii) an increase in copyright costs and (iii) an increase in certain premium and basic content costs, primarily resulting from higher rates. The increase in certain premium and basic content costs is partially offset by CLP 2 billion in lower costs due to certain premium services that were not provided during the fourth quarter of 2019; and
- An increase in equipment costs of CLP 2 billion or 15.7%, primarily due to higher mobile handset sales.

#### ***Other operating expenses***

*General.* Other operating expenses include (i) network operations, (ii) customer operations, which includes personnel costs and call center costs, (iii) bad debt and collection expenses, and (iv) other costs related to our operations.

Our other operating expenses increased CLP 3 billion or 3.2% during 2019, as compared to 2018. Our other operating expenses include share-based compensation expense, which decreased CLP 1 billion during 2019, as compared to 2018. Excluding the effects of share-based compensation, our other operating expenses increased CLP 4 billion or 3.8% during 2018. The increase is primarily due to an increase in outsourced labor and professional fees of CLP 4 billion or 35.9%, mostly related to higher call center volume.

### *SG&A expenses*

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

Our SG&A expenses increased CLP 8 billion or 6.9% during 2019, as compared to 2018. Our SG&A expenses include share-based compensation expense, which increased CLP 2 billion during 2019, as compared to 2018. Excluding the effects of share-based compensation, our other operating expenses increased CLP 6 billion or 5.3% during 2018. This increase includes the following factors:

- An increase in professional services of CLP 5 billion or 39.1%, primarily due to (i) increased information technology costs associated with the implementation of a business support system and (ii) higher professional consultancy services; and
- An increase in sales, marketing and advertising expenses of CLP 1 billion or 3.6%, primarily due to the net effect of (i) higher sales commissions to third-party dealers and (ii) lower costs associated with advertising campaigns.

### *Related-party fees and allocations*

We recorded related-party fees and allocations of CLP 8 billion during each of 2019 and 2018. These amounts include charges for services provided to our company by Liberty Latin America or subsidiaries of Liberty Latin America.

For additional information regarding our related-party fees and allocations, see note 10 to our consolidated financial statements.

### *Depreciation expense*

Our depreciation expense increased CLP 36 billion during 2019, as compared to 2018. This increase is primarily due to the net effect of (i) increases in (a) the expansion and upgrade of our networks and other capital initiatives, and (b) the purchase and installation of customer premises equipment, (ii) decreases related to baseline and product and enabler-related additions, and (iii) a decrease associated with certain assets becoming fully depreciated.

### *Impairment, restructuring and other operating items, net*

We recognized impairment, restructuring and other operating items, net, of CLP 14 billion and CLP 6 billion during 2019 and 2018, respectively. The amounts for both periods primarily relate to restructuring charges that we recorded in connection with employee severance and contract termination costs.

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

### *Interest expense – third-party*

Our third-party interest expense increased CLP 6 billion during 2019, as compared to 2018. This increase is primarily attributable to an increase in average debt balances as we drew on term loans associated with the VTR Credit Facilities in June of 2018.

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*

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

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>CLP in billions</u>	
Cross-currency and interest rate derivative contracts (a)	59.4	58.6
Foreign currency forward contracts	6.9	16.5
Total	<u>66.3</u>	<u>75.1</u>

- (a) The gains during 2019 and 2018 are primarily attributable to the net effect of (i) gains resulting from a decrease in the value of the Chilean peso relative to the U.S. dollar and (ii) losses resulting from changes in interest rates. In addition, the gain during 2018 includes a net loss of CLP 13 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 losses, net*

We recognized foreign currency transaction losses, net, of CLP 67 billion and CLP 105 billion during 2019 and 2018, respectively, primarily resulting from the remeasurement of the VTR Finance Senior Notes, which are denominated in U.S. dollars. Unrealized foreign currency transaction losses are computed based on period-end exchange rates and are non-cash in nature until such time as the amounts are settled.

*Other income, net*

We recognized other income, net, of CLP 10 billion and CLP 1 billion during 2019 and 2018, respectively. The 2019 amount includes related-party interest income of CLP 8 billion. The 2018 amount includes (i) CLP 3 billion of redemption premiums paid and the write-off of CLP 1 billion of deferred financing costs, (ii) related-party interest income of CLP 3 billion, and (iii) third-party interest income of CLP 2 billion.

For additional information regarding our loss on debt modification and extinguishment, see note 7 to our consolidated financial statements. For additional information regarding our related-party fees and allocations, see note 10 to our consolidated financial statements.

*Income tax benefit (expense)*

We recognized income tax benefit (expense) of CLP 87 billion and (CLP 28 billion) during 2019 and 2018, respectively.

The income tax benefit during 2019 differs from the expected income tax expense of CLP 15 billion (based on the Netherlands statutory income tax rate of 25.0%), primarily due to the beneficial effects of net favorable changes in uncertain tax positions and favorable permanent differences, which are offset by the detrimental effects of increases in valuation allowances, international rate differences and other items.

The income tax expense during 2018 differs from the expected income tax expense of CLP 17 billion (based on the Netherlands statutory income tax rate of 25.0%), primarily due to the negative impacts of an increase in valuation allowances and international rate differences, offset by net favorable changes in uncertain tax positions, non-deductible/non-taxable permanent differences and other items.

For additional information regarding our income taxes, see note 9 to our consolidated financial statements.

*Net earnings*

The following table sets forth selected summary financial information of our net earnings:

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>CLP in billions</b>	
Operating income	132.0	173.0
Net non-operating expenses	(71.5)	(103.9)
Income tax expense	87.0	(27.5)
Net earnings	147.5	41.6

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 OCF to a level that more than offsets the aggregate amount of our (i) share-based compensation expense, (ii) depreciation, (iii) related-party fees and allocations, (iv) impairment, restructuring and other operating items, (v) interest expense, (vi) other non-operating expenses and (vii) income tax expenses.

Subject to the limitations included in our various debt instruments, we expect to maintain our debt at current levels. As a result, we expect that we will continue to report significant levels of interest expense for the foreseeable future. For information concerning our expectations with respect to trends that may affect certain aspects of our operating results in future periods, see the discussion in *Overview* above.

## **Liquidity and Capital Resources**

### ***Sources and Uses of Cash***

#### *Cash and cash equivalents*

At December 31, 2019, nearly all of our cash and cash equivalents was held by our subsidiaries.

#### *Liquidity of VTR Finance*

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

The ongoing cash needs of VTR Finance include interest payments on outstanding debt. From time to time, VTR Finance may also require cash in connection with (i) the repayment of outstanding debt, (ii) distributions or loans to our owner, (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, other Liberty Latin America subsidiaries, our subsidiaries or external sources would be available on favorable terms, or at all.

From time to time, we or our respective affiliates may, to the extent permitted under applicable law, acquire or repay any third-party or related-party debt through open market purchases, privately negotiated transactions, tender offers, exchange offers, redemptions or otherwise, upon such terms and at such prices as we may determine (or as may be provided for in our respective indenture agreements).

#### *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 Facilities, 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 our derivative instruments and income tax payments. From time to time, our subsidiaries may also require cash in connection with (i) distributions or loans to VTR Finance, (ii) the satisfaction of contingencies, (iii) the repayment of any outstanding debt or (iv) acquisitions and other investment opportunities.

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



## Capitalization

At December 31, 2019, the outstanding principal amount of our debt aggregated CLP 1,192 billion, including CLP 70 billion that is classified as current in our consolidated balance sheet and CLP 947 billion that is not due until 2024 or thereafter. Included in the outstanding principal amount of our debt at December 31, 2019 is CLP 70 billion of vendor financing, which we use to finance certain of our operating expenses and property and equipment additions. These obligations are generally due within one year, other than for certain licensing arrangements that generally are due over the term of the related license. For the year ended December 31, 2019, our consolidated total net leverage ratio was 3.52x as specified in, and calculated in accordance with, the VTR Credit Facilities. For additional information concerning our debt, 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 agreements of the VTR Credit Facilities is dependent primarily on our ability to maintain 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 Facilities and the VTR Finance Senior 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 Facilities 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, 2019, 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.

The weighted average interest rate in effect at December 31, 2019 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin, was 6.6%. The interest rate is based on stated rates and does not include the impact of derivative instruments, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing. The weighted average impact of the derivative instruments on our borrowing costs at December 31, 2019 was a decrease of 2 basis points. 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 6.8% at December 31, 2019.

We believe that we have sufficient resources to repay or refinance the current portion of our debt and to fund our foreseeable liquidity requirements during the next 12 months. However, we may seek to refinance the VTR Finance Senior 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, economic and social 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

*Summary.* Our 2019 and 2018 consolidated statements of cash flows are summarized as follows:

	<u>Year ended December 31,</u>		<u>Change</u>
	<u>2019</u>	<u>2018</u>	
	<u>CLP in billions</u>		
Net cash provided by operating activities	141.5	142.8	(1.3)
Net cash used by investing activities	(475.5)	(190.9)	(284.6)
Net cash provided by financing activities	346.3	61.9	284.4
Effect of exchange rate changes on cash	2.0	9.1	(7.1)
Net increase in cash and cash equivalents	<u>14.3</u>	<u>22.9</u>	<u>(8.6)</u>

*Operating Activities.* The decrease in net cash provided by our operating activities is primarily attributable to the net effect of (i) an increase in cash used associated with changes in working capital, (ii) an increase in cash received related to derivative instruments and (iii) an increase in cash paid for taxes. The changes in working capital as reported in our consolidated statement of cash flows for the twelve months ended December 31, 2019 includes a CLP 132 billion release of our uncertain tax position

liability that has been reflected as a tax benefit in our consolidated statement of operations. For additional information see note 9 to our consolidated financial statements.

*Investing Activities.* The increase in net cash used by our investing activities is primarily attributable to (i) advances on related-party notes receivable from Liberty Global CIHB Limited during 2019, as further described in note 10 to our consolidated financial statements, and (ii) lower capital expenditures, as further discussed below.

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 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 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 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:

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>CLP in billions</u>	
Property and equipment additions	143.0	136.2
Assets acquired under capital-related vendor financing arrangements	(21.7)	(26.9)
Changes in current liabilities related to capital expenditures	(16.9)	6.9
Capital expenditures	<u>104.4</u>	<u>116.2</u>

The increase in our property and equipment additions during 2019, as compared to 2018, is largely due to the net effect of (i) increases in (a) the expansion and upgrade of our networks and other capital initiatives and (b) the purchase and installation of customer premises equipment, and (ii) decreases related to baseline and product and enabler-related additions. During 2019, a significant portion of our purchases of property and equipment was denominated in U.S. dollars. Our consolidated property and equipment additions represented 21.7% and 21.0% of our revenue during 2019 and 2018, respectively.

We expect the percentage of revenue represented by our aggregate 2020 property and equipment additions to range from 18% to 20%. The actual amount of our 2020 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.* During 2019, we received CLP 346 billion in net cash from financing activities, primarily due to a CLP 372 billion contribution from our parent as further described in note 10 of our consolidated financial statements. During 2018, we received CLP 62 billion in net cash from financing activities, primarily due to CLP 61 billion in net borrowings of debt.

## Contractual Commitments

The following table sets forth the Chilean peso equivalents of our commitments as of December 31, 2019:

	Payments due during:						Total
	2020	2021	2022	2023	2024	Thereafter	
	CLP in billions						
Debt (excluding interest)	70.4	—	70.5	103.5	947.3	—	1,191.7
Programming commitments	58.3	14.0	1.3	0.9	0.5	—	75.0
Network and connectivity commitments	24.0	16.8	—	—	—	—	40.8
Operating leases	5.9	4.8	3.7	2.8	2.6	—	19.8
Purchase commitments	6.9	7.9	0.7	0.4	—	—	15.9
Other commitments	1.6	0.4	0.2	0.1	0.7	—	3.0
<b>Total (a)</b>	<b>167.1</b>	<b>43.9</b>	<b>76.4</b>	<b>107.7</b>	<b>951.1</b>	<b>—</b>	<b>1,346.2</b>
Projected cash interest payments on debt obligations (b)	78.2	78.1	77.9	69.1	32.6	—	335.9

- (a) The commitments included in this table do not reflect any liabilities that are included in our December 31, 2019 consolidated balance sheet other than (i) debt and (ii) operating lease obligations.
- (b) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of December 31, 2019. 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, operating lease obligations and commitments, see notes 7, 8 and 12, respectively, 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 2019, 2018 and 2017, 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, 2019. 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 (receipts) due during:						Total
	2020	2021	2022	2023	2024	Thereafter	
	CLP in billions						
Projected derivative cash payments (receipts), net:							
Interest-related (a)	(6.5)	(6.5)	0.1	5.3	2.0	—	(5.6)
Principal-related (b)	—	—	(66.1)	—	(27.2)	—	(93.3)
Other (c)	(7.3)	—	—	—	—	—	(7.3)
<b>Total</b>	<b>(13.8)</b>	<b>(6.5)</b>	<b>(66.0)</b>	<b>5.3</b>	<b>(25.2)</b>	<b>—</b>	<b>(106.2)</b>

- (a) Includes the interest-related cash flows of our cross-currency and interest rate derivative contracts.
- (b) Includes the principal-related cash flows of our cross-currency derivative 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 50.9% of our total assets at December 31, 2019.

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 (primarily cable television franchise rights) for impairment at least annually on October 1 and whenever facts and circumstances indicate that the fair value of a reporting unit or an indefinite-lived intangible asset may be less than its carrying value. When evaluating impairment with respect to 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 our reporting units and underlying long-lived and indefinite-lived assets. We typically determine fair value using a market-value approach or an income-based approach (discounted cash flows) based on assumptions in our long-range business plans, or a combination of an income-based and market-value 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 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 certain risks inherent in the future cash flows. With respect to a market-value approach, the fair value of a reporting unit is estimated based upon a market multiple typically applied to the reporting unit's 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, adjusted to reflect an appropriate control premium or discount, 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 new cable and mobile transmission and distribution facilities, the installation of new cable services and 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, 2019, the aggregate valuation allowance provided against deferred tax assets was CLP 56 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, 2019 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, 2019, the amount of unrecognized tax benefits for financial reporting purposes, but taken or expected to be taken in our tax returns, was CLP 35 billion, all of which would have a favorable impact on our effective income tax rate if ultimately recognized, after considering amounts that we would expect to be offset by valuation allowances.

We are 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 9 to our consolidated financial statements.