



VTR FINANCE B.V.

Condensed Consolidated Financial Statements
March 31, 2016

VTR Finance B.V.
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VTR FINANCE B.V.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2016	December 31, 2015
	CLP in billions	
ASSETS		
Current assets:		
Cash and cash equivalents.....	87.2	89.8
Trade receivables, net.....	49.9	51.4
Derivative instruments (note 3).....	4.9	11.3
Other current assets (note 8).....	22.1	22.8
Total current assets.....	164.1	175.3
Property and equipment, net (note 5).....	350.8	336.5
Goodwill.....	266.7	267.1
Derivative instruments (note 3).....	140.6	206.7
Income tax receivable (note 7).....	51.6	34.4
Deferred income taxes.....	41.7	56.4
Other assets, net (note 8).....	22.1	17.7
Total assets.....	1,037.6	1,094.1

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

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

	March 31, 2016	December 31, 2015
	CLP in billions	
LIABILITIES AND OWNER’S DEFICIT		
Current liabilities:		
Accounts payable	35.5	28.2
Accrued income taxes	24.8	26.0
Deferred revenue and advance payments from subscribers and others	23.8	23.1
Accrued programming	18.8	20.0
Accrued interest	15.9	31.9
Accrued capital expenditures	14.4	10.7
Capital lease obligations (note 6).....	0.2	0.2
Other accrued and current liabilities (notes 3 and 8)	78.7	67.5
Total current liabilities	212.1	207.6
Long-term debt (note 6).....	918.7	977.5
Other long-term liabilities	18.5	19.4
Total liabilities	1,149.3	1,204.5
Commitments and contingencies (notes 3, 6 and 9)		
Owner’s deficit:		
Accumulated net distributions	(274.9)	(278.0)
Accumulated earnings	147.5	149.7
Accumulated other comprehensive earnings, net of taxes	15.7	17.9
Total owner’s deficit	(111.7)	(110.4)
Total liabilities and owner’s deficit.....	1,037.6	1,094.1

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

VTR FINANCE B.V.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended March 31,	
	2016	2015
	CLP in billions	
Revenue (note 10).....	140.2	130.3
Operating costs and expenses:		
Operating (other than depreciation and amortization) (including share-based compensation) (note 8).....	62.9	58.2
Selling, general and administrative (SG&A) (including share-based compensation).....	24.2	24.8
Related-party fees and allocations (note 8).....	3.1	1.2
Depreciation and amortization.....	22.0	23.0
Impairment, restructuring and other operating items, net.....	0.4	1.1
	<u>112.6</u>	<u>108.3</u>
Operating income.....	<u>27.6</u>	<u>22.0</u>
Non-operating income (expense):		
Interest expense.....	(20.1)	(16.9)
Interest income.....	0.6	0.1
Realized and unrealized gains (losses) on derivative instruments, net (note 3).....	(69.6)	50.1
Foreign currency transaction gains (losses), net.....	59.9	(26.5)
Other expense.....	(0.3)	(0.1)
	<u>(29.5)</u>	<u>6.7</u>
Earnings (loss) before income taxes.....	(1.9)	28.7
Income tax expense (note 7).....	(0.3)	(10.2)
Net earnings (loss).....	<u>(2.2)</u>	<u>18.5</u>

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

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

	Three months ended	
	March 31,	
	2016	2015
	CLP in billions	
Net earnings (loss).....	(2.2)	18.5
Other comprehensive loss, net of taxes:		
Unrealized losses on cash flow hedges.....	(2.0)	—
Reclassification adjustments included in net loss.....	(0.2)	—
Other.....	—	(0.1)
Other comprehensive loss.....	(2.2)	(0.1)
Comprehensive earnings (loss).....	(4.4)	18.4

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

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

	<u>Accumulated net distributions</u>	<u>Accumulated earnings</u>	<u>Accumulated other comprehensive earnings, net of taxes</u>	<u>Total owner's deficit</u>
	CLP in billions			
Balance at January 1, 2016.....	(278.0)	149.7	17.9	(110.4)
Net loss.....	—	(2.2)	—	(2.2)
Other comprehensive loss	—	—	(2.2)	(2.2)
Deemed contribution of services (note 8).....	3.1	—	—	3.1
Balance at March 31, 2016.....	<u>(274.9)</u>	<u>147.5</u>	<u>15.7</u>	<u>(111.7)</u>

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

VTR FINANCE B.V.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended	
	March 31,	
	2016	2015
	CLP in billions	
Cash flows from operating activities:		
Net earnings (loss)	(2.2)	18.5
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Share-based compensation expense.....	0.4	0.1
Related-party fees and allocations	3.1	1.2
Depreciation and amortization.....	22.0	23.0
Impairment, restructuring and other operating items, net.....	0.4	1.1
Realized and unrealized losses (gains) on derivative instruments, net.....	69.6	(50.1)
Foreign currency transaction losses (gains), net.....	(59.9)	26.5
Deferred income tax expense.....	14.7	0.6
Changes in operating assets and liabilities	(27.1)	(18.9)
Net cash provided by operating activities	<u>21.0</u>	<u>2.0</u>
Cash flows from investing activities:		
Capital expenditures.....	(20.6)	(23.8)
Advances to related party.....	(4.6)	—
Other investing activities, net.....	0.9	0.9
Net cash used by investing activities.....	<u>(24.3)</u>	<u>(22.9)</u>
Effect of exchange rate changes on cash.....	0.7	0.3
Net decrease in cash and cash equivalents	(2.6)	(20.6)
Cash and cash equivalents:		
Beginning of period	89.8	51.7
End of period.....	<u>87.2</u>	<u>31.1</u>
Cash paid for interest.....	<u>37.0</u>	<u>31.0</u>
Net cash paid for taxes	<u>3.0</u>	<u>3.8</u>

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

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Notes to Condensed Consolidated Financial Statements
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(1) Basis of Presentation

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

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (**U.S. GAAP**) for interim financial information. Accordingly, these financial statements do not include all of the information required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2015 annual report.

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

Our functional currency is the Chilean peso (**CLP**). Unless otherwise indicated, convenience translations into the Chilean peso are calculated as of March 31, 2016.

As further described in note 2, our deferred financing costs at December 31, 2015 have been reclassified to conform to the current period presentation.

These condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through May 26, 2016, the date of issuance.

(2) Accounting Changes and Recent Accounting Pronouncements

Accounting Changes

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

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (ASU 2014-09)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09, as amended by ASU No. 2015-14, will replace existing revenue recognition guidance when it becomes effective for annual reporting periods beginning after December 15, 2018. Early application is permitted for annual and interim reporting periods that begin after December 15, 2016. This new standard permits the use of either the retrospective or cumulative effect transition method. We will adopt ASU 2014-09 effective January 1, 2018, and we are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (ASU 2016-02)*, which, for most leases, will result in lessees recognizing lease assets and lease liabilities on the balance sheet with additional disclosures about leasing arrangements. ASU

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2016-02 requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach also includes a number of optional practical expedients an entity may elect to apply. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation — Stock Compensation, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)*, which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities and classification within the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that ASU 2016-09 will have on our consolidated financial statements and related disclosures.

(3) Derivative Instruments

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

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

	<u>March 31, 2016</u>			<u>December 31, 2015</u>		
	<u>Current (a)</u>	<u>Long-term (a)</u>	<u>Total</u>	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
	CLP in billions					
Assets:						
Cross-currency derivative contracts (b).....	4.9	140.6	145.5	8.3	206.7	215.0
Foreign currency forward contracts	—	—	—	3.0	—	3.0
Total.....	<u>4.9</u>	<u>140.6</u>	<u>145.5</u>	<u>11.3</u>	<u>206.7</u>	<u>218.0</u>
Liabilities – foreign currency forward contracts						
	<u>5.0</u>	<u>0.1</u>	<u>5.1</u>	<u>—</u>	<u>—</u>	<u>—</u>

- (a) Our current and long-term derivative liabilities are included in other accrued and current liabilities and other long-term liabilities, respectively, in our condensed consolidated balance sheet.
- (b) We consider credit risk in our fair value assessments. As of March 31, 2016 and December 31, 2015, the fair values of our cross-currency derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating CLP 7.4 billion and CLP 9.4 billion, respectively. The adjustments to our derivative assets relate to the credit risk associated with counterparty nonperformance. The adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our counterparties' credit risks, as observed in the credit default swap market and market quotations for our debt instruments, as applicable. The changes in the credit risk valuation adjustments associated with our cross-currency derivative contracts resulted in a net gain (loss) of CLP 2.0 billion and (CLP 2.0 billion) during the three months ended March 31, 2016 and 2015, respectively. These amounts are included in realized and unrealized gains (losses) on derivative instruments, net, in our condensed consolidated statements of operations. For further information regarding our fair value measurements, see note 4.

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

	Three months ended March 31,	
	2016	2015
	CLP in billions	
Cross-currency derivative contracts	(64.8)	49.3
Foreign currency forward contracts	(4.8)	0.8
Total	(69.6)	50.1

At March 31, 2016, our accumulated other comprehensive earnings, net of taxes, includes deferred net losses on derivative instruments of CLP 1.1 billion, all of which we expect will be reclassified to operating expense in our consolidated statement of operations within the next 12 months.

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

	Three months ended March 31,	
	2016	2015
	CLP in billions	
Operating activities	5.4	(11.5)

Counterparty Credit Risk

We are exposed to the risk that the counterparties to our derivative instruments will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative instruments is spread across a relatively broad counterparty base of banks and financial institutions. Collateral is generally not posted by either party under our derivative instruments. At March 31, 2016, our exposure to counterparty credit risk included derivative assets with an aggregate fair value of CLP 145.5 billion.

Details of our Derivative Instruments

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

Cross-currency Swaps

The terms of our outstanding cross-currency swap contracts at March 31, 2016, which are held by our wholly-owned subsidiary, VTR.com SpA (VTR), the successor by merger of VTR GlobalCom SpA and VTR Chile Holdings SpA (the **Merger**), as follows:

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

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Foreign Currency Forwards

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

Subsidiary	Currency purchased forward	Currency sold forward	Maturity dates
	in millions		
VTR.....	\$ 161.2	CLP 114,681.8	April 2016 – April 2017

(4) Fair Value Measurements

We use the fair value method to account for our derivative instruments. The reported fair values of these instruments as of March 31, 2016 likely will not represent the value that will be paid or received upon the ultimate settlement or disposition of these assets and liabilities. We expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. We record transfers of assets or liabilities into or out of Levels 1, 2 or 3 at the beginning of the quarter during which the transfer occurred. During the three months ended March 31, 2016, no such transfers were made.

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

In order to manage our foreign currency exchange risk, we have entered into various derivative instruments, as further described in note 3. The recurring fair value measurements of these derivative instruments are determined using discounted cash flow models. Most of the inputs to these discounted cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these instruments. This observable data includes most 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 are Level 3 inputs that are used to derive the credit risk valuation adjustments with respect to these instruments. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these instruments, we have determined that these valuations fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our cross-currency swaps are quantified and further explained in note 3.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of our company, property and equipment and the implied value of goodwill. The valuation of our company (our only reporting unit) is based at least in part on discounted cash flow analyses. With the exception of certain inputs for our weighted average cost of capital and discount rate calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of our company to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. We did not perform any significant nonrecurring fair value measurements during the three months ended March 31, 2016 or 2015.

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(5) Long-lived Assets

Property and Equipment, Net

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

	March 31, 2016	December 31, 2015
	CLP in billions	
Distribution systems	484.1	470.2
Customer premises equipment	458.0	444.9
Support equipment, buildings and land	214.1	208.3
	<u>1,156.2</u>	<u>1,123.4</u>
Accumulated depreciation	(805.4)	(786.9)
Total property and equipment, net.....	<u><u>350.8</u></u>	<u><u>336.5</u></u>

(6) Debt and Capital Lease Obligations

The Chilean peso equivalents of the components of our consolidated third-party debt and capital lease obligations are as follows:

	March 31, 2016		Estimated fair value (b)		Principal amount		
	Weighted average interest rate (a)	Unused borrowing capacity					
			Borrowing currency	CLP equivalent	March 31, 2016	December 31, 2015	March 31, 2016
				CLP in billions			
Parent – VTR Finance Senior Secured Notes	6.875%	\$	—	915.6	922.0	934.8	992.0
Subsidiaries – VTR Credit Facility	—	(c)	128.8	—	—	—	—
Total principal amount of debt before unamortized deferred financing costs...	<u>6.875%</u>		<u>128.8</u>	<u>915.6</u>	<u>922.0</u>	<u>934.8</u>	<u>992.0</u>
						March 31, 2016	December 31, 2015
						CLP in billions	
Total principal amount of debt before unamortized deferred financing costs.....						934.8	992.0
Unamortized deferred financing costs.....						(16.1)	(14.5)
Total carrying amount of debt.....						<u>918.7</u>	<u>977.5</u>
Capital lease obligations.....						0.2	0.2
Total debt and capital lease obligations.....						<u>918.9</u>	<u>977.7</u>
Current maturities of capital lease obligations						(0.2)	(0.2)
Long-term debt						<u>918.7</u>	<u>977.5</u>

- (a) Represents the weighted average interest rate in effect at March 31, 2016 for all borrowings outstanding pursuant to each debt instrument, including any applicable margin. The interest rate presented represents the stated rate and does not include the impact of our derivative instruments, deferred financing costs or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments and commitment fees, but excluding the impact of financing

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costs, our weighted average interest rate on our indebtedness was 6.5% at March 31, 2016. For information regarding our derivative instruments, see note 3.

- (b) The estimated fair values of our debt instruments are determined using the average of applicable bid and ask prices (mostly Level 1 of the fair value hierarchy) or, when quoted market prices are unavailable or not considered indicative of fair value, discounted cash flow models (mostly Level 2 of the fair value hierarchy). The discount rates used in the cash flow models are based on market interest rates and estimated credit spreads, to the extent available, and other relevant factors. For additional information regarding fair value hierarchies, see note 4.
- (c) Unused borrowing capacity represents the maximum availability at March 31, 2016 without regard to covenant compliance calculations or other conditions precedent to borrowing. At March 31, 2016, the unused borrowing capacity relates to our senior secured revolving credit facility, which includes a \$160.0 million (CLP 106.8 billion) U.S. dollar facility (the **VTR Dollar Credit Facility**) and a CLP 22.0 billion Chilean peso facility (the **VTR CLP Credit Facility** and, together with the VTR Dollar Credit Facility, the **VTR Credit Facility**), each of which were undrawn at March 31, 2016. The VTR Dollar Credit Facility and the VTR CLP Credit Facility have fees on unused commitments of 1.10% and 1.34% per year, respectively. Based on the applicable leverage and other financial covenants, the full amount of unused borrowing capacity was available to be borrowed under the VTR Credit Facility at March 31, 2016. When the March 31, 2016 compliance reporting requirements have been completed and assuming no changes from March 31, 2016 borrowing levels, we anticipate the full amount of unused borrowing capacity of the VTR Credit Facility will continue to be available to be borrowed.

Maturities of Debt

As of March 31, 2016, all of our outstanding debt matures in January 2024.

(7) Income Taxes

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

The Dutch Fiscal Unity combines individual tax paying Dutch entities and their ultimate Dutch parent company as one taxpayer for Dutch tax purposes. Tax amounts allocated to VTR Finance are generally included in our condensed consolidated financial statements on a separate return basis. In this regard, any benefits that arise from tax losses generated by VTR Finance have not been recognized in our condensed consolidated financial statements as we do not expect these benefits to be realized on a separate return basis. Prior to July 1, 2015, tax allocations from the Dutch Fiscal Unity were not subject to tax sharing agreements and no cash payments were made between the companies related to the Dutch tax attributes. Accordingly, any tax allocations were reflected as an adjustment of accumulated net contributions (distributions) in our condensed consolidated statements of owner's equity (deficit). Effective July 1, 2015, and as a result of Liberty Global's adoption of a tax sharing policy, we record non-interest bearing related-party payables and receivables in connection with any allocation of our Dutch tax attributes. In the case of allocated tax assets, related-party payables and receivables will only be recorded to the extent that the realization by the ultimate tax-paying entity is considered to be more-likely-than-not. At March 31, 2016, we do not believe that it is more-likely-than-not that we will realize the tax assets of the Dutch Fiscal Unity.

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

	Three months ended	
	March 31,	
	2016	2015
	CLP in billions	
Computed “expected” tax benefit (expense).....	0.5	(7.2)
Non-deductible or non-taxable interest and other expenses.....	(1.1)	(0.9)
Impact of price level adjustments for tax purposes.....	1.1	—
Change in valuation allowances.....	(0.8)	(2.5)
International rate difference (a).....	0.1	1.1
Other, net.....	(0.1)	(0.7)
Total income tax expense.....	<u>(0.3)</u>	<u>(10.2)</u>

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

In connection with the Merger, we recorded a CLP 17.6 billion income tax receivable in February 2016 related to the expected utilization of certain net operating loss carryforwards.

(8) Related-party Transactions

Our related-party transactions are as follows:

	Three months ended	
	March 31,	
	2016	2015
	CLP in billions	
Operating expenses.....	0.1	0.2
Fees and allocations:		
Operating and SG&A related (exclusive of depreciation and share-based compensation).....	0.4	0.1
Depreciation.....	0.1	—
Share-based compensation.....	1.2	0.2
Management fee.....	1.4	0.9
Total fees and allocations.....	<u>3.1</u>	<u>1.2</u>
Included in operating income.....	<u>3.2</u>	<u>1.4</u>

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

Operating expenses. These amounts consist of cash settled charges for programming services provided to our company by an affiliate.

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

- *Operating and SG&A related (exclusive of depreciation and share-based compensation).* The amounts included in this category represent our estimated share of certain centralized technology, management, marketing, finance and other operating and SG&A expenses of Liberty Global's operations, whose activities benefit multiple operations, including operations within and outside of our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's operations, without a mark-up. Amounts in this category are generally deducted to arrive at our "EBITDA" metric specified by our debt agreements (**Covenant EBITDA**).
- *Depreciation.* The amounts included in this category represent our estimated share of depreciation of assets not owned by our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's operations, without a mark-up.
- *Share-based compensation.* The amounts represent share-based compensation associated with Liberty Global employees who are not employees of our company. The amounts allocated represent our estimated share of the actual costs incurred by Liberty Global's operations, without a mark-up.
- *Management fee.* The amounts included in this category represent our estimated allocable share of (i) operating and SG&A expenses related to stewardship services provided by certain Liberty Global subsidiaries and (ii) the mark-up, if any, applicable to each category of the related-party fees and allocations charged to our company.

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

	March 31, 2016	December 31, 2015
	CLP in billions	
Assets:		
Other current assets (a)	0.1	3.4
Other noncurrent assets (b)	5.5	1.1
Total	5.6	4.5
Liabilities – other accrued and current liabilities (c)	3.1	1.1

- (a) Represents a non-interest bearing receivable from another Liberty Global subsidiary.
- (b) Represents principal (\$8.3 million (CLP 5.5 billion) at March 31, 2016) and accrued interest associated with a loan (the **Lila Chile Note**) between VTR Finance and Lila Chile Holding B.V., another subsidiary of Liberty Global. The Lila Chile Note bears interest at 5.9% per annum and has a repayment date of July 11, 2022. The principal and accrued interest on the Lila Chile Note are included in other assets, net, in our condensed consolidated balance sheets. Accrued and unpaid interest is generally transferred to the loan balance on January 1 of each year. The net increase in the Lila Chile Note during the three months ended March 31, 2016 includes (i) cash advances of \$6.8 million (CLP 4.6 billion at the applicable rate), (ii) the transfer of \$0.4 million (CLP 0.3 billion at the applicable rate) in non-cash accrued interest to the principal balance and (iii) a CLP 0.2 billion decrease due to the impact of foreign currency translation effects (**FX**).
- (c) Represents non-interest bearing payables to an affiliate and certain Liberty Global subsidiaries.

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(9) Commitments and Contingencies

Commitments

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods generally with respect to programming contracts, network and connectivity commitments, non-cancellable operating leases and purchases of customer premises and other equipment and services. The following table sets forth the Chilean peso equivalents of such commitments as of March 31, 2016:

	Payments due during:							Total
	Remainder of 2016	2017	2018	2019	2020	2021	Thereafter	
CLP in billions								
Programming commitments	35.3	32.1	32.4	7.5	2.6	0.9	0.5	111.3
Network and connectivity commitments	13.7	16.6	17.9	14.5	—	—	—	62.7
Operating leases	7.3	9.6	8.6	5.6	3.8	3.2	7.0	45.1
Purchase commitments	4.0	—	—	—	—	—	—	4.0
Total (a).....	60.3	58.3	58.9	27.6	6.4	4.1	7.5	223.1

(a) The commitments included in this table do not reflect any liabilities that are included in our March 31, 2016 condensed consolidated balance sheet.

Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us as we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services or (ii) whether we terminate service to a portion of our subscribers or dispose of a portion of our distribution systems. In addition, programming commitments do not include increases in future periods associated with contractual inflation or other price adjustments that are not fixed. Accordingly, the amounts reflected in the above table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Historically, payments to programming vendors have represented a significant portion of our operating costs, and we expect that this will continue to be the case in future periods. In this regard, during the three months ended March 31, 2016 and 2015, third-party programming and copyright costs incurred by our broadband communications operations aggregated CLP 27.6 billion and CLP 23.5 billion, respectively.

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

Purchase commitments include unconditional and legally binding obligations related to the purchase of handset equipment and vehicles.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the three months ended March 31, 2016 and 2015, see note 3.

Guarantees and Other Credit Enhancements

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

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Legal and Regulatory Proceedings and Other Contingencies

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

In addition to the foregoing items, we have contingent liabilities related to matters arising in the ordinary course of business, including (i) legal proceedings, (ii) issues involving value-added taxes (VAT) and wage, property 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.

(10) Segment Reporting

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

Our revenue by major category is set forth below:

	Three months ended March 31,	
	2016	2015
	CLP in billions	
Subscription revenue (a):		
Video.....	60.0	55.9
Broadband internet.....	46.5	41.8
Fixed-line telephony	19.5	21.3
Cable subscription revenue.....	126.0	119.0
Mobile (b)	6.2	5.0
Total subscription revenue.....	132.2	124.0
Other revenue (b) (c)	8.0	6.3
Total.....	140.2	130.3

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) Mobile subscription revenue excludes mobile interconnect revenue of CLP 0.7 billion and CLP 0.5 billion during the three months ended March 31, 2016 and 2015, respectively. Mobile interconnect revenue and revenue from mobile handset sales are included in other revenue.
- (c) Other revenue includes, among other items, advertising, interconnect, installation and mobile handset sales revenue.

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

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2015 annual report, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-looking Statements.* This section provides a description of certain factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three months ended March 31, 2016 and 2015.
- *Material Changes in Financial Condition.* This section provides an analysis of our parent and subsidiary liquidity, condensed consolidated statements of cash flows and contractual commitments.

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

Unless otherwise indicated, convenience translations into Chilean pesos are calculated as of March 31, 2016.

Forward-looking Statements

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

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

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

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

Overview

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

At March 31, 2016, we owned and operated networks that passed 3,081,000 homes and served 2,735,200 revenue generating units (RGUs), consisting of 1,030,400 video subscribers, 1,026,400 broadband internet subscribers and 678,400 fixed-line telephony subscribers. In addition, at March 31, 2016, we served 132,000 mobile subscribers.

We added a total of 16,200 RGUs on an organic basis during the three months ended March 31, 2016, as compared to 25,600 RGUs added on an organic basis during the corresponding period in 2015. The organic RGU growth during the three months ended March 31, 2016 is attributable to the net effect of (i) an increase of 23,300 broadband internet RGUs, (ii) a decrease of 11,500 fixed-line telephony RGUs, (iii) an increase of 8,000 enhanced video RGUs and (iv) a decrease of 3,600 basic video RGUs.

We are experiencing significant competition from incumbent telecommunications operators, direct-to-home satellite operators and/or other providers. This significant competition may have an adverse impact on our ability to increase or maintain our revenue, RGUs and/or average monthly subscription revenue per average cable RGU or mobile subscriber, as applicable, (ARPU). In this regard, we experienced an organic decline during the first quarter of 2016 in fixed-line telephony RGUs.

Material Changes in Results of Operations

General

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

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

Revenue

Revenue includes amounts earned from (i) subscribers to our broadband communications and mobile services and (ii) interconnect fees, mobile handset sales, installation fees and advertising revenue. Consistent with the presentation of our revenue categories in note 10 to our condensed consolidated financial statements, we use the term “subscription revenue” in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees. In the following tables, mobile subscription revenue excludes the related interconnect revenue.

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

Our revenue by major category is set forth below:

	Three months ended March 31,		Increase (decrease)	
	2016	2015	CLP	%
	CLP in billions			
Subscription revenue (a):				
Video.....	60.0	55.9	4.1	7.3
Broadband internet.....	46.5	41.8	4.7	11.2
Fixed-line telephony.....	19.5	21.3	(1.8)	(8.5)
Cable subscription revenue.....	126.0	119.0	7.0	5.9
Mobile (b).....	6.2	5.0	1.2	24.0
Total subscription revenue.....	132.2	124.0	8.2	6.6
Other revenue (b) (c).....	8.0	6.3	1.7	27.0
Total.....	140.2	130.3	9.9	7.6

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the standalone price for each individual service. As a result, changes in the standalone pricing of our cable products or the composition of bundles can contribute to changes in our product revenue categories from period to period.
- (b) Mobile subscription revenue excludes mobile interconnect revenue of CLP 0.7 billion and CLP 0.5 billion during the three months ended March 31, 2016 and 2015, respectively. Mobile interconnect revenue and revenue from mobile handset sales are included in other revenue.
- (c) Other revenue includes, among other items, advertising, interconnect, installation and mobile handset sales revenue.

Our consolidated revenue increased CLP 9.9 billion or 7.6% during the three months ended March 31, 2016, as compared to the corresponding period in 2015, as set forth below:

	Subscription revenue	Non- subscription revenue	Total
	CLP in billions		
Increase in cable subscription revenue due to change in:			
Average number of RGUs (a).....	3.5	—	3.5
ARPU (b).....	3.5	—	3.5
Total increase in cable subscription revenue.....	7.0	—	7.0
Increase in mobile subscription revenue (c).....	1.2	—	1.2
Total increase in subscription revenue.....	8.2	—	8.2
Increase in other revenue (d).....	—	1.7	1.7
Total.....	8.2	1.7	9.9

- (a) The increase in cable subscription revenue related to a change in the average number of RGUs is attributable to an increase in the average numbers of broadband internet and enhanced video RGUs that was only partially offset by a decline in the average numbers of basic video and fixed-line telephony RGUs.
- (b) The increase in cable subscription revenue related to a change in ARPU is attributable to (i) a net increase due to (a) higher ARPU from video and broadband internet services and (b) lower ARPU from fixed-line telephony services and (ii) an improvement in RGU mix. In addition, cable subscription revenue includes adjustments to both periods to reflect the retroactive application of a tariff on ancillary services provided directly to customers for the period from July 2013 through February 2014. These adjustments include (1) an increase in revenue due to the impact of a CLP 1.4 billion unfavorable

adjustment recorded during the first quarter of 2015 and (2) a decrease in revenue due to the impact of a CLP 1.4 billion unfavorable adjustment recorded during the first quarter of 2016.

- (c) The increase in mobile subscription revenue is due to (i) an increase in the average number of subscribers, as an increase in the average number of postpaid subscribers more than offset the decrease in the average number of prepaid subscribers, and (ii) higher ARPU primarily due to a higher proportion of mobile subscribers on postpaid plans, which generate higher ARPU than prepaid plans.
- (d) The increase in other revenue is primarily due to (i) an increase in advertising revenue and (ii) an increase in interconnect revenue. The increase in interconnect revenue is primarily due to the net effect of (a) an increase in revenue due to the impact of a CLP 0.8 billion unfavorable adjustment recorded during the first quarter of 2015 to reflect the retroactive application of a tariff reduction to June 2012 and (b) lower rates.

Operating expenses

Operating expenses include programming and copyright, network operations, mobile access and interconnect, customer operations, customer care, share-based compensation and other costs related to our operations. Programming and copyright costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of (i) higher costs associated with the expansion of our digital video content, including rights associated with ancillary product offerings and rights that provide for the broadcast of live sporting events, (ii) rate increases and (iii) growth in the number of our enhanced video subscribers. In addition, we are subject to inflationary pressures with respect to our labor and other costs and foreign currency exchange risk with respect to costs and expenses that are denominated in U.S. dollars (**non-functional currency expenses**). Any cost increases that we are not able to pass on to our subscribers through rate increases would result in increased pressure on our operating margins.

Our operating expenses increased CLP 4.7 billion or 8.1% during the three months ended March 31, 2016, as compared to the corresponding period in 2015. Our operating expenses include share-based compensation expense, which increased CLP 0.1 billion during the three months ended March 31, 2016 as compared to the corresponding period in 2015. For additional information, see the discussion under *Share-based compensation expense* below. Excluding the effect of share-based compensation expense, our operating expenses increased CLP 4.6 billion or 7.9%. This increase includes the following factors:

- An increase in programming and copyright costs of CLP 3.5 billion or 14.8%, primarily associated with (i) increased costs for certain content and (ii) growth in the number of enhanced video subscribers. A significant portion of our programming contracts are denominated in U.S. dollars. During the first quarter of 2015, we began applying hedge accounting for certain derivative instruments that are used to mitigate a portion of our foreign currency exchange rate risk with respect to these programming contracts. After giving effect to these hedges, changes in foreign currency exchange rates did not significantly impact the increase in our programming and copyright costs;
- An increase in personnel costs of CLP 0.7 billion or 12.3%, in part due to annual wage increases;
- An increase in mobile access and interconnect costs of CLP 0.5 billion or 6.5%, primarily attributable to the net effect of (i) an increase of CLP 1.0 billion due to a nonrecurring adjustment during the first quarter of 2015 to reflect a February 2015 decision to reduce a tariff retroactive to May 2014 and (ii) lower mobile access costs; and
- An increase in network-related expenses of CLP 0.4 billion or 6.3%, primarily due to increased energy costs.

SG&A expenses

SG&A expenses include human resources, information technology, general services, management, finance, legal and sales and marketing costs, share-based compensation and other general expenses. As noted under *Operating expenses* above, we are subject to inflationary pressures with respect to our labor and other costs and, to a lesser extent, foreign currency exchange risk with respect to non-functional currency expenses.

Our SG&A expenses decreased CLP 0.6 billion or 2.4% during the three months ended March 31, 2016, as compared to the corresponding period in 2015. Our SG&A expenses include share-based compensation expense, which increased CLP 0.2 billion during the three months ended March 31, 2016, as compared to the corresponding period in 2015. For additional information, see the discussion under *Share-based compensation expense* below. Excluding the effect of share-based compensation expense, our SG&A expenses decreased CLP 0.8 billion or 3.2%. This decrease is primarily attributable to lower outsourced labor and professional fees.

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

We recognized share-based compensation expense of CLP 0.4 billion and CLP 0.1 billion during the three months ended March 31, 2016 and 2015, respectively. Our share-based compensation expense is related to performance share unit awards granted pursuant to a liability-based plan of VTR.

Depreciation and amortization expense

Our depreciation and amortization expense decreased CLP 1.0 billion during the three months ended March 31, 2016, as compared to the corresponding period in 2015. This decrease is primarily due to the net effect of (i) a decrease associated with certain assets becoming fully depreciated and (ii) an increase associated with property and equipment additions related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives.

Related-party fees and allocations

We recorded related-party fees and allocations of CLP 3.1 billion and CLP 1.2 billion during the three months ended March 31, 2016 and 2015, respectively. These amounts represent fees charged to our company that originate with Liberty Global and certain other Liberty Global subsidiaries, and include charges for management, finance, legal, technology and other corporate and administrative services provided to our subsidiaries.

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

Impairment, restructuring and other operating items, net

We recognized impairment, restructuring and other operating items, net, of CLP 0.4 billion and CLP 1.1 billion during the three months ended March 31, 2016 and 2015, respectively. The amount for the 2016 period includes (i) gains from the disposition of assets of CLP 0.8 billion, (ii) restructuring charges of CLP 0.8 billion related to contract termination costs and (iii) impairment charges of CLP 0.4 billion.

The amount for the 2015 period primarily includes restructuring charges that we recorded in connection with contract terminations.

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

Interest expense

Our interest expense increased CLP 3.2 billion during the three months ended March 31, 2016, as compared to the corresponding period in 2015. This increase is primarily attributable to FX.

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

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

Realized and unrealized 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:

	Three months ended March 31,	
	2016	2015
	CLP in billions	
Cross-currency derivative contracts (a).....	(64.8)	49.3
Foreign currency forward contracts	(4.8)	0.8
Total.....	<u>(69.6)</u>	<u>50.1</u>

- (a) The loss during the 2016 period is primarily attributable to the net effect of (i) losses associated with an increase in the value of the Chilean peso relative to the U.S. dollar, (ii) gains associated with decreases in market interest rates in the U.S. dollar market and (iii) losses associated with decreases in market interest rates in the Chilean peso market. In addition, the loss during the 2016 period includes a net gain of CLP 2.0 billion resulting from changes in our credit risk valuation adjustments. The gain during the 2015 period is primarily attributable to (a) gains associated with a decrease in the value of the Chilean peso relative to the U.S. dollar, (b) gains associated with decreases in market interest rates in the U.S. dollar market and (c) gains associated with increases in market interest rates in the Chilean peso market. In addition, the gain during the 2015 period includes a net loss of CLP 2.0 billion resulting from changes in our credit risk valuation adjustments.

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

Foreign currency transaction gains (losses), net

We recognized foreign currency transaction gains (losses), net, of CLP 59.9 billion and (CLP 26.5 billion) during the three months ended March 31, 2016 and 2015, respectively.

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

Income tax expense

We recognized income tax expense of CLP 0.3 billion and CLP 10.2 billion during the three months ended March 31, 2016 and 2015, respectively.

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

The income tax expense during the three months ended March 31, 2015 differs from the expected income tax expense of CLP 7.2 billion (based on the Dutch statutory income tax rate of 25.0%), primarily due to the negative impacts of (i) an increase in valuation allowances and (ii) certain permanent differences between the financial and tax accounting treatment of interest and other items. The negative impacts of these items were partially offset by the positive impact of a lower statutory tax rate in Chile, as compared to the Netherlands.

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

Net earnings (loss)

During the three months ended March 31, 2016 and 2015, we reported net earnings (loss) of (CLP 2.2 billion) and CLP 18.5 billion, respectively, including (i) operating income of CLP 27.6 billion and CLP 22.0 billion, respectively, (ii) net non-operating income (expense) of (CLP 29.5 billion) and CLP 6.7 billion, respectively, and (iii) income tax expense of CLP 0.3 billion and CLP 10.2 billion, respectively.

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

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

Material Changes in Financial Condition

Sources and Uses of Cash

Cash and cash equivalents

At March 31, 2016, we had cash and cash equivalents of CLP 87.2 billion, substantially all of which was held by our subsidiaries.

Liquidity of VTR Finance

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

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

Liquidity of Subsidiaries

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

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

Capitalization

At March 31, 2016, the outstanding principal amount of our consolidated debt, together with our capital lease obligations, aggregated CLP 935.0 billion, substantially all of which is due in January 2024.

Our ability to service or refinance our debt and to maintain compliance with the leverage covenants in the credit agreement of the VTR Credit Facility and the indenture for the VTR Finance Senior Secured Notes is dependent primarily on our ability to maintain or increase our Covenant EBITDA and to achieve adequate returns on our property and equipment additions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in the agreements underlying the

VTR Credit Facility and the VTR Finance Senior Secured Notes. In this regard, if our Covenant EBITDA were to decline, we could be required to partially repay or limit our borrowings under the VTR Credit Facility or any then existing debt in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any funding would be available on favorable terms, or at all, to fund any such required repayment. At March 31, 2016, we were in compliance with our debt covenants. In addition, we do not anticipate any instances of non-compliance with respect to our debt covenants that would have a material adverse impact on our liquidity during the next 12 months.

Notwithstanding our negative working capital position at March 31, 2016, we believe that we have sufficient resources to fund our foreseeable liquidity requirements during the next 12 months. However, we may seek to refinance the VTR Finance Senior Secured Notes prior to their maturity in 2024, and no assurance can be given that we will be able to complete this refinancing. In this regard, it is not possible to predict how political and economic conditions, sovereign debt concerns or any adverse regulatory developments could impact the credit and equity markets we access and, accordingly, our future liquidity and financial position. However, (i) the financial failure of any of our counterparties could (a) reduce amounts available under our committed credit facility and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

Condensed Consolidated Statements of Cash Flows

Summary. Our condensed consolidated statements of cash flows for the three months ended March 31, 2016 and 2015 are summarized as follows:

	Three months ended March 31,		Change
	2016	2015	
	CLP in billions		
Net cash provided by operating activities	21.0	2.0	19.0
Net cash used by investing activities.....	(24.3)	(22.9)	(1.4)
Effect of exchange rate changes on cash.....	0.7	0.3	0.4
Net decrease in cash and cash equivalents.....	<u>(2.6)</u>	<u>(20.6)</u>	<u>18.0</u>

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

Investing Activities. The increase in net cash used by our investing activities is primarily attributable to the net effect of (i) an increase in cash used of CLP 4.6 billion related to net advances pursuant to the Lila Chile Note and (ii) a decrease in cash used of CLP 3.2 billion related to lower capital expenditures.

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

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

	Three months ended March 31,	
	2016	2015
CLP in billions		
Property and equipment additions.....	36.7	25.3
Changes in current liabilities related to capital expenditures.....	(16.1)	(1.5)
Capital expenditures.....	<u>20.6</u>	<u>23.8</u>

The increase in our consolidated property and equipment additions during the three months ended March 31, 2016, as compared to the corresponding period in 2015, is primarily due to (i) an increase in expenditures for new build and upgrade projects, (ii) an increase in expenditures for the purchase and installation of customer premises equipment and (iii) an increase in expenditures for support capital, such as information technology upgrades and general support systems. During the three months ended March 31, 2016, approximately 60% of our purchases of property and equipment were denominated in U.S. dollars.

Contractual Commitments

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

	Payments due during:							Total
	Remainder of 2016	2017	2018	2019	2020	2021	Thereafter	
CLP in billions								
Debt (excluding interest).....	—	—	—	—	—	—	934.8	934.8
Capital leases (excluding interest).....	0.2	—	—	—	—	—	—	0.2
Programming commitments ...	35.3	32.1	32.4	7.5	2.6	0.9	0.5	111.3
Network and connectivity commitments.....	13.7	16.6	17.9	14.5	—	—	—	62.7
Operating leases	7.3	9.6	8.6	5.6	3.8	3.2	7.0	45.1
Purchase commitments.....	4.0	—	—	—	—	—	—	4.0
Total (a)	<u>60.5</u>	<u>58.3</u>	<u>58.9</u>	<u>27.6</u>	<u>6.4</u>	<u>4.1</u>	<u>942.3</u>	<u>1,158.1</u>
Projected cash interest payments on debt and capital lease obligations (b).....	<u>32.9</u>	<u>65.8</u>	<u>65.8</u>	<u>65.5</u>	<u>64.5</u>	<u>64.3</u>	<u>160.6</u>	<u>519.4</u>

- (a) The commitments included in this table do not reflect any liabilities that are included in our March 31, 2016 condensed consolidated balance sheet other than debt and capital lease obligations.
- (b) Amounts are based on interest rates, interest payment dates, commitment fees and contractual maturities in effect as of March 31, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our deferred financing costs.

For information concerning our debt and capital lease obligations, see note 6 to our condensed consolidated financial statements. For information concerning our commitments, see note 9 to our condensed consolidated financial statements.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments, pursuant to which we expect to make payments in future periods. For information regarding projected cash flows associated with these derivative instruments, see *Projected Cash Flows Associated with Derivative Instruments* below. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the three months ended March 31, 2016 and 2015, see note 3 to our condensed consolidated financial statements.

Projected Cash Flows Associated with Derivative Instruments

The following table provides information regarding the projected cash flows associated with our derivative instruments. The Chilean peso equivalents presented below are based on interest rates and exchange rates that were in effect as of March 31, 2016. These amounts are presented for illustrative purposes only and will likely differ from the actual cash paid or received in future periods. For additional information regarding our derivative instruments, including our counterparty credit risk, see note 3 to our condensed consolidated financial statements.

	Payments (receipts) due during:							Total
	Remainder of 2016	2017	2018	2019	2020	2021	Thereafter	
	CLP in billions							
Projected derivative cash payments (receipts), net:								
Interest-related (a).....	(1.9)	(3.8)	(3.8)	(3.8)	(3.8)	(3.8)	(1.8)	(22.7)
Principal-related (b).....	—	—	—	—	—	—	16.5	16.5
Other (c).....	0.1	0.4	—	—	—	—	—	0.5
Total.....	<u>(1.8)</u>	<u>(3.4)</u>	<u>(3.8)</u>	<u>(3.8)</u>	<u>(3.8)</u>	<u>(3.8)</u>	<u>14.7</u>	<u>(5.7)</u>

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